Stakeholder Advisory Network on Climate Finance

Stakeholder Engagement in Climate Finance

Climate Fund Observer Mechanisms and Practices

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Contents

Acronyms Utilized in this Report

AF – Adaptation Fund
CBD – Convention on Biological Diversity
CDM – Clean Development Mechanism
CIF – Climate Investment Funds
COP – Conference of the Parties
CSO – Civil Society Organization
CTF – Clean Technology Fund
FCPF – Forest Carbon Partnership Facility
FIP – Forest Investment Program
G20 – Group of 20
G8 – Group of Eight
GCF – Green Climate Fund
GEF – Global Environment Facility
IFI – International Financial Institution
INGO – International Non-Governmental Organization
IP – Indigenous Peoples
IPAG – Indigenous Peoples Advisory Group
ISFL – BioCarbon Fund Initiative for Sustainable Forest Landscapes
LDCF – Least Developed Countries Fund
MDB – Multilateral Development Bank
NDA – National Designated Authority
NGO – Non-Governmental Organization
PPCR – Pilot Program for Climate Resilience
REDD+ – Reducing Emissions from Deforestation and forest Degradation
SAN – Stakeholder Advisory Network on Climate Finance
SCCF – Special Climate Change Fund
SCF – Strategic Climate Fund
SREP – Scaling Up Renewable Energy Program in Low Income Countries
TCAF – Transformative Carbon Asset Facility
UN – United Nations
UNCCD – United Nations Convention to Combat Desertification
UNCED – United Nations Conference on Environment and Development
UNDP – United Nations Development Programme
UNFCCC – United Nations Framework Convention on Climate Change
UN-REDD – United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation

Acknowledgments

The core pursuit of this study – the idea that climate fund stakeholder engagement practices must be better understood in order to design and implement more effective forms of participation – has a long history that is blended with the origins of the SAN, the Stakeholder Advisory Network on Climate Finance. This core idea has also evolved considerably during the study: from an initial search for "best practices" to be replicated, to a more nuanced, less prescriptive, action-oriented comparative study; from a general study of stakeholder engagement practices as a whole, to a focus on direct representation mechanisms – observer schemes – and their relationship to broader participation practices. The SAN itself has advanced and refined its purpose and modus operandi: from an initially proposed "network of networks" linking observers across climate funds, to a community with a sharp focus on identifying and addressing constraints limiting the capacity of observers to effectively represent their constituencies. Finally, the body of available knowledge on climate finance has grown significantly over the past years, as climate funds themselves have taken a more visible and prominent role in the response to climate change.

Thus, this report is the result of the collective mind of the many individuals and organizations involved throughout its trajectory, and I, as the person trusted to bring this project to fruition, am indebted to more people than can be named here. Many SAN members, particularly those involved in its various committees, have shared their views. Ladd Connell, in particular, commented extensively in various stages of the project and reviewed the report drafts. The role of the Climate Investment Funds, CIF, both in supporting the SAN from its beginning, to funding the study itself, is well known. Dora Cudjoe and her entire Stakeholder Engagement team contributed in various stages. Dora, Alemaheyu Zeleke, and John Garrison were careful and thoughtful reviewers, and Diksha Bijlani has been a partner in supporting the SAN, as well as the author of a study extensively quoted here. Current and former staff members and observers of climate and environment funds, including the Adaptation Fund, Climate Investment Funds, Green Climate Fund, and the Global Environment Facility, have endeavored to make this study relevant to their reality: I cannot name all, and only hope that this study will meet their expectations. Finally, this study builds on the pioneering work of a community of thought leaders and organizations that share the SAN's goal to make climate finance more equitable and effective: this includes Transparency International, the Bank Information Center, Germanwatch, the Heinrich Böll Foundation, among others.

While the positions and recommendations of this study are intended to shape the future programs and priorities of the SAN and to influence the climate funds themselves, these views do not necessarily represent the opinion of the SAN or the plurality of views of its membership but are meant to advance the debate and action on this agenda. Furthermore, while the SAN acknowledges and thanks the CIF for its continued support, this independent report does not seek to reflect the views of the CIF or any other climate fund.

Executive Summary

The global climate emergency is a civilization-threatening crisis that requires the immediate and coordinated action of governments, the private sector, international organizations, academia, civil society, including citizens at large. The ideas of *partnership and participation* are well-entrenched principles in the institutions and mechanisms created to address this crisis.

In multilateral climate finance – the focus of this report – the principle of stakeholder and beneficiary participation in decision-making, implementation, and oversight is deeply enshrined. This includes, among other forms of participation, the representation of *non-state* groups – as *observers* – within the governing bodies of funds, alongside groups such as governments and other implementing parties. Representation often includes *civil society organizations*, the *private sector*, *Indigenous Peoples,* and other constituencies.

Partnership and participation in climate finance carry a promise of greater impact, higher efficiency, and the reduction of risk or unintended negative consequences in the implementation of programs and projects.

This report examines the stakeholder engagement mechanisms in multilateral climate funds and, more specifically, the direct representation in governing bodies, shedding light on how participation takes place, what can be achieved through stakeholder engagement, how this engagement is limited or constrained, and how it may ultimately be enhanced and supported to deliver on its full potential. The report is the result of an effort by the *Stakeholder Advisory Network on Climate Finance (SAN)*, an initiative convening stakeholder observers representing various constituencies in climate funds.

The field of multilateral climate finance has been rapidly evolving, with three generations of funds occupying its growing space: The Global Environment Facility (GEF), a "Rio-92" institution; the "pre-Paris" Adaptation Fund (AF), Climate Investment Funds (CIF) and Forest Carbon Partnership Facility (FCPF); and the "post-Paris" Green Climate Fund (GCF). Funds have diverse mandates, goals, and institutional arrangements. This is also reflected in differences in the manner of involvement of non-state stakeholders such as civil society and the private sector.

All major climate funds share a commitment to the participation of stakeholders at the highest decision-making level, as well as at the country and project level. In addition to their policies and safeguards, funds and fund secretariats hosted within the World Bank umbrella, including the CIF, FCPF, and the GEF also follow the Bank's own policies and safeguards, just as funds disbursed or implemented through other MDBs follow their respective rules. Climate funds, however, surpass MDB rules regarding stakeholder participation.

There are significant differences in the participation of non-state stakeholders in the governance of the funds: some funds have formally instituted the participation of stakeholders in governing bodies (GCF, FCPF, GEF), another has a robust observer program that is not formally mandated in policies (CIF), while one (AF), strictly speaking, does not have active observers, though this matter is under consideration. The CIF convenes a large number of primary observers – 46 – while other funds confer observer status to a more limited number of representatives, with the GCF further distinguishing between "active" (4) and "accredited" observers (currently 473), with only the former granted access to the board meetings. Constituencies are also defined and represented differently. The difference in representation models between the CIF and the GCF is noteworthy and merits further attention.

Observers attend meetings, *observe,* and speak as voices of their constituencies. Observers act in *representation* of a constituency and are accountable and act as a conduit for voices of other stakeholder and beneficiary groups and as a link between these and the fund management and governing members. Without a vote, observers can nonetheless exert considerable influence over decision-making. Observers can become a trusted asset and talent pool for fund managers for informal feedback and a variety of roles – and *vice versa*. In some funds, observers may perform additional roles under contract, while other funds or corresponding stakeholder networks have explicit bans on financial relationships, for the avoidance of conflicts of interest. Observers may be expected to support *country-level strategy formulation*, *local implementation, monitoring, and evaluation* of projects, engaging with stakeholder groups at all levels. Their role is voluntary and is performed by individuals (on behalf of organizations) that are usually engaged in other full-time professional activities.

In a 2021 survey of SAN members, 73% of respondents believe their participation as a climate fund observer *strongly* (33%) or *moderately* (40%) benefits the constituency they represent, while 9% feel they *poorly* benefit (7%) or *do not benefit* (1.5%) their constituencies. **73% believe funds strongly (39%) or moderately (33%) benefit**, while 12% believe that funds benefit poorly (9%) or not at all (3%). **Among bright spots noted by respondents, funds were commended for providing a safe and inclusive space at the governance level for the participation of non-state actors.** Observers appreciated the flow of information, and the opportunity to make their voices heard. The *plurality* of the representation given the inherent diversity of constituencies was also valued, as was the opportunity to exchange and learn from peers. **59% state that the Covid-19 pandemic has affected their ability to do their work as an observer. Unsurprisingly, this figure rises to 78% among representatives of Indigenous Peoples.**

The role of observers is significantly constrained. The constraints, as seen by observers themselves, revolve around:

1. *The difficulty in identifying relevant stakeholders and establishing meaningful communication across the vast constituencies they represent.*
2. *The amount of information, its technical nature and language, shared by funds, and the narrow timeframe for comment.*
3. *Difficulties in access to government authorities and implementing bodies.*
4. *Their late engagement in the climate fund project cycle.*
5. *The inability to meet expectations, given its voluntary role and lack of funding and support.*

Additionally, the capacity of stakeholders to organize themselves varies significantly across funds. A strong and active support network can be the difference between an effective or ineffective observer mechanism. The AF, GCF, and the GEF civil society groups have formally created their networks while the FCPF and the CIF have not (with the SAN, in the case of the latter, operating in a different capacity).

In conclusion, the report reaffirms the capability of observer programs to function effectively at the global governance level, while still currently missing significant opportunities to impact national program formulation and project design and implementation levels. It presents the following recommendations for consideration by all interested parties, including climate funds and their donors, as well as representative organizations of stakeholder groups:

1. ***Strengthen standards and policies for high-level stakeholder engagement:*** design, revise, and improve policies and procedures concerning stakeholder engagement to reflect the full potential of stakeholder observers, including 1) acknowledging observers formally in governing documents, 2) removing obstacles to full observer participation in the climate finance policy and project cycles 3) acknowledging the uniqueness of non-state stakeholders, vis-à-vis other members of governing bodies, 4) revising and reviewing broader stakeholder engagement and other relevant policies pertaining to access to information, social and environmental safeguarding, control of corruption, to better reflect the role of stakeholder observers and 5) creating stronger disclosure and conflict of interest policies for observers.
2. ***Empower stakeholder observers***, creating objective conditions for their success, beyond their institutional mandates, by 1) translating the mandate conferred onto observers into clear roles and responsibilities, with the means for their achievement, 2) introducing observers to all relevant actors in the project cycle, including all relevant implementation agencies and government counterpart representatives, 3) promoting the engagement of observers in the formulation, implementation, and monitoring of country-level strategies and local projects, 4) acting as a champion for observers at all times, especially in adverse or challenging environments, where their role may be resisted or misunderstood.
3. ***Build support mechanisms for stakeholder observer effectiveness,*** by 1) adequately staffing climate fund stakeholder engagement teams, with authority, accountability, and cross-departmental links to provide optimal support to observers, 2) onboarding, training, and building capacity of observers, and 3) supporting observers in the identification of relevant stakeholders and to facilitate effective communication.
4. ***Selectively make financial resources available to address gaps identified in this report***, through third-party partners to support observers independently or directly to observers, with consideration to the appropriate conditions that will not undermine their autonomy or create conflicts of interest.
5. ***Improve the availability and the quality of the information provided to observers*** by 1) providing project and policy summaries, in a timely manner, for items under consideration at board-level meetings, adapted to simplified, non-technical formats,

available in the languages relevant to all the affected constituencies, 2) responding promptly to requests for information, and facilitating requests involving third party implementers, and 3) identifying and acting upon specific needs and gaps related to access to information.

