14TH INTERNATIONAL ANTI-CORRUPTION CONFERENCE 2010

LONG WORKSHOP REPORT FORM

Number and title of workshop: WS 3.2 Climate Change Finance: Ensuring Accountability and Effectiveness.

Coordinator: Robert Onus, UNDP Asia-Pacific Regional Centre

Date and time of workshop: Thursday 11 November 9-11 am

Moderator: Martin Krause, UNDP Asia-Pacific Regional Centre

Rapporteur: Mari Huseby, UNDP Cambodia

Panellists (Name, institution, title)

- Luis Gomez-Echeverri, Executive Coordinator, Global Energy Assessment
- Professor Charles Sampford, Director, IEGL, the Institute for Ethics, Governance and Law
- Trusha Reddy, Senior Researcher, Institute of Security Studies, South Africa
- Renato Redentor Constantino, Executive Director, Institute for Climate and Sustainable Cities

Summary (300 words)

The workshop highlighted the challenges of delivering climate change finance in the context of accountability, transparency and effectiveness, and sought solutions to these challenges. Discussants looked at this issue through multiple lenses including at the international, national and sub-national level.

The panellists presented and discussed a series of practical, legal, operational and ethical challenges relating to the current climate change finance regime. At the international level, a proliferation of funds with diverse procedures creates a burden for receiving countries, and may divert money away from activities. Many issues relating to the governance of climate change financing remain unsolved at the international level and this inhibits implementation at the national level. Unclear roles and responsibilities, capacity gaps and weak coordination at the national level also create difficulties in implementation and can increase the risk of corruption in systems with low transparency and few existing mechanisms for detecting and punishing misuse. Furthermore, priority setting is often not fully linked to the national climate change agenda, and at the sub-national level, communities are often left out of decision making processes on issues that directly impact them and their concerns are not fully taken into account. As a result activities do not always benefit the intended recipient countries and communities.

The panellists also highlighted issues pertaining to ethics and justice as being intrinsically linked to climate change and important in the climate change financing debate to ensure a just and sustainable solution to climate change is developed. Furthermore, panellists noted that climate change finance is not aid and such finance might require different modalities for distribution and different safeguards. The panellists highlighted possible solutions to these challenges which are outlined below.

Summary of presentations (300 words per panellist)

Mr. Gomez-Echeverri: International climate change finance structures:
Mr. Gomez-Echeverri demonstrated how international climate change finance structures are weak and in need of reform. He pointed out that while there are good prospects for increasing the funding for climate change, there is also an urgent need to make sure this funding is used efficiently and effectively.

Problems with the existing governance structures at the local, national and international levels include weak local and national structures, lack of clarity of functions at local and national levels, lack of real priorities at the national level (with priorities being driven by the prospect of funding), little effort to mainstream climate change across national programmes, a proliferation of funding mechanisms for climate change adaptation and mitigation at the international level making it hard for recipient countries to orient themselves and comply with regulations, and weak capacity and little investment in capacity development.

Mr. Gomez-Echeverri highlighted that there are already many oversight and accountability systems in place at the national and international level, and that these could be strengthened and engaged to provide oversight of climate change finance. He also emphasised that climate change finance is different from aid, and will require specific climate change capacities at the national and local level for effective oversight to take place, including the technical capacity to measure performance of climate change adaptation and mitigation activities.

It was recommended that a set of changes be made to strengthen existing governance structures of climate change finance, including: better clarity and commitment of pledges from donors, increasing the predictability of funding, the establishment of one pass through fund in UNFCCC with a reliable treasury and monitoring mechanism, and increased capacity development at the national level.

Mr. Sampford: Ensuring a just climate change finance structure:
Mr. Sampford discussed the climate change finance debate through an ethical lense, and argued that carbon trading schemes might actually perpetuate unjust and unsustainable models of consumption by creating property rights based on unsustainable models of living and allocating rights to those who have, so far, been the most unsustainable. Mr. Sampford argued that the current definition of the “good life”, developed in the west, is unsustainable and unjust. To address the climate change challenge, Mr. Sampford argued that we need to redefine the “good life” to a sustainable model based on values instead of consumption, and identify a way of pricing carbon consumption that is more effective and just.

Mr. Sampford highlighted the inefficiencies of markets, and argued that due to such inefficiencies market mechanisms may encourage investment in unsustainable activities, leading carbon trading schemes to be both unjust and unsustainable. Rather, he advocated for a move to a more sustainable model for climate change finance, one that is supported by economic incentives and price signals that provide both an economic pull and an ethical push. Carbon trading markets were seen to fail in this regard and the creation of a Carbon Added Tax was proposed as a better model. This would function like a value added tax where carbon taxes are passed on until they are paid for by the consumer.

Mr Sampford recognized a more sustainable and just system will require institutional reform at the global, national sub-national, professional and corporate levels. However, he also highlighted the importance and multiple roles of the individual in upholding the values of good governance. In this regard, and to avoid the misuse of any carbon tax income, Mr. Sampford introduced a radical idea of transferring funds to individuals rather than governments. Regardless of the distribution mechanism, to tax those who consume carbon and transfer the funds to those who consume less was recommended as a matter of justice.

Ms. Reddy: Governance of climate change finance at sub-national level – are justice and effectiveness ensured in current arrangements?

