

Climate Change Funds: An Ideal Governance Structure

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Introduction

Within both international climate change and development arenas, there is currently a great deal of attention being paid to estimating the costs of adaptation in developing countries, raising the funds to meet those costs, and designing international finance mechanisms to channel these funds to developing countries. The preoccupation with raising funds for adaptation at the international level assumes, however, that once funding is available, developing countries have enough 'absorptive capacity' to receive and spend this money in a cost effective manner in order to build the adaptive capacity of vulnerable communities on the ground. Yet many of the most vulnerable developing countries - taken here to be the Least Developed Countries (LDCs), Small Island Developing States (SIDS), and African nations - do not have comprehensive climate change adaptation strategies, policies or mechanisms, in place to deal with the receipt and disbursement of adaptation funds and the implementation of adaptation actions.

Developing countries are currently documenting their key vulnerabilities and adaptation priorities in National Communications, in keeping with their obligations under the UNFCCC. The LDCs developed National Action Plans for Adaptation (NAPAs). NAPAs were initiated by the UNFCCC Conference of the Parties in January 2002 by Decision 28/CP.7. This decision recognized that the LDCs do not have the capacity to prepare national communications in the foreseeable future, or to convey their urgent and immediate needs in respect of their vulnerability and adaptation to the adverse effects of climate change. In order to help prioritise adaptation activities, the Global Environment Facility (GEF) was designated to provide funds (US\$200,000 per country) to support NAPA development.

In Africa, climate change is already seriously undermining progress towards the achievement of the Millennium Development Goals (MDGs). Currently, the little progress that has been made by African governments towards the achievement of the MDGs is being reversed by adverse impacts of climate change. These negative trends are being exacerbated by certain underlying factors in African countries' economies which include, widespread poverty and food insecurity, financial indebtedness, HIV/AIDS, inequitable distribution of resources, low economic capacity to cope with climate change impacts, economic shocks and effects of globalization, and unsustainable development.

In view of the projected adverse impacts of climate change and the necessary and urgently needed adaptation actions to avoid (or at least minimize) those impacts, the UNFCCC established the Adaptation Fund in 1997. At COP-7 in Marrakesh, it was agreed that the Adaptation Fund (AF) is to be financed through a 2% levy on the share of proceeds from certified project activities, in particular the Clean Development Mechanism (CDM) of the Kyoto Protocol and shall be used to assist particularly vulnerable developing countries in meeting the costs of adaptation. And in 2007, during the Thirteenth Conference of the Parties to the UNFCCC, agreement was reached in Bali that the operating entity of the AF shall be the AF Board (AFB), serviced by a Secretariat and a Trustee. The GEF was to provide Secretariat services to the Board and the World Bank to serve as a Trustee of the Fund, both on an interim basis.

Climate Change Funds - How much is needed & from what sources?

Putting a price tag to the costs of adapting to climate change impacts would seem as a good starting point as that would give the developed countries the incentive to finance adaptation actions in developing countries. However, currently there exist no precise figures as to what the actual costs of adapting to climate change would amount to. According to a study initiated by the World Bank in early 2008, and funded by the governments of Netherlands, Switzerland, and the United Kingdom titled "the Economics of Adaptation to Climate Change (EACC)", the cost between 2010 and 2050 of adapting to an approximately 2°C warmer world by 2050 is in the range of US\$75 billion to \$100 billion a year¹. This adaptation costs were estimated by major economic sectors: infrastructure, coastal zones, water supply and flood management, agriculture, fisheries, human health, and forestry and ecosystem services. This sum is of the same order of magnitude as the foreign aid that developed countries now give developing countries each year, but is still a very low percentage of the wealth of developed countries as measured by their GDP. It is estimated that by 2020, developing countries will face approximately US\$100 billion annually in additional costs of mitigating and adapting to climate change. The African Union estimated that Africa needed an annual US\$67 billion in 2009 to cope with the impacts of climate change. The Copenhagen Accord committed to setting up a climate fund to assist developing countries, Africa included, with adaptation to and mitigation of the impacts of climate change. An initial "fast-start" commitment of US\$30 billion is expected to be disbursed in the period 2010-2012.

