Policy Brief

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TOWARDS JUST AND EFFECTIVE CLIMATE FINANCE: DEVELOPING PRIORITIES AND PRINCIPLES[1]

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As the global climate finance regime emerges, the identification of priorities and principles contributes to the development of a normative framework on fund governance at national and sub-national levels in developing countries. The framework sets out guidance for the mobilisation of funds, implementing institutions, and the disbursement of funds so that climate finance is used as a just and effective mechanism to deal with the impacts of climate change.

The context for this briefing paper is a civil society meeting hosted in Cape Town in September 2010 by the Corruption and Governance Programme of the Institute for Security Studies (ISS). Experts from Africa, Asia and Latin America presented papers discussing regional context and national and sub-national experiences with climate funds in their regions. The papers have been compiled into an ISS report on monitoring the governance of climate finance. The study presents an approach that is grounded in the realities and experiences in funding arrangements across developing countries in the three regions studied. The issues raised here reflect on some of the common findings of that study's report. This paper is the third in a series of three. The first presents critical reflections on regional trends in climate finance. The second discusses national and sub-national experiences with the Adaptation Fund, Clean Development Mechanism (CDM) and the Reduced Emissions from Deforestation and Forest Degradation (REDD).

PRIORITIES FOR CLIMATE FINANCE

Climate policy should be based on environmental and developmental needs in a country and region

Climate policies should be determined by the environmental and developmental context and needs and not by the availability or opportunistic provision of finance. Climate finance priorities have been largely set at an international level and by donors, compared to being driven by national plans of action for both adaptation and mitigation. Instead of being guided by sources of finance and external funding priorities, developing countries should base their climate policies on local realities to ensure appropriate and more effective climate finance.

Bottom-up approach must ensure nested projects at an appropriate scale

The global climate change negotiations process has been informed largely by national, regional and global dynamics, yet the impacts of climate change are felt most profoundly at local level. Not only should climate policy be informed primarily at this level, but local experiences also should be the basis upon which policy is formulated and climate action derived.

Funding must match the specific adaptation needs of affected recipients

Fostering adaptation strategies is a key aspect of climate change negotiations. Climate finance that supports adaptation action should match the adaptation needs of those affected. It is also clear that the methodology to calculate adaptation costs needs to be improved and standardised for estimates to be viewed as accurate.

Delink public and private sources of funding

Climate finance for developing countries should be sourced from public coffers. Climate finance is currently skewed in favour of private sources and, where public funding is available, it is often to open channels for private investments. There is an express need to treat the two sources independently of each other to allow for accurate reflection of the contribution of each source. More importantly, there is an overwhelming danger with private funding that profits rather than social or environmental

needs drive the availability and provision of finance, and the implementation of projects.

Ensure developing countries' free and unencumbered access to appropriate renewable energy technologies and other sustainable approaches

Climate finance has not significantly catalysed the transfer and use of renewable technologies and other sustainable approaches at national and sub-national levels. Yet, this remains a key requirement for the development of a low-carbon economy. A lack of meaningful technology transfer to the developing world has fuelled scepticism over mechanisms such as CDM. The perpetuation of fossil fuel-based technologies through development financing should also not crowd out investment in clean technologies in developing countries.

Ensure the integrity of emission-reducing projects by implementing safeguards in assessment criteria of projects

Existing criteria to determine whether sustainable development and emission reductions requirements are met are unclear and subject to abuse. Terms such as 'additionality' in CDM parlance are particularly fraught because it is difficult to show what benefits projects offer outside of business-as-usual. Implementing rigorous and appropriate criteria in national and sub-national contexts will thus mitigate against financial and other interests distorting assessments for illicit private benefit.

Make emission reductions count towards national targets

As economies grow in the developing world, there is a pivotal need for emission reductions from externally funded projects to count towards national targets. This approach places focus on the responsibility of developing countries to find ways to ameliorate their own environmental damage and to contribute to effective solutions. At the same time, there must be a mechanism to ensure that developed countries also reduce emissions at source and another to prevent double counting of emissions, where there are attempts to offset their emissions in the developing world.

Instil complementary policies, planning and implementation among public institutions in developing countries

Policy formulation, planning and implementing programmes should be coordinated urgently if competing and conflicting approaches are to be avoided. Otherwise, national and sub-national institutions can be involved in activities that lead to duplication of roles, responsibilities and efforts. Duplication wastes valuable resources and leads to suboptimal action on climate change.

