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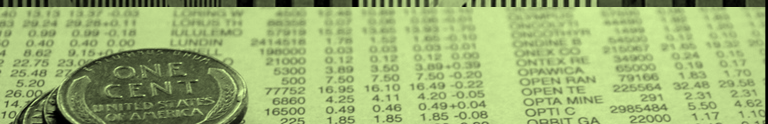
Power, Responsibility, & Accountability:

RETHINKING THE LEGITIMACY OF
INSTITUTIONS FOR CLIMATE FINANCE

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*The Global Environmental Facility (GEF)

What is Climate Finance?

The mechanism for funding climate change mitigation and adaptation activities undertaken by the Parties of the UNFCCC.

Why is Climate Finance Important?

\$200-300 Billion per year of public money will need to flow from developed countries to developing countries to enable them to adapt to climate effects

Rationale: climate effects largely brought about through the actions of developed nations.

How these financial flows will take place is a key aspect of current climate negotiations.

Institutions: What institutional arrangements will be necessary to channel and disperse these funds?

Allocation: How will it be allocated and how will activities be prioritized?

Accountability: How and to whom will these finance institutions be accountable?



The Bali Action Plan

— which guides the negotiations for a new climate agreement — calls for:

- ***Adequate, predictable, and sustainable financial resources to fund mitigation and adaptation in developing countries***, complemented by sufficient financial and technical support.
- Funding must be provided in a ***measurable, reportable, and verifiable*** manner.

Required to make this happen:

- A well-wrought ***climate finance mechanism***, accepted by all UNFCCC parties.



What Will a Climate Finance Mechanism Do?

Typical Functions and Roles of a Climate Finance Mechanism:

Function	Role
<i>Oversight</i>	- Setting policies, program priorities, and eligibility criteria
<i>Resource Mobilization</i>	- Replenishment of trust funds - Leveraging of additional sources of funding from implementing agencies, private sector
<i>Resource Allocation</i>	- Allocation of resources between multiple focal areas (e.g. mitigation, adaptation, forestry) - Prioritization among eligible recipients
<i>Project Cycle Management</i>	- Preparation and approval of projects - Financial management of loan and grant agreements
<i>Standard Setting</i>	- Development of performance metrics - Development of environmental and social safeguards
<i>Scientific and Technical Advice</i>	- Advice on appropriate policies and best available technologies - Advice on scientific trends and risk assessment
<i>Accountability</i>	- Monitoring and evaluation of project and portfolio performance - Review and inspection of problematic projects

Existing Climate Finance Institutions

- ***Global Environment Facility (GEF)***: The interim financial mechanism of the UNFCCC; established in 1994.
- ***Montreal Protocol Fund***: Multilateral fund to eliminate ozone depleting substances; established in 1990.
- ***Adaptation Fund***: Adaptation financed by a 2% levy on Clean Development Mechanism transactions; established in 2008, under the Kyoto Protocol.
- ***Forest Carbon Partnership Facility***: World Bank carbon financing pilot for forest emissions; established in 2007.
- ***Climate Investment Funds***: World Bank and MDB pilot funds for clean technology deployment, adaptation, and forests; established in 2008.
 - ***Clean Technology Fund***: Finances clean technology deployment that significantly reduces GHGs.
 - ***Pilot Program on Climate Resilience***: Funding for adaptation to climate change.
 - ***Forest Investment Program***: Financing to address the role of forests in climate change.
- ***Brazil Amazon Fund***: Brazilian National Development Bank fund to reduce deforestation; established in 2008.
- ***Bangladesh Multi-Donor Trust Fund***: National World Bank-administered climate change fund; established in 2008.
- ***Indonesia Climate Change Trust Fund***: Planning Ministry (Bappenas) fund administered by UNDP; established in 2009.

Questions:

- Are these institutions up to the task?
- How should we judge them?

Are New Institutions Required?

Currently, one of the most hotly debated questions in climate finance:

- Do we need new climate finance institutions, or are existing institutions capable of serving future finance needs in a manner acceptable to UNFCCC parties?

Sharp disagreement between donor and recipient countries, between developed and developing countries:

- Developing countries: ***new climate finance institutions are necessary.***
 - Current finance institutions are ***dominated by donor countries in a way that undermines their legitimacy and performance.***
- Developed countries: ***existing institutions, with appropriate reforms, offer a more viable approach.***
 - Current institutions have a ***proven capacity to deliver finance.***



Evaluating Climate Finance Mechanisms

The current report seeks to ground this debate in an objective analysis of 7 international and 3 national climate finance institutions:

- Evaluated:
 - **Governance structures, operational procedures, and performance** to extract lessons for the design of a new climate finance mechanism.
- A Focus on Legitimacy:
 - Analysis goes beyond the issue of “which institution is configured best?”
 - Asks the more probing question:
 - ***“What will it take for climate finance institutions to gain legitimacy in the eyes of both donor and recipient countries?”***
- Assumption:
 - In order to be effective, a climate finance institution must be seen as legitimate by all Parties.

