At issue: Are climate pilots building towards the right climate architecture?

Maria Arce of Practical Action and Ama Marston of the Bretton Woods Project (BWP) summarise findings from a recent report, highlighting that the current climate pilot projects, many of which are housed under the World Bank, are not leading us towards an equitable and effective post 2012 climate architecture envisioned by NGOs in the UK and beyond.

There are hopes that a fair global climate change deal can be reached among governments in the culmination of international negotiations in Copenhagen in December. However, it is clear that there are a number of key issues that need to be addressed for this to occur. Raising sufficient funds is essential. At the same time, a financial and institutional governance mechanism needs to be put in place that will be acceptable to both developed and developing countries.

Developing countries have long argued that the financial commitments made by parties under the United Nations Framework Convention in Climate Change (UNFCCC) must be honoured, and that these resources should be placed under the guidance of the Conference of Parties of the Convention. In addition, all parties need to be assured that the technical capacity committed under the Convention will effectively address mitigation and adaptation needs, in ways that also ensure sustainable development. These various components between them make up what is referred to as the 'financial architecture' of the agreement that will be brokered in Copenhagen and will take effect after 2012.

A number of 'pilot' programmes are already underway to develop climate related interventions in key sectors. These aim to develop capacity and knowledge by transferring public finance from north to south. The expectation is that they will leverage private financing as well.

The Climate Investment Funds (CIFs), administered by the World Bank, are the largest, and probably best known of these. However there are a number of others delivered through both bilateral and multilateral channels.

The UK has dedicated £800m ($1.3 billion) to an Environmental Transformation Fund, which aims to assist developing countries respond to the pressures of climate change and has chosen to largely channel this through the CIFs. Of that, £50 million ($81 million) is earmarked for the Congo Basin Fund administered by the African Development Bank. The UK has allocated an additional £75 million (S121 million) for the climate change fund for Bangladesh administered by the World Bank in its Multilateral donor trust fund.

In the recently published report *Are we there yet: Bridging UK supported climate funds and a post 2012 architecture,* UK NGOs voice concern as to whether these pilot programmes can provide building blocks for the right 2012 financial architecture.

The post-2012 financial architecture

UK NGO designs for a post 2012 architecture fall in to five main areas of concern: UN supremacy; ownership and participation; accountability; fair decision-making; and effectiveness.

- **Supremacy of the UNFCCC**- Public sector finance should flow through mechanisms accountable to the UNFCCC in order to be counted toward climate financing obligations of countries.
- **Ownership and participation**- While an element of centralised control may be required, climate funds should be decentralised to the national level to ensure harmonisation with other financial flows and to avoid external economic policy conditionality. These national level funds should build synergies between mitigation and adaptation efforts and clearly embody principles of ownership and participation.
- **Accountability and transparency**- These are key elements which can be be ensured through independent scrutiny of the mechanism and inclusive and representative decision-making, among others.
- **Fair decision-making** - Political decisions should be made on the basis of equality while non-political decisions should be made on technical grounds. To avoid further loss of trust by developing countries, plans that have already been approved must be funded before further agreements can be made.
- **Effectiveness**- To ensure effectiveness, financial mechanisms must have the ability to handle scaled up financial flows. Local communities and NGOs must also have access to funds as well as nation states, to ensure those most affected receive resources. Emphasis should be placed on building institutional capacity for monitoring and evaluation to ensure that plans deliver. Expert groups are also essential for providing independent expertise to the mechanism.

Are we nearly there?

The current climate pilot funds have not set us on the right trajectory. As such, a number of concerns must be addressed if we are to build a just, effective and equitable post 2012 climate architecture.

The UK's climate finance is not additional to existing aid and is largely required to be offered as concessional loans. Furthermore, drawing from lessons learned from past development activities would add value and prevent unnecessary mistakes.

Among the most important concerns are:

Competition with the UNFCCC - Climate financing must fall under the governance of the UNFCCC and the Conference of Parties. This will help ensure national implementation and policy space for developing countries to choose their implementing agency of choice. The establishment of competing through pilot projects outside the UNFCCC therefore raises concerns.

Limitations to Bank funds - In response to civil society concerns and political pressure, "sunset clauses" were established to limit the mandate of the Bank's Climate Investment Funds, and phase them out upon creation of the relevant UNFCCC frameworks. Donors will however have the temptation to expand and/ or extend the Bank's role in climate financing or find ways to extend the CIFs.

Donor driven/ lack of equal participation - Current pilots have been created through donor-driven, top-down processes. As such they have lacked true participation of those most affected by climate change from their inception. The CIFs now have equal representation of donors and developing countries in their governing structures. This is a clear improvement to the initial governance structure proposed. However, it is without a doubt less favourable than the structure of the UNFCCC's Adaptation Fund which has more than 50 per cent developing country representation on its Board, with representation for each region.

Current pilots have been created through donor-driven, top-down processes. As such they have lacked true participation of those most affected by climate change from their inception.

