RealityCheck

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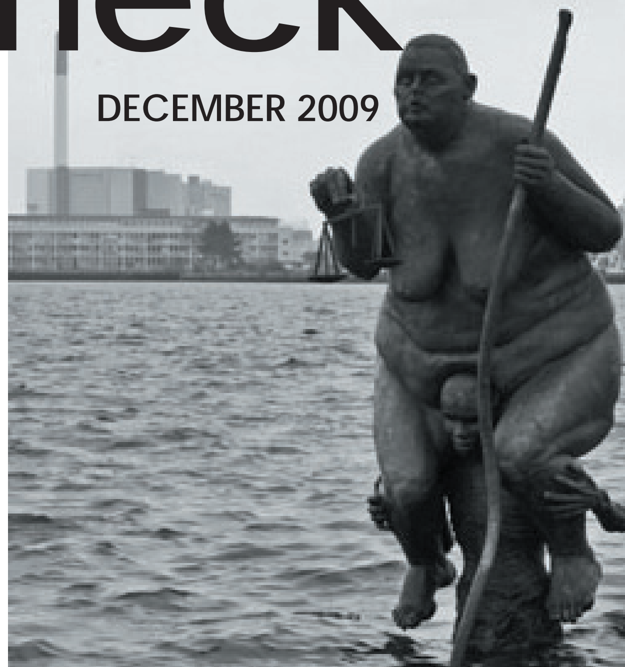

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Climate Change is the biggest challenge confronting our present generation with potentially catastrophic consequences for ecological systems along with people's health, safety and livelihoods. But its impacts are unevenly distributed. Those with the least contribution to the causes of global warming are the most adversely affected by it. They also command the least resources to adapt to the ongoing changes brought on by climate change. Mobilizing resources for climate change mitigation, adaptation and sustainable development is therefore an urgent matter for international development cooperation.

This issue is prepared by:

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The Reality of Aid

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Adaptation Financing for Climate Change:
Taking Account of CSO Perspectives for Aid Reform

Brian Tomlinson[1]

Financing for climate change is a lynchpin issue for reaching a post-2012 global agreement on climate change through the United Nations. Without significant and adequate financing, there will be no comprehensive agreement on urgently needed target reductions in greenhouse gas emissions, on adaptation to deal with unavoidable impacts of climate change on millions of peoples' lives, or for the transfer of green technologies. These are the three essential and inter-related building blocks for a legally binding agreement if it is to meet the challenges of climate change for all the world's populations.

It is undeniable that the impacts of climate change will be predominantly and most directly experienced in the poorest countries in the South, where billions of already vulnerable peoples live in poverty. It is equally undeniable that the richest industrial countries, as the source for 90% of greenhouse gas emissions in the atmosphere affecting future trends in climate change, bear an overwhelming responsibility to come forward with both the resources and the political will to tackle this global crisis.

"Climate justice" in a post-2012 Agreement requires binding commitments to a massive scaling-up of financing on the part of donor countries. Developing countries are calling for financing that is "new, additional, adequate, predictable and above Official Development Assistance".[2] Nothing less will be considered acceptable by developing countries as a litmus test of an equitable agreement. Developing countries bear little responsibility, but will require very significant resources to both adapt to inevitable climatic impacts and grow out of poverty along green energy paths. Emerging developing economies, with growing greenhouse gas emissions, can only adjust these emission levels through access to alternative technologies and assistance to mitigate future emissions.

Global institutions, CSOs and academics have been drawing attention to very significant impacts from climate change on the world's poor, affecting their prospects, along with their children, to overcome poverty and live dignified lives. In a climate constrained world, it is both unethical and undermining of human dignity to suggest that billions of people who continue to have limited access to decent incomes, sufficient food, shelter, health and education, should forgo development and pay the price for climatic conditions that they bear no responsibility.

Often unable to protect themselves, with weak infrastructure and little resilience to recover, the poorest countries are the first to suffer development set-backs from severe weather events and dramatic climatic fluctuations. But poor communities and vulnerable people in developing countries are not just victims of climate change. They are also key protagonists for community action for ways forward, addressing not only the conditions for poverty, but also locally-determined low-carbon development paths for adaptation and mitigation of climate change.[3]

This paper argues that new financial resources for climate change are clearly and urgently needed. But the lessons of development assistance suggest that financial resources without effective and equitable structures for directing this assistance may give a false sense of progress for both citizens in donor countries and for those most affected. According to the global CSO Reality of Aid Network, despite commitments and disbursements of billions of aid dollars over decades, policies and practices in development assistance have significantly reduced its effectiveness in addressing its stated goal to significantly reduce global poverty and inequality, which are critical variables for climate change vulnerability.[4]

CSOs are pressing for aid reforms to improve development effectiveness. Aid should be considered effective, according to CSOs, when measured by its direct and sustained impact on poverty reduction, equality and rights of the most poor and vulnerable people. Democratic ownership at the country and local levels is essential to aid effectiveness, focusing on people-directed and people-centred solutions in developing countries. Financial resource transfers should not been seen as the solution to poverty, but rather as an important catalyst to strengthening capacities of the world's poorest women, men and youth to claim their rights to development and to dignified livelihoods.

How can we apply the lessons of aid and development effectiveness, emerging from the past five years of intensive CSO advocacy with donors and developing country governments? Despite some progress in the 2005 donor/developing country government commitments in the Paris Declaration on Aid Effectiveness and at the Accra High Level Forum on Aid Effectiveness in 2008, donors and governments still need to put these commitments into practice and go much further with fundamental reforms.[5]

At the global level, developing countries, CSOs, parliamentarians, local governments and new donors from emerging countries are pressing for deeper reforms leading to a more equitable aid architecture. They are making proposals to counter long-standing dominance of donor foreign policy interests in determining aid priorities and practices. These practices have undermined local democratic ownership and the effectiveness of aid for poor people. In Canada, the recently-passed ODA Accountability Act says that effective Canadian aid practices must be informed by international human rights standards.

In order to ensure that a UN climate agreement is just and equitable, a number of critical questions need to be addressed including: How much money is needed to finance adaptation? How will the money be counted? How will it be managed? And how can the lessons of aid and development effectiveness be applied to climate change adaptation and mitigation?

Climate change adaptation: The finance

How much money does the developed world need to commit over the next several decades to climate change adaptation in order to adjust to unavoidable impacts of climate change in developing countries? Determining levels of adaptation financing is complicated and not an exact science, with many unknowns, for example:

- difficulties predicting the specific extent and nature of these impacts over several decades

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- what is counted as adaptation financing and its relationship to current development financing; and

- the sources of financing – public and private – for both short-term humanitarian assistance and for medium and longer-term impacts of climate change.

Nevertheless several estimates have been made, even though differences in their order of magnitude remain large, particularly when measured against current global flows of Official Development Assistance (ODA). In its World Development Report 2010, the World Bank estimates a 40-year average of financing of US$75 billion a year between 2010 and 2050, of which three-quarters would come from public sources.[6] However, the Bank admits this calculation may "underestimate the diversity of the likely adaptation responses". Its calculations are derived from the cost of "climate-proofing future infrastructure" and "ignore the need for adaptation to nonmarket impacts such as those on human health and natural ecosystems" and residual damages. The latter might raise the total figure to US$80 billion a year on average.[7] Assuming that one-quarter will come from private sources, approximately US$60 billion will be needed each year from public funds.

Oxfam International in a recent report on adaptation financing suggests an investment of US$50 billion per year to respond to immediately needed priorities. An earlier Oxfam report (April 2009) added that an additional $47 billion in humanitarian assistance will be needed as the number of climate-related humanitarian emergencies increase with growing numbers of affected people.[8] In recent negotiations within the UN Framework Convention on Climate Change (UNFCCC) in Bangkok (September 2009), proposals were made by some developing countries for a distinctive financing window for risk reduction in developing countries, with a suggested 30% of climate change financing devoted to disaster reduction and preparedness.

Assuming the World Bank's estimate of US$60 billion for adaptation, what might be Canada's share? Developing countries are adamant that the Kyoto Protocol's distinction between developing countries and developed countries be maintained in a post-2012 agreement. Under this Protocol developed countries alone have a legal responsibility to provide public funding to redress changes caused by climate change. If one assumes that such financing comes exclusively from 23 official donors currently reporting ODA to the OECD Development Assistance Committee, Canada's share is 3.7% or a 20-year average of US$2.2 billion (weighted by Canada's 2008 share of GNI for these 23 donors).

As a reference point, total Official Development Assistance (ODA) in 2008 was US$121.5 billion. But when non-cash items in ODA are removed[9], the resulting total "Real ODA" drops to approximately US$105.6 billion. ODA must grow to $275 billion annually (in 2008 dollars) if donors are to meet their commitment to the UN target of 0.7% of their GNI for ODA. Annual climate change adaptation financing of US$60 billion must be additional to this commitment to 0.7% for ODA.

[a] EcoEquity, a US-based environmental organization, and the Stockholm Environment Institute, have undertaken detailed analysis of country level obligations that explicitly tries to take account of the "right to development" for all those living below a poverty threshold, irrespective of where they live. It assumes that a growing middle class in developing countries will increasingly assume obligations to contribute in the coming decades. They set out a country's obligation in a "Responsibility Capacity Index" (RCI), which is adjusted over a 20 year timeframe. This index takes explicit account of unequal income distribution at the country level and the link between wealth and carbon emissions. There is therefore a RCI for all countries, including developing countries. By this calculation, Canada's RCI for 2010 is 2.93%, declining to 2.67% in 2020 and 2.44% in 2030 (as middle income countries increase their share of obligations as they develop). Using EcoEquity's RCI, Canada's share of the US$60 billion required for adaptation is $1.8 billion in 2010.

