

Ensuring equity, transparency and accountability for adaptation finance

Key Findings

- **Adaptation finance is expected soon to amount to billions of US dollars, provided through a myriad of channels, each with different policies, rules and procedures. This raises the importance of ensuring equity, transparency and accountability in the generation, governance, delivery and use of the money.**
- **Climate finance is meant to be 'new and additional', but there is no common definition of that term. Developing countries generally define it as resources above official development assistance (ODA) targets, but developed countries also often report their contributions to adaptation finance as ODA. In the absence of clear guidance, it will be difficult to prevent the double-counting.**
- **The allocation of adaptation finance is meant to prioritise developing countries that are 'particularly vulnerable' to climate impacts, but there is no consensus on what the term means, or which countries qualify.**
- **There is no common metric to monitor and evaluate the use of adaptation finance. The choice of indicators and baselines is crucial for accountability.**

The history of climate change finance for developing countries is littered with disappointments and broken promises that have eroded trust to an unprecedented level. This policy brief seeks to help explain the lack of trust and how it affects discussions on adaptation finance. Adaptation finance to date has been in the order of millions of US dollars, but it is expected to amount to billions within a few years. This raises the importance of ensuring equity, transparency and accountability. The policy brief submits that there is a fundamental difference between developing and developed countries' interpretations of equity, transparency and accountability, and discusses these issues with respect to the generation, governance, delivery and use of adaptation finance. A shared perspective of countries on these issues is important not only so that they can begin to rebuild trust, but also to ensure that money is used effectively and efficiently.



Burkina Faso – Farmer watering, Ninigui Village, Yatenga ©Flickr/CGIAR Climate, P. Cesier

Funds for adaptation

The 2001 United Nations Climate Change Conference in Marrakesh (COP 7) established three funds to support adaptation activities in developing countries: the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), under the United Nations Framework Convention on Climate Change (UNFCCC), and the Adaptation Fund, under the Kyoto Protocol.

The two UNFCCC funds are managed by the Global Environment Facility (GEF) and rely on voluntary contributions from developed countries. As of September 2011, US\$618 million had been pledged for adaptation under these two funds combined, and US\$321 million has been allocated. In addition, the GEF used its Trust Fund to establish the Strategic Priority on Adaptation, with US\$50 million that has now been fully allocated. No adaptation support was included in the fifth replenishment cycle of the GEF (2010–2014).

The Adaptation Fund, which became operational in 2009, is managed by a special Adaptation Fund Board. It is the first financial instrument under the UNFCCC and its Kyoto Protocol that is not based solely on voluntary contributions from developed countries. It receives a 2 per cent share of proceeds from project activities under the Clean Development Mechanism (CDM), but can also receive funds from other sources for specific projects and programmes. As of September 2011, the Adaptation Fund had received US\$255 million, of which US\$168 million was generated through CDM activities. A total of US\$70 million has been allocated for adaptation projects and programmes in 13 developing countries.

In addition to the UNFCCC funds, money for adaptation is provided through domestic national, sectoral and local budgets of developing countries; bilateral and multilateral development assistance (including the World Bank's Pilot Program for