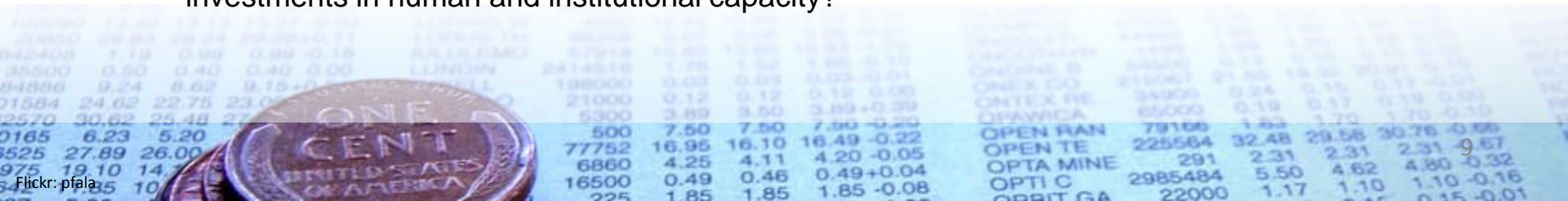
What is Legitimacy?

Legitimacy: a product of perception:

- An institution is perceived to be legitimate when the ***decisions it makes are considered appropriate and acceptable to those who must abide by them.***
- Qualities important to the perception of legitimacy of a financial institution:
 - Operates in a transparent, participatory, and accountable manner.
 - Sets and abides by clearly articulated rules.
 - Governance structure is transparent and reflects an equitable balance of contributors and recipients.

Institutional legitimacy measures:

- ***Fairness and effectiveness of procedures and impacts:***
 - The procedures by which it takes its decisions.
 - The effectiveness with which it makes its investments.
- ***Capacity and track record are also important.***
 - Does it have the capacity to back the most promising technologies, policy innovations, and investments in human and institutional capacity?



UNFCCC Requirements for a Finance Mechanism

Through 20 years of negotiations, the Parties of the UNFCCC have agreed on the following requirements for any financial mechanism to be considered legitimate:

- **Accountability of the mechanism to the Conference of the Parties (COP)** for conformity with the policies, program priorities and eligibility criteria established by the Parties.
- Equitable, **balanced representation** of all Parties through universal membership within a transparent system of governance.
- A **predictable and identifiable** manner of determining the amount of funding necessary and available, based on appropriate burden sharing among the developed country Parties.
- An obligation on developed countries to provide financial resources, including for the transfer of technology, needed by a developing country Party to meet the **agreed full incremental costs** of implementing measures.
- Support for policies and measures that are **cost-effective**, so as to ensure global benefits at the lowest possible cost.
- **Independent scientific and technical** advice to inform program and project design.
- **Institutional economy** that avoids the creation of new institutions while tapping into and coordinating the comparative advantages of existing institutions.
- A **non-exclusive, but coordinated approach** to finance that allows for financial resources related to the implementation of the Convention to flow through bilateral, regional and other multilateral channels.

Rethinking Legitimacy

Negotiations on a post-Kyoto agreement are forging a new relationship between contributors and recipients of climate finance.

Time to rethink what we mean by legitimacy to help us reform existing institutions or design new ones.

Three crucial dimensions of institutional legitimacy:

- **Power: the formal and informal distribution of the capacity to determine outcomes.**
 - Formally expressed through membership and decision-making rules.
 - Informal power exercised through many other routes.
 - Developing countries asking for more power, both formally through more seats in decision-making bodies and operationally through greater participation in the programming of financial flows.
- **Responsibility: the exercise of power for its intended purpose.**
 - Includes responsibility to allocate resources and to design and implement projects and programs.
 - Developing countries seeking “direct access” to climate funds, enabling them to enter into grant and loan agreements without going through an “implementing agency” such as a development bank or UN agency.
- **Accountability: standards and systems that ensure power is exercised responsibly.**
 - Includes meeting accepted fiduciary standards, measuring results, and mitigating negative social and environmental impacts.
 - As they take on greater power and responsibility for climate finance, developing countries are signaling that they are prepared to be held more directly to account for their fiduciary and programming behavior.

How do Power, Responsibility, and Accountability Manifest in Climate Finance Institutions?