▪ Potential Sources of Adaptation Funds

There is a range of views on the roles of the public and private sector in generating financial resources to support enhanced adaptation action. But because climate change is a public issue, it is preferable that to a larger extent the funds for adaptation be sourced from the public/government sector in Annex I (industrialized) countries. This however, does not exclude how Annex I public finance could be deployed to leverage private finance effectively and ensure coherence among different funding sources. On the contrary, the Annex I private-sector financing and other innovative sources of funding should complement the provision of public financial resources. However, most of the financial resources for adaptation (preferably in the order of a minimum of 75% of the total adaptation fund) should be from Annex I public/government sector. Several options have been proposed by Parties to the UNFCCC for generating new and additional financial resources, including:

- a) An assessed contribution from developed country Parties as a percentage of GNP or GDP;
- b) An assessed contribution from all Parties, except LDCs, based on a predefined set of criteria, including GHG emissions, respective capacity and population;
- c) Auctioning of assigned amounts of emissions allowances at the international and/or domestic level;
- d) A uniform global levy on CO₂ emissions, with exemption for LDCs;
- e) Levies on emissions from international aviation and maritime transport;
- f) A share of proceeds from market-based mechanisms under the Kyoto Protocol;

- g) A tax on air travel;
- h) A global levy on international monetary transactions

Climate Change Funds (CCF) Governance Structure

Whatever the agreed amount or level of the adaptation fund, Parties agree that its success or failure will largely depend on an effective financial framework, and the institutional and governance structures established to operate the fund. Key issues such as accountability, transparency, equity (in terms of developed and developing country representation in the agreed institution) will be some of the issues which will have to be agreed upon before an effective, equitable, viable and democratic climate finance regime can be endorsed by all the Parties to the UNFCCC. The governance structure of any institution charged with managing the climate change funds has been a major borne of contention between Parties. Initially, developing countries' concerns and objections included proposals to channel climate funds through the usual bilateral and multilateral agreements as well as through the GEF Trust Fund. Although in the Bali Action Plan, there was convergence among Parties on the need for developing countries to receive new and additional, sustainable and predictable financial resources and investment to undertake adaptation action and meet the additional costs posed by climate change plus a clear definition and separation of private and public finance sources, the Copenhagen Accord tends to fuse both public and private sector financing. The envisaged framework would require clear and focused mandates and responsibilities, and would help to plan, coordinate, monitor and review progress on financial support provided for enhanced action, in a measurable, reportable and verifiable manner in the case of adaptation and mitigation. Again in the Copenhagen Accord, developed countries tend to want MRV for mitigation actions only which basically, is their priority. Overall, there is convergence among Parties that governance of a possible financial framework should:

- a) be under the guidance and authority of the COP;
- b) ensure full transparency, efficiency, effectiveness, openness and the equitable and balanced representation of all Parties;
- c) provide coherence and coordination between various sources of funding.
- d) the main source of funding through the financial mechanism shall be new and additional resources provided by developed country Parties;
- e) private-sector financing and other innovative sources of funding shall supplement the provision of public financial resources.

Other considerations for an ideal governance structure:

- i) Should be gender sensitive
- ii) Should be accessible by civil society on a simplified criteria
- iii) Should be prompt, adequate, predictable and sustainable

- a) The possible consideration of levels of vulnerability determined by national circumstances, respective capabilities, levels of risk and impacts, in any prioritization of support;
- b) Monitoring and feedback associated with the timely provision and utilization of financial resources for the implementation of national adaptation actions.

Finally, too much emphasis on governance, without simultaneously providing the resources in a situation where climate change has become an emergency, smacks of lack commitment.

ⁱ The Costs to Developing Countries of Adapting Climate Change: New Methods and Estimates, The World Bank