
BEYOND THE JARGON: THE GOVERNANCE OF CLIMATE FINANCE

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EXECUTIVE SUMMARY

The financing of climate action has entered a watershed period. The momentum in favour of a substantial global fund to support both mitigation and adaptation efforts internationally, initiated at COP15 and maintained through COP16, will now either be sustained or fail. It faces the danger of withering on the vine, suffocated by a lack of political will, inadequate institutional capacity and the inclement economic environment in developed countries. There is an urgent need to bring strategic and administrative coherence to the multiple sources of climate finance, and to align funding for adaptation and mitigation action with development objectives and national and regional strategies.

Critically, an appropriate balance must be found between adaptation and mitigation funding. For Africa and the developing world, the impact of climate change is already being felt severely. Whether the requisite urgent mitigation action happens or not, the poor are already suffering the practical consequences of climate change. Funding for adaptation is urgently needed and calls are being made for finance for adaptation action to be urgently prioritised and ring-fenced. COP17 must establish the instruments and structures necessary to facilitate the flow of funding to Africa and elsewhere. It has to also consider decisions around both 'direct access' to funds by countries and sub-national units and the various 'windows' of funding.

Democratic governance is crucial to integrity, plausibility and sustainability of this effort. For the Green Climate Fund (GCF), there are important decisions to be taken about the precise institutional arrangements, following from the work in 2011 of the Transitional Committee (TC) on the design of the GCF. The TC was unable to reach full agreement on key matters relating to the powers and authority of the GCF Board and its Secretariat, and their lines of reporting to the COP. In settling these matters, COP17 must find a balance between efficacy and operational nimbleness on the one hand, and sufficient inclusiveness and accountability to the UN community on the other.

Embedding principles and practices of transparency and information disclosure and designing parallel multi-stakeholder processes will be critical. Accountability depends on how clearly articulated a financial mechanism's objectives are. These objectives are built into standards and metrics at the project, programme and portfolio levels. An independent oversight mechanism cannot help to resolve these kinds of controversies if the Fund Board cannot first design a set of standards that reconciles these objectives. A grievance mechanism, which is an essential ingredient for the legitimacy of climate finance decision-making and social safeguards, should also be accompanied

by outreach and education efforts to increase the awareness of, and guarantee access to, the mechanism.

A Common Reporting Framework (CRF) will be critical in the search for mutual accountability and for the setting of new standards in the performance and effectiveness of climate finance.

This is a moment of challenge and opportunity. Potential recipients in the global South must equip themselves with the necessary capability to both access and deliver on climate funding. Developing countries should undertake an assessment of what structures exist, for what purpose and explore new designs which promote flexibility and innovation. The climate finance arena is now undeniably infused with a 'new realism' derived from the risk adverse backdrop of the global economic crisis; donors will be more concerned with results than restitution.

So developing countries will have to assert themselves, especially if 'direct access' is sought; showing capability and technical coherence will be essential. Those countries that can mobilise domestic resources are likely to find themselves at the front of the queue. Leadership at all levels will be needed. At a national level, powerful 'champions' or climate leaders should be identified to play a role in the efficient and equitable share of the allocation of resources and management. They will be very useful to encourage mechanisms that support the integration of new thinking, dissemination of best practices and sharing of experiences. Improved local government capacity can more effectively articulate and plan for local needs, engage local stakeholders and fully consider structural constraints and local complexities. Local governments, as first responders, should be empowered to be agents of change.

Participatory, multi-stakeholder design processes are effective and lessons should be taken from global health bodies like the UNAIDS, the Global Alliance for Vaccines and Immunisation (GAVI) Alliance and the Global Fund to Fight Aids, Tuberculosis and Malaria, as well as multi-stakeholder transparency initiatives such as the Extractive Industries Transparency Initiative and the Construction Sector Transparency Initiative. Non-state actors also have a role (and responsibility) to play in all stages of a project's cycle - design implementation and evaluation as well as in all areas of a climate fund's operations.

The political economy of climate change is demanding. There are tough questions concerning who gets what, when and how. There are strategic issues associated with climate finance as a global public good, which must be addressed to assure the replenishment of financing and the effectiveness of investments. A system must be designed that is lean but also accountable, and that will be able to find and sustain an equilibrium between the various inevitable and competing interests that are at stake.

Climate change is a harsh reminder that the planet is more than just the sum of its countries and addressing the adverse impacts of climate change requires unprecedented cooperation and commitments beyond the usual jargon. More than 'just another development fund', climate finance must be capable of responding to an inter-connected global challenge of unprecedented scale, urgency and complexity.

This is not just about the supply of funding and the capitalisation of the GCF and other sources of climate funding, essential though this is. Democratic governance matters greatly to the strength and sustainability of climate finance. Beyond the

finalisation of the design of the GCF and its operational establishment, there is much work to be done on three main issues: country ownership, stakeholder engagement and independent oversight – at COP17 and in the next 12 months. Drawing on the commissioned work of a number of experts, this paper offers diagnosis and prescription, with some practical recommendations for the way forward. This is a critical phase in the history of climate finance. The moment must not pass; the opportunity must not be missed.

Introduction and Background: The Political Economy of Climate Finance

To develop an appreciation of the political economy of climate change is to understand how the existing power centres of the world must adjust to a changing physical reality which will impact on everything from our diets to housing design to transportation. This 'new reality' of climate change represents a strong challenge to the state-centric model of international affairs, requiring both collaboration and consensus among a variety of stakeholders with diverse interests.

