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Policy Position


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Monitoring Climate Adaptation Financing to Ensure Effectiveness

Financing efforts by countries to adapt to climate change will require enormous amounts of resources and investments, both from the public and private sectors. The principle of "common but differentiated responsibilities" forms the basis for the current international framework that commits industrialised nations to assist developing countries in responding to and reducing the impacts of climate change. To support these endeavours, some analysts estimate annual global climate costs at around US$ 250 billion (if not more).

This volume of funding is unprecedented and underscores the need for transparency, accountability and equity. Since the monies are derived through bilateral and multilateral assistance, it has resulted in different policies, rules and procedures. How climate financing is generated, governed, delivered and used will be fundamental for reducing corruption risks that could undermine adaptation efforts.

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'Common but Differentiated Responsibilities' – Understanding the Principle

The UN Framework Convention on Climate Change (UNFCCC) outlines the responsibilities of industrialised nations in combating climate change [Article 3(1)(2)], stating "developed country Parties should take the lead in combating climate change and the adverse effects thereof." Moreover,"(t)he specific needs and special circumstances of developing country Parties … should be given full consideration."

Both of these stipulations establish a climate financing system that places developed countries in the lead (including on funding) and which gives added assistance to developing countries to fulfil the convention's commitments.

The Big Four Climate Funds

1. Adaptation Fund*

- Pledged: US$ 216.16 million
- Deposited: US$ 212 million
- Disbursed: US$ 9.46 million

2. Least Developed Countries Fund

- Pledged: US$ 262.28 million
- Deposited: US$ 219.35 million
- Disbursed: US$ 92.29 million

3. Pilot Program for Climate Change Resilience

- Pledged: US$ 971.75 million
- Deposited: US$ 305.85 million
- Disbursed: US$ 7.72 million

4. Special Climate Change Fund

- Pledged: US$ 149.28 million
- Deposited: US$ 133.73 million
- Disbursed: US$ 73.15 million

*All figures as of April 2011. For more information, see: www.climatefundsupdate.org.

1. Why governance matters

To meet global commitments, donor countries are required to ensure that their climate change payments to developing countries are 'new and additional' and not borrowed dollars from official development assistance (ODA). For their part, developing countries are required to spend climate money wisely on urgently needed projects and actions. Both groups of countries must make certain that climate spending decisions and decision-making processes are characterised by transparency, accountability and integrity. As experience has shown, public participation and consultation, plus sufficient oversight and monitoring, build better governance and trust among governments, people and companies.

Improving the governance of climate financing requires that related mechanisms and institutions have greater and more meaningful transparency. Such openness is essential for helping people to better understand the impact and use of climate money globally and to get them engaged in developing and implementing climate policy. For these reasons, building the capacity of local citizens and groups to leverage the information that is available becomes an essential component of pursuing better governance through greater transparency.

2. Climate financing: structures and funding

Climate financing is focused on both adaptation and mitigation. For adaptation, this means supporting and building the capacity of developing countries to respond to the impacts of climate change such as droughts, flooding, rising sea levels and extreme weather events. For mitigation, this translates into ensuring that countries change the practices which are fostering climate change.

In the context of the climate negotiations under the auspices of the UN Framework Convention on Climate Change (UNFCCC), industrialised nations (known as Annex 1 countries) have responded to their obligation to provide climate financing through different pledges and contributions.

For example, member countries of the Organisation for Economic Co-operation and Development (OECD) have committed to contribute up to US$ 30 billion by 2012 (known as 'fast-start finance') and long-term financing of up to US$ 100 billion annually by 2020. This funding is intended to be distributed equally for adaptation and mitigation objectives. Based on current figures for fast-start financing, more than 90 per cent of the funding will need to be quickly spent on projects before the end of 2012 if donors are to honour their commitments.

While financing for mitigation is channelled to all countries through public and private funds, financing for adaptation primarily comes from public monies that are dispersed to developing countries through bilateral and multilateral climate funds. Global mechanisms include the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF) and the Adaptation Fund. Adaptation initiatives also encompass a project funding facility called the "Pilot Program for Climate Change Resilience" (PPCR) — one of the Climate Investment Funds administered by multilateral development banks. In addition, more than six new bilateral donor funds have been announced since 2006 (see side bar). However, the Green Climate Fund, a global mechanism recently launched under the UNFCCC, will significantly outstrip these amounts. It is expected annually to generate up to US$ 50 billion for country-led adaptation efforts.

Given the sizable public funds and number of developing countries involved, adaptation mechanisms confront unique governance challenges and risks that form the focus of the subsequent sections.

3. Analysing the governance deficits

When it comes to financing for adaptation, transparency is seen as a fundamental component of any plan or governance system. Transparency ensures that adaptation funds are additional, accountable, equitably governed and corruption-free. Yet for greater transparency to be secured, there are some key deficits that need to be addressed.

Unclear information on 'new and additional' financing

When it comes to developed country pledges, establishing whether or not these are additional to donor ODA commitments can be difficult to determine. According to many developing countries, only pledges should count as new and additional if they are above each donor country's ODA target of 0.7 per cent of gross national investment (GNI), agreed to in the 1970s. However, this target has been met by few countries (Denmark, Luxembourg, the Netherlands, Norway and Sweden). As a result, many developed countries interpret 'new and additional' resources to mean those that go beyond current ODA flows.