Canada's ODA, for example, in 2008 as reported to the DAC was US$4.7 billion (and "real Canadian ODA" was US$4.3 billion). While large in comparison to current Canadian ODA, an additional US$2.2 billion for climate change adaptation, if distributed among all current Canadian taxpayers, would amount to an average annual tax expenditure of Cdn$135 or less than 40 cents a day for each taxpayer.[10] Going further, Canada could both reach the UN 0.7% target for its ODA over the next ten years <u>and</u> pay for our obligations for an adaptation fund with a total average annual tax expenditure of approximately Cdn$250 per taxpayer, which is still much less than a dollar a day per taxpayer.[11]

Adaptation Financing: Should it be counted as Official Development Assistance?

Billions of people already live in poverty, marginalized by economic, social and political circumstances, and in high vulnerable environments, whether they are women farmers, urban slum dwellers, or fisherfolk. Climate change impacts will accentuate long term environmental and other conditions that already deprive them of their right to water, or to land, to the means of subsistence and livelihoods, or to health. These long-term conditions affecting poverty are additional to the need for increased resilience and humanitarian needs arising from impacts of severe climatic events.

Many CSOs have been promoting an approach to development co-operation and ODA that is moving away from a charity framework, towards one rooted in the obligations of development actors to international human rights standards. In many respects, adaptation is also about the rights of affected populations in poor countries, increasing their capacities and resilience to cope with the anticipated impacts of climate change on land resources, health or potable water.

Adaptation is also about the rights of affected populations in poor countries, increasing their capacities and resilience to cope with the anticipated impacts of climate change on land resources, health or potable water.

Adaptation therefore needs to be understood as an integrated concept, one "which is targeting the causes of vulnerability of social groups, and in particular women".[12] Effective adaptation, like effective development, requires local knowledge of complex linkages and trends between human and ecological conditions. Adaptation can be approached as a continuum, starting

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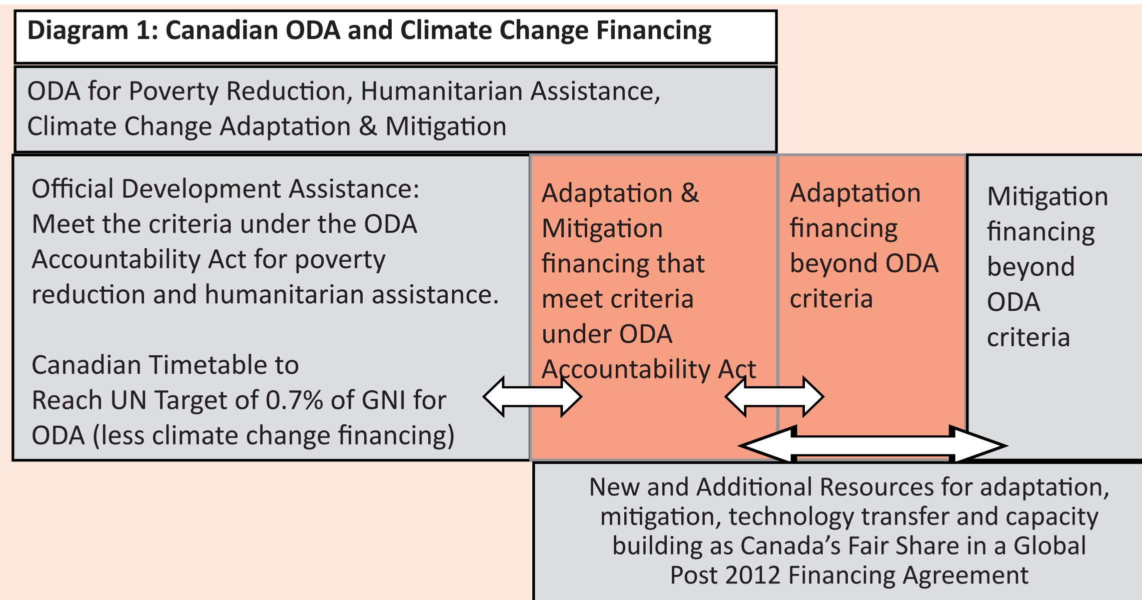
with the specific additional impacts of climate change in areas such as emergency assistance or infrastructure development, moving towards a focus on responses to the underlying causes of vulnerability, for example weak health systems. The latter may not exclusively be caused by climate change, but represents a required foundation for effective adaptation, in this case improved health systems. "In other words, adaptation is not just additional to development, but often is development."[13]

While there are strong arguments for understanding the close relationship between adaptation and development, adaptation can still be considered additional to measurement of ODA financing (see diagram 1).

Many donors already count current financing for climate change within their reported ODA, thus ignoring their commitment in the 1992 UN Framework Convention on Climate Change not to count financing for adaptation and mitigation as ODA. Donors have argued since then that adaptation activities cannot be separated from their support for sustainable development outcomes.[14] Whatever the merits of this argument "on the ground", many donor countries, including Canada, are far from reaching the UN target of 0.7% for their ODA. They refuse to acknowledge an already existing significant gap in the financing of development, which must be urgently resourced to address decades-long commitments to improve healthcare or education opportunities. Indeed in the past year poverty and food security have worsened with the onset of a global financial and economic crisis. Taking into account that adaptation interventions should not be considered as separate to development, Oxfam International suggests nevertheless that,

> "…[W]hile it does follow that adaptation should be *delivered* through poverty reduction and development programmes, it does not follow that funding need not increase. An increasingly hostile climate makes development increasingly expensive. It necessitates new investments in agriculture, greater provision of social and private insurance, new buildings and infrastructure to name only a few. These additional costs are the costs of adaptation. Adaptation funding is by definition additional."[15]



Whether labeled ODA or not, donor adaptation financing must be counted as additional to current and future donor commitments to reach the 0.7% of GNI target for their ODA. Transparency will be essential if donors are to be seen to be meeting their commitments. An important issue will be distinguishing adaptation financing that donors may be allowed to include in ODA, as reported to the DAC. Donors are working to improve their overall aid transparency through a DFID-led International Aid Transparency Initiative (IATI), which is developing standards and a Code of Conduct on aid transparency for the 2011 High Level Forum on Aid Effectiveness.[16] IATI and the DAC should not ignore the implications of scaling up climate financing in the coming years.

> *Adaptation therefore needs to be understood as an integrated concept, one "which is targeting the causes of vulnerability of social groups, and in particular women".*

At the December Copenhagen UNFCCC conference, the DAC announced that donors have agreed to implement an adaptation marker as of January 1, 2010.[17] The DAC's annual report on donor ODA performance should clearly distinguish ODA performance for each donor, net of ODA financing for climate change. With such markers, donors can be held accountable to both their commitment to the 0.7% target for their ODA and to their existing UNFCCC commitment to additionality for climate change financing.[18] The tri-annual DAC Peer Review of each donor country's aid practices should monitor closely donor practices in adaptation financing, including the question of climate financing additionality in ODA disbursements.

Managing the Financing for Climate Change

Developing countries, supported by CSOs, insist that financing adaptation commitments must be made inside the UNFCCC architecture, and not through parallel funds managed by the World Bank or large bilateral donor agencies. A Climate Change Fund, consistent with the 1992 UN Framework Convention on Climate Change (UNFCCC), would be guided and accountable to the Conference of the Parties to the Convention (COP), which would determine its policies and priorities. This Fund would have a balanced and equitable representation of all Parties to the Convention. Many issues remain to be resolved in reaching an agreement with all countries represented in current climate change negotiations, including resistance to a continued role for the Global Environment Fund in providing fiduciary oversight for such a Fund.

Adaptation Finance: Taking account of aid and development effectiveness lessons

A UNFCCC Fund should take account the lessons from the aid effectiveness experience. The 2005 Paris Declaration on Aid Effectiveness, along with the 2008 Accra Agenda for Action (AAA), are key donor and developing country government frameworks setting out their commitments to aid effectiveness. The 2005 Declaration has five important principles for aid effectiveness, aiming at improving the ways in which aid is delivered. These principles are developing country ownership in the determination

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of aid priorities, donor alignment with country poverty reduction priorities, donor harmonization of their aid delivery requirements, managing aid for results, and mutual donor/country government accountability.

CSOs welcomed these Paris Declaration principles for donor/government aid practices, while critical of the limited ambition of donor commitments to reform. In the lead up to the 2008 Accra High Level Forum on Aid Effectiveness (HLF3), hundreds of CSOs, representing the Better Aid Platform[19], were also critical of the limited progress in actually carrying them out "on the ground" since 2005. CSO promoted much deeper aid reforms in Accra, which would include eliminating donor policy conditionality attached to their assistance, fully untying aid, and reducing the role of donor-driven technical assistance. There are significant challenges to the effectiveness in dozens of parallel development cooperation funds that were seen to undermine already weak developing country capacities to manage coherent country-driven development strategies.

Too often donors continue to delivered limited amounts of aid, with priorities for this aid predominantly still determined through power exercised by donors, or with aid benefits captured by local elite interests, not poor and vulnerable populations. CSOs strongly urged donors and governments at the Accra HLF to focus on the principle of "country ownership" by strengthening "democratic ownership". Parliamentarians, civil society organizations, and excluded populations need to be engaged in setting development and aid priorities at the country level. If more effective aid is to bring change for poor and marginalized populations, concrete initiatives are needed, for example, to strengthen gender sensitivity in implementing aid practices on the ground with the direct engagement of gender equality and women's rights organizations in development processes.

The resulting 2008 Accra Agenda for Action (AAA) at HLF3, agreed by donors and governments, did address some of these concerns. The AAA links aid effectiveness to "gender equality, respect for human rights, and environmental sustainability" which "are cornerstones for achieving enduring impact on the lives and potential of poor women, men and children". The AAA has stronger commitments to use of country (government) systems by donors in managing their aid, to a more systematic approach to mutual accountability, and to recognize that CSOs are "development actors in their own right whose actions complement those of government".