The contestation for power and resources is never more obvious than in the arena of climate finance. Though climate finance is emerging as the development assistance modality du jour, it is not in fact a new feature of international aid and finance; since the advent of the Global Environmental Fund (GEF) in 1992 more than 20 other sources of climate finance have been established. This gives us a performance record to draw from and immediate points of reference. However, there are almost as many concerns about the current state of climate finance as there are funds. The charges against current implementation practices of climate finance include:

- The multiplicity of funds and modalities, as well as the cloudy distinction between financing for adaptation and official development assistance;
- The duplicated and un-coordinated nature of donor-funded efforts;
- The domination of funding directed towards mitigation rather than adaptation. Of the \$97 billion per annum that has been identified as climate change finance, \$93 billion has been directed towards mitigation¹;
- Complaints regarding transparency, particularly requests for information regarding the implementation of projects;
- An absence of alignment with national adaptation, mitigation and development strategies, and a lack of an effective results orientation².

Despite the above, it is an opportune time to harness the lessons of previous international financing mechanisms; not least because of the sheer volume of climate finance that has been committed. The performance of other global funds has been extensively analysed with respect to their governance arrangements³. These innovations include the institutionalisation of observers in Board operations (in some as voting members), the inclusion of non-governmental organisations at various points in the project cycle, civil society engagement in monitoring and evaluation, and conflict resolution mechanisms.

These laudable governance innovations notwithstanding, there remain some gaps in the realisation of democratic governance among global funds. Yet the scale and urgency of the climate change crisis does not afford the world the luxury of time and space to experiment idly or to repeat the mistakes made with the financing of other global scares like HIV/AIDS and food insecurity. Perhaps the most clearly articulated is the lack of learning, sharing and capacity-building of the relevant public institutions in the face of parallel delivery mechanisms. One of the well-known shortcomings of official development assistance to Africa was its failure to reinforce the capacity of governments to undertake and implement coherent, nation-wide development programmes, partly because planning was not sufficiently inclusive and partly because aid was channelled through alternative disbursement mechanisms bypassing public systems like procurement.

At a time of global economic crisis, and in the absence of a binding agreement on climate action (to replace or extend the Kyoto Protocol), the governance of new and existing arrangements has to deliver something strong and meaningful on finance. While both the 15th and 16th Conference of the Parties made substantial progress on this front, with significant pledges to fill the coffers of a new Green Climate Fund (GCF), COP17 cannot afford to falter, but must instead not only maintain the momentum but add to the credibility of the means to resource climate action. Moreover, it is quite clear that as the damaging consequences of climate change kick in, harming the poor more than any other group, the adaptation needs are huge. Whether this is cast within the framework of an argument about 'restitution' or not, there is an urgent need to respond to the shortage of the funds necessary for adaptation work in Africa especially. This, too, is part of the 'new reality': the impact of climate change is here and now, and regardless of efforts to mitigate its effects in the future, African economies and societies have to adapt immediately. Otherwise, millions will suffer. Already, there is growing evidence of the new phenomenon of 'climate refugees'.

It is no secret that adaptation is grossly underfunded, capturing a mere \$4 of the \$97 billion that is estimated as the total volume of finance⁴. The concentration of climate financing towards mitigation is due to the source of the financing: private sector, amounting to approximately \$55 billion. The seeming reluctance of countries to collaborate closely on mitigation programmes is due to the fact that governments can not compel private industries to share intellectual property. Like any innovation, the preponderance of new entrants will be ultimately checked by the agents with the most efficient systems and cost-effective product; in this case, the cheaper and more sustainable alternative to energy production.

Most probably, the transfer of technology for mitigation will not occur outside the market mechanism. Since the market consistently fails at advancing social and environmental justice, government support of mitigation should be focused on how to subsidise the technological innovation and transfer so that it is developed as quickly as possible to respond to the urgency of climate change. Fiscal instruments are needed to stimulate rapid transformation in core economic sectors, as was done for anti-retrovirals for the treatment of HIV/AIDS, to provide access to foreign technology, to adapt to local needs and circumstances and to stimulate reverse engineering⁵.

It is in this context that Idasa commissioned three papers on country ownership, stakeholder engagement and independent oversight in pursuit of a deeper exploration of

how these principles of the climate architecture may be reinforced to improve the state of governance of climate finance, which is crucial to the effectiveness and legitimacy of the GCF and climate action generally⁶.

Why Governance Matters

The GCF represents an extraordinary, perhaps unprecedented, opportunity to re-organise the way the world is currently doing business in development cooperation and environmental sustainability. Therefore, its governance and institutional arrangements are crucial to its success: the architectural design must secure its credibility with potential donors, its legitimacy with recipient countries and their domestic social stakeholders, and its accountability to its 'parent' body, the United Nations Framework Convention on Climate Change (UNFCCC).

In these respects, climate finance governance essentially boils down to a discussion about power and authority: the diffusion of power amongst its various core stakeholder communities – the donors who liquidate existing and new funds; the legal entities that govern the funds on behalf of the international community; the secretariats that execute mandates and policies; and the recipient countries and communities who benefit from the resources.

Accountable governance always matters. The urgency of the situation, the fragile consensus surrounding it and the complexity of the climate finance value chain render it especially vulnerable to bad governance. Moreover, the UN Secretary-General's High-Level Advisory Group on Climate Change Financing (the so-called AGF) went out of its way to focus on two elements in the climate finance equation: the sources of funding and the notion of 'spending wisely'. It is quite obvious, and perfectly understandable, that in an age of severe austerity and unsustainable sovereign debts in the West, traditional overseas development aid – including the 'new and additional' funding for the climate finance that is envisaged with the GCF – is under threat. What official development assistance there is available for climate finance projects will be subject to even greater scrutiny than previously in terms of both efficiency and accountability.

The core design elements of an accountable governance system are:

- *Ownership*: where does ultimate legal authority sit? Who are the 'owners' and how do they come to be 'owners'? Where is the balance of power?
- *Participation*: how, and to what extent, are other stakeholders provided with a vote and/or voice in the governance institutions?
- *Structures*: what are the mechanisms and bodies necessary to provide the initiative with the legitimate decision-making capabilities it needs?
- *Mandate*: what are the respective roles and responsibilities of the different bodies, and how do they relate to each other procedurally?
- *Membership and representation*: who serves on each body and how are they selected?