Ms. Reddy presented findings from a study on the governance of climate change financing in developing countries, undertaken by the Institute for Security Studies in South Africa. She emphasised that there are a host of outstanding issues relating to climate change finance that need to be resolved at the international level, and that the current impasse on these issues results in a lack coherence, continued duplication, ineffective funding, and problems of corruption and a lack of accountability and transparency in climate financing. These problems complicate action at the local level, where the impact of climate change is already being felt in areas such as food, health, and human security.

Ms. Reddy highlighted how challenges related to climate change financing at the national level echo those at the international arena, and that many problems are related to corruption and governance. In many developing countries there is a lack of alignment between climate finances and national goals, and adaptation activities do not always tie into national goals. Furthermore, civil society groups and communities are rarely invited to help define solutions and raise their concerns about consequences of interventions that may directly impact them. In addition, institutions tend to be unclear about their roles and responsibilities.

A key challenge for effective action is ensuring that the recipient country benefits from climate change finance, this is not always clear because the priorities for action can be set outside the recipient countries. Funding frequently comes with unfavourable conditions for the recipient country and its people, and funds are not evaluated on basis of practical and conceptual integrity. Ms. Reddy highlighted how the lack of coordination at the national level leads to potential and actual conflicts of interest of the people who control where the funds go (private/public). Furthermore, in the current situation, the disbursements of funds do not consider the full extent of loss of livelihood, and the impact on people and their communities.

To address these issues, developing countries need to be better prepared to receive climate funds. This readiness needs to go beyond just a technocratic solution and the development of solid financial institutions to manage the funds. The development of integrity systems, and ensuring an understanding of national and regional priorities before accepting funds is also critical for the success of climate change funding at the national and sub-national levels.

Mr. Redentor Constantino: Aid effectiveness and climate change finance.

Mr. Redentor Constantino presented the outcome of a conference on climate change and aid effectiveness that took place in Bangkok in October 2010. He emphasized that climate change and aid effectiveness are governed and understood through two distinct frameworks. While both have the same objectives, it is essential to understand the differences between the two arenas, and engage in a sustained conversation between climate change finance and aid effectiveness to minimize risk in distribution of funds. Engaging in this conversation will also ensure that we are able to harvest experience from both spheres and move towards the common goals between climate change finance (which, he emphasised is not necessarily aid) and aid effectiveness.

Climate financing and aid effectiveness were described as two distinct “galaxies”, and ensuring understanding between the two arenas was seen as crucial to ensure that funds do not only reach the national level, but flow to those who need it the most, including women and indigenous groups.

The Bangkok conference on climate change and aid effectiveness was important in that it helped establish a baseline of the current situation, and delineated the needs, responsibilities and opportunities of both funders and recipients. An agreement was also reached on a set of common needs and goals across various actors. These included:

- **Developing countries** (as a whole) need to ensure political leadership, prioritization and harmonization of operations, and the transparency and monitoring of fund utilization and utilization

- **Governments:** need to strengthen capacities, focus on institutional arrangements, and establish financing framework and an enabling environment.
- **Funders working locally:** should work to ensure financing is not supply-driven, that it is aligned with national fiduciary systems; and should work to strengthen coordination among funders and government-led coordination efforts.
- **Funders working globally:** should increase the volume of funding, improve predictability, reduce transaction costs, facilitate easier and direct access, and work within the framework of UNFCCC

Recommendations, Follow-up Actions (200 words narrative form)

Presenters highlighted that the issues of ethics and integrity are crucial to the climate debate and the interaction of individuals, institutions and nations in ‘integrity systems’ will define how the climate changes response progresses.

Effective and accountable climate change finance will require specific climate change, governance and financial management capacities at the international, national and local level. At the national level, climate change finance and climate change interventions will need to be aligned with, and driven by, national priorities if they are to be successful. The media and civil society can play a critical role as safeguards to help ensure transparency and accountability in priority setting, distribution, use and implementation of climate change funds. In addition, better coordination and harmonization, more transparency, clearer rules, and an increased investment in capacity development at the national level is needed to ensure efficiency and minimize risks of corruption and abuse. In preparing themselves for climate change finance, recipient countries and donors should avoid creating parallel structures. However, climate change finance does require specific legal structures to ensure compliance, and these will need to be supported at the national (as well as international) level.

Donors need to ensure better predictability of funding, better clarity surrounding pledges and should provide their funding under the framework of the UNFCCC. A one-pass-through fund in the UNFCCC with a reliable treasury and monitoring mechanism was seen as one way to help address the proliferation of funds.

Highlights (200 words please include interesting quotes)

Climate financing is not synonymous with aid and requires climate change specific capacities to ensure effectiveness and accountability in disbursement and implementation.

Issues pertaining to ethics and justice are intrinsically tied to climate change and should be brought back into the climate financing debate. The issue of justice and ecological debt is a concrete example of such an "ethics issue" that has been sidestepped so far in the climate change and climate change finance debates. The issue of climate change finance goes beyond aid and the transfer of funds; it is also about justice.

There is a strong sense among developing countries that climate change finance should not be seen as aid but as compensation.

Structural reforms are needed at international and national levels to ensure that climate change finance is effective. However, ensuring climate change finance effectiveness requires more than technocratic solutions and will require the development of functioning integrity systems at the local, national, and international levels.

Signed and date submitted

M. Krause

Martin Krause
13 December 2010