Since the Accra HLF3, CSOs have been working globally and at country level to monitor and promote the implementation of the AAA. Development-oriented CSOs are building on the AAA to promote commitments for change, based on a "development effectiveness framework" (i.e. focusing on conditions that assure aid's impact on poor and marginalized people) at the next High Level Forum in Seoul in October 2011.

A development effectiveness framework is also highly relevant to adaptation financing initiatives. Responses to increased humanitarian emergencies should strengthen both disaster preparedness and address post-disaster reconstruction as a transition to effective development. More effective medium and long-term sustainable adaptation to climate change on the ground in poor countries is strongly related to achieving considerably improved development outcomes for poor and vulnerable people. Consequently, the delivery mechanisms and country-level priorities for adaptation financing should be informed by donor and CSO experience in applying humanitarian, aid and development effectiveness principles and approaches.

Humanitarian aid actors have agreed to "good humanitarian donorship" principles and have agreed to international norms and procedures for improving the effectiveness of humanitarian actions. While beyond the scope of this paper, CSO humanitarian actors are working to include climate change considerations into a widely accepted accountability and effectiveness framework: the Sphere Humanitarian Charter and Minimum Standards in Disaster Response.[20]

What specific aid reforms are relevant to medium and longer term adaptation financing?

1) The centrality of strong democratic country ownership: A clear lesson from forty years of development experience is that development outcomes cannot be "engineered" by donor-controlled outside interventions, however well planned and intended. Similarly, climate change adaptation that actually benefits the most vulnerable cannot be achieved through donor / government transfer of adaptation financial resources targeted to infrastructure or technical fixes alone. Country-level democratic processes, promoting development change and governance capacities, matter.

Development change often accentuates highly conflictual political struggles for greater equality and political rights at all levels of society. Many aspects of climate change impact will affect diverse economic interests differently, and some will have access to political power to orient adaptation at the expense of others. Sustainability of change for the most vulnerable, therefore, will depend on strengthening the capacities for diverse organized citizens' action, often in their communities, and assuring their access to a strong responsive state with policy implementation capacities.

Democratic country ownership must be a central principle in determining priorities and approaches to climate change adaptation. The specific medium and long-term impacts of climate change will vary greatly between countries. Appropriate priorities and strategies at a country level will be affected by socio-economic and political circumstances as much as by biosphere and environmental impacts.[21] In financing adaptation donors must work with governments and peoples' organizations to enable inclusive planning processes that integrate climate change adaptation into comprehensive national poverty strategies. They must do so in ways that also take into account alternative development paths, based on local traditional knowledge, through development processes that are inclusive of marginalized populations.

Many of the least developed countries have prepared National Adaptation Programmes of Action (NAPA) under the UNFCCC. Close to 40 such

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plans have been developed. However, evidence suggests they have often been produced by international consultants, with very limited national dialogue within government or with affected populations.[22] Financing of activities identified by NAPAs are tied into slow complex project approval mechanisms within bilateral agencies or the World Bank / Global Environment Fund. NAAPs need to be closely aligned with country-directed poverty reduction plans that take account of the best climate change knowledge, combined with community based experience in adaptation and development change.[23]

2) **No Donor-Imposed Policy Conditionalities**: The "polluter pays" principle clearly informs the differential responsibilities for adaptation and donor obligations for financing under the UNFCCC. But how should donors and developing country counterparts develop and implement adaptation programs? For ODA, the record is strong that donor pre-conceived priorities and conditionalities attached to their aid have largely failed to deliver effective outcomes for reduced poverty and inequality. Adaptation financing arrangements must avoid imposed policy conditions, learning from this 40-year experience of failed donor conditionalities.

3) **International human rights standards as the framework for developing and implementing adaptation programming**: CSOs globally are calling on donors and developing country governments to deepen the reform of aid practices beyond the principles of the Paris Declaration. More equitable donor/recipient ODA relationships must be guided by their shared obligations and accountability to international human rights standards.

In Canada, this orientation has been enhanced by the 2008 ODA Accountability Act. All adaptation financing included as Canadian ODA, according to the Accountability Act, must be consistent with international human rights standards, taking account the perspectives of the poor and focus on poverty reduction.[24]

Under international human rights standards it is essential that adaptation financing give priority and target the most at risk populations with the least capacities for resilience, thereby adopting a human rights approach to determining financing priorities and implementation. Poor and vulnerable women will be among those most impacted by climate change; national adaptation program strategies will be effective only if they promote gender equality and pay focal attention to strengthening women's capacities to claim their rights.

Policies for development and adaptation, on the part of both donor and developing country governments, within a human rights approach, should demonstrate due diligence, taking all measures needed to avoid increasing the vulnerability of marginalized populations to impacts of climate change. Reducing vulnerability is essential. To do so, donors and developing country governments must focus on the underlying structural and systemic causes of vulnerability, such as income poverty, gender inequality or unsustainable agricultural practices. These conditions are not just influenced by aid financing, but more so, by trade, investment and foreign policies oriented to strengthening donor access to scarce natural resources, such as agricultural or fisheries products susceptible to climate change impacts.

4) **Avoiding adaptation project fragmentation with program-based funding arrangements**: Determining climate adaptation priorities at country level will be affected by the broad spectrum of potential impacts across many sectors (agriculture, water, health disaster management etc.). Increasingly donors have recognized that very large numbers of distinct aid projects, as the primary "modality" for the delivery of aid,

has limited broader development impacts for these resources. The Paris Declaration and the Accra Agenda for Action call on donors and development partners to channel increasing aid resources into "program-based approaches" (PBAs) that finance integrated development plans at the country level (e.g. a government plan for extending education for all to its citizens).

As climate change impacts cut across even wider sectoral boundaries, adaptation interventions cannot be easily "siloed" into distinct climate change project activities. Several studies of effective adaptation financing recommend "programmatic funding approaches that help integrate adaptation into development planning.[25] The experience to date with very modest adaptation financing has been highly fragmented by projects and resulted in very unpredictable aid flows.[26] Terms and conditions in current vertical dedicated funding mechanisms managed through the World Bank, the GEF, or bilateral donors have accentuated this "project modality" and aid unpredictability. Together they further undermine the limited capacities of developing county partners to develop and work with strategic medium and long-term approaches to adaptation.[27]

5) **Transparency, access to timely information, learning and accountability**: Donors and governments at the Accra High Level Forum committed to strengthening aid transparency and predictability. DFID as noted above is leading an International Aid Transparency Initiative (IATI) that expects to generate agreement by 2011

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on donor aid transparency standards for greater access to timely and relevant aid information.[28]

A post-2012 financial architecture for adaptation must adopt the highest standards for transparency and access to information. Given the uncertainties associated with limitations of 20- and 30-year predictions of climate change impacts, flexibility and iterative programming at

the country level, including opportunities for experimentation and innovation, are require along with strong learning processes. Access to information must not only be at the technical and global level; relevant and timely information on climate change financing initiatives must be made available to beneficiary populations to enable these populations to influence development outcomes.

Current donor learning approaches in aid are deeply influenced by narrow short-term "managing for results frameworks". CSOs have criticized these "managing for results" tools because these tend to be used more as instruments of control by donors rather than instruments for measuring adapting for meaningful change in development outcomes and accountability to beneficiary populations. CSOs question what is being measured, for whose interest. They have called for accountability approaches that are first and foremost management tools to promote iterative learning and development adaptation, with an emphasis on indicators of social and institutional change, and analysis based on sex disaggregated data.[29] Effective adaptation, financed through mechanisms under the UNFCCC will require robust systems of accountability and learning that move well beyond the limits of one or two-year "results" measurement, whose purposes serve only the political needs of governments in donor countries.

6) **Reforming international aid architecture and equitable adaptation financing mechanisms**: Under the 1992 UNFCCC all countries agreed to address climate change through equitable mechanisms for adaptation and mitigation financing. However, in implementing commitments made under the Kyoto Protocol, financing within the UNFCCC has been very limited, with larger amounts of financing directed to mechanisms within the World Bank or administered directly in bilateral dedicated funds. An aid architecture that is equitable has been an overarching concern for both developing country governments (mainly working through the United Nations) and for CSOs involved in aid reforms at the Working Party on Aid Effectiveness, based at the OECD DAC. Any dedicated Global Fund for Adaptation financing should model equitable governance in international cooperation.

CSOs involved in aid reform are promoting proposals for fundamental reform of global governance in setting norms and accountable practices for aid in time for the next High Level Forum in Seoul in 2011. They suggest that agreements to improve development effectiveness in international cooperation be tasked to an international body that promotes inter-organization cooperation and represents all countries on an equal footing. They call for the strengthening of the UN Development Cooperation Forum (DCF), under the UN Economic and Social Committee, with a mandate to promote systematic coherence among global policies for development. Where adaptation policies converge with development policies, the UN DCF should work closely with the Parties to the UNFCCC to assure maximum coherence. The OECD DAC, as a body representing only donors, would have a more limited mandate: information gathering, systematization of donor practices, and report on ODA flows.

Conclusions: Directions for Climate Change Financing

In summary, what are some of directions for the modalities, priorities and implementation strategies suggested by recent CSO promotion of reforms in aid and development effectiveness?[30]

- People-centred development should be the paradigm for climate change adaptation, in which international cooperation is guided by the application of international human rights standards. The voices of the poor and marginalized must be heard. International human rights standards have been agreed by most countries, both donors and developing country recipients of assistance. They establish procedural and substantive directions for international cooperation at the country and global levels for medium and long-term adaptation with priority to those most vulnerable to climate change impacts.

- In adaptation financing, to promote the right to live without poverty, and in particular the right to food, the right to water, gender equality and the rights of women, the right to health, and the right to education.

- Finance the strengthened role of both the state in the poorest developing countries and citizens' organizations promoting development change. In doing so, increase domestic capacities in these countries to apply climate change knowledge to their own development paths, including locally-determined renewable energy solutions within international cooperation for development. All adaptation financing should be in the form of grants, not loans.