Borrowing from the observations made by the French delegate, Remy Rioux, to the Transitional Committee appointed by the 16th COP in Cancun to design the GCF the core business of the GCF should be:

- To bring coherence to the climate finance universe;
- To channel climate finance funding in support of national strategies and to actively promote such strategies by improving the capacity of countries, especially Least Developed Countries and Small Island States and Africa, to produce such strategies and viable projects for accessing GCF funds;
- To mobilise and leverage the full range of existing financial institutions;
- To provide and/or design the appropriate instruments to stimulate investments;
- To develop the capacity to absorb large flows of funds and function independently (free of replenishments) to promote and support substantial transformation.

Even if these core elements are provided, there may still be scope for abuse of power, inefficiency or a failure to adapt to changing externalities, etc. These elements must be coupled with a clearly identified purpose. Although the impact of climate change is clear and widely understood, the climate finance instruments face multiple challenges. In short, new and existing climate finance mechanisms:

- need to capture the attention of the private sector (diversity of sources);
- need to win the confidence of donor countries (to bring the capitalisation of the funds to scale);
- need to maintain the perception of equity and fairness of access (legitimacy); and
- need to deliver on the mitigation and adaptation targets set by the international community (effectiveness).

To accomplish this ambition, the GCF's governance and institutional arrangements will have to provide it with the following attributes:

- Global scope, credibility and expertise;
- Appropriate political balance and representation;
- Full transparency, with a state-of-the-art information disclosure regime;
- Strong fiduciary checks and balances;
- Nimbleness and efficiency (in administration and decision-making)⁷.

The main points of contention during the Transitional Committee negotiations were on the design of ownership and mandate. Led by the United States, most developed countries advocated for a lean governance modality, one that can make quick decisions and avoid the mire of UN-style political stalemate, and, most importantly, one in which the Board has final authority on a number of key decisions like the selection of the trustee.

For its part, the UN's Group of 77, a loose coalition representing the economic interests and negotiating capacity of developing countries, was adamant that the original intention of the COP was that it would be the executive management of the GCF and that the UNFCCC's style of representation and accountability should be fully infused into the governance modality of the GCF. This was partially based on the language of the Cancun agreement which in clause 102 stated that the GCF will be 'accountable to and function under the guidance of the Conference of Parties'.

Another reason for the tug of war was the composition of the Board. It is meant to comprise 24 members; 12 representatives each from developing and developed country Parties. There are no provisions for observers or other stakeholders and no procedures for the nomination and appointment of the Board members. Furthermore, representation from developing country Parties includes representatives of relevant United Nations regional groups and those of Small Island Developing States and the Least Developed Countries. The understanding is that this formula treats Middle-Income, Island States, Transitional and Least Developed Countries as a homogenous group who must share space on the board with other stakeholders (e.g. intergovernmental and non-governmental organisations), resulting in the under-representation of the world's poorest and disadvantaged.

This is where governance and institutional arrangements become intertwined with international political economy as well as with issues of sovereignty. New and existing funding mechanisms must address the imbalances of power in the governance design, in particular the various reporting roles and responsibilities and how they relate to each other.

As with any entity composed of human beings, it is important to recognise that the different parts of an institution have different objectives and targets, and so the political calculus varies from one to the other. Further, these functioning parts must also remain dynamic. A mechanism which seeks to bring together funding from a variety of sources needs to capture the attention of the private sector; it needs to enlist the confidence of donor countries; it needs to maintain the perception of equality and fairness of access; and it needs to be responsive to national priorities. Thus, the primary institutional design and arrangements must all feed into these overall objectives. This incorporates those that concern the governing body (Board), the executive capacity (Secretariat) and accountability and administrative oversight (Trustee and Monitoring & Evaluation) bodies as well as those that encompass the relationship of these institutions to the 'parent' body (in the case of the GCF, the COP).

This could be accomplished through the primary lens of 'checks and balances'. This does not imply a governance design that is unable to act boldly and swiftly, held back by a set of competing limitations on power, but rather a system that is lean but also accountable and which is able to find and sustain an equilibrium between the various inevitable interests at stake.

For example, a "check" against a design that is top-heavy could be a commitment to a series of multi-stakeholder forums, national and/or regional, as part of its overall governance modus operandi, in terms of both decision-making and stakeholder consultation. Generally, the governance principle is that power needs to be evenly distributed vertically, with clear distinctions between functions.

There is little dispute that the heart of accountability of climate finance lies with the 'shareholders' and not necessarily the 'owners' of the origins of financing. However, it is difficult to design a mechanism for stakeholder input and participation at global level. Multi-stakeholder initiatives have recently emerged as an effective means to find consensus between different stakeholders and as a way of setting and enforcing standards of conduct, especially with regard to information disclosure and transparency⁸. They also ensure a link between private/commercial interests and national priorities, ensuring complementarity at national level.

Another feature that plagues existing funding mechanisms is too much distance between shareholders and the mechanisms' operations. A well-designed information disclosure system is a governance feature that could mitigate such an architectural design. It should include the standardisation of data collected, requiring input from stakeholders themselves and shared in accordance with best practices in transparency. This is discussed in greater detail below in the section on oversight.