6. **Engage proactively but judiciously with observers and their networks:** A full partnership supposes the ability to build a solid working relationship based on trust, creating an environment to discuss contentious issues openly and constructively, acknowledging that funds themselves have specific needs and common interests that can be advanced by cooperating proactively with their CSO, IP, and private sector counterparts.
7. **Promote cross-fund stakeholder dialogue:** Climate fund observers and other actively engaged stakeholder groups are a unique group to advance the climate agenda, due to their privileged position, as well as the knowledge acquired through direct experience serving as a bridge between funds and their constituencies. Yet observers often find themselves working in isolation, and cross-fund and cross-constituency dialogue is rare. Building a solid platform for dialogue across stakeholder groups, with access to donors and recipient country decision-makers, grassroots constituencies, markets, and other key groups, may be a significant step for more ambitious, innovative, and equitable climate action.

1. Introduction

The global climate emergency is a civilization-threatening crisis that requires immediate, long-term, large-scale, worldwide, and coordinated action of governments, the private sector, international organizations, academia, civil society, including citizens at large. The importance of cross-sectoral and society-wide engagement in climate action is widely accepted and can hardly be overstated. The idea of *partnership* is now a well-entrenched principle in the institutions and mechanisms created to address this crisis. *Participation* and accountability are guiding values in agreements underpinning climate policy.

What is partnership and participation in climate, in practice, and what can it achieve? In multilateral climate finance – the funds and institutions created to channel and implement the contributions of donor nations, the main focus of this report – the principle of stakeholder and beneficiary participation in decision-making, implementation, and oversight is deeply enshrined. While practices and policies vary across different climate finance institutions, this principle often includes the representation of *non-state* groups – as *stakeholder observers* – within the governing bodies of climate funds, alongside groups such as donors and recipient government representatives as well as implementing parties. Representation of non-state stakeholders often includes *civil society organizations*, the *private sector*, *Indigenous Peoples,* and other constituencies, such as *gender* or *youth*, often distinguishing between developed ("Northern" or "donor") and developing ("Southern" or "recipient") countries. These direct forms of participation in climate finance exist alongside other transparency and accountability instruments and policies, such as grievance and redress mechanisms, whistleblower communication channels and protections, access to information policies, and social and environmental safeguards and standards. Some of these mechanisms mandate the consultation and engagement of stakeholders and beneficiaries throughout project implementation cycles. Climate fund stakeholder engagement practices are often more advanced and broader than those of international development bodies, including the multilateral development banks (MBDs) and other institutions that host the climate funds, particularly with respect to representation at the governance level.

Partnership and participation in climate finance carry an ambitious promise of greater impact, higher efficiency, and the reduction of risk or unintended negative consequences in the implementation of programs and projects. This promise is borne through better-informed decision-making by accounting for beneficiary and stakeholder views; more effective implementation, through enhanced oversight, scrutiny, and citizen feedback, limiting waste and corruption; and by creating the potential for synergies, co-benefits, and scaling, through the involvement of community voices, expert groups, and private capital.

Climate finance is a rapidly changing field, and forms of participation in climate funds are also evolving. As multilateral financial commitments grow and climate funds take a more prominent role, and as their governance policies and implementation mechanisms adapt to reflect these

changes, it is essential to devote attention to the role society as a whole should play in this field. This must acknowledge, for example, the importance of involving private sector interests to harness the power of markets to take solutions to scale and to create economic incentives to replace carbon-intensive technologies. It must recognize the major role that organized civil society has played in advocating for more ambitious climate action, and also acknowledge participation as a foundation for climate justice, as well as a mechanism for more efficient management. Participation is predicated on the understanding that stakeholder viewpoints and interests are diverse – often aligned, sometimes antagonistic – but stakeholder engagement is both a means and an end to achieving effective and equitable decision-making.

This report examines the stakeholder and beneficiary participation and engagement mechanisms in major multilateral climate funds – with a focus on the direct representation in governing bodies – shedding light on how participation takes place, what can be achieved through stakeholder engagement, how this engagement is limited or constrained, and how it may ultimately be enhanced and supported to deliver on its full potential.

This report is the result of an effort by the *Stakeholder Advisory Network on Climate Finance (SAN)*, an initiative convening stakeholder observers representing various constituencies in different climate funds. The SAN was created to promote good governance in climate finance through enhanced stakeholder engagement by supporting non-state oversight, promoting transparency, and building capacity to enhance meaningful participation at all levels of climate finance decision-making. This study is an important steppingstone for the SAN to achieve this purpose, by identifying gaps, needs, and opportunities for action through which the SAN may implement its programming to strengthen the capacity of its observers, and to deliver on the promise of partnership and participation in climate finance. This independent study was conducted in partnership with and with financial support from the Climate Investment Funds (CIF), one of the climate funds under analysis in the report, which has also supported the creation of the SAN.

This report is intended as a primer – an exploratory introduction to a vastly more complex theme – which aims to point to pathways for further investigation and, importantly, for *action* by the SAN, by observers, climate funds and their constituencies, and by all stakeholders concerned with making climate finance effective and accountable. Certain topics, such as the participation of the private sector and indigenous peoples deserve more focused and in-depth treatment than is granted here, due to their uniqueness and complexity. These topics exceed the scope of this piece, but the study lays the foundations for further work. The research underpinning this study is the result of a mix of methods and secondary sources, including a direct opinion survey of climate fund stakeholder observers, interviews, and a review of pioneering third-party reports on climate finance, participation, and related topics to which this report is indebted.

This report indicates a mixed record of practices and outcomes in stakeholder participation and partnership in climate finance, far from the occasional claim of mere tokenism, but short of

effective partnership in its full potential. It does not purport to be an *evaluation* of climate funds but, by comparing and contrasting their practices, the study aims to shed insight and identify pathways for stronger policies and higher standards of participation. It does not propose “best practices” or one-size-fits-all solutions, but points to recommendations for enhanced participation and partnership, as a resource for the SAN, its constituencies, and other interested parties.

An underlying assumption, strongly confirmed by evidence and supporting the recommendations of the report, is that the key to effective engagement of stakeholders at the highest level – in the continuum between tokenism and full partnership – rests as much on the *quality of support* these stakeholder representatives have access to as on the *policies* themselves that mandate stakeholder engagement.

2. Climate Finance and the Climate Funds

According to the United Nations, “climate finance” refers to local, national or transnational financing – drawn from public, private and alternative sources of financing – that seeks to support mitigation and adaptation actions that will address climate change.”[1] The need for financial resources is called for by treaties and conventions, such as United Nations Framework Convention on Climate Change (UNFCCC), the 1997 Kyoto Protocol, largely superseded by the 2015 Paris Agreement, to prevent climate change and cope with its consequences, while recognizing the requirement for financial assistance from more developed countries in support of less developed and potentially more vulnerable countries. As noted, climate finance includes both public and private funding of projects and programs, through a variety of investment modalities, such as grants, loans and guarantees, equity schemes, and a growing number of innovative and hybrid instruments. While private funding is critical to addressing climate change at scale and is a source of investment that dwarfs public budgets, it is widely accepted that public – including multilateral – climate finance has a major role to play vis-à-vis private funds, due to the risk profile of climate investments, the limited market attractiveness of certain issues (such as climate adaptation and the protection of marginalized and vulnerable populations), and the ability of public funds to shape and influence wider investment priorities. Ultimately, the full range of financing institutions and modalities is required to change and reverse the trajectory of climate change and to achieve the primary aim of the Paris Agreement of limiting the rise in global temperature to well below two degrees.

In a narrower sense, the term climate finance is often used to refer to the provision of financial resources from more developed countries to assist less-developed nations, recognizing their

[1] https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance

"common but differentiated responsibility and respective capabilities", and is associated with multilateral climate finance. While acknowledging the broader sense of the term, this report does focus specifically on this narrower understanding, and the institutions and mechanisms resulting from global agreements, operated by intergovernmental organizations such as the United Nations and its Specialized Agencies, including international financial institutions (IFIs) as the World Bank and other regional multilateral development banks (MDBs). This includes standalone organizations as well as funds hosted within other agencies. The largest and better-known multilateral climate funds are the *Adaptation Fund* (AF), the *Climate Investment Funds* (CIF), and the *Green Climate Fund* (GCF). This report also focuses on the *Forest Carbon Partnership Facility* (FCPF) and the *Global Environment Facility* (GEF). The latter is described here as a climate fund while acknowledging its broader environmental mandate.[2]

These funds, created at different moments in the short history of climate action, reflect the evolution of global commitments to climate and environment issues. Funds have diverse mandates, goals, and institutional arrangements. Unsurprisingly, as shown in the following chapter, this is also reflected in differences in the manner of involvement of non-state stakeholders such as civil society and the private sector.

The field of multilateral climate finance has been rapidly evolving, with three generations of funds occupying its growing space: the GEF (1992), a "Rio-92" institution; the "pre-Paris" AF (2001), CIF (2008), and FCPF (2008); and the GCF[3] (2010), created as the primary financial entity of the Paris Agreement that followed. The funds themselves have been undergoing strategy, governance, and programming reviews and are actively engaged in replenishment and resource mobilization efforts.[4]

The **Global Environment Facility (GEF)** is the pioneering climate and environment fund, created around the 1992 Rio Earth Summit (UNCED, or Rio-92). In addition to serving as a financial

[2] The architecture of climate finance is intricate and dynamic, as explored in this report. Other multilateral climate funds often operate nested under a larger fund. The GEF serves as host to two climate funds that are also formally part of the UNFCCC: the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), and also hosts the interim secretariat for the independently governed Adaptation Fund (AF). The CIF consists of two funds – the Clean Technologies Fund (CTF) and the Strategic Climate Fund (SCF), under which specific programs/sub-funds are implemented: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Scaling-Up Renewable Energy in Low Income Countries Program (SREP). MDBs serve as fiduciary and administrative hosts, and also directly operate climate funds, such as those within the World Bank's Climate Change Fund Management Unit, which include the BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL), the Transformative Carbon Asset Facility (TCAF), the Carbon Initiative for Development, among others. This report primarily focuses on the larger "parent" funds, unless otherwise stated. Other initiatives that may be tangentially described as multilateral climate funds, such as the United Nations REDD Programme (UN-REDD), as well as national regional or bilateral funds, such as the Amazon Fund, are not included in this study.

