Policy Brief

Head Office
Block D, Brooklyn Court,
Veale Street, New Muckleneuk,
Pretoria/ Tshwane 0181,
South Africa
Tel +27 12 346 9500
Fax +27 12 346 9570
E-mail iss@issafrica.org
www.issafrica.org

Knowledge empowers Africa! Le savoir émancipe l'Afrique!

Policy Brief Nr 25, June 2011

THE ADAPTATION FUND, CLEAN DEVELOPMENT MECHANISM AND REDUCED EMISSIONS FROM DEFORESTATION AND FOREST DEGRADATION FUND: SOME NATIONAL AND SUBNATIONAL EXPERIENCES[1]

Webster Whande and Trusha Reddy[2]

With developing countries anticipating the flow of billions of dollars from developed countries to address the devastating impacts of climate change, it is important to recognise that the amounts of funding, the number of institutions involved and coherence in the global architecture will be meaningless without there being democratic governance of the funds at the local level. The hopes of vulnerable people in developing countries around the world will thus be dependent on funding that is mobilised, managed and disbursed in a just and effective manner in national and subnational contexts. Country experiences with three climate change funds are discussed in this paper. These include the Adaptation Fund with reference to Senegal, the Clean Development Mechanism (CDM) as it applies to Chile, Thailand, the Philippines and South Africa, and Reduced Emissions from Deforestation and Forest Degradation (REDD) as applicable to Brazil, Cameroon, Peru and Tanzania. The most striking and perhaps the most contentious features of fund governance are described to illustrate key problem areas and to make recommendations for resolving these. Good practice is also referred to in part.

The context for this briefing paper is a civil society meeting hosted in Cape Town in September 2010 by the Corruption and Governance Programme of the Institute for Security Studies (ISS), where experts based in Africa, Asia and Latin America presented papers discussing the regional contexts and the national and subnational experiences with climate change funds in their regions. The papers presented have been compiled into an ISS report on monitoring the governance of climate finance. The study provides an approach that is grounded in the realities and experiences in funding arrangements across developing countries in the three regions studied. The issues raised here reflect on some of the findings of that report.

This briefing paper is the second in a series of three. The first comprises critical reflections on regional trends in climate finance, while the third will present the priorities and principles required for developing a just and effective system of climate change finance at national and subnational levels.

MOBILISING RESOURCES FOR CLIMATE ACTION

Sources of funding

Country studies indicate that there are various funding sources for addressing both the adaptation and mitigation aspects of climate change, despite calls by developing countries for a single coordinated fund. In Tanzania, finance for REDD initiatives currently derives from bilateral sources. In Senegal, funds flow from both the Adaptation Fund and bilateral sources. Multilateral sources are also involved in many of the initiatives discussed here.

Multiple sources

The Senegalese case study highlights the challenge of managing multiple funding sources. At the same time, the potential contribution that multiple sources can make to adaptation activities should not be ignored. But multiple funding sources should be subject to common guidelines and standards to ensure that the conditions under which funds are made available and how they are disbursed are made according to local needs.

Direct access

Access to funding is hampered by excessive conditions, an inability by the donor country to meet pledges and institutional constraints on the part of recipient countries. The direct access modality of the Adaptation Fund has thus been welcomed by Senegal. However, the study shows that there are inherent problems with putting into place the requisite internal institutional structures to access the funds, the potential for conflicts of interests where fundraisers play multiple roles, and with implementation and monitoring. While capacity is a key concern, the Senegalese study also highlights the fact that strategic partnerships between the government and independent organizations can be key to forging ahead with the implementation of initiatives for climate adaptation and mitigation.

Bilateral funding

It needs to be emphasised that in the cases discussed bilateral funding constitutes not only a channelling of funds, but can also be seen in terms of disbursement. Despite the challenge of accounting for resources deriving from different sources, case studies indicate that a number of targeted bilateral sources have been made available for climate change. Unfortunately, the conditions attached to bilateral funding are not clearly defined and understood, nor openly declared. Furthermore, it is not clear whether bilateral funding is additional to Official Development Assistance (ODA). Developing countries have called for climate finance to be separate from and additional to ODA.

One aspect of bilateral funding that has caused great concern is its linking to private sector investment. The case of a forestry project in Tanzania illustrates that bilateral funding can be used as a 'pathfinder' for advancing the interests of private sector investors in developing countries. Such investors may not necessarily address local challenges in relation to climate change adaptation, but in fact exacerbate the situation by displacing people and limiting their access to life-sustaining natural resources. Similarly, other outside actors such as international conservation agencies might be overly enthusiastic in their efforts to increase the acreage for conservation areas without due regard for the needs of indigenous and local peoples. A key conclusion therefore from the Tanzanian and Latin American country case studies is that social and environmental safeguards have to be incorporated in the administration and implementation of climate finance. Such safeguards should include the protection of tenure rights and livelihood resources, the obtaining of free and prior informed consent, and ensuring access to and the use of resources while at the same time advancing the conservation demands of natural resources.