Yet another imbalance of power could result from the internalisation of projects in a fund. If the Secretariat approves funding of projects, then the rationalisation, complementarity, and policy alignment and coherence would be difficult to achieve. There is also the risk that such a Secretariat could become quite bloated (and thus ineffective

The Transitional Committee was appointed by the 16th COP held in Cancun to design the GCF and to present to COP17 a detailed blueprint for its operational future. This was meant to kick-in in 2012, in accordance with the bold promise of the Copenhagen meeting that by 2020 there would \$100bn of climate funding committed per annum by developed countries. Unfortunately, despite meeting on four occasions in 2011 at various locations around the globe (Mexico, Tokyo, Geneva and Cape Town), the Transitional Committee could not reach agreement on some of the key issues. The lack of consensus resulted in a stalemate, and the Transitional Committee could do no better than decide to ask COP17 to 'take note' of the report, leaving to it to finalise various important aspects of the governance and institutional arrangements of the GCF.

and non-responsive). It would need to be staffed to receive and vet proposals, undertake capacity building, instrument design and partnership development. A 'check' on this imbalance would be the establishment of country coordinating mechanisms or implementing agencies. There is also the danger that the source of financing may, if left unchecked, seek to serve its own interests. Private, commercial interests may not be in alignment with national strategies. National focal points, coupled with the use of multi-stakeholder mechanisms, are discussed in more detail in the section on country ownership.

Civil society advocates, including the governmental players themselves, are facing tough choices about the precise final institutional arrangements for the GCF; there may be difficult trade-offs involved between, for example, full inclusiveness on the one hand and effective and nimble decision-making on the other. Assessing the interests of both national and community interests in these choices may not be straightforward: the intended beneficiaries of the climate finance will surely want funding that can be accessed quickly and without unnecessary bureaucratic fuss, but nor will they want principles of equity and transparency to be displaced in the name of practicability.

The remaining issues to be ironed out with respect to the GCF are core to governance architecture:

- identifying clear responsibilities and lines of accountability within the Fund's structure;
- clarifying the Fund's objectives and developing the standards and metrics to assess progress towards those objectives at the level of project, programme and portfolio;
- developing environmental and social safeguard policies designed to ensure the Fund's activities 'do no harm';
- identifying, informing and empowering the constituencies that are the intended beneficiaries of the Fund's activities so that they can participate in the process of independent oversight; and
- ensuring that the oversight system has the independence, expertise and capacities necessary to carry out its assigned functions.

The following sections probe the various dimensions of country ownership, stakeholder engagement and independent oversight as core features of climate governance architecture and seeks to provide further insights on how to improve the current way of doing business.

Country Ownership

Institutionalisation of the national climate response

All countries receiving mitigation and adaptation assistance will need to identify a focal point that will be responsible for receiving, overseeing, coordinating and allocating all government and non-government financial resources for climate change-related

projects in the country. The numerous coordinating functions with respect to climate change finance will include:

- Driving national policy alignment, ensuring the coherence of national strategies and regulatory frameworks dealing with climate change and development finance;
- Engaging a broad range of stakeholders through facilitated discussions and bottom-up consultations⁹;
- Ensuring complementarity with existing sources of financing, at all levels, to eliminate overlaps and duplication;
- Attracting additional funds from both local and external sources in alignment with national plans.

To accomplish this, it is important to take stock of what national institutions exist in each country and their functions. For example, how does planning normally take place in the country and how can it be mainstreamed? How many inter-governmental and inter-ministerial committees exist? What are their functions? Can they be consolidated? Is there a lead institution to drive the process and is it empowered to do so?

Coordination is needed across all sectors and levels of government to ensure a more systematic, strategic and comprehensive approach towards efficient resource allocation and responses. Strengthening cross-sectoral, cross-ministerial and multi-stakeholder approaches is essential to address the multi-faceted nature of climate change. An inter-ministerial body is much better positioned to coordinate the activities of single ministries and is more likely to have the political power to attract the necessary budget for allocation among implementing ministries and agencies. Line ministries often have better implementation capacity.

Climate leadership and capacity

Leadership is often mistakenly identified as a peak or the apex of a structure. A peak is a point of convergence; leaders are the catalysts for that convergence. Climate leadership can take place at the highest decision-making level or by a local community leader. Leaders can take ownership of the process of integrating climate change adaptation considerations into development planning, and champions can be disseminators and facilitators, relating global climate change issues to the national context.

Climate leaders can assure the success of programmes by fostering partnerships. For example, since communication is often lacking between climate change experts and development practitioners, there is a need to build partnerships with institutions that can act as intermediaries between science and policy-making, translating technical substance into practical actions that can be better understood at a grassroots level. Climate champions have an important role to play in advocating for behavioural changes and serving as ambassadors for pro-poor climate activities.

Funding mechanisms should support countries in developing the political and institutional leadership, knowledge and technical capacity, financial and fiduciary management and accountability systems to take advantage of the multiple sources

Good practice recommendation

The lack of institutional coherence in dealing with climate change has been well-documented. Developing countries should undertake an assessment of what structures exist, for what purpose and explore new designs which promote flexibility and innovation.

Good practice recommendation

At a national level, powerful 'champions' or climate leaders should be identified to play a role in the efficient and equitable share of the allocation of resources and management. They will be very useful to encourage mechanisms that support the integration of new thinking, dissemination of best practices and sharing experiences.

of climate finance available and make flexible, robust decisions on climate change in line with low-emissions, climate-resilient development.

Local government

Local governments have a similar task of ensuring cohesion, promoting national and sector policies and implementing plans at the grassroots. Where they exist, decentralised national institutions/local government can help ensure effective national-local coordination and create an enabling environment for local adaptation action¹⁰. In fact, local governments can assume a leading role in the adaptation process by feeding into planning processes with evidence of impact and recommendations, incorporating indigenous knowledge, and providing effective support to community-level initiatives. Decentralisation can also foster integration among line ministries at the sub-national level¹¹. Through actions such as collecting taxes or user charges, sub-national governments may be able to generate revenue needed to support identified budget items related to adaptation efforts.