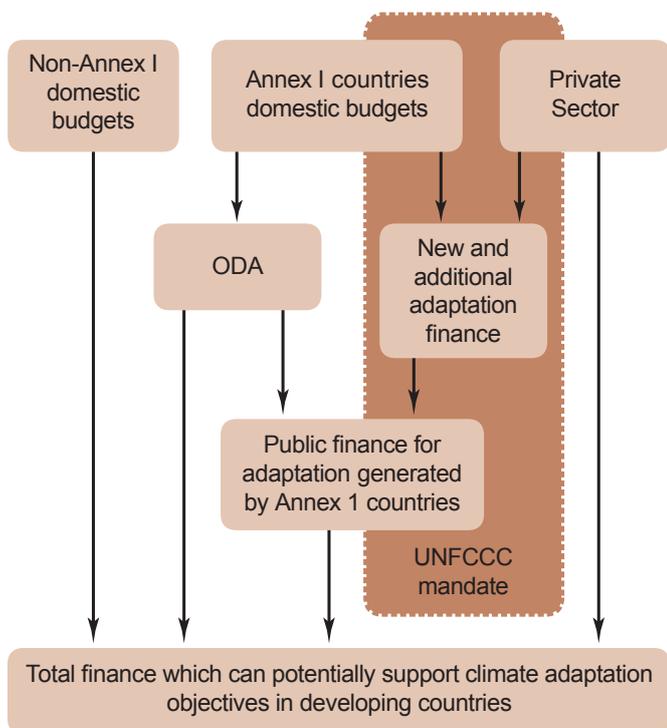


Figure 1: Overview of adaptation funding channels.
Adapted from Åsa Persson et al., *Adaptation Finance under a Copenhagen Agreed Outcome* (Stockholm: SEI, 2009).

Climate Resilience); and private-sector flows and investments. This makes for an adaptation financing landscape that is highly fragmented, resulting in a proliferation not only of funds but also of policies, rules and procedures.

The plethora of policies, rules and procedures for financial flows outside the UNFCCC system contributes towards transparency in the separate streams, but there is no consistency, and none has a specific focus on ensuring the accountability of adaptation funds. Thus this policy brief focuses on the UNFCCC funds (the GEF-managed funds and the Adaptation Fund), and on the provisions for funding included in the Cancún Agreements. It follows the template provided in Table 1, which presents an overview of the most pertinent issues in adaptation finance.

Generating adaptation finance

Article 4.4 of the UNFCCC commits developed countries ‘to assist developing countries that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects’. According to article 4.3, this assistance is understood to come in the form of ‘new and additional’ funding. Funds are to be provided equitably, acknowledging the ‘common but differentiated responsibilities and respective capabilities’ of all parties – widely understood to mean that developed countries should cover a greater share of the costs.

In 2010 developed countries pledged to provide ‘new and additional’ resources approaching US\$30 billion for the period 2010–2012 (so-called ‘fast-start’ funding), with balanced allocation between adaptation and mitigation. In addition, developed countries committed to a goal of mobilising jointly US\$100 billion per year by 2020 to address the needs of developing countries, provided there are meaningful mitigation actions and transparency on implementation. The latter goal does not specify a balance between adaptation and mitigation,

so the amount that would be available for adaptation is uncertain. The 2011 Cancún Agreements established the Green Climate Fund, through which a significant share of the new multilateral climate finance should flow.

How the US\$100 billion per year will be mobilised remains to be seen. Developed countries intend to rely on a variety of sources, including public and private, bilateral and multilateral, and alternative sources of finance. Developing countries argue that the majority of funds should come from public sources in the form of assessed contributions, which constitute ‘new and additional’ resources. Developing countries generally consider new and additional resources to be those provided by a developed country over and above 0.7 per cent of its gross national income—the target for conventional ODA (which is met by only five countries). Most developed countries, however, interpret new and additional resources as those going beyond current financial flows, and they consider ODA as a possible component of these resources. In the absence of clear guidance, it will be difficult to prevent the double-counting of money as both adaptation finance and development assistance.

Experience with current fast-start finance will test developing countries’ trust in developed countries’ commitments for future support. Developed countries are invited to provide annual reports to enhance transparency on fast-start finance, but there is no common reporting template for those reports. Each country has adopted its own approach and methodology, including how to account for new and additional resources.

Governance of adaptation finance

Article 11 of the UNFCCC states that ‘[t]he financial mechanism shall have an equitable and balanced representation of all Parties within a transparent system of governance’. As such, the composition of the institutions managing the funds and their levels of accountability to the Conference of the Parties (COP) under the UNFCCC are crucial for ensuring that they live up to these standards. The GEF-managed funds and the Adaptation Fund are both accountable to varying degrees to the COP; the Adaptation Fund in particular is considered to be ‘under the authority of the COP’, meaning that the Conference of the Parties serving as the Meeting of the Parties (CMP) to the Kyoto Protocol has the authority to select the members of its executive body, and approve rules and guidelines.

