



The Reality of Aid

An Independent Review of Poverty Reduction and Development Assistance

Financing Climate Change Mitigation,
Adaptation and Sustainable Development

RealityCheck

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Issue prepared by IBON International / Reality of Aid Asia

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about this issue

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.

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Climate Funds and Justice

Paul L. Quintos

Why is financing for climate change adaptation important?

Despite the efforts on the part of local communities and households to adapt, climate change is expected to take a massive toll on lives and livelihoods especially in the poorest and most vulnerable populations. An estimated 50 million more people will be at risk of hunger by 2020 plus another 132 million by the middle of the century. Glacial melting could affect water sources for over a billion people in Asia. Millions more people risk facing annual floods, especially in the megadeltas of Asia and Africa. Entire populations in small island nations face the prospect of becoming

environmental refugees. Over 150,000 people are currently estimated to die due to diarrhea, malaria and malnutrition caused by climate change.¹ Many of the coping strategies of affected communities would have to be scaled-up, complemented and supplemented by other adaptation and mitigation measures at the local, national and international levels, if humanity is to avoid the worst possible consequences of climate change.

These may include improving water supplies in rural areas, vaccination programs, improving land-use planning to reduce flooding, improving sanitation systems, constructing appropriate infrastructure such as landslide or flood control and riverbank

¹ Oxfam International (2008). Climate Wrongs and Human Rights: Putting People at the Heart of Climate Change Policy. Oxfam Briefing Paper 117, September 2008.

How are poor communities coping with climate change?



The poorest people in the poorest countries who contributed least to climate change are also the first and foremost affected by it. While world leaders are haggling over emissions reductions and who will pay for the mitigation and adaptation, millions of the world's poorest populations are daily suffering the consequences of climate change -- extreme weather events that destroy crops, livestock and homes, more frequent and prolonged droughts and floods, loss of freshwater supplies, increase in path-

ogens, destruction of marine and coastal resources, ancestral land, food and water insecurity, energy insecurity, and so on.

In the face of these deteriorating environmental conditions, the most vulnerable communities are forced to cope with changes, using traditional knowledge, practices and innovations to adapt as best they could. The Dayaks of Borneo for instance are diversifying their crops and field location to minimize risk of harvest failure. The Inuits are changing their fishing and hunting areas as well as their travel routes. The indigenous people of Belize are altering their growing season and the timing of animal migration. Entire communities in Western and Northern Alaska are relocating from areas that are becoming uninhabitable due to thawing of permafrost and rising sea levels.

Some indigenous peoples in Borneo are changing their diets, shifting to more wild foods as agricultural harvests become less reliable. Communities in Samoan islands are planting and preserving dense mangrove forests to act as seawalls. People of the Cordilleras in the Philippines are planting hunger crops such as sweet potatoes and cassava to cope with food shortages. They are also building greenhouses to protect crops from cold spells. In Africa local farmers are practicing zero-tilling in cultivation, mulching and other soil-management techniques. Women are planting more crops that are more resistant to droughts and pests, selecting and saving seeds to ensure resistance to a range of conditions that may arise in growing seasons. In Bangladesh, villagers are creating floating gardens to protect their livelihoods from flooding.