The 'pyramid' of climate finance versus national and subnational priorities

In some cases donors form the apex of a 'pyramid' of climate finance, with intermediaries at national and subnational levels disbursing the funds. The actual unit to which benefits are distributed or by whom they are shared is variable, such as in the case of forestry funding in Cameroon, where both individuals and family units are seemingly provided for. At a local level, the Cameroon case further shows that good governance has been put in place, with accountability issues being central to the functioning of governance structures. It is suggested that the governance structures are accountable to the donors (upward accountability) but not to the communities (downward accountability), thus these arrangements do not ensure socially sanctioned and ecologically viable initiatives. For this reason the pyramid structure of climate finance accountability does lead to the observation that climate finance should be driven by national and local priorities, not the other way round. A number of other issues have also been raised by the case studies, including tenure rights, tenure security and livelihood needs at the local level. These concerns suggest that accountability measures should be downwardly oriented.

IMPLEMENTING INSTITUTIONS

Adaptation – roles and responsibilities

Senegal is the only African country to have a National Implementing Entity to the Adaptation Fund of the United Nations Framework Convention on Climate Change (UNFCCC). The biggest unit in the environmental ministry dominates the process, giving little space to implementing entities to influence project design and orientation. It is also involved in negotiations, but chronic human resource deficits affect its coordinating role. The entity's director has a seat on the Adaptation Fund and is the main contact for CDM. The multiple responsibilities residing in one person raise the issue of effectiveness and highlight a potential conflict of interest. There is also a lack of clarity on the roles of implementing organisations, particularly when it comes to non-governmental organisations (NGOs).

CDM – stakeholder representation

The Designated National Authority (DNA) in Thailand has not included any environmental or health experts nor any civil society or local community representatives on its board. Civil society is also not represented on the DNA in South Africa. As there are not many channels for affected communities to voice their views, they are only able to have a marginal impact on project implementation decisions. Furthermore, in both Thailand and South Africa the DNA performs conflicting roles. In Thailand the DNA acts as the negotiating body on the Kyoto Protocol while at the same time promoting and regulating CDM nationally. In South Africa the DNA is both the promoter and regulator of CDM. Designated Operational Entities (DOEs) who validate and verify emission reduction claims are also shrouded in controversy. DOEs are usually big audit and risk management companies driven by the profit motive whose services are paid for by project developers. This could create a conflict of interests. In addition, these companies are usually based overseas and do not undertake auditing and oversight of emission reduction claims, which poses a problem as far as authentication is concerned.

REDD – structures and accountability

REDD structures are being developed in Cameroon that are in parallel to those of the state, with NGOs acting as the implementing agencies and upward accountability to donors. However, there does not appear to be downward accountability to local communities. The state is largely absent from these arrangements, but is needed to build a national discourse on the issue. Similarly in Tanzania, the funder contracts NGOs and research institutions for research and consulting services. NGOs end up dominating the processes, thereby pre-empting the DNA's response to the CDM (forest) applications where forest initiatives are linked to CDM. The United Nations Development Programme (UNDP) also dominates CDM activities in the country.

THE DISBURSEMENT OF FUNDS

Benefit sharing

CDM

There are questions around local ownership and the sustainability of CDM initiatives. The case of Thailand shows that there is no requirement by the DNA for allocated funds to benefit local communities and there is no clear mechanism for benefit sharing. Almost half of all the credits will go to one single developer in the Philippines. The main beneficiaries are in fact the richest families and conglomerates that already own a large proportion of the assets and exert disproportionate political influence in the country. CDM strengthens the hand of these local interests. A new political constituency is created that supports the CDM's expansion and perpetuation, blocks any moves against it and opposes measures that may affect its ability to derive benefits from CDM projects. CDM gives these families additional clout and leverage, and additional resources to expand their business interests.

In the Philippines an evaluation of registered projects has revealed that credits go to projects that will actually exacerbate climate change and compromise sustainable development. They are also linked to businesses that continue to invest in dirty technologies. Projects aimed at achieving environmental benefits could be better managed under government legislation and community involvement. However, when government benefits from CDM, as is the case in the Philippines, there is a disincentive to initiate regulations or to enforce compliance.

In South Africa, an argument can be made for fraud where companies receive state subsidies to implement projects and then still claim the full certified emission reductions (CERs). Furthermore, there is contention about the rights to technology and the maintenance of equipment, for example in the case of solar water heaters installed in low-cost housing. Government may provide a subsidy, but it does not own the technology and is not entitled to maintain the equipment. Although communities receive the technology, they are not able to afford the cost of maintaining it. They also do not benefit from the sale of CERs.