The LDCF and the SCCF are governed by members of the GEF Council that have contributed to the funds and form the LDCF/SCCF Council. The members of the council represent 32 constituencies (16 from developing countries, 14 from developed countries and two from countries with economies in transition). Decisions are normally taken by consensus, but if consensus cannot be achieved, decisions can be adopted by a double-weighted majority – that is, an affirmative vote representing both a 60 per cent majority of council members and a 60 per cent majority of the total contributions to the funds. The latter favours the donors rather than the recipients, which undermines the concept of ‘equitable and balanced representation’ and, consequently, developing countries’ trust in the GEF.

The Adaptation Fund is managed by the Adaptation Fund Board, which consists of 10 members from developing countries and six from developed countries. This gives a majority on the board to developing countries. Decisions of the board are to be taken by consensus; if none can be reached, decisions are taken by a

Table 1: Overview of issues related to equity, transparency and accountability in adaptation finance

	Generation	Governance	Delivery	Use
Equity	Effort-sharing among providers of adaptation funding, taking into account the principle of common but differentiated responsibilities and respective capabilities	Equitable representation of developed and developing countries	Eligibility criteria and prioritisation among countries based on their level of vulnerability	Prioritisation within countries based on the level of vulnerability and other nationally defined criteria
Transparency	Transparent flow of finance stemming from various sources and generated through various mechanisms	Transparent decision-making in line with just rules of procedures of governing bodies	Transparent operational policies and guidelines	Adherence to the principle of subsidiarity and a transparent selection process
Accountability	Monitoring and reviewing of the provision of new and additional finance	Provisions in rules of procedures to prevent conflicts of interests and deter corruption	Adherence to operational policies and guidelines in delivering resources	Monitoring and reviewing the implementation of adaptation actions

two-thirds majority of the members present at the meeting, on the basis of one member, one vote. The rules of procedure also contain a section on confidentiality and conflicts of interest.

The emphasis on consensus decision-making in all three of the funds has meant that a constituency vote has never been taken. However, concerns have also been raised that de facto consensus-based decision-making can still be susceptible to ‘back-room deals’ by powerful countries. Furthermore, such undue influence on decisions can go undetected if no one voices an objection, as consensus is reached when the chair of a meeting is convinced that there is no opposition to a decision.

In Cancún, countries agreed that the Green Climate Fund will be governed by a board of 24 members, divided equally among developing and developed countries, taking into account regional groups. The World Bank was named as interim trustee, a decision to be reviewed within three years. Given the lack of detail on the fund, countries decided to establish a Transitional Committee (TC) to design the fund, including its legal and institutional arrangements, rules of procedures, and financial instruments. The TC’s recommendations, including the proposed governing instrument of the GCF, are on the agenda for COP 17 in Durban. The TC proposes that decisions of the Green Climate Fund Board be taken by consensus, but does not propose how the Board should proceed in case consensus cannot be reached.



Bangalore - market men © Flickr/kvsk_lobo

Delivery of adaptation finance

Article 4.4 of the UNFCCC can be read as defining the countries that would be eligible to receive adaptation finance: developing countries that are ‘particularly vulnerable’ to the adverse effects of climate change. However, there is no uniform definition for this term or a consensus on which countries qualify.

The Preamble to the UNFCCC appears to give at least a partial answer by recognising ‘that low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems are particularly vulnerable to the adverse effects of climate change’. The 2007 Bali Action Plan, meanwhile, refers to ‘especially the least developed countries and small island developing States, and further taking into account the needs of countries in Africa affected by drought, desertification and floods’. The word ‘especially’ leaves open the possibility of support to other developing countries that are particularly vulnerable, but implies that a certain priority be given to the countries listed. The Cancún Agreements do not refer to any specific group of countries, while the TC proposes that the Green Climate Fund Board take into account the needs of developing countries that are particularly vulnerable, including least developed countries, small island developing States, and Africa.