POWER
<ul style="list-style-type: none"> • Distribution of vote and voice in the governance structure • Authority and guidance of the COP over the financial mechanism • Imposition by contributors of conditionalities on the financial mechanism through the resource mobilization and allocation process • Influence of the financial mechanism on relationship between the mechanism and the host country as part of the project cycle • Influence of bureaucratic discretion, technical expertise, and civil society input
RESPONSIBILITY
<ul style="list-style-type: none"> • Exercise of power in the governance structure • Application of cost-sharing formula (e.g. incremental, marginal, transformative costs) • Enabling of “country ownership” in the development of plans, programs, and projects
ACCOUNTABILITY
<ul style="list-style-type: none"> • Results-based management and reporting • Fiduciary duties and financial management • Environmental and social safeguards • Role of special accountability mechanisms

Learning From the GEF Experience

The Global Environment Facility (GEF) was a **watershed in the governance** of an international financial institution.

- It's design by the Parties responded to the need for greater power-sharing between recipients and donors, as well as greater participation of recipients in finance decisions.
- Innovations:
 - A ***Participants Assembly*** provided for the participation of all Parties.
 - ***Balanced representation*** of developed and developing countries on the GEF Council.
 - Decision-making by ***consensus***.

GEF: Flawed in Practice?

While GEF's design was clearly an alternative to the design of the Multilateral Development Banks, ***it did not result in a significant shift in the power*** between recipients and donors.

- Exercise of power still dominated by donors, but through informal rather than formal means:
 - ***Conditionalities:*** Recipients objected to the level of conditionality in finance as intrusive.
 - ***GEF Secretariat:*** The strength of the GEF Secretariat and its autonomy from the COP tends to weaken the effective voice of recipients.
 - The use of the ***incremental cost approach*** and the ***Resource Allocation Framework*** tended to increase the power of the Secretariat and decrease the sense of national ownership of investments.

Result:

- Because of the level of dissatisfaction with GEF by recipients, ***its role in post-2012 climate finance remains in doubt.***

What Can the GEF Experience Teach Us?

1. Strengthening the formal voice of recipient countries by adding votes to the governance structure doesn't necessarily lead to their empowerment.
2. The **incremental cost concept** and the **Resource Allocation Framework** have proven very unpopular with recipients. However, their intent—to rationalize the finance process and create a transparent process to allocate scarce resources—remains relevant today.
 - What will take their place in a new or reformed climate finance mechanism?
3. The GEF experience has shown the difficulty of institutional reform, but the call for reform has never been louder.



Reconfiguring Power in Climate Finance

The need to rebalance power:

- For developing countries, gaining greater power over climate finance mechanisms has become a central point of the current climate negotiations.

The dimensions of power:

- Power within current climate finance mechanisms manifests in several different dimensions:
 - **Governance structure:** Who votes, sits on the Board, etc.
 - **Relationship between the mechanism and the Conference of the Parties:**
How accountable is the financial institution to the COP?
 - **Resource mobilization and allocation:** The terms under which funds are dispersed and the process used to prioritize among applicants/projects.
 - **Project management cycle:** Application of eligibility rules, design of grants, imposition of social and environmental safeguards.
 - **Role of secretariats, technical experts, and civil society:**
Applying agreed processes and assuring transparency.

Dimensions of Power: The Governance Structure

Within existing climate finance institutions, four different governance models for climate finance have emerged:

Governance Model	Basic Governance Structure	Method of Decision-making	Status of Non-State Participants
Global Environment Facility model	GEF Council divides seats roughly evenly between developed and developing countries	Consensus	GEF Council meetings closed to civil society, but engages with NGOs through the GEF-NGO network
Marrakech model (Least Developed Country Fund and Special Climate Change Fund)	Governance effectively outsourced to GEF Council, which acts as governing body, under the guidance of the COP	Consensus	Civil society and representatives from other international agencies welcome as observers
Adaptation Fund model	Governed by Board consisting of 10 developing country members and 6 developed country members	Consensus	Meetings open to all observers, who may participate if invited by chair.
Climate Investment Funds model (Clean Technology Fund and Strategic Climate Fund including the Forest Investment Program and Pilot Program on Climate Resilience)	Each fund governed by a relatively small trust fund committee with an equal number of contributor and recipient country representatives (emulates GEF model)	Consensus	“Active observer” positions open to civil society, private sector, reps from multilateral agencies, and indigenous groups

- Bretton Woods institutions such as the World Bank and International Monetary Fund, giving greater formal power to developing countries.

- However, increasing the representation of developing countries on governing bodies does not automatically increase their ability to influence the decisions of these bodies.

Dimensions of Power: Accountability to the COP

- Accountability of the financial mechanism to the UNFCCC Conference of the Parties (COP):
 - Is an important part of the struggle between developed and developing countries over control of climate finance.
- How much autonomy does the finance mechanism have?
 - It can't be assumed that the financial mechanism is legally bound to follow all COP dictates.
 - Example: GEF
 - A legally autonomous entity.
 - It's stated policy is to follow the guidance of the COP.
 - However, developing countries perceive it as operating through it own set of processes with imbedded values that may not reflect the values of the COP.
 - This is considered a problem by some developing countries, who see the COP as more representative of their interests.
- Developing country proposals for post-2012 climate finance specify that the finance mechanism should operate under the unambiguous authority of the COP, with all financing channeled through the UNFCCC.