[3] While referencing broad historical phases in the development of climate finance, it is noted that several of the funds created prior to the Paris Agreement, such as the AF and the GEF, also serve this Agreement.

[4] A detailed description of the major multilateral climate funds has been compiled by the *Climate Funds Update,* maintained by the Heinrich Böll Stiftung, retrievable at https://climatefundsupdate.org/wp-content/uploads/2019/03/CFF2-2018-ENG.pdf

mechanism for the United Nations Framework Convention on Climate Change (UNFCCC), it also serves the conventions on Biological Diversity (CBD) and Desertification (UNCCD), among others. Initially established as a pilot program of the World Bank, it became a permanent self-governed institution, with the World Bank serving as a trustee and administrative host. The GEF itself serves as a host to other independent climate funds. The GEF works with a range of operational agencies, including the United Nations Development Programme (UNDP) and other UN organizations, MDBs, and international non-governmental organizations (INGOs) such as Conservation International (CI) and the World Wide Fund for Nature (WWF).

The **Adaptation Fund (AF)** was established in 2001 at the 7th Conference of the Parties (COP) of the UNFCCC, in Marrakesh, in 2001 and launched in 2007, as an initiative to finance concrete projects benefitting vulnerable communities in developing countries to adapt to climate change. Initially, it was intended to be primarily funded by a share of the proceeds from the Clean Development Mechanism (CDM) instituted by the Kyoto Protocol and is now largely supported by contributions from national and regional governments and private donors. The AF is managed by a board established in Germany and a Secretariat based in Washington, DC, hosted by the GEF as a functionally independent unit. The World Bank serves as the trustee of the AF on an interim basis. The AF works through national, regional, and multilateral accredited entities and, as of 2019, officially serves the Paris Agreement.

The **Climate Investment Funds (CIF)**, founded in 2008, is a self-governed multilateral fund, hosted by the World Bank, comprised of sub-funds and programs specializing in topics such as renewable energy, clean technology, forests, resilience, and coal transition. Alongside the AF, it is one of the first dedicated climate funds, created at the request of the leadership of the Group of Eight (G8) and G20 countries, as a means to accelerate climate action before the completion of the UNFCCC negotiations which resulted in the Paris Agreement of 2015. The CIF primarily partners with and channels resources through MDBs, who facilitate the preparation of country investment plans and implement projects through a programmatic approach.

The **Forest Carbon Partnership Facility (FCPF)** was originally developed as a concept by the World Bank and The Nature Conservancy, an INGO, and was also launched in 2008 when it was formally endorsed by the G8. It is focused, through its two specialized funds, the Readiness Fund and the Carbon Fund, on reducing emissions from deforestation and forest degradation, carbon conservation, forest management, and other activities known as REDD+. The FCPF is also hosted by the World Bank.

The **Green Climate Fund** is a fund created within the UNFCCC process, formally established in 2010, during the COP 16 in Cancún, Mexico. It seated its headquarters in Songdo, Republic of Korea, in 2013 and entered operations in 2015, with its first investments in adaptation and mitigation projects. With the adoption of the Paris Agreement, the GCF has established itself as the primary operating entity of the financial mechanism under Article 11 of the Convention. The GCF is the largest climate fund in operation and has set ambitious goals for resource mobilization. It implements its projects through National Designated Authorities (NDAs) in beneficiary countries, in collaboration with a growing number of Accredited Entities, including MDBs, public, private and non-profit organizations.

While the different funds emerged in unique moments, with specific mandates and characteristics, there are common elements in their language, governance, and modus operandi: All funds emphasize the country and local ownership of their programming and funding priorities, achieved by different means. While not all funds operate formally under the UN Framework Convention, all seek close alignment with its provisions and principles. Funds describe themselves as, or place a high value on "partnerships", although which actors are considered partners and what their roles are varies significantly among them. As examined in the next chapter, all funds claim to value engaging with a wide range of stakeholders at all levels of their work. The role of IFIs – most notably of the World Bank – across the field of climate finance is also conspicuous, albeit in different capacities. This has also been, at times, a contentious issue.

As the field grows, there has also been discord on some issues. Among the contentious matters related to climate finance, it is argued by many that the current multiplicity of funds creates unhealthy competition, duplication, and bureaucracy that stand in the way of achieving climate goals efficiently. There were views that, following the establishment of the Paris Agreement, smaller funds should be merged or incorporated into the GCF. A "sunsetting" clause would have required the CIF to "conclude its operations once a new financial architecture [of the UNFCCC] is effective," unless "the outcome of the UNFCCC negotiations indicates [its continuation]", while the CIF governing bodies have extended the fund's mandate and sought stronger Paris alignment. The outsized role of IFIs, primarily of the World Bank, vis-à-vis the independence of the funds, is a frequent source of criticism by climate justice activists.

As noted above, the World Bank has played an important role in the creation of several multilateral climate funds (in addition to operating its own funds) and continues to serve as the fiduciary body and administrative host to some fund secretariats, in a variety of roles which recognize the funds as autonomous units. This is a common arrangement that acknowledges the World Bank as the foremost fiduciary entity in the UN System and recognizes the institution's technical expertise and capacity. Yet, while the technocratic and non-political role of MBDs is presented as a comparative advantage to operate at scale, and as a safeguard against undue political interference, it is also considered, at times, as an obstacle to the full development, the independence, and the "country ownership" of climate funds, as the hosted funds may be subject the Banks own priorities, rules, and governing bodies, to varying degrees. Different arrangements coexist. The AF, for example, as a fund created by the Conference of Parties, is independent of the World Bank (which serves as its interim trustee and staffs its AFB Secretariat). The multiple roles played by MDBs, as hosts, implementing entities, and sometimes as the recipient of funds of non-MDB-hosted funds, such as the GCF, has also been the target of critics. Regarding the primary emerging global fund, the GCF, there has been simmering frustration over what is perceived as a slow roll-out and a mismatch between lofty ambitions and institutional capacity of a fledging institution, and considerable discord over certain topics, such as the nature and operations of its Private Sector Facility, and the Fund's refusal to explicitly ban fossil fuel funding. The emergence of a complex new climate finance architecture has led to calls for greater coordination, harmonization of rules and procedures, and clearer specialization across the different climate funds.[5] Steps in this direction are observed in areas such as new cross-fund joint initiatives.

While it is beyond the scope of this piece to further examine the major differences and points of contention concerning different climate funds or to conjecture about the emerging climate finance architecture, this is undoubtedly relevant to the object of this report. Stakeholder groups – notably a well-organized and vocal civil society – have expressed strong views about climate finance and about how the funds should operate and be governed, and have played an important part in advocating for greater coordination in the field. Stakeholders are often also divided across the fault lines of this sometimes-acrimonious debate. **It is clear that non-state stakeholders have a role in promoting an agenda of cooperation and collaboration across climate funds, and will play a leading role in shaping the future of climate finance.**

3. Governance, Stakeholder Engagement, and the Role of Observers

All major climate funds, irrespective of their specialization, *modus operandi,* and organizational and governance models, share a commitment to the participation of stakeholders at the highest decision-making level, as well as at the country and project level. Transparency International, which has produced a series of reports on transparency, accountability, integrity and anti-corruption policies, and practices of various climate funds, notes that all funds state clear ethical commitments which are reflected in strong policies on management, reporting, auditing, and procurement, ensuring fair and accountable decision-making, and the avoidance of conflicts of interest. The commitment to transparency and accountability includes comprehensive access to information policies that apply to the funds themselves and all implementing agencies, including board-level documentation, projects under consideration, contracts, financial statements, as well as the funds' policies and procedures themselves. These policies are supported by complaints-handling mechanisms ensuring whistleblower protection and anonymity both for internal and *external* complainants, by practices such as live webcasting of board meetings, and by the participation of stakeholders at the governance and country level.[6] Funds explicitly acknowledge that meaningful participation is essential to fulfilling their mandates. The funds hosted within the World Bank umbrella, such as the CIF, FCPF, and the GEF

[5] The state of the emerging architecture of climate finance is laid out in "The Future of the Funds: Exploring the Architecture of Multilateral Climate Finance", World Resources Institute, 2017.

[6] Transparency International, *A Tale of Four Funds.* 2017. Retrieved at https://www.transparency.org/en/publications/a-tale-of-four-funds

also follow the Bank's own robust policies and safeguards, just as funds disbursed or implemented through other MDBs follow their respective rules. It should be noted, however, that the climate funds invariably surpass these MDB rules regarding direct stakeholder participation: there is no equivalent mechanism to non-state stakeholder observer participation in the governing bodies of the MDBs.

A *stakeholder* is an individual or group that has an interest in the outcome of an activity or is likely to be affected by it. The term encompasses communities, Indigenous Peoples, women, young people, civil society organizations, and private sector entities, among others, and may also include donor and recipient governments and implementing agencies, though the term is often more narrowly utilized to refer simply to *non-state* stakeholders. *Stakeholder engagement* is the process of identification of stakeholders, the design and implementation of engagement activities such as the disclosure of information, consultation, monitoring, evaluation, and learning throughout the project cycle, addressing grievances, and ongoing reporting to stakeholders.

Stakeholder engagement can take place in various forms and at various levels. Participation in governing bodies is, in principle, one of the highest levels of engagement. Higher levels of participation, according to S. Arnstein's often cited "Ladder of Citizen Participation"[7] are forms of engagement classified as *partnership*, *delegated power,* and *citizen control*. *Placation*, *consultation*, and *informing* – labeled *tokenism* by the author – are lower forms, above *manipulation* and *therapy*, two rungs described as *nonparticipation*. This framework is useful to place stakeholder engagement activities on a continuum, notwithstanding the frequent practice of funds to distinguish (and separately manage) the information and consultation processes (typically labeled *stakeholder engagement*) from observer mechanisms (often a formal part of the *governance* of the funds).[8]

While all funds have strong stakeholder engagement policies, the actual mechanisms differ significantly across funds. This is especially true of higher-level participation, such as at the governance level. While this study focuses primarily on governance-level instances, it is important to position these in the broader context of stakeholder engagement practices as a whole. In terms of the participation of representatives of interested groups in the governing bodies of the funds – commonly referred to as stakeholder *observers* – some funds have a formal provision for representation, while others do not. The manner of participation, formally mandated or otherwise, varies significantly, too, as described below. A common feature, implicit in the use of the term "observer", is that these stakeholder representatives participate *without voting or veto power*, regardless of their status, and their role may be further limited vis-à-vis

[7] Sherry R. Arnstein, "A Ladder of Citizen Participation,", first published in JAIP, Vol. 35, No. 4, July 1969.