Loans-vs-grants/ polluter pays principle - One of the greatest concerns related to adaptation funding is the fact that pilot programmes such as the World Bank's Pilot program for climate resilience (PPCR) will offer loans to developing countries to finance the development of climate resilient development plans in its second stage.

Developing country governments are increasingly becoming vocal about the use of loans, which will increase debt burdens, including India, countries of the Alliance of Small Island States (OASIS), China and others. Such concerns cannot be easily dismissed, particularly as the financial crisis is increasing debt for the poorest countries, many of which will be heavily impacted by climate change. On the other hand, under the ‘polluter pays principle’ industrialised countries which largely caused the problem, should help finance mitigation of and adaptation to the impacts of climate change. The offering of loans to developing countries therefore stands on weak moral ground.

Carbon intensive development models - The UK Department for International Development has shown strong support for channeling approximately 48 per cent (£383 million, $621 million) of its £800 million Environmental transformation fund to the Clean technology fund (CTF), one of the largest funds for addressing climate change mitigation, which mainly funds energy technology.

The CTF, the biggest of the World Bank Climate investment funds with 68 per cent of pledged funds describes itself as being 'technology neutral'. However, the CTF allows funding of carbon intensive technology, including ultra-hypercritical coal and carbon capture and storage (CCS). CCS, which aims to store CO_2 underground, has yet to be proven at scale and may not be technically or economically viable. These technologies have been politically debated. This past year the US congress had discussions about whether it is appropriate to use coal in climate change funds, specifically the CTF. Some in the developing world are also challenging their use. For example, the Special Envoy to the Prime Minister of India on climate change has indicated that they are not interested in the use of CCS coal in addressing climate change.

At the same time, there has been little investment in truly clean technologies in comparison with the scale of support for the CTF. The Scaling-up renewable energy program (SREP) is supposed to help low income countries make a transformational change to low carbon energy sources by optimally exploiting their renewable energy potential to offset fossil-based energy supply. However, target funding is only $250 million and pledges fall far short of this. This is in stark comparison to the $4.3 billion that has been pledged for the CTF.

Need for investment in alternatives/ already existing renewable technologies -There is broad agreement on the importance of adaptation finance. However, far fewer resources have been made available to support the mitigation efforts of developing countries and their move towards more sustainable and less carbon intensive energy systems. Developing countries must be given policy space to make decisions about how to best address their growth and energy needs. However, public financing such as that channeled through climate pilots is in short supply and should therefore be targeted at making renewable energy technologies viable options for developing countries, many of which are now economically and technologically out of their reach. Alternative and renewable energy technologies could reduce local pollution as well as greenhouse gases and could provide more accessible 'non-grid' technology for the poor, addressing the important but often forgotten access to energy agenda. Furthermore, developing countries could save in the long run if they don't have to keep changing technologies or get locked into carbon intensive development models.

Conclusions

In light of the disconnect between a desired post 2012 architecture and the course of travel set by the current pilot projects, civil society in the UK has made some key recommendations for government in the UK and other donor countries.

Firstly, resources for addressing climate change issues should be channeled through the UN, and the sunset clauses, which limit the life-span of the World Bank climate funds, must be upheld. Contributions should be seen as restitution, not charity. Until climate financing is additional to aid, developing countries and civil society will remain concerned.

In addition, only ownership by and involvement of developing countries in all stages of design and implementation of climate finance can create an equitable and just financing system. Civil society must also be given an opportunity to engage in decision-making in governance structures as legitimate stakeholders, as is currently being debated in the World Bank's forest investment program.

Investment should foster cross-sectoral responses to climate change and incorporate them into existing national development and environment plans. Civil society and affected communities must also be allowed to access climate funds, as under the UN's Adaptation Fund, in order to help distribute resources to the poorest people and those most negatively impacted by climate change. Public funds should be channeled into making access to renewable energy technology a viable option for developing countries as they begin their mitigation efforts and make development plans for the future. In addition, given the role the World Bank is currently playing in climate finance, donor governments should urge the Bank to both do an assessment of the carbon emissions of its entire investment portfolio and consider phasing out investments in fossil fuels as recommended by its own 2004 Extractive industries review.

Finally, for climate financing to be effective, it must be accountable and transparent. As such, donor governments should support the development of independent monitoring to scrutinise financial climate mechanisms and the formation of an oversight body to identify gaps in current pilot projects.

July 2009

Maria Arce, Practical Action and Co-chair of BOND’s Development & environment group (DEG) & Ama Marston, Bretton Woods Project.

The full report, by BWP and members of DEG, can be found at: *www.brettonwoodsproject.org/nearlythere*

Published by **Bretton Woods Project**
Hamlyn House, Macdonald Road, London N19 5PG, UK
Tel +44 (0)20 **7561 7610**
Fax+44 (0)20 **7272 0899**
info@brettonwoodsproject.org www.brettonwoodsproject.org/subs
Bretton Woods Project is an ActionAid hosted project. This publication is supported by a network of UK NGOs, the C.S. Mott Foundation and Oxfam Novib.