Dimensions of Power: Conditionality

One of the chief ways in which contributors increase their power is by ***adding conditions to how their contributions*** can be used and ***withholding funds*** if these conditions are not met.

Conditionalities: Due diligence or disempowering?

- Understandable from the perspective of donors
 - Desire to ensure scarce resources are used in a manner consistent with donor objectives.
- But profoundly disempowering for recipient countries
 - Requires them to perform against an externally imposed set of standards.
- Example: GEF's Resource Allocation Fund (RAF)—an allocation formula forcefully advocated by donors without the authorization of the COP, and much objected to by developing countries.

Dimensions of Power: Resource Allocation

Scarce resources call for an allocation system:

- When the demand for climate finance outstrips the supply, a system for setting priorities and allocating resources is needed.
- If no allocation system, resources may not achieve maximum impact or reach those most in need.
- Example: Montreal Protocol Fund had no system for prioritizing among grant requests. Thus, money did not always go to the most strategic or lowest cost option.

No satisfactory allocation system has yet emerged:

- GEF's Resource Allocation Framework is seen by developing countries as artificially imposed and deeply flawed.
- Newer climate finance institutions do not yet have similar comprehensive allocation systems in place.

If developing countries succeed in gaining more power, what kind of allocation system will result?

- Will it be perceived as more legitimate or remain unpopular?
- The Adaptation Fund
 - May offer an opportunity to develop an allocation system more acceptable to all
 - Funds not given directly by donors, but raised through a levy on the transactions of the Clean Development Mechanism.
 - Therefore, not subject to conditionalities imposed by donors.
 - However, the AF's allocation system still being developed, so no track record yet.



Dimensions of Power: Project Cycle Management (PCM)

Purpose of project cycle management:

- Make sure funds are used effectively and efficiently.
- Enhance the social, economic, and environmental benefits of the investment.
- Protect against unintended environmental or social harm.

Aspects of project cycle management:

- Application of eligibility rules.
- Design of grants.
- Imposition of social and environmental safeguards.
- Determination of how performance will be measured.

PCM is critical to the actual flow of funds and the implementation of projects:

- Thus, contributors often use their influence over PCM as a source of informal power.
- How will project cycle management change if developing countries gain greater power?
 - Will they show greater deference to host country preferences?



Dimensions of Power: Role of Non-State Actors

Civil society, the private sector, and technical and scientific experts are important in the power dynamics of climate finance. They can:

- Question and help balance the economic and political agendas of governments.
- Emphasize the principles of fairness, effectiveness, and transparency.
- Contribute technical and business expertise not otherwise available.

Non-state actors have made significant progress in gaining access to climate finance deliberations:

- Example: World Bank's Climate Investment Funds have given representatives from civil society, the private sector, and, in some cases, indigenous peoples formal observer roles, with the ability to suggest agenda items and contribute to discussions.

But formal space within climate finance deliberations will only bear fruit if civil society and the private sector step up to fill this space with:

- sustained engagement from the beginning of the project cycle.
- high-quality analysis and input.

Dimensions of Power: Conclusions

- Developing countries have made significant progress in shifting formal governance structures to give them greater voice and vote.
- However, the power dynamics of climate finance go well beyond these formal structures; without affecting the informal levers of power, the overall power balance will not shift substantially.
- Newer models of climate finance such as the Adaptation Fund and the Climate Investment Funds have begun to shift some sources of informal power.
- However, as long as traditional donors are the major sources of financial resources, they will continue to heavily influence many sources of informal power:
 - design and implementation of standards
 - application of conditionalities.
 - criteria for allocation of resources.



Taking Responsibility

- A shift in power from contributor to recipient countries
 - Calls for a greater assumption of responsibility and accountability on the part of recipient countries.
- Responsibility: The exercise of power for its intended purpose
 - Goal: ensure that financial resources are programmed fairly and efficiently and achieve the desired outcome.
- Responsibility translates to:
 - Greater participation in funding decisions.
 - More leadership in designing and implementing projects and programs.
- Benefits of taking greater responsibility:
 - Greater control over the setting of conditions and eligibility requirements for investments.
 - Greater country ownership, i.e. greater grounding in national priorities and decision-making processes.

Taking Responsibility: From Incremental Costs to “Transformative” Financing?