[8] Indeed, this framework is comparable to the World Bank's own five-tiered "engagement continuum" with civil society organizations, consisting of *1) information access and dissemination, 2) policy dialogue, 3) policy and programmatic consultation, 4) collaboration and 5) partnership*, as described in "World Bank – Civil Society Engagement: Review of Fiscal Years 2020-2012, World Bank Group", 2013, and elsewhere.

that of full governing body members. Finally, as noted, the issue of stakeholder participation in the governance of climate funds is rapidly evolving, reflecting broader changes in the funds, with further changes under consideration at the time of writing. Below, each fund's governance and stakeholder engagement primary components are summarized:[9]

The **Global Environment Facility (GEF)** has a governance mechanism consisting of an Assembly composed of 184 member countries, and a Council, the main governing body, comprised of 32 Members appointed by constituencies, representing developed countries (14), developing countries (16) and economies in transition (2). Council Members serve for a term of three years. The Council meets twice annually and makes decisions by consensus. The GEF recognizes civil society as a "key partner", which is reflected in a Council-approved 2017 "Updated Vision to Enhance Civil Society Engagement with the GEF",[10] and multiple policies on Stakeholder Engagement, Gender Equality, Environmental and Social Safeguards, and Principles and Guidelines for Engagement with Indigenous Peoples. CSOs have been participating in the GEF's operation since its inception, primarily through the GEF CSO Network, an independent coalition of civil society organizations created in 1995, which claims more than 500 members in over 120 countries.[11] The GEF allows CSOs to engage with the fund by commenting on project proposals and policies, supporting project implementation, monitoring and evaluation, registering formal complaints or grievances, and participating in GEF events, including Council Meetings, which are webcast live and recorded.

The GEF also offers CSOs the opportunity to participate in several key processes and enables the direct participation of CSOs at Council consultations and meetings. CSOs are selected for sponsorship for Council consultations and meetings by the GEF secretariat itself, in consultation with the CSO Network, the Indigenous Peoples Advisory Group (IPAG), and other bodies. The GEF also operates a Small Grants Programme that offers grants of up to $50,000 directly to local communities, indigenous peoples' organizations, and other non-governmental groups, which have also been used to build the capacity of CSO groups engaging with the GEF. Climate change funds managed by the GEF, such as the Least Developed Countries Fund for Climate Change (LCDF) and the Special Climate Change Fund (SCCF) generally follow the same policies, procedures, and governance structure of the GEF,[12] with the provision to create separate policies and procedures if they chose to do so.

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[9] This section owes to the work of Transparency International, information obtained on Climate Funds Update, https://climatefundsupdate.org/the-funds/, as well from the funds own governing documents and policies approved or under consideration by their governing bodies, obtained online from the fund websites, among other sources.
[10] Retrieved at https://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.53.10.Rev_.01_CSO_Vision_0.pdf
[11] Retrieved at https://www.thegef.org/news/gef-cso-network-cooperation-nothing-impossible; https://www.thegef.org/partners/csos
[12] Retrieved at https://www.thegef.org/sites/default/files/council-meeting-documents/C.29.5_Governance_of_the_Climate_Change_Funds_1.pdf

The **Climate Investment Funds (CIF)** is composed of two trust funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF), each governed by a distinct Trust Fund Committee, which also meets as a Joint Trust Fund Committee. The SCF consists of four targeted programs, the Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR), Scaling Up Renewable Energy Program in Low Income Countries (SREP), each governed by a Sub-Committee, as well as a Global Sub-Committee that governs newly established thematic programs.[13] In addition to the Trust Fund Committees and Sub-Committees, the CIF's governance provides for an MDB Committee (recognizing the CIF's *modus operandi* through MDBs) and a Partnership Forum[14], consisting of representatives of stakeholders, including MDBs, UN organizations, GEF, UNFCCC, the Adaptation Fund, bilateral development agencies, civil society organizations, private sector entities, and scientific and technical experts.[15] The CTF and SCF Trust Fund Committees each consist of 8 contributor country and 8 recipient country representatives, a senior World Bank representative, and a rotating MDB representative. The country representatives are *decision-making Members*, while the World Bank and MDB are *non-decision-making Members*. The SCF Sub-Committees each consist of six contributor countries, an equal number of recipient country representatives, and others represented by the SCF Trust Fund Committee as deemed necessary.[16] [17] Committees and Sub-Committees are required to meet a minimum of once a year, while the Partnership Forum is expected to convene every 18 months.[18] While not explicitly provided for in the CIF Governance Frameworks, the fund has implemented an active and robust practice of stakeholder participation in its Committees and Subcommittees.[19] This includes the participation of four CSO representatives (with an additional community-based representative, in the case of the PPCR), three Indigenous Peoples representatives, and two private sector members in *each* body, totaling 46 active observers (and an additional 46 alternate observers). Observers serve for three years (formerly two) and are elected through open and transparent competitive processes managed by third parties contracted by the CIF. A competitive CSO

[13] New CIF programs include *Accelerating Coal Transition*, *Industry Decarbonization*, *Nature Solutions*, and *Smart Cities*.

[14] While formally mandated in the governance documents, the Partnership Forum has not been held regularly since 2014 and has been largely replaced by other modalities of engagement and knowledge exchange.

[15] Obtained at https://www.climateinvestmentfunds.org/governance

[16] Obtained at https://www.climateinvestmentfunds.org/sites/default/files/meeting-documents/ctf_governance_framework_revised_2014_0.pdf

[17] Viewed at https://www.climateinvestmentfunds.org/sites/default/files/meeting-documents/scf_governance_framework-final.pdf

[18] The CIF is currently undergoing a process of streamlining the governance process, with the frequency and mode of sub-committee meetings under review, following the successful experience of hosting virtual meetings during the Covid-19 pandemic.

[19] The CIF Funds' Governance Frameworks do not mention observers, but their Rules of Procedure state that *"The Head of the Administrative Unit, in consultation with the [CTF/SCF] Trust Fund Committee, may also invite representatives of civil society selected through a consultation among themselves, or of any international or governmental agencies, or other organizations with a mandate to address climate change, to observe any Meeting except for the portions of the Meeting that are declared to be Executive Sessions."* In addition to non-state stakeholders, CIF Trust Fund Committees and Sub-Committees invite the participation of the GEF, UNDP, UNFCCC, United Nations Environment Programme (UNEP) and United Nations Permanent Forum on Indigenous Issues (UNFII)

selection process, for example, includes self-nomination of prospective observers, and online voting by peers. The process is adapted for each constituency, using common selection criteria which include geographic representation, gender equity, institutional diversity, and technical expertise. Unlike the GEF and other funds analyzed here, there is no CIF-specific CSO or stakeholder network, though the CIF has endeavored to support the creation of the Stakeholder Advisory Network on Climate Finance (SAN) as a cross-fund stakeholder initiative.[20]

The **Green Climate Fund (GCF)** is a multilateral financing entity with the sole mandate of serving the UNFCCC. As such, it is accountable to and operates under the guidance of the COP and is governed by an appointed GCF Board. Unlike the World Bank-hosted funds, the GCF possesses an independent judicial personality.[21] The Board has 24 members, equally shared between developed and developing countries. As with other funds, membership includes small island developing states (SIDS) and least developed countries (LDCs), selected by their respective constituencies. Decisions are made by consensus to the fullest extent possible. The participation of observers representing civil society and the private sector is provided for in the fund's official Governing Instrument. Observer participation follows a two-tiered system, through an open observer accreditation process by the GCF, as well as active observers, with the latter seated on the GCF Board. Two constituencies are represented: civil society and the private sector by two active observers each (and an equal number of alternates) divided among developing and developed countries. Active observers are identified through a self-selection process by each constituency and are elected for two years, with a maximum of two consecutive terms.[22] The GCF governance does not provide for formal Indigenous Peoples' representation, which is nonetheless grouped under the CSO seats. The broader civil society constituency is self-organized under an independent and active GCF CSO group, which is open to wider citizen groups regardless of their accreditation status as observers by GCF. While the CSO network is largely informal, its members organize many initiatives, such as the collaborative online platform GCFWatch.[23]

The **Adaptation Fund (AF)** is governed by a 16-member and 16 alternate board consisting of parties to the Kyoto Protocol or the Paris Agreement, representing the United Nations' five regional groups (Africa, Asia and the Pacific, Eastern Europe, Latin America and the Caribbean, Western Europe, and Others), SIDS, LDCs, Annex I (industrialized) and non-Annex I countries, with a majority of representation from developing countries. Members serve for two years for a maximum of two consecutive terms, with the board meeting twice a year. While there is no formal provision for AF-specific active observers to the AF board, AF board meetings are open to

[20] The SAN was indeed initially envisioned as a CIF-focused initiative and later opted to broaden its focus as a cross-fund network. This original vision is captured in the "Concept Note to Establish the Stakeholders Advisory Network (SAN), presented in 2015 to the CIF's Joint Trust Fund Committee

[21] Notably, the World Bank also initially served as the interim trustee for the GCF, prior to its full independent establishment.

[22] At the time of publication, 296 CSO, 83 private sector organization and 74 International Entities were accredited by the GCF as observers.

[23] https://www.gcfwatch.org/

attendance, at the discretion of the board, to UNFCCC accredited observers, who may participate, "upon invitation of the Chair and if there is no objection from an of the members present",[24] and the fund policies require and recommend stakeholder engagement throughout the project cycle. The AF recognizes the importance of the contribution of civil society and has a record of engagement, primarily through the public commentary of project proposals, CSO participation in monitoring missions, surveys, and dialogue with CSOs as a standing board meeting agenda. CSO outreach and engagement activities are conducted in collaboration with an active and independent AF Civil Society Network (formerly "AF NGO Network"). Pursuant to the AF becoming a mechanism of the Paris Agreement, the board has been tasked to ensure its compliance with the treaty and has initiated consideration on "options to further enhancing civil society participation and engagement in the work of the board"[25]. A number of ideas have been submitted for deliberation, most notably the proposal by the AF Civil Society Network to institute a minimum of two active CSO observers (and corresponding alternates) with a formal seat at the AF board and committee meetings, following a model similar to the GCF.[26] The proposal recommends a process of self-selection by the constituency, based on criteria agreed with the fund but unconstrained by an official observer accreditation process. There is no provision or proposal to institute private sector representation on the AF board.