Good practice recommendation

Take a closer look at vertical governance, decentralisation and horizontal governance capacity at local level. Improved local government capacity can more effectively articulate and plan for local needs, engage local stakeholders and fully consider structural constraints and local complexities. Local governments, as first responders, should be empowered to be agents of change.

The nature and trajectory of economic development in Africa depends on the state of infrastructure services (energy, water, transport, roads, etc), the commitment to rural development and sustainability issues, and improved public finance management. These sectors also happen to be crucial to the national climate change response, and municipalities are not only at the front line of these services but will also be the first responders to the adverse impacts of climate change. To play this role effectively, local governments must be empowered, which entails having the relevant legal and regulatory framework for planning, budgeting and resource mobilisation.

Climate change should be framed within a development agenda in which adherence to human rights and obligations to citizens must be fulfilled, including universal access to energy and the rights to housing, food security and education. These rights are claimed first at the level of government closest to the rights-holder: municipalities. Only at this level are social services fully accessible and adaptable. We therefore recommend an integrated development planning process in which each municipality plans for delivery of the services for which it is responsible, coordinated in conjunction with local line ministry offices. This plan forms the basis of the municipal budget, both of which are fed back into the national plan and budget. The climate leader in this instance is the municipal manager who is meant to co-ordinate municipal planning with national and provincial departments, advocating on behalf of the local community. For this to be successful, devolution of power, authority and decision-making must be accompanied by fiscal decentralisation as well as the regulatory space to attract and secure financing. A survey of vertical governance approaches, successes and failures, particularly with respect to the handling of other global emergencies like HIV/AIDS, would assist greatly in the development of good practice principles.

Thus far, climate finance to municipalities has been minimal. Financing to remove traditional capacity constraints such as accounting and auditing should also be in tandem with resources directed towards the improvement of horizontal coordination at local level, which tends to be more difficult with limited information mediums. On the other hand, promoting awareness and changes in behaviour patterns and conducting consultation is facilitated at local levels, using local languages.

Improving ownership through stakeholder engagement

The notion of governance must be interrogated: the legal guarantee of rights or of a process in the constitution is not sufficient. There must be both political and public will, a coherent vision and a culture of working. And it is important to institutionalise public participation, as a change in political parties or in public administration can retard or even reverse accomplishments. Further, we are also aware that citizen engagement need not be confined to national level advocacy to affect change. That it is accountable is a necessary but insufficient condition; it must also be participatory.

Stakeholder engagement is increasingly becoming a part of mainstream business practice and central to public policy decision-making and delivery. It is being used as a means to improve communication, obtain wider community support or buy-in for projects, gather useful data and ideas, enhance public sector or corporate reputation, and provide for more sustainable decision-making. The potential spin-offs from a high quality engagement process include an evolving sense of ownership and social cohesion among constituents and an improvement in quality and sustainability of public and private-sector services. Stakeholder engagement could also be viewed as a form of risk management. Many projects will need to engage with a wide range of stakeholder groups, each with their own concerns, needs, conflicts of interest and levels of influence.

According to reports from the Earth System Governance¹² and from the South Centre¹³, the designers of the GCF should take note of new global health institutions, which have integrated the capacities of stakeholders through direct participation in their governance structures. UNAIDS¹⁴, the Global Alliance for Vaccines and Immunisation (GAVI) Alliance¹⁵ and the Global Fund to Fight Aids, Tuberculosis and Malaria¹⁶ have all embraced varying degrees of stakeholder inclusion in which civil society, the private sector, foundations and other constituencies – including those populations directly affected by the threats – participate directly in governing bodies, deliberation and institutional decision-making. This move away from the state-centric approach is central to reconciling the opposing visions that currently divide governments. They believe that direct participation allows interest-based organisations to directly lobby and influence governments by introducing their subjective understandings of the issues, their values and their normative commitments, all essential for sound policy formulation and institutional legitimacy¹⁷. A similar approach should apply to climate change challenges which affect people and future generations. Non-governmental organisations are critical in this debate for advancing the concerns of the powerless and for communicating policy outcomes to the grassroots.

Direct participation models differ from consultative approaches in that they generate a stronger sense of civil society ownership. This is crucial for institutional buy-in and the long-term success of a project. By adopting this approach, health institutions have been more successful in mobilising resources than environmental institutions¹⁸. Key to this success has been the development of engaged and empowered constituencies in donor countries, connecting finance with results and empowering country-level actors for policy-making and implementation.

The Country Coordinating Mechanisms (CCM) of the Global Fund to Fight AIDS, Tuberculosis and Malaria has introduced a particularly innovative approach for country-level, multi-stakeholder partnerships. The CCM develops and submits grant

Good practice recommendation

Participatory, multi-stakeholder design processes are effective and lessons should be taken from global health bodies like UNAIDS, the Global Alliance for Vaccines and Immunization, now known as the GAVI public-private alliance, and the Global Fund to Fight AIDS, Tuberculosis and Malaria, as well as multi-stakeholder transparency initiatives such as the Extractive Industries Transparency Initiative and the Construction Sector Transparency Initiative.

proposals to the Global Fund based on priority needs at the national level. After the grant is approved, each constituency nominates its own grant recipients to oversee the process and the implementation of the project¹⁹. The Global Fund ensures that at least 40% of CCM members are non-state actors.

According to independent evaluations done by the United Kingdom's Department for International Development (DFID)²⁰ and the Brookings Institute²¹, these participatory models of governance have a remarkable track record of efficiency, value-for-money, transparency, local ownership and learning. These considerations need to be taken into account in the design and structure of new financing mechanisms, such as the GCF. Civil society representatives in national coordinating bodies have the potential to drive civil society ownership, expand resource mobilisation, deepen deliberation and catalyse institutional effectiveness.

Good practice recommendation

Non-state actors have a role (and responsibility) to play in all stages of a project's cycle, from design implementation to evaluation as well as in all areas of a climate fund's operations.