A Controversial Funding Model:

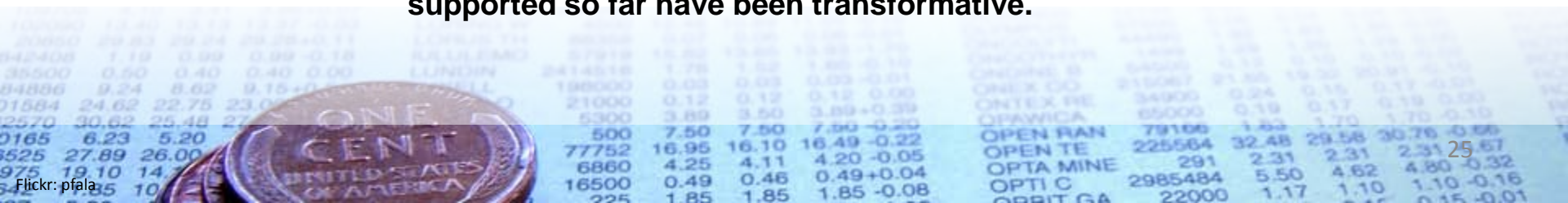
- Taking responsibility means grappling with the basic model used to determine what programs or projects are eligible to be financed.

Incremental Cost Financing:

- Funds only the portion of a project that yields global environmental benefits.
- Has been controversial, highlighting the difference in how benefits are perceived between developing and developed countries.
- Resisted in the past by developing countries as too limiting; in current negotiations, positions have changed, but still a source of division.

A New Approach: “Transformative” Financing?

- The World Bank’s Clean Technology Fund has adopted a new approach:
 - Project eligibility determined on the basis of whether a technology will have a “transformative” effect, stimulating lasting changes in the structure or function of a sector or market.
 - This approach focuses on what it takes to generate a desired outcome, rather than parsing national and global benefits.
 - **However, still a gap between theory and practice: not all technologies supported so far have been transformative.**



Taking Responsibility: “Country Ownership” Still a Challenge

Country Ownership:

- The extent to which a country’s climate-related programs and projects are designed, supported, and implemented by government agencies and society.
- Crucial if climate finance is to bring results, but hard to achieve in practice.
- Examples:
 - Early on, Montreal Protocol Fund country programs were designed by implementing agencies. Lack of country ownership of the policies and objectives of these programs led to delays in project implementation.
 - In putting together Clean Technology Investment plans (used to identify eligible projects for the Clean Technology Fund within a country), there has been much involvement of private consultants, while local civil society groups have complained about lack of public consultation.
- Challenges:
 - Balancing the legitimate use of implementing agencies and consultant expertise with the need to develop the internal capacity a country requires for national ownership.
 - Ensuring public participation in planning processes.
 - Research shows participation improves public ownership and brings better outcomes.
 - Governments sometimes resist the call for participation as an unwanted conditionality.

Taking Responsibility: Low Carbon Growth Plans

Low Carbon Growth Plans:

- Developing countries have recently agreed to prepare these plans, and **they could become an avenue for increased responsibility.**
- They are a potential vehicle for identifying, reporting on, and financing Nationally Appropriate Mitigation Actions (NAMAs).
 - The Bali Action Plan has designated NAMAs as one of the accepted targets of climate finance.

Reasons for Caution:

- They could become a conditionality to qualify for financial, technical, and capacity support.
- They could be used to lock countries into commitments that could compromise other poverty eradication and development goals.

To Be Useful:

- **They must be “country owned”**
 - Arrived at through a consultative process and not seen as an oppressive conditionality.
- They **should not duplicate or undermine existing development planning tools**, such as Poverty Reduction Strategies.
- They **should provide a common planning tool for both contributor and recipient countries.**
 - Could become an instrument for mediating contributor and recipient responsibilities.

Taking Responsibility: Conclusions

- Emerging trends show the potential to reconfigure the balance of responsibility between contributor and recipient countries:
 - **A greater emphasis on “transformative investment”** may liberate climate finance from the struggles involved with incremental cost financing.
 - **Low Carbon Growth Plans, combined with direct access to funding** by national governments, may lead to greater emphasis on country-owned climate plans that emerge from domestic planning processes rather than the priorities of international agencies.
 - **National systems for “measuring, reporting, and verifying” funded actions**, combined with an international system for measuring, reporting, and verifying that promised support is by developed countries, may lead to a more balanced and reciprocal relationship between donors and recipients.
- Needed to make this potential real:
 - **Financial, technical, and capacity-building support** to create strong, legitimate national institutions necessary to perform the functions of responsibility and accountability.



Ensuring Accountability

- 3 Aspects of Accountability in Climate Finance:
 - Achieving results:
 - Reducing national GHG emissions
 - Enhancing resilience to climate impacts
 - Conforming to accepted fiduciary and financial management standards (per the Paris Declaration on Aid Effectiveness).
 - Meeting prevailing environmental and social standards.
- Each of these aspects generally requires its own system for accountability.
- Although accountability standards essential but controversial:
 - Recipient governments sometimes find them an intrusion on sovereignty:
 - They can challenge the decisions and practices of the government.
 - They are a recognized conditionality.
- Such standards and systems are well established at many conventional donors and implementing agencies (MDBs and UN Agencies).
 - Critics say they are not always consistently applied.

