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Why a new institution is needed to spend climate finance effectively

An ActionAid rough guide

September 2009

Introduction

Efforts to tackle global warming effectively are doomed without much larger sums of money flowing from rich countries, which have contributed most to the climate crisis, to poor countries, which face the most severe impacts. But it is not just a question of securing a huge increase in financial resources – how the money is channelled and who controls where it goes will be crucial to its impact and ultimate success.

While most political and media attention has focussed on mitigation – cutting greenhouse gas emissions – those on the front-line in the battle against climate change are most concerned with how to adapt to the impacts they are already facing and will inevitably face in the future. If a new global deal on climate change is to be truly pro-poor then getting adaptation funding right is key.

For more information on the content of this brief, please see *ActionAid (2009) Equitable Adaptation Finance: the case for an enhanced funding mechanism under the UN Framework Convention on Climate Change*: http://www.actionaidusa.org/assets/pdfs/climate_change/equitable_adaptation_finance.pdf

What are the principles that should guide adaptation funding?

ActionAid believes that five principles should be used by all adaptation funding mechanisms to help ensure funding is both fair and effective.

1. **Representative governance** – the countries most affected by climate change should be strongly represented with decisions taken on the basis of one member, one vote.
2. **Participation of affected communities** – the people most affected by climate change should play a role in determining how funds are used.
3. **Sustainable and compensatory funding** – funds must be able to rely on predictable and automatic sources for their money and be based on the ‘polluter pays’ principle whereby past greenhouse gas emissions help determine financial contributions.
4. **Absence of economic policy conditionality** – access to money should not be contingent on economic or other reforms unrelated to climate change goals such as privatisation, trade liberalisation or deregulation.
5. **Streamlined access** – ensuring bureaucratic barriers do not prevent countries from accessing the money.

How do existing funds fare against these principles?

Least-Developed Countries Fund (LDCF)

The Least-Developed Countries Fund was established by the UN Framework Convention on Climate Change in 2001. Managed by the Global Environment Facility it supports projects addressing the urgent adaptation needs of the 49 least-developed countries. As of 7 May 2009, 19 countries had pledged a total of US\$176.5 million to the Fund.

Pilot Programme on Climate Resilience (PPCR)

The Pilot Programme on Climate Resilience is the only adaptation-focused fund housed at the World Bank. PPCR funding is broken into two stages: the first stage is for analysis, coordination and planning across ministries to mainstream adaptation into development plans. The second phase is for the implementation of those plans. While the PPCR has yet to disburse funding nine countries have been invited to participate: Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Yemen and Zambia. Countries in the Pacific and the Caribbean will also be invited to join as regional programmes.

Adaptation Fund (AF)

The Adaptation Fund was created under the Kyoto Protocol to finance adaptation projects and programmes in highly vulnerable countries. It has an independent governance and management structure. The AF has not yet begun to disburse funding, as it is still finalising its various operational policies, but is expected to do so by the end of 2009.

Table 1: Existing funds measured against the ActionAid principles

Name	Representative governance	Participation of affected communities	Sustainable and compensatory financing	Absence of economic policy conditionality	Streamlined access
Least-Developed Countries Fund	Weak – votes are weighted by financial contribution, yet it is intended to follow the guidance of the UNFCCC	Fair – strong guidance on participation of affected communities, though unequal implementation of guidance.	Fair – created by UNFCCC but dependent on voluntary contributions	Good – not tied to economic policy conditions	Weak – lengthy and complicated process due to procedures of its managing institution, the Global Environment Facility.
Pilot Programme on Climate Resilience	Fair – equal number of rich and poor countries but not accountable to the UNFCCC	Weak – no requirement to involve affected communities	Weak – more than half the funding is loans; based on voluntary contributions	Fair – recipient countries must have on-going dialogue with a Multilateral Development Bank	Fair – funding available for planning but projects implemented by Multilateral Development Banks
Adaptation Fund	Good – majority of developing countries and accountable to UNFCCC	Weak – no specific reference to them	Fair – automatic funding from Clean Development Mechanism levy but small amount	Good – funding not tied to working through Multilateral Development Banks	Good – recipient countries can choose who gets to spend the money

What about the institutions that manage the money?

Global Environment Facility

ActionAid’s verdict on the Least-Developed Countries Fund is a reflection of broader institutional problems with its manager, the Global Environment Facility. The key concerns include:

- **Decision-making** – the governing body uses as ‘double weighted majority’ – requiring a majority of members and a majority of total financial contributions.
- **Global environmental benefits** – the requirement that projects demonstrate this causes a bias against adaptation projects. Mitigation projects can claim global benefits (reducing global greenhouse gas emissions) but adaptation projects are primarily local.
- **No direct access** – developing countries must choose from a GEF-approved partner agency to spend the money.