- The right to access new alternative technologies in developing countries and

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adapting them to conditions that favour the majority of people in the South may be as important as levels of financing for adaptation. The World Bank must abandon its current policies and practices that promote large-scale non-renewable energy investments, particularly coal-based solutions, in its loan portfolios with developing countries. As such, the Bank can play no credible role in financing mechanisms for climate change adaptation and mitigation.

Developed countries have overwhelming responsibility for current and future climate change and must be held accountable for their actions in reaching an ambitious, fair and equitable post-2012 agreement.

Developed countries have overwhelming responsibility for current and future climate change and must be held accountable for their actions in reaching an ambitious, fair and equitable post-2012 agreement. Livelihoods, lives, and the health of our planet depend on it.

End Notes

[1]This paper builds upon Dana Stefov and Brian Tomlinson, "Financing for Climate Change Adaptation: A Discussion Paper" Prepared for the CCIC Roundtable, Reclaiming the Commons: Promoting a North-South Agenda for Environmental Justice, available at http://www.ccic.ca/e/docs/002_environmental_justice_2009-01-14_brief_2_climate_change_financing.pdf. An edited version of the paper, in both English and French, appeared in CCIC's Au Courant electronic newsletter, November 2009, available at http://ccic.ca/media/aucourant_e.php.

[2]See the discussion of financing at the October 2009 Bangkok meeting of the Parties to the Framework Convention on Climate Change. Earth Negotiations Bulletin, Vol 12, No 439, "Summary of the Bangkok Climate Change Talks, September 28 – October 9, 2009", pages 10 -13, accessed at http://www.iisd.ca/download/pdf/enb12439e.pdf.

[3]Among many others, see Christian Aid, "Community Answers to Climate Chaos: Getting Climate Justice from the UNFCCC", September 2009, page 1, accessed at http://christianaid.org.uk/images/community-answers-to-climate-chaos.pdf. See also Oxfam International, "Beyond Aid: ensuring adaptation to climate change works for the poor", September 2009, accessed at http://www.oxfam.org/en/policy/beyond-aid and "The Right to Survive in a Changing Climate", April 2009, accessed at http://www.oxfam.org/sites/www.oxfam.org/files/right-to-survive-changing-climate-background.pdf. The World Bank's 2010 World Development Report calls for a Copenhagen Agreement that strengthens rather than undermines development in the world's poorest countries. See the Report at http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/EXTWDR2010/0,,contentMDK:21969137~menuPK:5287748~pagePK:64167689~piPK:64167673~theSitePK:5287741,00.html.

[4]See *The Reality of Aid Report 2008: Democratic Ownership and Human Rights*, accessible at www.realityofaid.org and CSO international advocacy on aid and development effectiveness through the Better Aid Coordinating Group and its web site, www.betteraid.org.

[5]Reforms, for example, in support of Southern demand-driven technical assistance, untying aid, and replacing donor-driven policy conditionality with equitable structures for mutual accountability, are urgently needed for progress.

[6]The UNFCCC, at its 2009 Bangkok negotiations, released a report which put the estimate for adaptation resources somewhat higher at $75 to $100 billion per year, assuming an increase in temperature limited to 2°C. See "The Economics of Adaptation to Climate Change", December 2008, http://siteresources.worldbank.org/INTCC/Resources/MethodologyReport0209.pdf. Many CSOs have raised significant concerns about the inclusion of private sector funding for adaptation financing, particularly the highly criticized Clean Development Mechanism (CDM). They call for full public sector financing for adaptation.

[7]World Bank, World Development Report 2010, op. cit. Chapter 6, pages 5 – 7.

[8]Oxfam International, op. cit.

[9]"Real Aid" removes debt cancellation, imputed costs for students from developing countries studying in the donor countries, and first year costs in donor countries for refugees from developing countries. These are all allowable components of "ODA" under rules agreed by all donors at the DAC.

[10]Calculations for Canadian ODA based on OECD DAC statistics available October 2008 and the estimate of increased adaptation cost to individual Canadian taxpayers is based on an assumption that it is spread equally over 16,371,700 Canadian tax filers who paid income taxes in 2006 (derived most recent information on tax filers from Revenue Canada).

[11]These amounts do not include Canada's fair share of mitigation costs for developing countries. The World Bank's 2010 World Development Report estimates these at $400 billion per year over 20 years. Canada's share (based on GNI) is $14.8 billion. However, the Bank expects that only an (unspecified) portion of these funds for mitigation would be public sector funds. World Bank, op. cit.

[12]Women for Climate Justice, "Gender: Missing Links in Financing Climate Change Adaptation and Mitigation", December 2007.

[13]See discussion of adaptation activities along such a continuum in M. Bapna and H McGray, "Financing Adaptation: Opportunities for innovation and experimentation", World Resources Institute Conference Paper, November 2008, accessed at http://www.wri.org/publication/financing-adaptation.

[14]Article 4.3 states: "The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing Parties in complying with their obligations." Negotiations that lead to the Kyoto Protocol and for a post-2012 agreement remain within this 1992 Framework Convention.

[15]Oxfam International, "Beyond Aid", op. cit., page 18

[16]See http://aidtransparency.net.

[17]See the DAC press release at http://www.oecd.org/document/7/0,3343,en_2649_34421_44252935_1_1_1_1,00.html.

[18]In recent annual DAC reports, debt cancellation disbursements by donors were clearly identified and reported, permitting the DAC to identify donor performance net of these one-off additions to their ODA.

[19]See www.betteraid.org and "Better Aid: A Civil Society Position Paper for the 2008 Accra High Level Forum on Aid Effectiveness" at http://betteraid.org/index.php?option=com_content&task=view&id=88&Itemid=26.

[20]See www.sphereproject.org.

[21]See Bapna & McGray, op.cit., pp 11-12.

[22]See for example Equity Bangladesh, "Bangladesh needs a comprehensive climate defense strategy paper with political ownership', September 2008, www.equitybangladesh.org. On the other hand, the Bangladeshi government has been proactive in creating a Multi-Donor Trust Fund to finance its climate change strategy, with directives to donors that only grants, not loans, are accepted by this Trust Fund. See Alan Nocol and Nanki Kaur, "Climate Change: Getting Adaptation Right", ODI Opinion, #116, December 2008.

[23]See Alan Nocol and Nanki Kaur, op. cit..

[24]See Brian Tomlinson, "International Human Rights Standards and Canadian ODA: Implications and Issues of the ODA Accountability Act: A CCIC Briefing Note", November 2008, accessible at http://ccic.ca/e/docs/002_aid_2008-12_oda_hr_standards.pdf.

[25]Bapna and McGray, op.cit., page 11.

[26]See Bapna and McGray, op.cit., pages 3 – 4.

[27]Nocil and Kaur, op.cit., page 2.

[28]See http://aidtransparency.net.

[29]See Advisory Group on CSO Development Effectiveness, "Findings and Recommendations", pages 15-16, accessible at http://ccic.ca/e/docs/002_aid_2008-08_ag_synthesis_and_recs.pdf.

[30]For additional principles for new financing institutions for adaptation and mitigation, which are highly consistent with policy proposals being made by CSOs on development and aid effectiveness see "Towards a Global Climate Change Fund: Principles for Poznan and Beyond", 2008, A CSO Statement identifying principles for new institutions in the fight of the climate crisis, signed by more than 300 CSOs present at negotiations under the UNFCCC in Poznan, Poland. Accessible at http://www.vitaecivilis.org.br/anexos/Global%20Climate%20Fund_11%2026%2008_lista_atualizada.pdf.

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Put the Climate Funds in the People's Hands

JP Corpus

Climate change finance is about social justice and people's sovereignty

The facts are beyond dispute: the dangerous build-up of greenhouse gases in the Earth's atmosphere is the effect of two centuries of unsustainable industrial production centered in the North. It is a process organized around profit-maximization and excessive consumption, fuelled by the unaccountable and imbalanced overuse of non-renewable energy and natural resources. Responsibility for emissions and the depletion of carbon sinks lies principally with developed countries, corporations, and their flawed industrial model. Constituting a minority of the global population, they grew their economies and profits generating two-thirds of all historic emissions, consuming more than their fair share of the common atmospheric space.

Meanwhile, developing countries and the poor – constituting the majority of the global population – stand to bear the worst effects of climate change despite having little or no responsibility for causing it. Their lives and livelihoods are most vulnerable to climate change impacts. But having benefited the least from the profit-centered, high-growth, and high-consumption economic model, they are also least capable to respond and adjust to the effects of climate change. More so, they find their development paths and poverty alleviation prospects seriously challenged by a changed climate and a carbon-constrained world.

As most culpable for polluting the atmosphere, and as most capable in responding to climate change – a capability leveraged with a destabilized climate – developed countries, especially their elites, face a clear obligation to finance the costs of climate change response in developing countries. To redress inequities, financing must be compensatory and democratic in nature. Those who have inordinately benefited in the process that caused climate change should compensate its victims.

The compensatory financial transfers are to fund adaptation and mitigation in the developing world. First, funds must compensate developing countries and the poor for the losses and damages they incur from the adverse effects of climate change. It must also enable them to avoid future losses by adopting mechanisms and building capacity to adjust and respond to climate change.

Second, funds must compensate developing countries and the poor for having been denied the atmospheric space and the climate they need to overcome poverty and achieve human development. Because the low-cost, fossil-fuelled development path industrialized economies took without restraint is now an unsustainable option, financing must cover the costs incurred by developing countries in shifting towards a sustainable, low-carbon development trajectory. This would enable them to partake in the global effort to reduce emissions while addressing immediate poverty and development concerns

Existing climate change funds violate social justice and people's sovereignty

Funds are not compensatory. Although developed countries have accepted their financial obligation as signatories to the United Nations Framework Convention on Climate Change (UNFCCC), their provision of funding is not based on the principle of compensation. Rather, they channel climate funding for developing countries as voluntary contributions.[1] Channeled through new and existing bilateral and multilateral institutions, climate funds take the form of grants and loans. This means funds are owed to donors by developing countries, turning the obligatory relationship around. Worse, funds put poor countries further in debt.