Taking stock and learning from the failures of past development models can be a very useful tool for policy-makers who are deciding on a relevant design for the Fund. It is also important to consider other models of financing, such as the global funds for health, that have incorporated participatory mechanisms into their structures to ensure buy-in from both state and non-state actors.

Stakeholder engagement needs to occur throughout the process, from inception through to policy development, implementation and monitoring. Examples of non-state actor participation include:

- The Global Environmental Facility's (GEF's) Network of Non-Governmental Organisations or GEF-NGO Network, created in 2001, consists of representatives who participate as observers (with the right to intervene) in the GEF Council Meetings and in the GEF Replenishment Meetings.
- The GEF agencies are required to follow GEF's public involvement policies, including information dissemination, consultation and stakeholder participation.
- Meetings of the Adaptation Fund Board (AFB) are open to the UNFCCC accredited observers, except where otherwise decided by the AFB. Observers may, upon invitation of the Chair and if there is no objection from the members present, make presentations relating to matters under consideration by the Board or participate without the right to vote in the proceedings of any meeting in matters of direct concern to the body or agency that they represent. Since December 2010, the AFB has engaged in dialogue with civil society organisations at each meeting. Relevant stakeholders shall be consulted during the design phase of the project. This is part of the project proposal template, and a review criterion for this effect was included following the 11th meeting of the Board. All the proposals submitted for funding are posted on the AFB website for comments from civil society.

Promotion of the right of access to information is central to participatory governance. Advocacy around the right to information should be supported by donors as it is the platform upon which dialogue between citizens and government can be built and indeed take place. Information advocacy requires sustained engagement with national partners, not one-off sessions.

The voice of parliament has also been relatively marginalised in the climate finance discussion. Parliaments will need to play an important legislative and advocacy role in promoting the adoption of ‘climate-compatible’ policies and legislation and also in approving and monitoring the budget to promote transparency and accountability, as well as promoting climate change integration into the budgetary process. The mainstreaming of climate change-related activities in national processes will necessarily result in the reinsertion of parliament, which translates into additional space for both opposition parties and citizens to interrogate practice and outcomes.

Stakeholder engagement should be at the heart of any ‘sustainable development’ agenda. Without engaging a full range of social stakeholders, there can be no common enduring agreement, ownership or support for a particular project. A venture is more likely to succeed, especially in the long-term, if it takes into consideration the socio-economic and political environment in which it operates and endeavours to meet the needs of the stakeholders affected by it.

Independent Oversight

Before the GCF can become fully operational – as with any existing climate fund – stakeholders must address the challenge of ensuring the Fund’s accountability ‘downwards’ to the communities that have expectations about the Fund’s ability to play its role in promoting development (i.e. development that respects human rights, is low carbon and is sustainable).

Communities in Least Developed Countries may not have the national institutional capacity to monitor the Fund’s performance and may therefore be particularly reliant on an international system to provide independent oversight. There is significant experience of independent oversight of other international financial mechanisms to draw upon.

The complex set of accountability relationships described above can only operate effectively and efficiently if the financial mechanism’s objectives are clear, and these objectives are built into standards and metrics at the project, programme and portfolio levels. An independent oversight system would provide an independent, expert and objective assessment of whether these standards are being met in a manner that assists the accountability relationships described above. Standards are going to be key to the success of climate finance.

Discussions on the design of the GCF reflected wide agreement that supported activities should seek to have a transformational impact through a ‘results-based’ approach. The mention of ‘programming processes’ described in the Transitional Committee’s documents provide a flavour of the kind of ambitious standards that proposals may need to meet to demonstrate consistency with national plans and priorities, deliver climate benefits and impacts, and attain the buy-in of all relevant stakeholders.

Simultaneously addressing nationally determined development priorities and transformational climate benefits is the challenge that lies at the heart of climate finance. The 2011 controversy over World Bank investments in coal-fired electricity generation in South Africa illustrates the difficulties in developing programming standards that balance the compelling need to deliver access to affordable energy and achieve

Good practice recommendation

Accountability depends on how clearly articulated a financial mechanism’s objectives are. These objectives are built into standards and metrics at the project, programme and portfolio level. An independent oversight mechanism cannot help to resolve controversies if the Fund Board cannot first design a set of standards that reconciles these objectives.

low carbon outcomes. An independent oversight mechanism cannot help to resolve these kinds of controversies if the Fund Board cannot first design a set of standards that reconciles these objectives.

Grievance and redress mechanisms

A redress mechanism receives, evaluates and makes recommendations in response to complaints. It provides a means, like the World Bank's Inspection Panel, for people harmed by a violation of a fund's standard or safeguard policy to halt or reform the activity. As such, a redress mechanism could be a means of holding a fund as a whole (including the operations of implementing entities) accountable to project-affected people.

Experience shows other grievance mechanism only process five to six cases per year at the most²², but the possibility of being involved in a harmful project reported to the grievance mechanism is a high reputational risk for all the well-established international and national institutions. The grievance mechanism therefore serves as a deterrence measure, forcing institutions to follow the general guidelines and respond to problems identified in independent oversight systems at all levels.

There is a Conflict Resolution Commissioner who reports to the Chief Executive Officer of the GEF Secretariat and who works with the GEF agencies to resolve any disputes that are brought to the attention of the CEO. This mechanism is still being developed, and appears to focus on solving conflicts internally in the GEF family. It is unclear whether it provides accountability to project-affected people.

A grievance mechanism should also be accompanied by outreach and education efforts to increase the awareness of, and guarantee access to, the mechanism. The fund is truly overseen by people only when people, especially those most vulnerable and often exposed to harm induced by climate change or climate-related projects, can master the complaint process.