Ensuring Accountability: Assessing Results

- Accountability for results requires:
 - A clear definition of intended results.
 - Agreement on measurable indicators of successful performance.
- A range of assessment methods are now being employed in current climate finance mechanisms:

Climate Finance Mechanism	Method for Assessing Results
GEF	<ul style="list-style-type: none"> • Project impacts assessed by GEF evaluation office • Indicators used: <ul style="list-style-type: none"> - energy consumption - GHG emissions - avoided tons of CO₂ - policy and regulatory frameworks adopted - market penetration of renewable energy - enhanced resilience to climate change - rural households served by renewable energy - usage of sustainable transportation modes
Protocol Multilateral Fund	<ul style="list-style-type: none"> • Secretariat assesses project impacts • Qualitative indicators used: <ul style="list-style-type: none"> - quality of preparation - technology choice - management risk - achievement of project objectives - implementation delays - costs
WB Climate Investment Funds	<ul style="list-style-type: none"> • Each fund assesses project impacts with a results management framework • Example: Indicators in Clean Technology Fund's draft framework: <ul style="list-style-type: none"> ○ GHG reductions attained ○ deployment of low-GHG emissions technologies on a significant scale ○ carbon intensity impact ○ percentage of investment leveraged from other sources ○ GHG benefit per dollar invested
Adaptation Fund	<ul style="list-style-type: none"> • Project performance standards not yet determined • Each project will require a monitoring and evaluation component with indicators for project impact and sustainability
Multicontributor Trust Fund	<ul style="list-style-type: none"> • Follows the performance monitoring standards of the World Bank (its administrator) • Includes a monitoring matrix with intermediate and key performance indicators
Amazon Fund	<ul style="list-style-type: none"> • Performance monitoring comprised of regular auditing • Primarily focused on assuring that resources expended in accordance with Fund's objectives and criteria
ICCTF/Bappenas Fund	<ul style="list-style-type: none"> • Technical committee will conduct monitoring and evaluation • Includes field surveys/spot checking, quarterly reporting, and midterm and terminal evaluations

Ensuring Accountability: Fiduciary Standards

- In the context of climate finance, fiduciary standards describe the set of capacities and responsibilities required of an agency entrusted with implementing grants and loans.
- In general, all current climate finance mechanisms have significant fiduciary standards in place.

Climate Finance Mechanism	Fiduciary Standards
GEF	<p>Comprehensive fiduciary standards adopted in 2005 include:</p> <ul style="list-style-type: none"> • independent oversight • audit, evaluation, and investigation functions • financial management and control frameworks • project appraisal standards (including environmental assessments) • monitoring and project-at-risk systems • procurement • financial disclosure • hotline and whistleblower protections • codes of ethics
Adaptation Fund (Uses national or regional institutions for financing)	<ul style="list-style-type: none"> • AF Board screens national and regional institutions based on their capacity for financial management and integrity. • Institutions are required to prove their capacity in: <ul style="list-style-type: none"> ○ procurement procedures ○ monitoring and evaluation ○ the identification, development and appraisal of projects ○ project management
Amazon Fund	<p>Fund administered by Brazilian National Bank for Development (BNDES) and thus dependent on its fiduciary standards.</p> <ul style="list-style-type: none"> • BNDES has a strong reputation in the banking community, a long history of working with international financial institutions, and a good credit rating • BNDES also provides secretariat services, and supports project selection, monitoring, and evaluation
ICCTF/Bappenas Fund	<ul style="list-style-type: none"> • UNDP appointed as interim trustee, but permanent financial service provider not yet appointed • Eventual service provider must meet criteria established by Indonesian Government, including proven financial management capability, and sufficient staff capacity • Annual policy compliance audit to make sure grants funds are allocated according to the grant agreements
Multicontributor Fund	<ul style="list-style-type: none"> • World Bank will administer trust fund • Each grant agreement will contain detailed fiduciary standards to guide fund disbursement

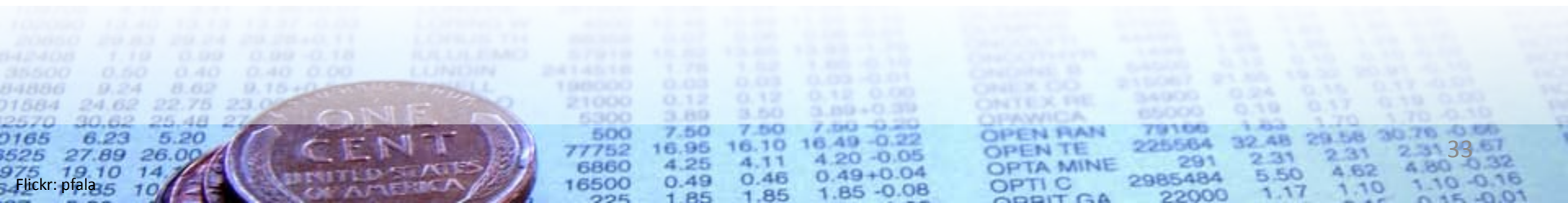
Ensuring Accountability: Managing Environmental and Social Risk