Financial inadequacy and unpredictability are concrete results of the discretionary nature of funding. The cost of climate change action in developing countries is in the order of hundreds of billions of dollars per year. However, despite the proliferation of donor-controlled funding initiatives, the current level of actual or pledged funds do not approach even the most conservative estimate of the required funding level. Counted as part of donor Official Development Assistance (ODA), funds also do not represent new and additional funding in relation to developed countries' long-unfulfilled 0.7 per cent aid

[1]Apart from funds in the Kyoto Protocol's Adaptation Fund.

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targets to eradicate poverty and support human development in the developing world. This insufficiency and unreliability in climate funding is delaying urgent adaptation and mitigation actions in the poor countries, and hampers their compensation by the North.

Donors control the funds. The inequitable and unaccountable control of resources by the North and corporations is one root of the current climate crisis. This unfair arrangement is preserved in the governance structures and processes of existing climate funds.

The design of climate funds has been donor-driven. Poor and developing countries have been largely excluded from defining and setting policies and funding goals.

The design of climate funds has been donor-driven. Poor and developing countries have been largely excluded from defining and setting policies and funding goals.

Donor country ministries control bilateral climate funds, with planning and disbursement to recipients occurring within existing, donor-influenced policy and partnership channels. Developed countries also wield effective control over almost all donor-funded multilateral facilities, despite affording representation to recipient countries in their decision-making bodies. In fact, any recipient representation in governing bodies may well be unimportant, as funding decisions would be made around measures built along donor-defined priorities, or programs with predetermined designs. The assessment of project feasibility and quality is donor-driven, and project flows are essentially restricted to autonomous staff and donor-selected implementing agencies (e.g. bilateral and multilateral development banks).

Funds influence domestic policy in favor of commercial and corporate-friendly solutions to climate change. Donors set criteria for recipient eligibility and selection, and make access to climate funds conditional to meeting these. Some such requirements include an active Multilateral Development Bank (MDB) program in the recipient country, and keenness to pursue policy dialogue on climate change with the donor. This means developing countries' access to funds is contingent upon their agreement with donor policies and their commitment to align domestic policies with donor agendas on climate change.

The projects existing climate facilities are out to support spell out the climate agenda donors are pursuing in developing countries. Couched in the language of harmonizing environmental actions and economic growth, donors support technological fixes that allow for continued fossil fuel production and carbon emissions, all while creating new opportunities for corporate profit. Enshrined in the Kyoto Protocol, carbon trade succeeds in this twofold task.

Through capacity building and pilot demonstrations, donors disburse their funds to projects promoting developing country participation in carbon trading – specifically in the form of the Clean Development Mechanism and REDD (reducing emissions from deforestation and forest degradation) – and its integration into national policy and development strategies (see Box 1). By passing on the burden and impacts of mitigation to developing countries, these profitable mechanisms pose new risks to the poor, including the invasion of forests and displacement of indigenous and local communities. Likewise, it allows the North and corporations to sustain their inherently unsustainable high-growth, high-consumption industrial system.

The future climate change architecture is still being negotiated. But carbon trading

and similar profit-centered mechanisms that absolve the North from their emissions obligations will have gotten enough traction in developing countries to leverage donor agendas in time for Copenhagen.

Put climate funds in the people's hands

The current donor-controlled financial arrangement preserves the injustices that inhere in the overuse and the lopsided use of the planet's common resources. It represents not only the North's continued command over global resources, but also their power to define Southern agendas and direct Southern economies according to their needs.

In the place of corporate profits and infinite growth, social justice and people's sovereignty must be at the center of the global climate change financial regime. Financing must redress the historical and social origins of the current climate crisis, and address the needs of those most affected.

Funding should be compensatory. The provision of funds by developed countries and corporate elites should be over and above the longstanding official aid commitment of 0.7 per cent of GNI. These funds should come in the form of outright fund transfers, not grants, loans, or any funding instruments that create debt. Financial flows should be sufficient, reliable, and mandatory.

Southern governments and peoples should have sovereign control over funds. Access to funding should not be tied with fulfilling policy conditions. The locus of funding decisions must be devolved to local levels, where funding priorities and strategies can be formulated with the democratic participation of communities. This should ensure that local needs are identified and prioritized, and existing local knowledge and

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initiatives are recognized and incorporated. This also requires transparency in funding processes, and efforts at mass information to enable marginalized groups to participate and make informed decisions.

To realize these changes will require people taking the lead in a sustained global as well as national response and action. To effect the democratic reorientation of climate funds, and to secure an equitable solution to the climate crisis in general, a people's climate movement is needed. The People's Movement for Climate Change (PMCC) is a movement that upholds the people's rights for sustainable and equitable development now being threatened by climate change and the spurious solutions being put forward by the Northern establishment, including spurious climate funding mechanisms. With respect to climate finance, this movement asserts:

- The end to all bilateral and multilateral donor-initiated and -controlled climate funds.
- The end to the participation of International Financial Institutions such as the World Bank Group and regional development banks in climate financing.
- The rejection of debt-creating climate funds.
- The end to all policy conditionalities tied to climate funds.
- The rejection of all funds and projects that promote the unsustainable neoclassical economic paradigm centered on corporate profit, infinite growth, and overproduction that has depleted the planet's natural resources, exceeded the its carrying capacity, and increased social inequities.
- The rejection of all funds and funding mechanisms that allow developed countries and corporations to sidestep their obligations to make large emissions reductions and reform their environmentally unsustainable economic models.
- The rejection of all funds and funding mechanisms that privatize the common environmental space and threaten to displace local communities, including the trade in emissions and forest carbon offsets.

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Using Official Development Assistance to Promote Clean Development Mechanism

JP Corpus

Since the Philippines ratified the Kyoto Protocol in 2003, donors have conducted numerous capacity building (CB) initiatives to promote the Clean Development Mechanism (CDM) in the country (see Table 1). These CB projects worked to remove "barriers" to implementing CDM projects in the host country. These include the lack of technical knowledge and skill by the host government and the private sector on CDM project processes, and the absence of institutional and policy frameworks for proper CDM enforcement. Donor-sponsored seminars, training workshops, and recommendations facilitated the closing of these capacity and institutional gaps by:

- Raising awareness on CDM, including appreciation of its monetary potential and supposed environmental and development co-benefits
- Training government officials, businesses, and financial institutions on CDM methods and project development procedures (e.g. design, approval, and financing)
- Supporting linkages between future participants (government and private sector) and developing the administrative, institutional and policy framework for CDM operation

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More than the provision of technical and administrative skill, these initiatives represent the descent of Kyoto and Northern agendas deeper into public policy and private investment strategies in the country (see Table 2). The Renewable Energy Act of 2008 perhaps best demonstrates the mainstreaming of CDM in Philippine energy policy. The law declares as state policy the increased utilization of renewable energy (RE) sources to reduce emissions. To this end, it lavishes a score of fiscal and non-fiscal incentives on RE investments, including a seven-year income tax holiday and ten years of duty-free importation of RE materials and equipment. The law also encourages CDM investments by tax-exempting all proceeds from the sale of carbon emissions credits.

CB projects form part of what is shaping up to be, or what already is, an aid approach by donors to harmonize ODA with their climate change policies, particularly with respect to mitigation and mitigation finance in the developing world. For instance, Japan – the Philippines' top bilateral ODA and CDM CB donor – is using ODA to promote CDM in recipient countries, with an eye to acquiring carbon credits (see Box 1). JICA, Japan's official aid agency, has introduced CDM applicability as a criterion in evaluating ODA projects in sectors such as renewable energy, energy efficiency, and waste management – sectors where carbon credit-yielding emissions reductions projects can be funded. In other words, aid is being channeled to sectors that have the potential of yielding offset credits. This makes more sense, considering that climate-related ODA projects in the Philippines have largely focused on emissions mitigation, particularly the promotion of renewable energy, energy efficiency, and sustainable waste disposal.

What are the problems with the use of ODA in promoting CDM in RE and related sectors in the developing world?

- By exploring CDM opportunities that can be future sources of carbon credits, it helps the North to continue to offload their responsibility to reduce emissions at home to developing countries.

- It deepens the legitimacy and institutional traction of CDM among developing countries. With CDM better institutionalized in the South, it is likely to still be part of a future climate regime, blowing a hole to any new emissions commitments developed countries will be making. It plays well with the Northern agenda of getting developing countries on board to take on more than voluntary emissions reductions, which would better place the North to commit to lower emissions targets.

- It creates a demand for and dependence on commercial, Northern- and corporate-controlled clean technologies, which are promoted by trade and investment incentives such as those in the Philippine Energy Act. Intellectual property rights over RE and clean technologies allow large transnational corporations to reap monopoly profits from the sale of these equipment. ODA spent in these technologies becomes, in effect, a disguised subsidy for TNCs from donor countries like Japan and the US, rather that spent on the priority adaptation and mitigation needs of developing countries.