REDD

Tanzania's experience with REDD provides no evidence of job creation or infrastructure development. Government also does not seem to conduct its own studies to confirm the benefits of REDD, the cost benefit analyses having been conducted by the companies themselves. In Brazil, the benefits to communities from REDD projects are of a dubious nature since there is no clarity on how to equate the value of loss of livelihood from forest use with the monetary stipends given to communities. The arrangement denies communities access to the forests, which are an essential part of their social, cultural and economic life. The equivalence issue is also pertinent in Tanzania where families hold land in trust for future generations. The rights of future generations are relevant since they are not part of the decision-making processes under which land they may want to claim and use at some point in the future is allotted to REDD project developers. In Cameroon, communities are provided with alternative activities based on ecological sustainability that are considered a win-win situation for both conservation and community survival. However, it is unclear what these activities are, how they were negotiated and how rewarding communities find them.

POLICY RECOMMENDATIONS FOR THE NATIONAL AND SUBNATIONAL GOVERNANCE OF CLIMATE CHANGE FUNDS

The following recommendations are proposed for consideration by African, Asian and Latin American regional and national decision-makers and negotiators.

The Adaptation Fund

- Align funding proposals with national goals such as encapsulated in the National Adaptation Programmes of Action (NAPA)
- Promote the coordination and coherence of different donor efforts, especially in the case of bilateral donor initiatives
- Secure comprehensive multi-stakeholder consultation processes to capture the challenges as well as proposals for solutions
- Clarify and support the separation of different institutional responsibilities to avoid a duplication of roles
- Share activities amongst capable individuals to foster and preserve institutional memory and limit the possibilities of conflicts of interests

CDM

- Source adequate funds to support adaptation measures where mitigation and thus CDM is not a priority
- Shift from prioritising energy efficiency to focusing on renewable projects
- Separate the regulatory and promotional roles of the main actors involved, such as the DNA, to reduce conflicts of interest

- Implement adequate safeguards to ensure that financial and other interests do not distort sustainable development and emission reduction assessment criteria
- Ensure stakeholder representation on the DNA board, in particular that of civil society
- Ensure stakeholder and especially affected community representation on project decision-making bodies
- Put into place mechanisms to ensure that financial and other interests do not distort decisions about benefits, impacts and sustainability
- Ensure an even distribution of projects to counter the undue influence of specific industry and political interests
- As economies develop, ensure that emission reductions count towards national targets, without being double-counted in developed countries

REDD

- Promote national social and environmental interests so that the benefits of REDD accrue to local communities and indigenous populations
- Ensure inclusive, public participatory processes that involve government to avoid setting up parallel, unaccountable structures
- Put into place social and environmental safeguards to avoid communities from losing access to and the use of land
- Avoid the deliberate confusion of land concepts, including marginal, underutilised and degraded land, to prevent land grabs. The definition of 'standing forests' should be recognised and clearly differentiated from reforestation or afforestation
- Provide full disclosure of the implications of initiatives that impact on local people's land access, farming activities and livelihoods
- Balance the carbon storage capacity of forests with the requisite social and rights safeguards of local and indigenous peoples who rely on forests for multiple benefits, including their livelihoods and shelter

GLOSSARY OF TERMS

The following terms are defined in the context of this briefing paper:

Mitigation refers to initiatives that are aimed at reducing the concentrations of greenhouse gas emissions in the atmosphere in order to curb global warming.

Adaptation refers to initiatives that are aimed at helping humans respond to global climate change in a way that protects them, reduces harm and increases their resilience.

Adaptation Fund: The Adaptation Fund was established by Parties to the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) to finance adaptation projects in developing countries. The fund is financed with two per cent of the emission reduction credits from the Clean Development Mechanism.

Clean Development Mechanism (CDM) is a flexible mechanism under the Kyoto Protocol of the UNFCCC that allows industrialised/developed countries with a greenhouse gas reduction commitment (called 'Annex 1 countries') to invest in projects that reduce emissions in developing countries. CDM is commonly referred to as 'offsetting'.

Reduced Emissions from Deforestation and Forest Degradation (REDD) is a market-based scheme to reduce global concentrations of greenhouse gas emissions by creating a financial value for the carbon stored in trees. REDD projects are situated in developing countries and it is considered an offsetting mechanism. It is currently being discussed in the UNFCCC international negotiations process, but there are already many pilot projects on the go (some through existing CDM initiatives), while the infrastructure for REDD is being set up.

NOTES

---

[1] This policy brief is based on an ISS Report on monitoring the governance of climate finance in Africa, Asia and Latin America, which is due to be published in July 2011. A full list of references is included in the upcoming ISS Report on monitoring the governance of climate finance in Africa, Asia and Latin America.

This is an output of the Corruption and Governance Programme, which is based at the Cape Town Office of the Institute for Security Studies (Address: 2nd Floor, The Armoury Building, Buchanan Square, 160 Sir Lowry Road, Woodstock, South Africa).

[2] Some of the findings of the ISS Report in question are quoted verbatim from report chapters to allow the authors' voices to be reflected and to guide the presentation of conclusions. Refer to the ISS Report for the names of all the contributing authors.

Hanns Seidel Stiftung

This paper was published with the support of the Hanns Seidel Foundation. In addition, general Institute funding is provided by the governments of Denmark, the Netherlands, Norway and Sweden.