- It is essential to determine if projects intended as solutions to climate change inadvertently create environmental or social risks or compromise the rights and aspirations of local people, and if so, to address these negative impacts.
- Generally speaking, the environmental and social safeguard policies of climate finance mechanisms are not as well elaborated as those found at the multilateral development banks.

Climate Finance Mechanism	Environmental and Social Safeguards
GEF, Protocol Fund, Climate Investment Funds	<ul style="list-style-type: none"> • Subject to the environmental and social safeguard policies of the Implementing Agencies they work through (World Bank and UN Agencies) • Generally, MDBs and UN Agencies have well-elaborated safeguard policies and grievance procedures
Adaptation Fund	<ul style="list-style-type: none"> • No specific safeguard policies yet in place
Multicontributor Trust Fund	<ul style="list-style-type: none"> • No specific safeguard policies yet in place • Participating partners will enter into agreement with World Bank (the fund administrator) to assure safeguard compliance
Amazon Fund	<ul style="list-style-type: none"> • Subject to environmental and social safeguard policies of BNDES (fund manager) • Forestry guidelines require certification for all forest management operations • Independent Ombudsman's Office
ICCTF/Bappenas Fund	<ul style="list-style-type: none"> • No specific safeguard policies yet in place • Technical Committee will consider potential environmental, social, and economic impacts when reviewing project proposals

Ensuring Accountability: Conclusions

- 60 years of experience with development assistance have resulted in a range of accountability mechanisms.
- However, these are sometimes seen as overly intrusive by recipient countries, and have thus failed to address the challenge of country ownership.
- The willingness of developing countries to undertake “measurable, reportable, and verifiable” NAMAs, and to empower national institutions to manage the financing of these actions, may indicate a move toward an internalization of accountability.
- Managing for results requires:
 - A clear definition of intended results.
 - Agreement on measurable indicators of successful performance.



OVERALL CONCLUSIONS

- ***Change is coming.*** A new global deal on climate finance is likely to significantly redistribute power, responsibility, and accountability between traditional contributor and recipient countries.
- ***A new balance could enhance country ownership.*** The redistribution of power, responsibility, and accountability is necessary to ensure the national and local ownership of mitigation actions (NAMAs) in developing countries.
- ***New finance mechanisms will likely be born.*** If the international community raises the scale of public finance necessary to enable developing countries to move to a low-carbon pathway, this will likely catalyze the creation of one or more new climate finance mechanisms—something that developing countries favor.
- ***Reform of existing institutions should also occur.*** The creation of new finance mechanisms could also provide an opportunity to significantly reform existing institutions competing for a role in the new system—something that developed countries tend to favor.
- ***The G20 endorses reform.*** In recent statements, G20 leaders say they are “determined” to modernize the international financial institutions by reforming their mandates, scope, and governance.

Overall Conclusions (continued)

Lesson from GEF

- ***Asymmetries in power persist.*** Increasing recipient countries' membership and votes does not address power asymmetries that are rooted in the continued dependence on financial resources of contributing countries.
- ***Allocating funds and prioritizing investments is a necessary, but unpopular task.*** The incremental cost concept and RAF have been unpopular with developing countries, but have provided a means to prioritize scarce development financing. Any post-2012 climate finance mechanism will have to grapple with this same challenge of allocating scarce resources and balancing the need to support smaller countries with the need to target resources where emission reductions and climate resilience can be achieved most effectively and efficiently.

Overall Conclusions (continued)