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Table 1. Some CDM capacity building projects in the Philippines

AGENCY	PROJECT/PROGRAM	PERIOD
Japan New Energy and Industrial Technology Development Organization (NEDO)	CDM support program for the Philippines	2003-2004
Japan Ministry of Economy, Trade and Industry (METI)	Asia CDM Capacity Building Initiative	2004-2005
Japan Ministry of the Environment (MOE) - Institute for Global Environmental Strategies (IGES)	Integrated Capacity Strengthening for CDM/JI	2003-2008
Japan International Cooperation Agency (JICA)	Study on Capacity Building to Promote CDM Projects in the Republic of the Philippines	2005-2006
Japan Bank for International Cooperation (JBIC)	Workshops in the Philippines Support CDM Project Formation - Knowledge Assistance for Reducing GHG Emissions	2007
United Nations Environment Program – UNEP Risø Centre	Capacity Building for Clean Development Mechanism (CD4CDM)	2002-2006
World Bank – Carbon Finance Assist	Carbon Finance Technical Assistance	2007-2008

Table 2. Philippine financial institutions with CDM portfolio

BANK	FOREIGN PARTNER
Development Bank of the Philippines (Public) Land Bank of the Philippines (Public) Philippine Export Import Credit Agency (Public)	Japan Bank for International Cooperation
Metropolitan Bank & Trust Company (Private)	Sumitomo Matsui Banking Corporation

Box 1. Japan's promotion of CDM through ODA

Steps involving CDM are as follows:

(1) Advanced nations (investors) promote projects in developing countries to reduce and absorb greenhouse gases through financial and technical cooperation;
(2) The projects result in emission reduction compared to before their implementation;
(3) Advanced nations and developing countries mutually approve the projects as CDM projects;
(4) After the approval, application for registration to the third-party institution (United Nations CDM Executive Board). When the registration is complete, advanced nations can use part or all of the emission reductions resulting from the projects as Certified Emission Reduction (CER) to meet their reduction targets.

Source: Japan's Official Development Assistance White Paper 2007

The World Bank and Climate Change Finance

A View from the South

IBON International

The provision of finance to halt the causes of climate change, minimize losses, and ensure that people cope with its adverse effects has never been more urgent. It is an obligation the global North owes the South. The North's fossil-fuelled development path dumped greenhouse gases in the atmosphere well beyond its absorptive capacity, disrupting the climate as a result. Despite contributing little to historic emissions and sharing little of the economic benefits that profit-centered growth brought the North, it is poor countries that bear the disproportionate share of climate change's negative impacts – 99% of deaths from weather disasters and 90% of economic losses.[1] Rich industrialized countries are responsible to make *compensatory* financial transfers to developing countries to enable them to adapt to adverse climate impacts (adaptation), as well as shift towards sustainable, low-emissions development paths (mitigation).

As signatories to the United Nations Framework Convention for Climate Change (UNFCCC), Northern governments formally recognize their obligation to provide climate finance to developing countries in addition to flows of Official Development Assistance (ODA). But fifteen years since the Convention came into force, the level of available funds still fall far short of the amount the developing world needs. Developed countries have also stalled on putting on the table sufficient numbers for climate finance in developing countries in the context of the two-year negotiations for enhanced commitments among Parties to the Convention that is set to end in December 2009.

Despite the woeful inadequacy of funding made available by the North for developing countries to meet climate challenges, donor-controlled climate funds have proliferated in recent years. There are currently twelve new bilateral and multilateral climate funds in operation outside the UNFCCC, most of which are administered by Northern aid agencies. Among the institutions that have staked a claim in the business of climate finance is the World Bank, which unveiled its Climate Investment Funds (CIFs) in 2008. At over $8 billion, the World Bank's CIFs and carbon funds are collectively the largest climate-related funds currently managed by any public multilateral institution, dwarfing all of the funds under the UNFCCC.

the amount of resources they have given it, rich country governments clearly prefer the World Bank to manage public funds for climate action in the developing world. Given its institutional structure that is highly skewed in favor of its wealthiest contributors, and history of pursuing environmentally and socially harmful development in the South, we ask whether the World Bank is the appropriate institution to handle these funds. Should the World Bank play any role at all in climate finance?

1. How does the World Bank Perceive its Role in Climate Action and Climate Finance, and What is its Approach?

The World Bank cites its core mandate of supporting economic growth and overcoming poverty in developing countries as rationale for its expansion into global climate action and climate finance. It frames the climate challenge as a development challenge: climate change poses greater challenges to development in the South by worsening poverty and increasing the costs of overcoming it. The Bank then defines its role as providing financial and policy assistance towards "climate-smart" and "robust" solutions that sustain or accelerate poverty-reducing economic growth in developing countries despite adverse climate impacts.[2]

While it claims to mainstream climate change considerations to its development approach, the¬¬¬ World Bank sticks to the familiar development strategy it had been pursuing in the South well before the imminence of climate change pushed it to the top of the development agenda. This corporate-led and market-driven growth strategy has not only failed to deliver development in the South, but also in many ways contributed to environmental destruction and global warming.

This strategy informs the World Bank's approach to climate action in developing countries. Private corporations take the lead in providing solutions through the market, while the government as the junior partner provides the appropriate policy, macroeconomic, and regulatory framework to mobilize and create economic opportunities for private capital to make profit. Likewise, with respect to climate finance, the World Bank envisages an arrangement wherein the major share of financial flows for climate action in the South comes from the private sector, to be raised and allocated through market-based mechanisms.

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International public finance is to play only a supplementary role.[3]

In other words the World Bank is promoting the neoliberal agenda in climate change which promotes false solutions that allow Northern corporations to continue harming the planet and the people.

Funds flow from Northern private corporations – looking to meet domestic emissions targets – to the South to finance emissions-reducing activities which cost cheaper than actually cutting emissions at home.

2. What Financing Instruments does the World Bank House and/or Push Developing Countries to Use for Mitigation and Adaptation?

Carbon finance and carbon markets

The Bank is pushing for the market for carbon offsets, and the money from developed countries used to purchase them (carbon finance) to continue to be the main source of mitigation finance for developing countries.[4] In this set-up, funds flow from Northern private corporations – looking to meet domestic emissions targets – to the South to finance emissions-reducing activities which cost cheaper than actually cutting emissions at home. Low-carbon development in developing countries is financed through the purchase by Northern entities of carbon offsets. Under the Clean Development Mechanism (CDM) of the Kyoto Protocol (KP), project-based emissions reductions in developing countries generate these offset credits or Certified Emissions Reductions (CERs) which can be used against emissions caps and traded in compliance carbon markets. Financial revenues from the CDM make up the largest source of funds for mitigation for developing countries to date.[5]

The Bank is pressing to extend the reach of the carbon offsets market to include areas currently not covered by the CDM. These include forest emissions reductions or REDD (reduced emissions from avoided deforestation and degradation), sectoral and programmatic emissions reductions (covering entire sectors such as power, transportation, and waste management, as opposed to individual projects), and agricultural soil carbon sequestration.[6] To this end, the Bank established two new carbon funds in 2008 – the Forest Carbon Partnership Facility (FCPF) for REDD, and the Carbon Partnership Facility (CPF) for sectoral projects – a move that will likely lock in a greater role for an expanded carbon offsets market in mitigation finance in the future.

The Bank itself is deeply engaged in carbon credit transactions. It currently manages ten carbon funds on behalf of Northern governments and corporations with emissions commitments under KP. These funds are money pooled from these Northern parties used to finance CER-yielding emissions reductions projects in the South. As of December 2008, the World Bank-managed carbon funds have 186 projects in its portfolio with an estimated total emissions value of $2.3 billion.[7] Apart from being the trustee, the Bank also acts as broker for carbon transactions to its Northern clients, and is currently the largest public broker of carbon purchases.

Insurance mechanisms

The World Bank promotes insurance mechanisms as key instruments for adaptation finance.[8] This dovetails with the Bank's definition of the problem of adaptation as essentially that of risk management, i.e., protecting against losses and added costs that adverse climate impacts such as erratic or catastrophic weather might impose in the future.[9]

The Bank is looking at tapping private sources of funds and market mechanisms to finance insurance in the South. In recent years, it has facilitated the creation of index-based private insurance and risk insurance pools with access to capital markets. Its goal is to expand the reach and penetration of climate risk insurance and capital markets in the area of developing country adaptation, particularly in climate-sensitive sectors such as agriculture.[10] Some of the risk management products and schemes it promotes are:

- Index-based insurance. Insurance that pays out insurance holders based on an index such as livestock mortality. Payments begin when a certain threshold is reached. Below the threshold, it is assumed that losses are small enough for individuals to bear. A cap on payments from private insurers is also set, beyond which losses are already too great that payments are to be assumed by the government. Covers low-probability events.

- Weather derivatives.[11] Instruments used to hedge against financial losses arising from weather fluctuations. In September 2008, Malawi entered into a rainfall index-based derivatives contract with the World Bank to hedge against drought and crop failures. The payout is based on the severity of the drought and can be used to purchase grain to cover for shortfalls in supply. This would be financed by a payout the Bank will receive from a similar transaction with a financial market counterpart. As it builds demand for weather derivatives, the Bank hopes that developing countries will buy weather derivatives on their own in the future.

- Sovereign risk pools. Developing country governments themselves share the risks of catastrophic weather by paying premiums into a regional or global sovereign risk pool. Risks are then passed on to reinsurance markets. The first multi-country risk pooling scheme, the Caribbean Catastrophe Risk Insurance Facility, was created in 2007 with the World Bank's assistance.

- Catastrophe bonds. "Cat bonds" are issued by an insurer to spread risk and protect against huge losses in the event of large-scale payouts arising from natural disasters. In October 2009, the World Bank launched its MultiCat Insurance Program, under which developing countries can buy insurance for multiple catastrophes by issuing bonds and selling them to capital markets.

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World Bank Climate Investment Funds

In 2008, the World Bank launched its Climate Investment Funds (CIFs), a group of donor-financed trust funds aimed at financing climate action in developing countries. To date, over $6 billion in contributions have been pledged to the funds by 12 Northern countries. The World Bank holds the trusteeship and hosts the secretariat of the funds. Multilateral development banks (MDBs), including the World Bank itself, act as implementing agencies, delivering the funds to developing countries through loans and grant financing.