Capacitate national and sub-national implementing institutions to be upwardly and downwardly accountable

Accountability of institutions at national and sub-national levels is key to the successful implementation of climate finance. While much focus is put on upwardly directed oversight mechanisms to donors, a key requirement is downward accountability to those affected by financed projects. There should be full disclosure of information, full participation, free prior and informed consent, and feedback to allow communities to make the right decisions about their participation in funded initiatives.

Ensure inclusive decision-making processes that ensure viable, effective and just outcomes

Findings indicate that not all stakeholders are included in decision-making processes on projects. Civil society and affected communities are largely left out of the boards of national institutions and from key aspects of project implementation. Furthermore, they are not provided with all the relevant information about projects that will impact on them. Climate financing processes must ensure that there are inclusive public participatory processes so that projects can maximise impacts and minimise harm.

Prioritise protecting the livelihoods and rights of indigenous and local communities

There exists a vital need to protect local livelihoods and rights that may otherwise be disrupted by different forms of climate finance. Concerns are that climate finance is meeting only developed country offsetting needs or private sector investment interests. This practice happens with little or no mechanism to ensure continued survival, development and access to livelihood sources for communities in developing countries.

Guarantee and maintain social stability and environmental sustainability

The paradox of some experiences with climate finance is that it can act as a source of instability, in particular when communities are displaced in pursuit of environmental actions not informed by local realities. Climate finance action should also recognise and contribute to efforts of local communities to manage their environment sustainably and not to replace or hinder these. This practice will ensure that climate finance does not become a source of conflict.

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Principles for just and effective climate financing at national and sub-national levels	
Resource mobilisation	Climate policy is based on environmental and developmental needs in a country and region
	Bottom-up approach ensures nested projects at an appropriate scale
	Funding matches the specific adaptation needs of affected recipients
	Public and private sources of funding are delinked
	Developing countries have free and unencumbered access to appropriate renewable energy technologies and other sustainable approaches
	Safeguards are implemented in assessment criteria to ensure the integrity of greenhouse gas emission-reducing projects
	Emission reductions count towards national targets
Implementing Institutions	Complementary policies, planning and implementation are instilled among public institutions in developing countries
	National and sub-national implementing institutions are capacitated to be upwardly and downwardly accountable
	Inclusive decision-making processes are ensured for viable, effective and just outcomes
Disbursement of funds	Protecting the livelihoods and rights of indigenous and local communities is prioritised
	Social stability and environmental sustainability are guaranteed and maintained

GLOSSARY OF TERMS

The following terms are defined in the context of this briefing paper:

Mitigation refers to initiatives that are aimed at reducing the concentrations of greenhouse gas emissions in the atmosphere in order to curb global warming.

Adaptation refers to initiatives that are aimed at helping humans respond to global climate change in a way that protects them, reduces harm and increases their resilience.

Adaptation Fund: The Adaptation Fund was established by Parties to the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) to finance adaptation projects in developing countries. The fund is financed with two per cent of the emission reduction credits from the Clean Development Mechanism.

Clean Development Mechanism (CDM) is a flexible mechanism under the Kyoto Protocol of the UNFCCC that allows industrialised/developed countries with a greenhouse gas reduction commitment (called 'Annex 1 countries') to invest in projects that reduce emissions in developing countries. CDM is commonly referred to as 'offsetting'.

Reduced Emissions from Deforestation and Forest Degradation (REDD) is a market-based scheme to reduce global concentrations of greenhouse gas emissions by creating a financial value for the carbon stored in trees. REDD projects are situated in developing countries and it is considered an offsetting mechanism. It is currently being discussed in the UNFCCC international negotiations process, but there are already many pilot projects on the go (some through existing CDM initiatives), while the infrastructure for REDD is being set up.

NOTES

[1] This policy brief is based on an ISS Report on monitoring the governance of climate finance in Africa, Asia and Latin America, which is due to be published in July 2011. A full list of references is included in the upcoming ISS Report on monitoring the governance of climate finance in Africa, Asia and Latin America.
This is an output of the Corruption and Governance Programme, which is based at the Cape Town Office of the Institute for Security Studies (Address: 2nd Floor, The Armoury Building, Buchanan Square, 160 Sir Lowry Road, Woodstock, South Africa).

[2] Some of the findings of the ISS Report in question are quoted verbatim from report chapters to allow the authors' voices to be reflected and to guide the presentation of conclusions. Refer to the ISS Report for the names of all the contributing authors.

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