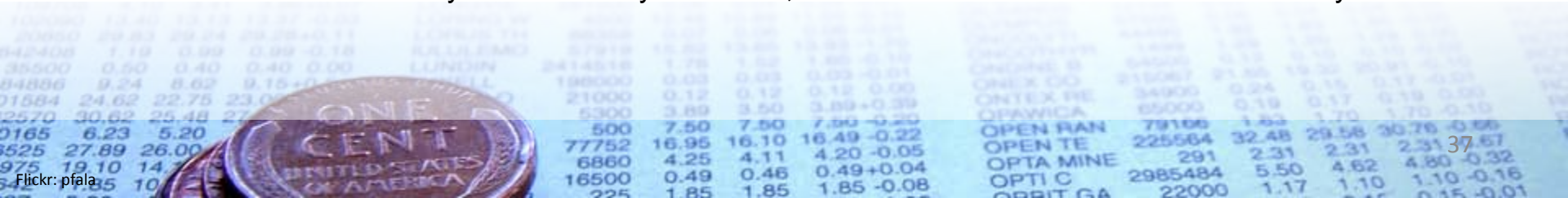
Power

- ***Governance structures have changed.*** Existing climate finance mechanisms have already evolved to a more balanced governance structure with equal votes and representation of contributor and recipient countries.
- ***Informal power continues to favor contributors.*** Even though their formal voting power no longer exceeds that of recipient countries, donors continue to dominate the processes of replenishment, resource allocation, and project cycle management through the imposition of conditionalities and standards attached to their funding.
- ***Reconfiguring finance sources could lessen donor dominance.*** Finance sources that are not directly subject to donor manipulation, such as the levy on CDM projects that is the finance source for the Adaptation Fund, could go far in evening the current power imbalance by making it harder to impose conditionalities.

Overall Conclusions (continued)

Responsibility

- **Climate finance must be country-owned.** To be successful, efforts to address climate change must be country-owned, reflecting national priorities and circumstances.
- **Low-carbon growth plans can be a vehicle for country ownership.** [Mitigating and adapting to negative climate effects will call for significant action on the part of both developed and developing nations.] The formulation of nationally derived and owned low GHG development strategies and national adaptation plans are a key way that recipient countries can gain greater control over climate finance. If these strategies and programs contain measurable, reportable, and verifiable actions (NAMAs), they should provide a more legitimate basis for allocating resources between countries as well as designing programs within countries.
- **Responsibility requires strong national institutions.** Making country ownership a reality requires a focus on strengthening the national institutions that implement mitigation and adaptation activities, and ensuring their transparency and accountability to the country's citizens, as well as to the international community.



Overall Conclusions (continued)

Accountability

- ***A shift to national institutions requires an emphasis on good governance.*** Many countries are keen to have direct access to climate finance and to use their own national institutions to implement climate programs and projects. But national implementing institutions that take on a greater role in climate finance need to meet high standards of good governance in practice.
- ***Governance standards should build on the standards to which conventional implementing agencies are held.***
 - The governance structure should be inclusive and transparent.
 - Responsibilities should be clearly articulated.
 - Institutions should have the capacity to develop programs in partnership with local stakeholders.
 - Strong accountability measures should be in place to:
 - Ensure compliance with international good practice for fiduciary management.
 - Manage potential environmental and social impacts.
 - Ensure the application of robust anti-corruption measures.
- ***The result can be a more reciprocal relationship between contributors and recipients.***
 - Two dimensions of a new relationship and a deeper partnership:
 - Direct access to funding for developing countries whose national institutions can demonstrate they meet fiduciary standards.
 - National systems for measuring, reporting, and verifying funded actions.
 - These reflect an agreement on the conditions necessary to empower developing countries to shape their own climate policies.

Additional Resources

- *Summary of UNFCCC Submissions*
<http://www.wri.org/publication/summary-of-unfccc-submissions>
- *Getting Ready: A Review of the World Bank Forest Carbon Partnership Facility Readiness Preparation Proposals*
<http://www.wri.org/publication/getting-ready>
- *Catalyzing Low Carbon Development? The Clean Technology Fund*
<http://www.wri.org/publication/catalyzing-low-carbon-development-clean-technology-fund>
- *Enhancing Today's MRV Framework to Meet Tomorrow's Needs: The Role of National Communications and Inventories*
<http://www.wri.org/publication/enhancing-todays-mrv-framework-to-meet-tomorrows-needs>



WORKING PAPER



POWER, RESPONSIBILITY, AND ACCOUNTABILITY:
Re-Thinking the Legitimacy of Institutions for Climate Finance

ATHENA BALLESTEROS, SMITA NAKHOODA, AND JACOB WERKSMAN WITH KAIJA HURLBURT AND SEEMA KUMAR

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EXECUTIVE SUMMARY

As the December deadline looms to conclude a new agreement under the UN Framework Convention on Climate Change (UNFCCC), negotiators have yet to agree on how to finance cuts in greenhouse gas (GHG) emissions while meeting the energy needs of developing countries. If a global deal is to be struck, many estimate that developed countries will need to commit tens of billions of dollars of public money to support developing country efforts. With little money on the table, disagreement remains on whether these billions should be entrusted to new or existing institutions. There is also heated debate over whether a single centralized institution or a decentralized approach that coordinates international, regional and national institutions would be more effective.

World Resources Institute Working Papers contain preliminary research, analysis, findings, and recommendations. They are circulated to stimulate timely discussion and critical feedback and to influence ongoing debate on emerging issues. Most working papers are eventually published in another form and their content may be revised

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