There are currently two CIFs. First is the mitigation-focused Clean Technology Fund (CTF), which will fund projects contributing to the demonstration, deployment, and transfer of low-carbon technologies with potentials for greenhouse gas reductions. Second is the broader Strategic Climate Find (SCF), which will serve as an overarching fund for various programs to test "innovative" mitigation and adaptation actions in developing countries.[12] Each of the funds is governed by trust fund committees with a 50-50 donor-recipient composition.

The Bank claims the CIFs were developed as an interim measure to plug the gaps in climate finance for developing countries, in view of the absence of an enhanced climate finance architecture that is one focus of the UNFCCC negotiations. In particular, the Bank aims to use the funds to encourage early actions and market-based solutions and "strengthen the knowledge base in the development community".[13] The funds are designed with a sunset clause that promises to close down the funds once a new UNFCCC financial architecture is effective.

3. What are the Problems with these Instruments?

1. They offload the North's responsibility of financing climate action to the South

Carbon finance

- By facilitating carbon offsetting, carbon finance aids the North in offloading to the South their responsibility to cut emissions through domestic measures. It also delays the urgently-needed frontloading of Northern investments to support the rapid shift away from energy-intensive technologies and infrastructure by diverting funds to cheaper emissions-reducing projects in the South.
- But carbon finance is not even effective at delivering on its intended purpose, i.e. supporting emissions reductions in the South. Many of the projects that the Bank's carbon funds are financing have nothing to do with helping developing countries transition to low-carbon paths. In 2008, less than 16% of the Bank's carbon finance portfolio belonged to renewable energy projects.[14] HFC-23 destruction projects accounted for the largest share at 54%. Investments (as much as 75-85% according to one report)[15] flock to energy-intensive and polluting sectors such as coal, chemical, steel industries where opportunities for obtaining emissions reductions credits are greatest and cheapest, effectively subsidizing big polluters. The prospect of capturing revenue streams from carbon finance payments also encourages these Southern polluters to continue to be energy-inefficient, or worse, expand their polluting operations. Loggers and plantation owners are also likely to benefit if carbon offsetting were to be extended to include avoided deforestation and soil carbon sequestration projects.

Insurance mechanisms

- Insurance mechanisms shift the costs of managing the risks posed by climate change from the North to Southern governments and households. By buying insurance or issuing bonds, Southerners are essentially paying for the cost of adaptation to climate change which should be shouldered by those who caused it. It also creates new speculative financial instruments that finance capitalists can bet on and trade among themselves, adding new sources of volatility for the financial system.

CIFs

- The Bank's CIFs is used to promote "pre-commercial technologies," including carbon capture and storage and other techno-fixes with questionable long-term benefits for the climate but certainly offer new opportunities for monopoly profits for transnational corporations (TNCs) based in the North. They help create a demand for and dependence on commercial, Northern- and corporate-controlled "clean technologies". Intellectual property rights over these renewable energy and clean technologies allow large TNCs to reap monopoly profits from the sale of these equipment. ODA spent in these technologies becomes, in effect, a disguised subsidy for corporations from donor countries like Japan and the US.

2. They are controlled by Northern institutions, governments, and corporations

- With carbon offsetting, Northern corporations on the lookout for sources of CERs control the funds and decide what projects and which country they will be spent on. Because funding decisions are in the hands of those with capital to invest in the market, developing countries are excluded in deciding how and where these funds are to be spent. The compulsion to generate as much carbon credits in as low a cost as possible directs carbon investors to finance large, energy-intensive industries for easy pickings, helping large polluters instead of communities.

- Insurance schemes defer funding decisions to private insurers and players in reinsurance markets, whose primary goals are not to protect people but to

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secure profit. Profit-oriented private insurers would likely insure segments of the population who are less exposed to risk and most able to bear premium costs. Those who face greater risks and therefore need insurance the most would be forced to pay higher prices or remain uninsured.[16] Likewise, funding through debt instruments like catastrophe bonds defer to financial market entities and their will to bet that the risk a developing country is insuring against will not occur.

- The CIFs are donor-driven and donor-centric. The funds' design was shaped for the most part by World Bank staff and built upon the Bank's dialogue with donor countries. The design process was done in haste; and due to a tight timetable, limited announcements, and complicated input procedures, Southern groups and communities did not have a chance to participate.[17] Developed and developing countries have equal representation in the governing committee of the funds. But their exclusion from the design of the funds makes their participation ring-fenced around objectives and policies predetermined by donors. Moreover, their representation in the funds' governing bodies may well be superficial, as MDBs have a wide berth in implementing CIF-financed projects.[18] The bias in favor of donors is made worse by the World Bank's own governance structure, well-known to be skewed heavily in favor of its wealthiest members, notably the United States which effectively holds veto power.

3. They cannot be relied upon to provide adequate and predictable financing for priority adaptation and mitigation needs in the South

- Mitigation and adaptation funds channeled through carbon markets and insurance mechanisms respectively are essentially commercial in character and motivated by profit. Funding for cheaper emissions-reducing projects in the South in the context of carbon trading are payments in exchange for carbon credits, which corporations can use against their own emissions caps or trade in carbon markets at a profit. Likewise, in the context of private insurance, financial risks are covered in exchange for premium and interest payments. Insurance mechanisms commoditize the South's entitlement to protection from climate change's consequences, an entitlement that should be claimed against the North as compensation.

- Meanwhile, the CIFs remain rooted on the traditional aid framework, in which financing is voluntarily pledged and delivered by donors to recipients. That this is the case is evidenced by the fact that donor countries report their CIF contributions as Official Development Assistance (ODA). This aid approach to climate finance also allows the CIFs to be used to leverage policy conditions on developing countries, especially when they are blended with conventional development loans from MDBs.

- Moreover, since CIFs come largely in the form of loans, they also add to the debt burden of developing countries which will have to pay them back with public money.

4. What are the Problems with the World Bank's Involvement in Climate Finance?

The World Bank is a major polluter. The Bank's environmental history puts to question its involvement in climate action in the developing world. The Bank remains the single largest multilateral source of public funding for fossil fuel projects. Between 1992 – the year the UNFCCC was signed – and late 2004, the Bank funded 128 fossil fuel extraction projects amounting to $10.98 billion in loans, guarantees, and insurance. Another $11.264 billion in WBG funding was spent on building 124 fossil fuel power plants over the same period. It is estimated that the combined lifetime CO2 emissions from these extraction and power projects approach the level if current world annual GHG emissions from all sources.[19]

In 2003, the World Bank's own Extractive Industries Review recommended an immediate end to coal financing and a phase out of investments in oil production by 2008 after finding that the Bank's support for fossil fuel and other mining projects had not alleviated poverty in developing countries. The review also recommended the Bank to increase lending to renewable energy by 20% annually. However, the Bank's fossil fuel lending continues to rise. Its fossil fuel lending rose by a three-year average of 61%, from $1.5 billion in 2006 to $3.1 billion in 2008, with coal increasing by 648% (from $119 million to $1.04 billion).[20] By comparison, only $476 million went to fund new renewable energy sources in 2008.[21]

Contrary to its intended purpose of making energy accessible to the poor in developing countries, the Bank's energy lending – which favor export-oriented extraction and privatized energy provision – have reduced people's access to energy and resulted in energy insecurity.

The World Bank's neoliberal policy conditions exacerbate climate change. The Bank remains committed to a neoliberal model of development, which it pushes on developing countries through policy-based lending. This model equates unlimited and rapid growth with development, and designates the private sector operating in a free market environment as its primary engine. This entails privatization, the liberalization of trade and capital flows, market deregulation, and the promotion of export-oriented manufacturing and industrial agriculture for Northern markets. This amounts to the reorientation of Southern economies to serve the needs of Northern corporations and economies.

This model puts unprecedented levels of

Contrary to its intended purpose of making energy accessible to the poor in developing countries, the Bank's energy lending have reduced people's access to energy and resulted in energy insecurity.

strain on the environment and exacerbates climate change. Tying economic growth in the South with ever-increasing export production and ever-increasing consumption in the North drives energy use and natural resource-depletion to rise exponentially. Long-distance trade relies heavily on fossil fuels. Industrial

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food production and cash-crop agriculture, which the Bank promotes, is heavily dependent on fossil fuels for pesticides and chemicals, and is also a major driver of deforestation. The relaxation of environmental regulations to attract footloose Northern corporations has often led to environmental damage especially in developing countries.

architecture the North, through the World Bank, is setting the developing world on track for.

The key financing instruments that the Bank is pushing on the South are carbon finance, insurance mechanisms, and Climate Investment Funds. They have three main problems:

CONCLUSION

The fact that rich countries have entrusted the Bank more money for climate action than they have to any other multilateral public institution speaks of their faith to the institution. We believe that by giving the Bank large sums for climate action in developing countries, the North is able to define and lock the climate agenda along lines that work in their favor. The World Bank's record of enforcing policies on developing countries that deliver outcomes beneficial to its wealthiest members is well-known. Its climate funds and financing schemes give as a picture of the kind of climate financial

1) These instruments allow developed countries to offload their historical responsibility for financing mitigation and adaptation to the South.

2) Northern entities - namely governments, donor agencies, and corporations - remain in control of these instruments and the financial flows they facilitate.

3) The financial flows coming from these instruments are non-mandatory and non-compensatory and are therefore could not be relied upon in providing adequate funds for climate actions in the South.

The instruments identified above are closely linked with markets and the private sector, which the Bank admits *should* play a major role in climate finance. Carbon finance rides on the back of carbon trading, particularly carbon offsetting, which the Bank promotes as an efficient and cost-effective way to reduce global emissions. Insurance mechanisms are tied with financial markets. And the CIFs promote and create a demand for Northern-controlled, commercial technologies.

We believe that by giving the Bank large sums for climate action in developing countries, the North is able to define and lock the climate agenda along lines that work in their favor.