The Adaptation Fund’s allocation is guided by the level of vulnerability, level of urgency and risks arising from delay, and by a goal of ensuring access to the fund in a balanced and equitable manner, among other principles. What remains unresolved, however, is how to measure levels of ‘vulnerability’ and ‘urgency’, and then the successful prioritisation of projects that are being funded with scarce resources. The resulting ambiguity has made it impossible to reach agreement on which countries to prioritise for adaptation funding. Some countries have suggested the development of a ‘vulnerability index’, assuming that such an index could provide an objective answer to the question. However, as previously argued, defining vulnerability is actually a political choice, as it is not a universally accepted, quantifiable attribute that can be objectively determined.

Use of adaptation finance

While the prioritisation of resources among countries is to be informed by countries’ level of vulnerability, prioritisation within countries is based on domestically set criteria, which

Policy conclusions

- Adaptation finance to date has been in the order of millions of dollars, but it is expected to amount to billions within a few years. This raises the importance of ensuring equity, transparency and accountability in the generation, governance, delivery and use of the money.
- Management of the 'fast-start' funds is likely to set the tone for future systems of finance. If this money is delivered only or primarily as ODA and through existing institutions, such as the World Bank, it is likely to fuel the current mistrust between developed and developing countries.
- Any future scheme for adaptation finance must exhibit and ensure good governance, including an equitable and transparent allocation of burdens and benefits based on need, capacity and responsibility, and a system of accountability adopted by all countries.
- The Standing Committee and the Adaptation Committee need to ensure consistency and complementarity in their respective roles and responsibilities in ensuring equity, transparency and accountability of adaptation finance.

should be developed through a transparent and participatory process. The UNFCCC has provided some guidance for in-country prioritisation related to the preparation of national adaptation programmes of action (NAPAs), which states that, along with the level or degree of the adverse effects of climate change, least developed countries should consider poverty reduction to enhance adaptive capacity, synergy with other multilateral environmental agreements and cost-effectiveness when selecting priority adaptation activities.

Ensuring that, once adaptation finance has been delivered, it is used for the intended purpose and has a valuable impact raises the issue of the monitoring and evaluation of adaptation outputs and outcomes. Measuring the performance of mitigation activities is not uncontroversial, but it can be expressed in more or less comparable measures of CO₂ equivalents. Adaptation, on the other hand, lacks such a common metric, so

indicators must be chosen carefully. A number of indicators have been suggested, including measuring adaptive capacity and both results-oriented and process-oriented adaptation activities. How these indicators are implemented and how the baselines for measurement are established will significantly affect the effectiveness of the measures.

Outlook

Countries have recognised the importance of ensuring equity, transparency and accountability in adaptation finance, not least to ensure the continuation of adaptation finance into the future. In Cancún, countries established a Standing Committee on finance, which should improve coherence and coordination in the delivery of climate finance, and to measure, report and verify support provided to developing countries. In addition, an Adaptation Committee was established, which, among other functions, is tasked with monitoring and reviewing adaptation actions and support provided and received.

The specifics of these new institutions and how they connect to one another will be discussed in Durban. One way of resolving the potential overlap between the two committees is for the Standing Committee to focus on ensuring equity, transparency and accountability in the generation and governance of adaptation finance, and for the Adaptation Committee to concentrate on the delivery and use of the money.

This policy brief summarises and updates the chapter 'Show me the money: Ensuring equity, transparency and accountability for adaptation finance', which was published by Transparency International in its recent *Global Corruption Report: Climate Change*. For more information see also the article 'The political dimension of vulnerability: implications for the Green Climate Fund', which appeared in *IDS Bulletin*, volume 42(3), pp 15–22. The policy brief and the research on which it is based contribute to the objectives of AdaptationWatch (www.adaptationwatch.org).



West Africa – water at river ©Flickr/CIFOR

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