The **Forest Carbon Partnership Facility's (FCPF)** Carbon and Readiness Funds convene REDD country, donor, and Carbon Fund "Participants" in Annual Assemblies and Participant Committees. The Carbon Fund includes countries that have signed emission reduction purchase statements, currently 15, and the Readiness Fund includes all 46 countries that are part of the FCPF. Committee participants are elected within their constituency, for a term of two years. The Committee endeavors to decide by consensus or, when required, by a two-thirds majority. The FCPF charter recognizes the figure of observers to the Participants Committee: "one representative from Relevant International Organizations, two representatives from Relevant Non-Governmental Organizations (one from the North and one from the South), one representative from Forest-Dependent Indigenous Peoples and Forest Dwellers, and one representative from Relevant Private Sector Entities, one representative from the UN-REDD Programme and one representative from UNFCCC Secretariat", invited to attend the Committee without voting rights.[27] In current practice, the Readiness Fund includes five Indigenous Peoples' observers, representing South America, Central America, Francophone Africa, Anglophone Africa, and Asia-Pacific, as well as four CSO observers, drawn from Latin America and the Caribbean, Africa, Asia-Pacific, and a "Northern" observer. While not formally in the charter, the FCPF

[24] *Rules of procedure of the Adaptation Fund Board*, retrievable at https://www.adaptation-fund.org/wp-content/uploads/2019/10/AFB.B.34.Inf_.10_Rules-of-procedure-of-the-Adaptation-Fund-Board.pdf

[25] Retrievable at https://www.adaptation-fund.org/document/options-to-further-enhance-civil-society-participation-and-engagement-in-the-work-of-the-board-2/

[26] The NGO Network proposals are presented at: https://af-network.org/sites/default/files/2020-02/Further%20strengthening%20civil%20society%20engagement%20in%20the%20AF%20Board.pdf

[27] https://www.forestcarbonpartnership.org/sites/fcp/files/fcp-docs/2015/January/FCPF%20Charter%20-%2012-23-14%20clean.pdf

instituted in 2014 the practice of seating a gender observer. The Carbon Fund, in turn, includes one Northern CSO, one Southern CSO, and one IP observer.

Observers are selected by the relevant groups on the basis of a proposal from the FCPF management. There is no stakeholder network equivalent to what is seen in other funds, though observers themselves may be acting in representation of stakeholder group networks, such as COICA, an Indigenous Peoples' umbrella organization in Latin America, and CSDevNet a climate and sustainable development CSO network in Nigeria.[28] Observer representation in the FCPF is expected to change as the fund itself undergoes changes, with the end of the Readiness Fund in 2022 and the development of new programs.

In sum, as described above, there are significant differences in the participation of non-state stakeholders in the governance of the funds: some funds have formally instituted the participation of observers in their governing bodies (GCF, FCPF, GEF[29]), and others have a robust observer program that is not formally mandated in policies (CIF), while one (AF) does not have bespoke observers (albeit with the possibility of participation of UNFCCC-accredited observers), though stakeholder participation, including participation in board meetings, is facilitated through other means, and the creation of active observers is currently under consideration. The CIF convenes a remarkably large number of active observers – 46 (albeit assigned to various trust fund committees and sub-committees), while other funds confer observer status to a more limited number of representatives, with the GCF further distinguishing between "active" (4) and "accredited" observers (currently 473), with only the former granted access to the board meetings. Constituencies are defined and represented differently, with some funds including IPs representation under a broader CSO constituency (GEF, GCF), while others distinguish between these (CIF, FCPF), some provide for private sector participation (CIF, GCF, FCPF), while the GEF does not do so. Constituencies are often further divided between developed and developing groups and, in the case of the CIF, balanced between regions.

Other criteria are typically considered, beyond the specific seats: the gender balance of the overall observer group, and the representation of other groups, including youth. Observer initiatives also differ in the format for the selection of representatives and the level of discretion granted to the fund secretariats in the process: while the GEF secretariat selects sponsored CSOs to take part in Council meetings (in consultation with the CSO Network and Indigenous Peoples Advisory Board), the GCF follows a principle of self-selection. The CIF and the FCPF also favor self-selection and have managed the selection process through third parties. Finally, while this pertains to the constituencies themselves, rather than to the fund policies *per se*, fund-specific civil society networks follow and often collaborate with funds such as the AF, GCF, and GEF, while

[28] https://www.forestcarbonpartnership.org/participants-committee-members-and-observers

[29] The GEF does not use the term "observer" in reference to stakeholders participating in Council meetings.

there is no corresponding initiative for the FCPF and CIF, notwithstanding the CIF's role in supporting the SAN as a cross-fund observer network.

The difference in representation models between the CIF and the GCF – with the former's large number of observers (albeit serving in different funds and committees) versus the latter's more limited active representation – is noteworthy and merits further attention. In favor of a larger number of active observer seats: the potential for better representation of the diversity of civil society, private sector, and indigenous peoples and their often divergent views, positions, and interests. Also in favor of this model is the ability of CIF management to engage directly with a broader pool of knowledge and networks. In contrast, the large representation, combined with the lack of a network supporting and coordinating the positions of the observers, can result in the fragmentation and dilution of the voice of stakeholders. In the case of the GCF, the two-tiered ("active"/"accredited") observer status allows the fund to engage with a broader stakeholder community in a more limited and indirect manner, by channeling the voice of the broader group through the four active observers. This scheme may narrow the scope of representation and could potentially mute diverging views, but has also been particularly effective at unifying and strengthening the positions advocated by a majority of stakeholders, most notably among the CSO representation, which is well-supported through its informal network. This topic merits further empirical research.

Summary table of observer engagement across climate funds[30]

	AF	CIF	FCPF	GCF	GEF
Active observers	N/A	20 CSO 15 IP 10 PS 1 Community-based organization (subdivided by committees)	2 CSO 1 IP 1 PS 1 gender	2 CSO 2 PS	4 CSOs sponsored for participation in council meetings
Election	N/A	Self-selection based on CIF criteria Election implemented by third parties	Self-selection based on FCPF criteria Election implemented by third parties contracted by fund	Self-selection among CSO group	Selection by GEF Secretariat in consultation with CSO Network

[30] Adapted amended from "Briefing Paper: AF NGO Network Recommendations", obtained at https://af-network.org/sites/default/files/2020-02/Further%20strengthening%20civil%20society%20engagement%20in%20the%20AF%20Board.pdf, with additional input from the Climate Funds Update website, at https://climatefundsupdate.org/the-funds/ (various pages)

Financial support	N/A	Travel funding for developing country CSO and IP representatives for Committee meetings	Travel funding for developing country CSO and IP representatives for Committee meetings	Travel funding for developing country CSO active observers to attend board meetings	Travel funding for sponsored CSOs to attend Council meetings
Networks	Independent AF Civil Society Network	No CSO network; CIF-supported fund-wide Stakeholder Advisory Network	No CSO network	Informal independent GCF CSO network	Independent GEF CSO Network created by GEF Council mandate
Broader engagement	CSO Dialogues	Partnership Forum			CSO Council Consultations

4. Observer Roles: Gaps and Constraints

All major climate funds engage stakeholders in their governing bodies, in varying degrees, as formalized active observers or otherwise. But what do these stakeholder observers – or their nearest equivalents – actually do? Most visibly, observers attend meetings, *observe*, raise issues of interest or concern, and speak as voices of their constituencies. Observers act in *representation* of a constituency and are principally accountable to this group. In serving as representatives, observers act as a conduit for voices of other stakeholder and beneficiary groups and as a link between these and the fund management and governing members. Where observers are officially given a mandate (as opposed to simply being invited on a one-off basis to attend a meeting), other roles are often conferred to or expected of them. Observers may be invited to take part in site visits and country meetings, consultations, and other *ad hoc* activities. Observers can become a trusted asset and talent pool for fund managers for informal feedback and a variety of roles – and *vice versa*. In some funds, observers may perform additional roles under contract by the funds, while other funds or corresponding stakeholder networks will have explicit bans on financial relationships, for the avoidance of conflicts of interest. In addition to their role in global fund governance, observers may be expected to support and give input to *country-level strategy formulation*, as well as to follow *local implementation, monitoring, and evaluation* of projects, engaging with stakeholder groups at all levels.

Without a vote in the meetings, observers can nonetheless exert considerable influence over decision-making, as fund governing bodies operate primarily by consensus: a forceful and well-substantiated argument or objection by an observer, recorded in the official proceedings, will likely resonate among one or more voting members, who may support the issue, obstruct, or abstain from a vote, delaying or ultimately swaying decisions. This has been anecdotally confirmed in various instances, though it does not appear to be a frequent occurrence, as observer views can be noted yet ignored or overruled.

The role of an observer is a voluntary commitment, played by individuals (on behalf of organizations) that are usually engaged in other full-time professional activities. Funds typically only cover travel-related costs (airfares, accommodation, and, usually, a *per diem*) for active observers from developing countries, but do not pay honoraria or fees for time or work performed. Effective observers presuppose informed, knowledgeable, competent, and resourceful individuals, with legitimacy and credibility within their constituencies, supported in their role by their organizations and networks, as well as by the climate fund itself. This is a tall order, even for the generally better-resourced private sector and CSO constituencies from developed countries. A more common reality for observers involves competing demands, a requirement to process daunting amounts of technical information on short notice, on a wide variety of often unfamiliar themes activities, and territories, among other capacity and resource constraints, including language limitations, limited access, and communication and, not infrequently, adverse local political contexts.

An independent evaluation of local stakeholder engagement in the CIF, for example, while validating the early and strong commitment of the fund to engage local stakeholders in governance, found a more mixed record of engagement in national investment planning, and more limited effectiveness of stakeholder engagement at the local project design and implementation stage, highly dependent on the capacity and the commitment of government implementing agencies and their MDB partners.[31]

An independent evaluation of the GEF CSO Network – a network created with a mandate from the GEF Council – found largely comparable results. While concluding that the Network "continues to be relevant and delivering results to the GEF Partnership", it points out that its activities are distant from the country level, operating more effectively at the global and regional level. Its effectiveness is constrained by the voluntary nature of the key role played by its regional "focal points", its limited ability to build the capacity of its members and to assess and leverage the knowledge, skills, and experience of its membership. While the evaluation was conducted in 2016, there is evidence that many of its findings remain true in the present day.

How do observers themselves perceive their role within climate finance institutions, and what are their views on priorities and challenges as well as their needs, to deliver on their mandates? An observer assessment survey was conducted by the SAN, in parallel to this study. In a separate but related project, observer stories were collected by the SAN, adding depth and color to the

[31] Consensus Building Institute, *Local Stakeholder Engagement in the Climate Investment Funds: Evaluation Report,* Feb. 4, 2020, retrieved at https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/evaluation_of_local_stakeholder_engagement_in_the_cif.pdf

views expressed in the survey. Survey results, based on open-ended and closed questions, illustrated with examples and stories, are summarized below. Observer narratives largely corroborate the challenges mentioned above and give support to the conclusions and recommendations in the final chapter.