- **Poor adherence to COP guidance** – although the GEF is an operating entity of the UNFCCC financial mechanism it has a poor track record on implementing the decisions the UNFCCC makes.

World Bank

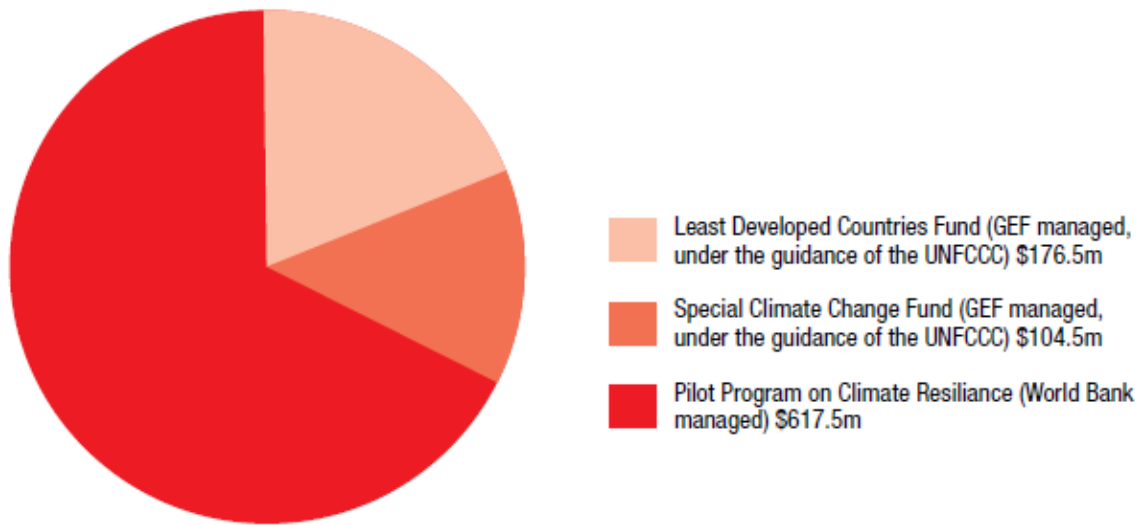
ActionAid's verdict on the Pilot Programme on Pilot Resilience is a reflection of broader institutional problems with its manager, the World Bank. The key concerns include:

- **Overall lack of effectiveness** – multiple studies show that World Bank projects produce poor results, even in its core areas such as health and agriculture.
- **Decision-making** – voting power is determined by financial contribution and level of development with the seven leading industrialised countries holding nearly 45% of board votes.
- **History of harmful conditions** – such as requiring developing countries to privatise, liberalise and deregulate their economies with little regard for local circumstances.
- **Role in causing climate change** – in 2008 alone the World Bank lent over US\$3 billion to coal, oil and gas projects. Lending to coal projects increased almost 700% between 2006 and 2008.

Which funds have the most money?

The Adaptation Fund currently contains approximately US\$18.3 million, with a further US\$82 million available. The Adaptation Fund is the only one of the funds discussed that is not dependent on voluntary contributions from rich countries. Funding for adaptation for the others is as follows:

Chart 2: Money available for selected adaptation funds.