Recent experiences with controversial World Bank-funded projects in Africa suggest that its redress mechanism, the Inspection Panel, has played a useful role in providing a focused forum for expressing civil society's concerns about project design that range from failures to consult local communities and indigenous people about forest policy reform to neglecting to take into account the negative environmental and social impacts of a large scale coal-fired power plant. But these procedures, which are triggered only after problems in project design have already threatened to harm local communities, also reveal their weakness. The best forms of independent oversight would engage stakeholders further upstream to prevent harm in the context of policy choice and project design.

Ensuring independence of evaluations

Oversight mechanisms like redress, monitoring and evaluation within a financing institution should be independent. The current design of the GCF, which leaves such details to the Board, also includes the provision that such an entity would report to the Board. Since most of the core responsibilities of the GCF are undertaken by the Board, there is an incestuous relationship, rendering the evaluations internal.

General guidelines for the creation of an ‘independent’ oversight unit within an institution include:

- Unit staff should be outside the line management of the institution they are evaluating;
- The Institution being evaluated should not be able to change the results of any evaluation before the results are published;
- Unit staff should not be recruited from or be allowed to return to employment at the institution they are evaluating;
- The electronic and physical security of unit documents and communications should be ensured;
- Staff of the institution being evaluated should be protected by ‘whistleblower’ rules that prohibit reprisals;
- The staffing of the independent evaluation unit should be scaled to the size of the Fund. While independent consultants may perform the bulk of the evaluation in early stages, a larger full-time staff may be required as the Fund’s portfolio grows.

The independent oversight of the activities of new funding mechanisms are likely to depend heavily on monitoring and evaluation capacities within the international and national implementing entities responsible for carrying out Fund-supported activities. Minimum standards for the accreditation of implementing entities will be the main means by which the Fund can assure that these independent oversight systems meet high standards of independence, expertise and capacity, and report to an entity with the authority to suspend or reform the project.

Other Issues

Information disclosure

Transparency is too often the subject of rhetorical flourish, but little concrete action. There is an essential need to institutionalise information disclosure and a growing understanding of the standards that should be set and the institutional mechanisms that need to be put in place to deliver on them. In particular:

- The principle of disclosure should be set as the default position i.e. a presumption in favour of openness;
- Non-disclosure should be based on a specific, stated ground for non-disclosure that fully amplifies the harm that would be done to the public interest, subject to a public interest over-ride clause;
- All disclosable records should be automatically and pro-actively disclosed;
- A system for dealing with requests for information should be put in place; and

- An appeal mechanism should be constituted to provide swift redress for complaints.

Accountability is based on transparency, which requires the disclosure of credible, relevant and timely information. This in turn enhances the meaningful participation of stakeholders. The Transitional Committee recommended in its final report to COP that the GCF's operations will be subject to an information disclosure policy to be developed by the Board. A survey of different modalities for such an open disclosure system should be commissioned by the Board as soon as it is in place. Legitimacy and stakeholder confidence may depend on the quality of the transparency that can be both promised and delivered²³.

Related to the issue of information disclosure by the GCF and other climate funds is the challenge of maintaining a full picture of the climate finance architecture, which is unsystematic within countries. As several mapping exercises have illustrated, climate finance is already highly complex and is likely to become more so, even if the GCF operates as a 'clearing house' or 'fund of funds'.

The health sector provides many lessons in this regard. Despite the proliferation of health funds and other partnership modalities, there are insufficient metrics to evaluate community needs and a lack of data to assess impact²⁴. Thus, there is a good reason to create an "information warehouse" system. In addition to tracking flows and leveraging activities, it would collect and house information on international good practice, offer scenario analysis, and perhaps coordinate the monitoring, verification and reporting system.

Multi-stakeholder processes to shadow/accompany the GCF

As noted above, social stakeholder engagement is crucial to the future legitimacy and effectiveness of the GCF and other climate funds. Part of this is about ensuring that the GCF Board and Secretariat operate in a transparent and accountable fashion, including making appropriate provision for civil society observers. However, as also noted, there is no good reason for unduly encumbering the decision-making process. It must be recognised that the GCF is a child of the UNFCCC and, therefore, in essence a nation state-based entity. How, then, will it be possible to institutionalise civil society and private sector participation in the process of allocation and distribution of climate funding?

Drawing on the fast-growing experience of multi-stakeholder processes such as the Extractive Industries Transparency Initiative and the Construction Sector Transparency Initiative, there is a strong case for building a 'shadow' set of multi-stakeholder forums alongside the 'top' architecture of the GCF. The COP should provide for the Board of the GCF to adopt a commitment to constitute a series of multi-stakeholder forums, either nationally and/or regionally, as a part of its overall governance modus operandi – in terms of both decision-making and stakeholder consultation. Multi-stakeholder initiatives have emerged as an effective means to find consensus between different stakeholders and as a way of setting and enforcing standards of conduct, especially with regard to information disclosure and transparency²⁵.

Conclusion: What's Next?

Climate change is a harsh reminder that the planet is more than just the sum of its countries and addressing the adverse impacts of climate change requires unprecedented cooperation and commitments beyond the usual jargon. The scale and urgency of climate change forces us to pay more than lip service to sustainability, a commonly used term in development circles. The volume of financing for climate change compels us to further interrogate its meaning, to give it flesh, to put it into action.

There are strategic issues associated with climate finance as a global public good which must be addressed to assure the replenishment of financing and the effectiveness of investments. If a system is designed that is lean but also accountable, it will be able to find and sustain an equilibrium between the various inevitable and competing interests that are at stake.

As the climate finance arena is now undeniably infused with a 'new realism' derived from the risk adverse backdrop of the global economic crisis; donors will be more concerned with results than restitution. So developing countries will have to assert themselves, especially if 'direct access' is sought; showing capability and technical coherence will be essential. Those countries that can mobilise domestic resources are likely to find themselves at the front of the queue. Civil society organisations will need to assert themselves, too, (re)claiming space for engagement.