All eligible SAN members were contacted, and 66 current or former observers of four funds responded. Respondents, identified by fund and constituency, were asked about their greatest challenges as observers, their views about what the funds should do to enhance stakeholder engagement, where the SAN should focus its efforts, and related issues, such as the impact of the pandemic. A majority of respondents identified the CIF as their primary fund (with some acting or having acted as observers to more than one fund), reflecting the larger number of observers involved in the CIF, as well as the SAN's stronger historical link with this fund. 17 observer stories were collected in the related "Partnering for Climate" report,[32] with a predominance of CIF observers (14). The analysis of the results of these studies is, therefore, not a generalizable reflection of the reality across climate funds but reveals broad insights that may resonate across climate funds.[33]

SAN Observer Survey Respondents

Fund	Observer Status		Constituency							
	Current	Former	N CSO	S CSO	IP	PS	Other	N Spec	Total	%
CIF	36	17	6	23	6	13		1	53	80%
FCPF	2	2	1	1	1		1		4	6%
GCF	2	1				3			3	5%
GEF	4	2	2	3	2				6	9%
Total	44	22	9	27	9	16	1	1	66	
%	67%	33%	14%	43%	14%	25%	2%	2%		

73% of respondents believe their participation as a climate fund observer *strongly* (33%) or *moderately* (40%) benefits the constituency they represent, while 9% feel they *poorly* benefit (7%) or *do not benefit* (1.5%) their constituencies. 18% answered they *don't know* or that the question *does not apply*. Among the developing country civil society constituency, the percentage who feels constituencies strongly or moderately benefit is highest, at 92%.

Observers were also asked if they feel their participation results in real benefit or improvement to climate fund decision-making and impact, with relatively similar responses: 73% believe funds strongly (39%) or moderately (33%) benefit, while 12% believe that funds benefit poorly

[32] *Partnering for Climate: Stories in Stakeholder Engagement from Non-State Actors in Climate Funds*, *forthcoming*

[33] Given the large preponderance of CIF observers (80% of the total), results are not comparable across funds, but are broken out by constituency. This survey, as part of a scoping study and a relationship-building process, did not seek statistical validity, and included numerous open-ended questions, where respondents could express their views freely. While respondents were encouraged to identify themselves for further contact by the SAN, they had the option to remain anonymous. AF and GCF CSO observers opted not to participate in the survey. The survey was conducted in March 2021 using the Survey Monkey online tool.

(9%) or not at all (3%). An additional 15% said they did not know, or the question did not apply. The approval number rises to 81% among the developing country civil society believing that funds strongly or moderately benefit from observer participation.

Among bright spots noted by observers, funds were commended for providing a safe and inclusive space at the governance level for the participation of non-state actors. Observers appreciated the constant flow of information, and the real opportunity to make their voices heard. The *plurality* of the representation, given the inherent diversity of constituencies, was also valued, as was the opportunity to exchange and learn from peers.

> *In the meetings I attended, the atmosphere was different [from other high-level climate change meetings]. We had specific briefings from the CIF Administrative Unit and they helped us understand the process; it felt very welcoming and the exchange of information was valuable. Even during the meetings, it was great to see that one could just ask for the floor and then they would have the floor* – CIF CSO Observer, Nicaragua

> *Frankly speaking for me, it was so difficult in the initial days to participate and take a position […]. During that time, global North observers really helped develop my capacity – the role of global north's CSOs was significant to developing the capacity of global south observers* – CIF CSO observer, Nepal

The work of a stakeholder observer is challenging in ordinary circumstances. This involves hearing from and reporting back to constituencies, obtaining information to support positions, and ensuring that the constituencies' voices and views are heard. Observers strongly emphasize their difficulties with *constituency outreach*: constituencies are multiple, dispersed, diverse, speaking different languages, are burdened with competing priorities, and are often unaware of funds, making it difficult for observers to identify and to engage with or represent in a meaningful manner. Observers highlight a lack of opportunities for exchange, venues, and channels to sustain ongoing two-way communication, as well as the resources to do all the activities above. While remoteness, diversity, and poor means of communication are common constraints to all groups, they especially affect Indigenous Peoples.

> *One of the biggest challenges for me was not knowing who the right people to contact are in the countries you represent as an observer* – CIF CSO observer, Kenya

> *I found it difficult that if the expectation is for me to give feedback to my constituency, what is my constituency? I don't have a well-defined constituency per se. That was a major obstacle for* me – CIF private sector observer, Germany

***Access to information* also poses significant challenges:** many observers claim they are offered excessive information by funds, in an erratic manner and often find themselves with limited time to process information presented in a format that is difficult to grasp. Conversely, some claim difficulty and a high cost in obtaining complete information, in a timely manner, especially from national and subnational authorities, resulting in the need to act with limited information. The above-mentioned poor communication channels, limited (or no) resources, and the large number and worldwide spread of stakeholders compound the issue of obtaining and sharing information.

> *I am lucky enough to be a native English speaker. But the documents that were sent to us in advance of the CIF committee meetings were technocratic reports; even for the government counterparts, the people who presented the programs were not always fluent in English. So having a readable summary would have been helpful. We would also regularly get 300 pages of documents to read within 14 days, and no advanced notice to schedule our time to review* them – CIF CSO observer, Kenya

> *Even when I would forward the project information to my networks, I never got a reply from organizations interested or who had interventions, which probably means it was not an effective method. Even when I reviewed comments made on projects, I remember all comments were from MDBs or donors* – CIF CSO observer, Peru

Regarding their ability to give voice to their constituents, observers repeat many of the constraints above: the challenge of representing vast and diverse groups, which they may not know or be known by, and the limited time and resources. Additionally, they highlight the restricted space for observers in fund governance, funds' sensitivity to criticism, adverse political environments in certain countries, and the low recognition of observers by national and subnational governments. The voluntary nature of the role means observers are chronically under-resourced, making them, as one former observer claims, just "window dressing" for the funds.

> *I think any project being designed needs to involve the observers from the start, so that if there are workshops or project documents being put together the observer should at the very least be consulted to get in touch with the beneficiaries on the ground – private sector and civil society, so they can get the feedback of those beneficiaries* – CIF CSO observer, Rwanda

> *Unfortunately, in some of the cases in my own country, I ended up being targeted as a 'whistle blower' when I raised concerns with the Asian Development Bank and the World Bank that when holding meetings in my country they deliberately ignore my existence as a formal CIF Observer and do not invite me to* participate – CIF IP observer, Samoa

> *Any small NGO or CSO would be strapped for time and funding, and might have to prioritize their full time work. Hence, I did not feel the observers were supported in ways to really influence the CIF governance* – CIF CSO observer, USA

59%, furthermore, state that the Covid-19 pandemic has affected their ability to do their work as an observer. Unsurprisingly, this figure rises to 78% among representatives of Indigenous Peoples. IP representatives emphasize the difficulty or inability to visit communities, affecting outreach and communications efforts or halting work altogether. Virtual meetings also prove challenging due to poor or nonexistent internet or cellular connectivity. Other constituencies also emphasize the restricted movement and the challenges of limited communications, highlighting the difficulty to build important personal relationships and the useful “hallway exchanges” of in-person meetings, as well as the economic distress of communities affecting their priorities and their willingness to engage.

In sum, the issues, gaps, and constraints raised by the observers in the survey as well as in the in-depth interviews revolve around:

1. *The difficulty in identifying relevant stakeholders and establishing meaningful communication across the vast constituencies purportedly represented by observers.*
2. *The sheer amount, the technical nature, and the language used in the information shared by funds, with a narrow timeframe for comment, limit the ability of observers to review, analyze, share, and receive feedback from their constituencies.*
3. *Difficulties in access to national and project level government authorities and implementing bodies.*
4. *The engagement of observers late in the project cycle, after the critical design stage where feedback would be most useful.*
5. *The inability to fully meet expectations of the role, given its voluntary nature and lack of adequate resources and support.*

What do observers suggest the funds do to address these issues? Explicit or implicit in the responses above are demands for greater recognition, more space, better curated relevant information delivered on time, improved means for communication, greater support to engage with governments, as well as more capacity building and funding. All constituencies ask for greater openness for effective participation in decision-making. Indigenous Peoples ask for stronger IP safeguards and greater investments in building capacity and knowledge. The issue of observers’ inability to engage with national and local governments is most strongly mentioned by developing country CSOs. Limited involvement in the monitoring and evaluating projects at the local level is a recurring issue among this group, attributed both to the difficulties with authorities as well as due to poor communications with local stakeholders. Private sector observers ask for more readily available information, more transparency on private sector projects, greater ease of access to funding, and a stronger focus by funds on replicating successful initiatives. The private sector constituency claims that if it were listened to, it would readily share advice on how to make climate finance more attractive to this sector.

Where should the SAN – or other bodies supporting stakeholder observers – place their focus? When asked to rank the level of priority to action given on the global, national, or local stage, observers placed the national level first, on average, followed by the global and local spheres. Indigenous peoples' observers diverged from the average, inverting the order, placing local first, followed by the national and the global, while the developing country group also valued the national over the global. The results do not state which level is most *important*, and observers would likely argue that all are, but rather where they feel the greater *challenges* are.

What level should SAN prioritize?

	Global	National	Local
All	2nd	1st	3rd
IP	3rd	2nd	1st
NCSO	2nd	1st	2nd
PS	2nd	1st	3rd
SCSO	3rd	1st	2nd

Observers were also asked to rank the main activities proposed for the SAN, as reflected in its current strategy document.[34] These activities are: *1) proposing and advocating for higher common **Standards in Stakeholder Engagement** across climate and environment funds, 2) Identifying and disseminating **good practices** in stakeholder engagement, 3) **building the capacity** of Stakeholder Observers through training or other activities, 4) **empowering** specific stakeholder groups (e.g. most vulnerable, indigenous peoples), 5) making climate and environment fund **information** more readily available and comprehensible to your constituencies, 6) promoting stakeholder observer **networking** and knowledge exchange, 7) developing tools for improved communication and coordination between observers and their **constituencies**,* or *other*, with the results summarized in the table below.

	What lines of actions should the SAN prioritize?						
	Standards	Best Pract.	Capacity	Empower	Info	Network	Constit.
Total	2nd	3rd	1st	4th	5th	6th	7th
IP	3	4	1	2	5	6	7
NCSO	2	3	1	5	3	6	7
PS	4	1	3	7	2	5	6
SCSO	4	7	1	3	7	2	5

Building capacity and pursuing higher standards of stakeholder engagement across climate funds were most highly prioritized, while promoting networking across observers and improving contact with constituencies received the lowest priority. Not surprisingly, the priorities of constituency groups differ significantly, with Indigenous Peoples placing a high value on empowerment and the private sector valuing best practices and information sharing.[35]

[34] The latest *SAN 2020 Strategy and Business Plan* is retrievable at: https://www.sanclimate.org/

[35] The small number of respondents in each category increase the possibility of fluctuations in the results due to outlying positions so these results should be read with caution.