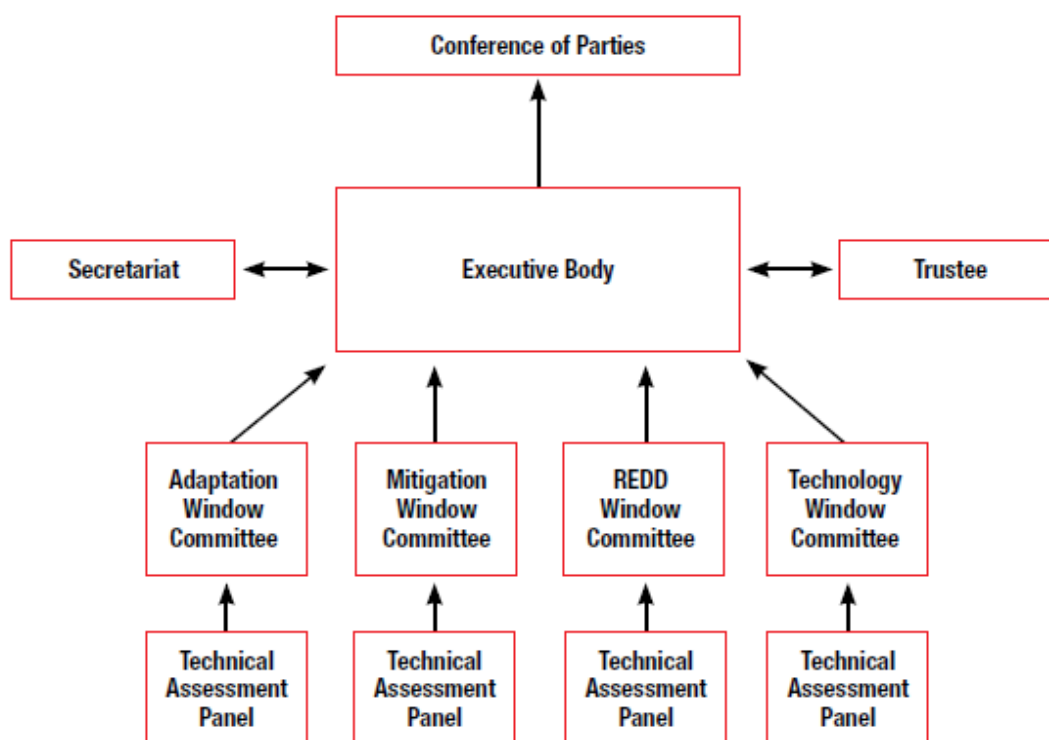


What is the alternative?

Given the fundamental problems with the Global Environment Facility, the World Bank and their associated funding streams it is hardly surprising that developing countries want fundamental changes to the way climate finance is disbursed.

The G77 and China, a group of more than 130 developing countries, have formally proposed the “operationalisation of an effective financial mechanism under the COP” in the ongoing climate negotiations. ActionAid sets out below our vision of what this might look like.

Diagram 3: The structure of an enhanced financial mechanism



ActionAid sees an enhanced financial mechanism as a standalone entity, managed by an independent Executive Body and similar in structure to the Global Fund to Fight AIDS, Tuberculosis and Malaria. The Executive Body would be appointed by and under the authority of the COP – the Conference of the Parties to the UNFCCC (all countries taking part in the climate negotiations). The Adaptation Fund – the fund that fares best against the ActionAid principles – would become the Adaptation Window in the new body.

Financial flows inside and outside the mechanism

In order to help streamline climate finance, ActionAid believes that the vast majority of public finance should flow through this mechanism. While a country may contribute funding elsewhere, that contribution will not count towards meeting that country's financial obligations under the UNFCCC or any agreement negotiated under the UNFCCC.

Where the money should come from?

The enhanced financial mechanism should be funded by a combination of automatic mechanisms in addition to mandatory contributions from developed countries. Based on the estimated need total revenue must amount to at least US\$182 billion a year from external public finance with at least US\$86 billion a year for adaptation. (See: ActionAid (2009) Who should pay to tackle climate change in developing countries?).

Components of the enhanced financial mechanism:

1. **National multi-stakeholder committee** – each country seeking funding from the Adaptation Window should constitute a body with broad government, expert, civil society and community level participation. At least one member of the committee must represent a women's rights organisation.
2. **Secretariat** – to provide administrative, legal and financial support to the Executive Body as well as collect data on the Fund's impacts on women, marginalised communities and the environment.
3. **Adaptation Technical Assessment Panel** – to review submitted plans for technical merit and make recommendations to the Adaptation Window Board.
4. **Adaptation Window Board** - an expanded Adaptation Fund Board, with representatives from affected communities and civil society as voting members, should serve as the Adaptation Window Board. Its job is to disburse the money.
5. **Women's Rights Desk** – responsible for ensuring that women's rights are central in all aspects of adaptation funding.
6. **Executive Body** – to play a coordinating role between the different windows and report to the COP.
7. **Trustee** – to manage the funding of each window board in separate bank accounts.
8. **Monitoring and evaluation** – each country receiving adaptation funds from the enhanced mechanism should form a Monitoring and Evaluation Panel, consisting of experts in finances, adaptation, poverty reduction and environmental sustainability and representatives from affected communities and women's rights organisations.

For more detail please see: *ActionAid (2009) Equitable Adaptation Finance: the case for an enhanced funding mechanism under the UN Framework Convention on Climate Change:*

http://www.actionaidusa.org/assets/pdfs/climate_change/equitable_adaptation_finance.pdf

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