This grey area and lack of consensus undermines both transparency and accountability. It provides the opportunity for pledges to be reallocated from existing development budgets in donor countries and for citizens to be misled about where money is going. It also increases the likelihood that monies are diverted from funding development priorities and are double-counted, counteracting aims to improve aid effectiveness.

Given these concerns, increased access to information about funding and a clear system to 'tag' and 'track' funds are urgently required. Such changes will help to provide reliable data on what flows of financing actually contribute to tackling climate change and are additional.

Varying governance structures and levels of accountability

Financing mechanisms for adaptation under the UNFCCC commit to having 'an equitable and balanced representation of all Parties within a transparent system of governance'. However, among the various funding bodies, this standard is not always met, leading to varying levels of accountability both within and outside the UN system.

Within the UN system, the Adaptation Fund has set up an oversight board with clear reporting mechanisms and equitable representation. By contrast, the LDCF and SCCF funds, which are administered by the Global Environment Facility, have been criticised for not having sufficient accountability channels, most importantly to the Conference of the Parties (COP) of the UNFCCC. Furthermore, the current weighting of votes in decision-making bodies overseeing these UN funds is based on a country's financial contributions. This means that the influence of donor countries will outweigh that of partner countries whenever a consensus cannot be reached and a vote must be called.

Outside the UN system, there are concerns that the support by developed countries for multilateral and bilateral funding streams could lead to a parallel and less accountable structure of climate finance (see side bar).

Unclear criteria for allocating funds

The basic principle for the allocation of adaptation funding is the prioritisation of developing countries which are particularly vulnerable to the adverse effects of climate change. The scope of what countries this includes, however, has led to much debate. It is feared that decisions on which countries are eligible for funding are unlikely to be equitable, transparent or accountable.

To prevent this scenario, it has been recommended to adopt a method to assess countries based on agreed, objective and measurable criteria, such as through the creation of a 'vulnerability index'. Similar indices have been created by some risk analysis companies and UN agencies to better understand the climate change landscape.

At the same time, decisions on how to prioritise adaptation activities have to be made at the national level. Some assistance has been lent to countries through their National Adaptation Programs of Action (NAPAs), which are required to be drafted by least developed countries to receive funding from the LDCF. Still,

A New Wave of Conditionalities?

There are concerns that the current mixture of loans and grants for climate financing, which count towards countries' ODA commitments, could lead to the imposition of direct or indirect conditionalities on the recipients of the funds.

The civil society organisation Eurodad has argued that while no specific conditions are placed on countries receiving climate finance from World Bank-administered funds, they are often required to have a World Bank programme in place to be eligible for receiving the funds. As a result, World Bank loans, which often include conditionalities, become a de facto condition for accessing climate financing.

This Policy Position was produced by Rebecca Dobson and Lisa Elges of the TI Secretariat.

The findings and recommendations are based on the *Global Corruption Report: Climate Change*, published by TI. All facts and figures, unless otherwise stated, are cited from the report.

The GCR on climate change brings together more than 50 leading experts and practitioners to explore major climate-related corruption risks. To learn more, see: www.transparency.org/publications/gcr.

without an agreed upon metric or criteria for assessment, it has been argued that climate financing decisions have the potential to be shaped by political influence and interest-capture.

Lack of validation of adaptation projects

Once adaptation funding has been delivered, it is essential to ensure that it is used for its intended purpose and has a valuable impact. This raises the importance of monitoring and evaluating the outputs and outcomes of funding in an attempt to prevent corruption and mismanagement.

The challenge is that adaptation still lacks a common metric for measuring implementation and performance. Both the LDCF and SCCF are developing results-based frameworks for adaptation projects. Although these are one of the most effective means of measuring the impact of development aid, results-based frameworks are difficult to establish and can be prone to manipulation. For example, evidence has been found of project developers distorting the baselines and overestimating the apparent benefits of projects.

4. Recommendations

The integrity of climate finance processes that help countries adapt to climate change will only be possible if the accountability and equitability of funds are not compromised. To this end, TI calls on key actors to take the following actions:

Governments

- Commit to a national system for tagging funding pledges in order to enable comprehensive monitoring of flows and to disaggregate climate finance from development aid.
- Prioritise the creation of a unified system for the tracking of climate funds, using defined criteria and comparable tagging.
- Establish a process for certification and reporting of funds, with reporting responsibilities jointly owned by donor and partner countries.
- Review the composition of decision-making bodies at the international level in order to ensure equitable representation.
- Develop clear guidelines on criteria for individual nominations to the decision-making bodies of climate funds.

Multilateral organisations

- Increase public participation in and access to information of the decision-making processes.
- Ensure that eligibility for receiving adaptation funding is not based on having an on-going project or programme with the multilateral institution administering the fund.

Civil society

- Advocate for changes to current working methods of adaptation finance bodies that limit the opportunity for national stakeholders to engage.
- Strengthen national capacity and assessment tools to track the receipt of adaptation funding and its disbursement at the national level.

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