Suggestions for *other lines of action* for the SAN include making resources available for observers, operating through consultants at the national level, active participation in climate change forums, producing evidence of the impact of observers in climate funds, facilitating national and regional networks, holding regular meetings and assemblies, strengthening the legitimacy of observers and presenting their voices, proposing policies for wider local level participation and including women as a group in its own right.

These activities and lines of action were further developed in an open-ended question to the observers about *what the SAN should do*.[36] While the responses represent an ambitious "wish list" well beyond the current reach of the SAN, and likely of any support organization, they broadly validate the SAN's proposed core lines of action, and offer additional insight into their usefulness. These responses about the SAN can likely also be considered as a proxy for *what observers feel they need.* There is significant overlap and similarity between the different constituencies on these recommendations. These include:

Setting higher standards and empowering observers: Enhance the voice of observers; strengthen the connection between observers and national and local counterparts; advocate for a more effective climate finance architecture.

Knowledge, information, and best practices: collect and share timely and useful information to support observers; develop and share best practices, produce, and disseminate knowledge and cases, create guides and checklists, organize regular webinars and in-person meetings on relevant issues; create a repository of these materials.

Capacity building: Train observers, particularly incoming ones; and provide technical assistance at all levels; leverage the knowledge tools and events to enhance the capacity of observers.

Networking: Connect observers with similar interests and needs; develop platforms and promote networking, including at the local level.

Funding: Secure and supply direct funding to observers to support their activities, in particular their outreach to local communities and the monitoring and evaluation of projects.

As the narrative of the observers in the survey and their oral reports confirms, while in principle the existence of observer programs supports building trust, ownership, sustainable impact, and resilience, serious constraints restrict their ability to perform effectively. **Before proposing remedies, it is necessary to examine potential inherent limitations in the observer model, which may suggest that effective stakeholder engagement should be achieved by other means beyond the involvement of observers.**

On the multilateral fund side, the slow but unequivocal embrace of transparency and openness to citizen engagement by organizations once perceived as opaque and technocratic is encouraging. Multilaterals are further characterized as very risk-averse, project-focused, and

[36] The full responses to this important question are provided in the annex.

thus incentivized to offer just the minimum attention to stakeholder engagement. This perception, fortunately, is changing, not the least because of the strong role played by citizen groups demanding transparency and accountability, as well as by the changing demands of donors and shareholders. In practice, multilateral organizations have increasingly become vectors of transformation, promoting higher standards of transparency and participation among their partners, clients, and member governments, and MDB-hosted climate funds are at the forefront of this process.

Fragmentation of the project cycle poses further challenges to effective stakeholder engagement. This fragmentation occurs both internally, within climate funds (and their host institutions, when applicable), as well as externally, as different stages and components of the project cycle involve multiple agencies. Internally, the large and complex international development bureaucracies often fragment the stages of project development, which are allocated to different units. This is exemplified by a frequent division of labor between "safeguards", "partnership" or "stakeholder engagement" and "governance" teams, with less-than-ideal exchange and synergy, according to observers. Furthermore, the fragmentation is augmented when responsibilities are delegated to different implementing partners. Observers cite multiple examples of how this fragmentation adversely affects stakeholder engagement: when a local stakeholder consultation for a project does not involve an observer with relevant knowledge and connections to the community or country; when a whistleblower is unaware of the existence of a stakeholder representative at the board which would have been able to raise the issue; when an observer first hears of a project of interest to his constituency after the preparation phase is completed; when an observer struggles to find willing counterparts among government and implementing agencies and, ultimately, when observers themselves note their difficulties in identifying and representing constituencies altogether.

The sphere of civil society – which can be understood here to include Indigenous Peoples – also has inherent challenges. Civil society organizations are notably diverse: from endowed foundations to local community groups; from leading think tanks to service providers and advocacy groups, and beyond. Without discounting the multiple and undoubtedly meritorious roles civil society organizations play, issues of legitimacy, governance, capacity, and resourcing are unfortunately endemic in the sector. Civil society organizations are also representative of the widest possible range of viewpoints on the political spectrum, including the extremes. Thus, "representing" civil society is a perpetually challenging problem, fraught with the potential for conflict, and conflicts of interest. Capacity and funding constraints are also pervasive in the sector, putting CSOs at risk of becoming dependent and subservient to donor priorities and demands. Conversely, self-funded philanthropic organizations can also be notably opaque. Local-level citizen groups in developing countries, more often than not, operate on the limits of informality, with little or no resources or paid staff. Against this backdrop, it does not come as a surprise that CSOs and Indigenous Peoples' organizations, when granted the opportunity to participate at the board level of international organizations, meeting donors and high-level government representatives, may be tempted to further their own goals and needs over their constituencies' interests. There are clear incentives for self-serving behavior, that must be countered by effective oversight and conflict of interest policies.

Private sector representation is also riddled with challenges: this sector is as diverse as is civil society, and so are its interests, with examples ranging from the financial sector, agriculture, emerging renewable & low-carbon industries, the petrochemical industry, commerce, and a variety of service providers. Within the private sector, powerful economic incentives and market forces pull in different directions – *for* and *against* the adoption of new technologies, the taxation of carbon, regulation of emissions, the introduction of subsidies, feed-in tariffs, etc. There can also be a blurred boundary between certain types of nonprofit organizations and businesses, namely in the field of consulting and services, which are often only distinguishable by their classification in their national tax codes. Representation in the private sector is as fraught, if not more, than among the CSO community, as was reflected in survey responses of private sector observers citing difficulties in identifying, engaging with, or representing any group.

Critical voices often point to these stakeholder engagement mechanisms as a form of *tokenism*, a nod to participation without the means to achieve it in a meaningful way, or to *manipulation*, the attempted cooptation of citizen voices to validate the actions of the funds, to counter other more critical voices within society. Conversely, one occasionally hears criticism of the observers themselves as a class of jet-setting "briefcase NGOs", representing only themselves in the development circuit, from one high-level meeting to another. While both critiques are unjustifiably harsh and lack real depth beyond the anecdotal level, they point to real issues at the heart of the representation and effectiveness gap of the stakeholder observer models.

Without any intent to disparage or discredit neither climate funds or, obviously, the stakeholders that aim to keep them effective and accountable, problematizing the inherent limitations within these groups is essential to identify and address the knowledge and capacity (including financial) gaps that undermine effective stakeholder engagement.

A final dimension that requires careful consideration does not pertain to the climate funds and their stakeholder observer policies and practices, but rather to the ability of these stakeholder groups to organize themselves. As the previous chapter revealed, this capacity varies significantly across different funds, and observer groups are organized collectively in different manners: on one end of the spectrum, the AF and the GEF civil society (including IP) groups have formally created their own networks: the AF Civil Society Network and the GEF CSO network. On the other end lie the FCPF and the CIF, with no formal networks (with the SAN, in the case of the latter, operating in a different capacity). The civil society and IP groups under the GCF have also organized themselves as an effective network, albeit informally. In the case of the GEF CSO Network, the GEF itself was actively involved in its creation and conferred a mandate on the Network. This has undoubtedly created some confusion in the past on the official status of the network, and its role, and has also created an expectation of continued financial support from the GEF to the Network. In recent years, the Network has reaffirmed its independent status. The SAN itself, created with the support of the CIF, has been criticized, internally and externally, for its dependence on that fund, creating the potential for conflict of interest, and has taken steps to secure its independence. In sharp contrast, both the GCF and the AF networks have ensured a strong separation from their respective funds by securing independent sources of funding, through their most active and influential members.[37]

A strong and active support network can be the difference between an effective or ineffective observer mechanism. In fact, as the experience of the AF Civil Society Network suggests, an active network can partially make up for the absence of formal observers, exploring other means to voice the views of its stakeholder groups. Independence plays an important part in creating a strong network. While direct financial support to observers or their organizing entities should not be altogether ruled out, it must always be filtered through robust and consistently applied conflict of interest policies.

5. Conclusions and Recommendations

As noted throughout this report, a significant and laudable trend can be noticed alongside the emergence of a new ecosystem of financial organizations created to address the challenge of climate change: the embrace of non-state stakeholders as key partners in the design and delivery of climate finance, with the involvement of civil society, the private sector and other stakeholder groups in all levels of program design, implementation, and governance. This role reflects the understanding of climate change as a generational and life-threatening challenge that requires the full participation of all segments of society.

This report sought to shed light on the policies and practices of stakeholder engagement at the highest level in climate finance, through climate fund observer mechanisms, comparing and contrasting the experience of key climate funds. Without detracting from the evident virtues of these mechanisms, the study focused on their challenges, gaps, and shortfalls, emphasizing the direct experience of stakeholders serving as observers, as a means to identify areas for improvement. The study reveals a largely positive but mixed record of results in the implementation of these mechanisms, highlighting challenges faced by observers concerning their representation roles, their ability to acquire and share information, and their capacity to influence decisions and outcomes at various levels of the project cycle. **The report reaffirms the capability of observer programs to function effectively at the global governance level, while**

[37] Notably, the AF Civil Society Network currently proposes a financial sustainability strategy that would allow it to explore funding options of a variety of types and sources, including, in certain cases, the administrative budget of the AF, per its draft Governance Arrangements, proposed in October 2021.

still currently missing significant opportunities to strengthen the link between this level and the national program formulation and project design and implementation levels, as identified by previous studies and evaluations.

In conclusion, the report presents the following recommendations for action and advocacy, addressed primarily to climate funds, but also to all parties interested in improving the effectiveness of climate finance.

1. ***Strengthen standards and policies for high-level stakeholder engagement:*** design, revise, and improve policies and operating procedures concerning stakeholder engagement to better reflect the role and full potential of stakeholder observers, including, but not limited to:
    - Instituting the role of stakeholder observers formally in governing documents, where this has not yet been done.
    - Removing any remaining obstacles to observer participation with full voice in board-level instances (including considering granting full voting rights, a matter which merits further analysis although, admittedly, will likely be contentious at present).
    - Acknowledging the uniqueness of non-state representation, vis-à-vis other members of governing bodies, recognizing the source of their legitimacy and their relevance in other instances of the policy and project cycle, as well as acknowledging the power asymmetries and need to support their role in a manner consistent with these differences, and mandating the creation of these support mechanisms.
    - Revising and reviewing broader stakeholder engagement and other relevant policies on access to information, social and environmental safeguarding, and control of corruption, among others, to better reflect the role of stakeholder observers, and mandate or proactively encourage their involvement in all processes relevant to their constituencies.
    - Creating strong disclosure and conflict of interest policies for observers that, while not necessarily precluding access to direct financing from the climate funds, will regulate this matter, avoiding impropriety (or its appearance) or compromise to the autonomy of observers.
    - Further examine and debate the comparative strengths of the vastly different stakeholder observer schemes, such as the GCF's "active" and "accredited" observer model, versus the CIF's model involving a considerably larger number of active observers, as well as the institutional relationship between the funds and their corresponding stakeholder networks. Support funds in incorporating other funds' practices that result in enhanced participation and effectiveness.
2. ***Empower stakeholder observers***, creating objective conditions for their success, beyond their institutional mandates.
    - Proactively translate the mandate conferred onto observers into clear roles and responsibilities, with the means for their achievement.