In thinking through the future paradigm for climate finance, it is useful to restate the core design elements of an accountable governance system: ownership, participation, structures, mandate, and membership and representation. These elements, supported by governance innovations such as multi-stakeholder processes and an information storage system, preserve a balance of power and prevent abuse and exploitation. A Common Reporting Framework (CRF) will be critical in the search for mutual accountability and for the setting of new standards in the performance and effectiveness of climate finance.

Further efforts to increase coherence and cohesion in international climate finance should focus on the issues of country ownership and independent oversight. Examples of the former include the institutionalisation of climate response in national structures and processes; the recognition of potential governance drivers like local government, who can be agents of change; and the adoption of multi-stakeholder approaches in planning, execution and evaluation. Independent oversight is enhanced by having clear objectives, with standards to measure and track impact, information disclosure, and grievance and redress mechanisms.

Relatively speaking, climate finance is one of the few areas of substantial progress in recent international negotiations. That momentum must not stall at Durban; indeed, COP17 must finalise the governance and institutional arrangements of the GCF, including important issues around the role of the World Bank as the Interim Trustee, the location of the Secretariat and the more strategic – and no doubt political – question of how the GCF is positioned in relation to the many other climate finance funds. COP17 must establish the instruments and structures necessary to facilitate the flow of funding to Africa and elsewhere, including decisions around both 'direct access' to funds by countries and sub-national units and the various 'windows' of funding.

Democratic governance is essential to the integrity, plausibility and sustainability of this effort. The next 12 months represents a crucial, perhaps watershed, period for climate finance. Key questions relating to the governance of climate finance must be resolved. A legitimate, but also transparent, design must be operationalised – it will be the platform for capitalising the GCF. The opportunity for aligning it with development objectives and the urgent need to transform the world's economies is there. The governance of climate finance deserves full attention, lest the opportunity be missed.

Endnotes

- 1 For a thorough mapping of the climate finance architecture see Buchner, Barbara et al. "The Landscape of Climate Finance", Climate Policy Initiative, 16 October 2011
- 2 See the example of Ethiopia in "Owning adaptation: Country level governance of adaptation finance", Oxfam briefing paper, 13 June 2011
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- 5 For discussion on the crucial importance of intellectual property rights to climate change read Sashikant, Sangeeta and Martin Khor. "Intellectual Property and Technology Transfer Issues in the Context of Climate Change", Third World Network, Intellectual Property Rights Series, no. 14, 2010
- 6 Idasa commissioned three thought pieces to help with the development of this publication. "Country ownership" was written by Romy Chevallier of the South African Institute for International Affairs; "Stakeholder Engagement" by Grace Akumu of Climate Network Africa; and "Independent Oversight" by Jacob Werksman of World Resources Institute
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- 8 See Calland R. and Koechlin L. 2009. "Standard-Setting at the Cutting Edge: An Evidence-Based Typology for Multi-Stakeholder Initiatives", in *Non-State Actors as Standard Setters*. Cambridge University Press; and Scan Team. May 2011. "Achievements and Strategic Options – Evaluation of the Extractive Industries Transparency Initiative"
- 9 This is with reference to the principle of 'subsidiary' in the Paris Declaration on Aid Effectiveness and Harmonisation and in the Rio Declaration on Environment and Development. Consultations should take place at the lowest possible appropriate level

- 10 Organisation for Economic Co-operation and Development (OECD).
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- 11 OECD, 2009, op cit. p. 75
- 12 Abbott, K and D Gartner, "The Green Climate Fund and the Future of Environmental Governance". Earth System Governance Working Paper no. 16. September 2011. p. 4
- 13 Submission of the South Centre to the Transition Committee to the Design of the Green Climate Fund: on the issues of workstream 2 – governance and institutional issues. South Centre. 2011, available at http://unfccc.int/files/cancun_agreements/green_climate_fund/application/pdf/southcentre_wsii_080611.pdf
- 14 Established in 1994, UNAIDS is the UN agency established to deal with the HIV-AIDS crisis and was the first UN body to include civil society representation on its governing body. The UNAIDS Coordinating Board now includes five NGO delegates, of which there are at least three people living with HIV-AIDS. NGOs may only speak near the end of the meetings and they may not participate in any formal decision-making, including the right to vote, which is reserved for the representatives of governments
- 15 Established in 1999, the GAVI Alliance finances vaccine purchases, immunisation programmes and research in developing countries. This organisation was designed as a private-public partnership with strong participation for non-state actors. In contrast to UNAIDS, all Board members, including the non-state actors, have full voting rights. GAVI also engages with civil society through its Partners' Forum
- 16 The Global Fund to Fight Aids, Tuberculosis and Malaria provides even broader and more meaningful stakeholder participation. The Fund reserves Board seats for NGOs from developed and developing countries and for people living with the diseases. Civil society has voting powers as representatives, sits on the Board's recipient bloc, and in the absence of consensus, the donor and recipient must each approve decisions by a two-third vote. The Fund has also established a fully fledged constituency system and a Partnership Forum
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- 18 Abbott K and D Gartner. op cit.
- 19 Country Coordinating Mechanisms "The Global Fund to fight AIDS, TB and Malaria", available at <http://www.theglobalfund.org/en/ccm/>
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- 22 Harvard paper
- 23 For a fuller assessment of the transparency and access to information considerations for the GCF see Calland R & Jonason P "New horizons, urgent imperatives: transparency & climate finance". Paper prepared for Rutgers University's 1st global conference on transparency research, May 2011
- 24 Sridhar, Devi and Tami Tamashino. "Vertical funds in the health sector: Lessons for education from the Global Fund and GAVI". Background paper for the 2010 Education for All Monitoring Report, UNESCO, 2010/ED/EFA/MRT/PI/02, 2009

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