These financing schemes fit squarely into the Northern and corporate agenda for climate action, namely, the enforcement of "business-as-usual", market-based and technological fixes to climate change. By this we mean solutions that sustain the unsustainable growth economy—marked by corporate power over resources and unrestrained profit-seeking—which is behind the climate crisis in the first place.

The World Bank is party to this economic system. Despite claims to mainstreaming climate change into its operations, it remains tightly wedded to the growth-centered, market-driven, and corporate-led model of development. This model, which entails ever-increasing energy and resource usage by corporations, drives up deforestation, pollution, and greenhouse gas emissions. It is the same model that guides the Bank's large investments in carbon-intensive energy extraction and production projects in developing countries, which benefit corporations and Northern end-users instead of poor communities.

While benefiting large business and elites, this neoliberal model has failed in delivering development to poor majorities in the South. The results of the World Bank's adjustment and policy lending have instead bred poverty and maldevelopment. With billions in climate funds in the Bank's disposal, developing countries are under threat of being forced the same failed and unsustainable policies in exchange for access to resources to meet climate challenges.

Notes

[1]Ibid., 3.

[2]World Bank, "Changing the Climate for Development," in WDR 2010.

[3]Ibid, 23-26; idem, "Generating the Funding Needed for Mitigation and Adaptation," in *WDR 2010*, passim; World Bank Group, "Strategic Framework on Development and Climate Change" [Publications Report] (Washington, DC: The World Bank Group, 2008), 17-18

[4]World Bank, "Generating the Funding Needed for Mitigation and Adaptation," in *WDR 2010*, 3-12.

[5]Ibid., 7.

[6]Ibid., 18-21.

[7]World Bank Carbon Finance Unit, "Carbon Finance for Sustainable Development 2008," (Washington, DC: World Bank, 2008), 14

[8]World Bank Group, "Strategic Framework," 18.

[9]World Bank, "Reducing Human Vulnerability: Helping People Help Themselves," *WDR 2010*, 3-6

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[10]World Bank Group, "Development and Climate Change: The World Bank Group at Work" (Washington, DC: World Bank Group, 2009), 9-13.

[11]The investor who sells a weather derivative agrees to bear this risk in exchange for a premium. If nothing happens, the investor makes a profit. However, if the weather turns bad, then the company who buys the derivative claims the agreed amount.

[12]World Bank, "Proposal for a Strategic Climate Fund," 15 May 2008, CIF/DM.3/3, p. Annex A, p. 5. There are currently three programs under the SCF: 1) the Pilot Program for Climate Resilience (PPCR), which will finance capacity building for mainstreaming adaptation into development planning and budgeting in a set of selected countries; 2) the Forest Investment Program, which will finance Reducing Emissions from Deforestation and Forest Degradation or REDD activities; and 3) the Scaling up Renewable Energy Program for Low Income Countries, which will finance low-carbon projects that seek to improve access to energy especially by rural populations.

[13]World Bank. n.d.. Climate Investment Funds. World Bank Group. Accessed November 2, 2009. Available at http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCC/0,,contentMDK:21713769~menuPK:4860081~pagePK:210058~piPK:210062~theSitePK:407864,00.html

[14]World Bank Carbon Finance Unit, p. 15 Based on a loose definition of renewable energies, including solar, wind, biomass, biogas, bagasse, geothermal, and hydropower (large and mini).

[15]Janet Redman, *World Bank: Climate Profiteer* (Washington, D.C.: Institute for Policy Studies, 2008), 4.

[16]Barbara Sennholz, "Helping Farmers Weather Risks?: Assessing the World Bank's Work in Index Insurance" p. 17, Bretton Woods Project, 22 September 2009

[17]M., D. Huse, W. Chadza, and G. Banda, eds., *Financing the Cost of Climate Change: Two Perspectives on Who, What and How* (Oslo: Norwegian Forum for Environment and Development, 2008), 11.

[18]Celine Tan, "No Additionality, No Conditionality: A Critique of the World Bank's Climate Investment Finds," (Third World Network, 30 May 2008), 14.

[19]Bruce Rich, *Foreclosing the Future: Coal, Climate and Public International Finance* (New York: Environmental Defense Fund, 2009), 27.

[20]Heike Mainhardt-Gibbs, W*orld Bank Energy Sector Lending: Encouraging the World's Addiction to Fossil Fuels* (Washington, DC: Bank Information Center, 2009), 4-5.

[21]Janet Redman, *Dirty is the New Clean: A Critique of the World Bank's Strategic Framework for Development and Climate Change* (Institute for Policy Studies, 2008), 7.

This is an extract from IBON International's Policy Paper with the same title published December 2009.

The North's Destructive Model

After the failure of the UN's climate summit, the international community has to pick up the pieces and find a new approach to tackling global warming. **Hans Dembowski** discussed the matter with **Tony Tujan** of the Manila-based IBON Foundation.

In European media, China and the USA are considered to have caused the failure of the Copenhagen Climate talks. Do you agree?

I think it is too simple to blame these two countries in isolation. Several factors contributed to the failure. First of all, the notion that all countries should accept binding emissions targets is misleading. It does not make sense to try to resolve the major environmental crisis humanity is facing with such quotas. We need a new development paradigm, a model of development that would lead to a healthier world.

But greenhouse emissions are driving climate change, and climate change will have a severe impact on humanity. It is already felt – in the form of floods, landslides, draughts, storms et cetera – and particularly so in the poor world. So emissions must be reduced, and fast. I think large developing countries with fast growing economies like China or India must cut emissions too.

It is true, China and India are following the North's destructive model of industrialisation. Their strategy of GNP growth at all costs is not sustainable, but nor is the life style of rich

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nations. On the other hand, it is much easier for rich nations to cut emissions than for poor ones that do not have the same technological options and do not have access to the same range of commodities.

China has promised to cut emissions per economic output. That is not a binding target in absolute terms, but it is a target. Western governments seemed to be ready to accept such an approach in principle, but there were still arguments about who would check these data. And it obviously makes sense not to put too much faith in the statistics of an authoritarian government like China's.

Yes, China is run by a brutal regime, the data it publishes are probably distorted and the course it is steering is hurting its people. Eventually, the governments of other developing countries will understand these facts. Indeed, environmental concerns are growing in China too, and not in a romantic sense of people loving nature. They are feeling the pain, their health suffers from environmental damages. Obviously, the economic strategy that is basically focussed on speeding up industrial growth and making China the factory of the world is not what the people need. However, your argument is still fixed only on emissions statistics, and that approach won't help. We need a better paradigm.

What would that mean?

I'm thinking of an economic model that does not emphasise individual incomes and their personal consumptions. We must look at people's quality of life in more comprehensive terms, taking account of health, creativity, skills and values as well as the welfare of communities. Such a model would obviously take into account a sound environment. A consumer society of the type you have in Western Europe or North America is neither desirable nor environmentally possible all over the world. Consumerism is not sustainable, it is as simple as that. Therefore, change will be more difficult in rich nations than in the developing world, because in the North, you are already used to consumer lifestyles.

But why do the governments of the least developing countries, who will suffer most from climate change, allow China to pretend to be their leader at UN events rather than to demand change from China too?

The governments feel pressed to the wall. As long as talks focus only on emission targets and do not take a more holistic view of things, including, for instance, climate debt, they will not budge. The rich nations have been polluting the atmosphere for decades, they are responsible for the climate change we are witnessing today. They will have to come up with reparation payments, but cannot tie all other countries into a single system of binding emissions targets. That is something all developing countries agree on, including India and China. And look, the emissions from those countries that investment bankers call "emerging markets" have hardly had an impact on the global climate, they are only a tiny fraction of total emissions historically.

> *We must look at people's quality of life in more comprehensive terms, taking account of health, creativity, skills and values as well as the welfare of communities.*

But their share is growing fast, and it will have an impact.

Yes, and as I have said, we need a new development paradigm for all of humanity, including the rich nations. The Kyoto Protocol, as it has been applied, is really about keeping matters as they are and trying to boost some kind of cleaner technology. It is not about change in rich nations, it is not about climate justice. If we were dealing with a more convincing proposal, one that was geared to a more holistic development model, you would see movement in the G77, the big block of developing countries in UN negotiations. The smaller countries would opt for that kind of change – and eventually China would follow suit. The regime in Beijing certainly does not want to be isolated. In a way, the dynamics of merely target-focussed talks have allowed China to hide behind the bulk of developing countries.

Who can promote such a new model, apart from civil society organisations? Is there any government in the developing world that could press the matter?

I'm not sure; Bolivia might be in such a position but Brazil might have more clout. But I am an optimist, I believe in the power of good ideas. In a way, the failure of Copenhagen may yet prove useful, if it allows us to unravel some of the underlying misconceptions. Humanity really needs a new paradigm.

Tony Tujan Jr is international director of the non-government organisation IBON Foundation based in Manila.

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RealityCheck

December 2009

The Reality Check is the official newsletter of the Reality of Aid. It is designed to highlight current issues in aid regime written from a regional perspective but with global significance, edited in rotation by the leading networks in the following regions:

The Reality of Aid exists to promote national and international policies that will contribute to a new and effective strategy for poverty eradication, built on solidarity and equity.

Established in 1993, The Reality of Aid is a collaborative, not-for-profit initiative, involving non-governmental organisations from North and South.

The Reality of Aid publishes regular and reliable reports on international development cooperation and the extent to which governments in the North and South, address the extreme inequalities of income and the structural, social and political injustices that entrench people in poverty.

The Reality of Aid Management Committee is chaired by Antonio Tujan, Jr. of IBON International.

The International Management Committee is composed of representatives from Reality of Aid-Africa (RoA-Africa), Reality of Aid-Asia and the Pacific (RoA-Asia/Pacific), Canadian Council for International Cooperation (CCIC), Asociacion Latinoamericano de Organizaciones de Promocion (ALOP), and the European Network on Debt and Development (EURODAD).

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