- Formally introduce observers to all relevant actors in the project cycle, within the fund, and among all relevant implementation agencies and government counterpart representatives.
- Promote the engagement of observers in the formulation, implementation, and monitoring of country-level strategies and local projects, through contact with local officials and relevant implementation agents.
- Act as a champion for the voice of observers at all times, especially in adverse or challenging environments, where their role may be resisted or misunderstood.

3. ***Build support mechanisms for stakeholder observer effectiveness***
   - Adequately staff stakeholder engagement teams within the climate funds, with clear authority, accountability, and cross-departmental linkages to provide optimal support to observers.
   - Create, in collaboration with stakeholder observer support networks, onboarding, training, and broader capacity-building opportunities for observers, to enhance their awareness and understanding of projects, institutional policies, and other dimensions that are essential to their role.
   - Create tools, and assist efforts by observers and their organizations, to support the identification of relevant stakeholders and to facilitate effective communication.
4. ***Selectively make financial resources available to address the gaps identified above:***
   - Through third-party partners, such as the SAN, CSO networks, or other organizations, to support observers independently, or through an independently-managed observer support fund.
   - Directly to observers, giving further consideration to the appropriate circumstances and conditions that will not undermine their autonomy or create conflicts of interest.
5. ***Improve the availability and the quality of information provided to observers:***
   - Provide project and policy summaries, in a timely manner, for items under consideration at board-level meetings, adapted to simplified, non-technical formats, available in the languages relevant to all the affected constituencies, including indigenous and minority languages. Consider supporting an independent third party to produce these project and policy summaries.
   - Respond promptly to requests for additional information, and facilitate requests involving third-party implementers.
   - Endeavor to identify and act upon further specific needs and capacity gaps pertaining to access to information.
6. **Engage proactively but judiciously with observers and their networks:** Stakeholders are recognized as partners, participating in all steps of implementation of climate finance. Observers perform an important “watchdog” role, but that is not their sole or, arguably, primary role. A full partnership supposes the ability to build a solid working relationship based on trust, creating an environment to discuss contentious issues openly and constructively, acknowledging that funds themselves have specific needs and common interests that can be advanced by cooperating proactively with their CSO, IP, and private

sector counterparts. Partnership requires respect, but also engagement with the often-untidy politics of stakeholder groups, recognizing that, while observers represent distinct constituencies with unique values and perspectives, these groups do not exist in a vacuum, nor are they ever perfect embodiments of legitimacy, capacity, or truth. Funds should not avoid stating their positions, providing guidelines, and setting clear parameters for matters as important as the selection of stakeholder observers (notwithstanding the independence of the intra-constituency election processes)

7. **Promote cross-fund stakeholder dialogue:** As noted throughout this report, organized interests in society have taken an active role in visioning and advocating for ambitious goals for climate action. Climate fund observers and other actively engaged stakeholder groups are a unique group to advance this climate agenda, due to their privileged position, as well as the knowledge acquired through direct experience serving as a bridge between funds and their constituencies. Building a solid platform for cross-fund dialogue across stakeholder groups, with access to donors and recipient country decision-makers, grassroots constituencies, markets, and other key groups, may be a significant step toward more ambitious and innovative, and equitable climate action.

All the recommendations above, especially those that involve investment by the funds themselves, must obviously be weighed on a cost-benefit scale, in the interest of maximizing resources for climate projects themselves. However, there are significant project efficiencies and cost savings that might be achieved through better stakeholder engagement and a well-informed project cycle. Better-designed stakeholder engagement may also provide direct savings. Observer programs and stakeholder engagement processes, as currently practiced, involve a significant cost, including sizeable staffing and travel-related budgets. At the time of writing, the World Bank is involved in a policy reform of its trust-funded initiatives, involving the streamlining, strategic alignment, and the enhancement of oversight of its portfolio. This presents an opportunity to improve stakeholder engagement practices affecting the large number of World Bank-hosted climate funds. Furthermore, the Covid-19 pandemic, despite its tragic consequences, has demonstrated the viability of improved means of technology-enabled communication that will undoubtedly become more widely available, even to remote communities, generating significant savings and potentially releasing funding for more meaningful forms of engagement. **Finally, as noted above, not all recommendations, or their associated costs, should be borne by the climate funds directly. In fact, as the example of the AF and GCF CSO groups demonstrates, the stakeholder groups must endeavor to self-organize, take initiative, secure funds, and take direct action.**

The study recognizes its limitation as having predominantly addressed the largest and most visible stakeholder group: civil society organizations while understanding that findings are often not generalizable across constituencies. Throughout the report, the uniquely different nature of the IP and private sector constituencies has been highlighted. Other constituencies demanding representation in their own right have received less focus here, including women and youth. The report has also disproportionately represented views of observers of the CIF, as a reflection of the relatively larger size of this group, but also as a result of the lack of participation of other funds' CSO groups, with the notable exception of the GEF CSO Network. As an exploratory study, based on a scoping review and direct outreach to climate fund stakeholder observers, the report concludes with recommendations for further in-depth research, to support more targeted action, particularly on the role of stakeholder groups such as women, Indigenous Peoples, and the private sector.

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Annex: SAN Observer Survey Questionnaire

Thank you for answering this survey. Your responses will be used to identify *needs*, *gaps* and *opportunities* to enhance the work of climate and environment observers, through the work of the **Stakeholder Advisory Network on Climate Finance (SAN)**.

Please answer candidly. You may skip any answer and leave additional comments if you prefer, but we would like to hear from you!

You may identify yourself at the end of the survey, or choose to remain anonymous if you prefer. We may contact you to follow up on questions or issues you raise, if you identify yourself, but we will treat all individual responses with complete confidentiality. You may contact us with any questions at info@sanclimate.org

1. Are you a climate fund observer or an active member of a climate and environment stakeholder network?
   - *Yes - Active observer/participating network member*
   - *Yes - Past observer/participating network member*
   - *No (if you are not a current or former climate fund observer or network member and believe you received this in error, you do not need to respond further, and may contact us* so we can remove your name from our contact list)*

2. Which climate or environment fund are/were you affiliated to as an observer or network member?
   - *Adaptation Fund (AF)*
   - *Climate Investment Funds (CIF)*
   - *Forest Carbon Partnership Facility (FCPF)*
   - *Global Environment Facility (GEF)*
   - *Green Climate Fund (GCF)*
   - *Other (please specify)*

3. As an observer/stakeholder network member, do you represent any specific constituency?
   - *Northern/developed country civil society*
   - *Southern/developing country civil society*
   - *Indigenous peoples*
   - *Private sector*
   - *No specific constituency*
   - *Other (please specify)*

4. Are you aware of the SAN (the Stakeholder Advisory Group on Climate Finance)
   - *Yes, I am aware and I am a SAN Member*
   - *Yes, I am aware but I don't know whether I am a Member*
   - *No, I am not aware of the SAN*

5. As a climate and environment fund stakeholder observer you are automatically eligible to be a SAN member. Do you feel represented by the SAN?
   - *Yes*
   - *No*
   - *Please comment, if applicable*

6. Have you previously taken part in any SAN activity (e.g. Member Assembly, election, webinar, working group, committee etc.)
   - *No*
   - *Yes*
   - *If yes, which activity/ies?*

7. Has your work directly benefited in any way from the SAN?

    No
    Yes
    If yes, please tell us how it has benefited:

8. Are you interested in taking a greater role in building the SAN?

    No
    Yes
    If yes, how would you like to help?

9. Climate and environment funds have implemented policies and practices including *access to information*, *grievance & redress* and *stakeholder and beneficiary participation* in decision-making. In your opinion, what is the most important thing that funds still must do to enhance their commitment to these practices, at different levels? (Please be as specific as possible, based on your experience)

    At the global/fund governance level
    At the country policy level
    At the local/project implementation level
    Other

10. As an observer, what is the main issue/challenge you face in:

    Representing, hearing from and reporting back to your constituency?
    Obtaining information to support your decisions?
    Ensuring that your constituency's voice and views are heard by the climate and environment funds?
    Other issues (describe):

11. Do you feel your participation as an observer results in real benefit to the constituency you represent?

    Strongly benefits/Moderately benefits/Poorly benefits/Does not benefit

12. Do you feel your participation as an observer results in real benefit/improvement to climate fund decision-making and impact?

    Strongly benefits/Moderately benefits/Poorly benefits/Does not benefit

13. Has the COVID-19 pandemic affected your capacity to act effectively as an observer?

    No
    Yes
    If yes, tell us how your work has been affected

14. What should the SAN do to address any of the challenges you listed above? (Be as specific as you can)

15. Climate and environment stakeholder observers typically operate at three levels: *1) global/fund governance level, 2) country policy level and/or 3) local/project level*. In your opinion, where should the SAN prioritize its efforts to support the work of observers? Please rank your priority, where 1=most important and 3=least important.

16. How important is it to you that more communication exists across different climate fund stakeholder networks?

    0 = Not important/Somewhat important/10 = Very important

17. The SAN's proposed lines of action include promoting *higher standards of stakeholder engagement* across climate funds, *building capacity* of stakeholder observers and *producing and disseminating knowledge and information* on climate finance. Please rank the following potential SAN activities below according to their level of relevance/importance to you (1=most relevant)

    Proposing and advocating for higher common Standards in Stakeholder Engagement across climate and environment funds

Identifying and disseminating good practices in stakeholder engagement
Building capacity of Stakeholder Observers through training or other activities
Empowering specific stakeholder groups (e.g. most vulnerable, indigenous peoples)
Making climate and environment fund information more readily available and comprehensible to your constituencies
Promoting stakeholder observer networking and knowledge exchange
Developing tools for improved communication and coordination between observers and their constituencies
Other

18. If you indicated "other" in the question above, please specify.

19. Please identify yourself for follow-up and further contact. You may wish to remain anonymous if you prefer. Remember that no individual responses will be shared without your explicit permission.
Name
Organization
Country
Email Address
Phone Number