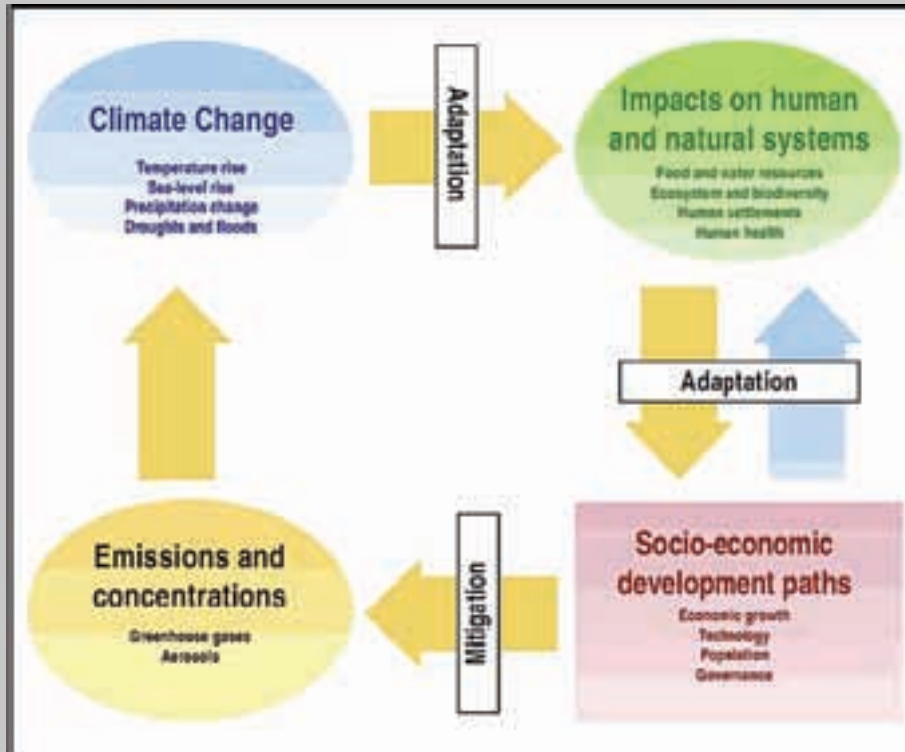
Women are taking on more chores both in the home and in the workplace.

Source: Tauli-Corpuz et al 2008. Guide on Climate Change and Indigenous Peoples. Tebtebba Foundation

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Mitigation aims to reduce the emissions of greenhouse gases in order to limit climate change.



Adaptation aims to alleviate the adverse impacts of climate change.

stabilization systems, promoting risk reduction and disaster preparedness among the population, massive education campaigns, capability-building programs, developing disaster-preparedness programs, conducting geohazard studies, improving weather monitoring systems, and so on.²

Climate change adaptation therefore requires grassroots-based national strategies as well as long-term international cooperation. Significant financial and technological support for both adaptation and mitigation would have to be generated, especially for developing countries and vulnerable communities who are the worst-affected yet least empowered to deal with climate change. In turn, this would require

equitable, effective and participatory institutional arrangements and processes for ensuring that these financial and technological flows truly benefit the most vulnerable communities as well as the global environment.

What is clear is that poor people in impoverished countries cannot and should not be expected to shoulder the burden of adaptation. Indeed it is important not to think of adaptation finance as separable from issues in development finance more generally. Moreover climate change adaptation and mitigation will have to move to the top of the development policy agenda today if it is to make a difference tomorrow.³

2 IPCC (2001). Climate Change 2001: Impacts, Adaptation and Vulnerability. Accessed at http://www.grida.no/publications/other/ipcc_tar/?src=/climate/ipcc_tar/wg2/059.htm#134

3 Solomon, Ilana (2007). Compensating for Climate Change: Principles and Lessons for Equitable Adaptation Funding. ActionAid Discussion Paper, December 2007. ActionAid USA.

How much is needed?

Various estimates have been put forward, most of which take a rather narrow and technical approach to adaptation in the context of development. The World Bank, for instance, estimates that it will cost US \$10 billion to \$40 billion annually to “climate-proof” investments in developing countries. Oxfam (2007) points out that this estimate only refers to the cost of integrating adaptation into ongoing planning, policies, and practices, and to climate-proofing ongoing infrastructure investments. It does not account for the costs needed to climate-proof the existing supply of natural and physical capital where no new investment had been planned; the cost of financing new investments needed specifically to deal with the effects of climate change; nor the costs faced by households or communities for the great majority of their adaptation needs.⁴

If these were factored in, Oxfam estimates that the true monetary cost of adaptation could reach \$50 billion annually. And this estimate may become significantly higher if current emissions levels are not drastically reduced in the near future.

In a 2007 report prepared by the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat for the 13th Conference of Parties (COP 13), the authors estimate that the incremental investment and financial flows needed to adapt to climate change in selected sectors range from \$49 to \$171 billion globally by 2030. Reducing global CO₂ emissions by 25% below 2000 levels would require an additional net increase of \$200-\$210 billion globally by 2030. This means the additional investment and financial flows needed for climate change adaptation and mitigation in 2030 would range from \$249 to \$381 billion (in 2005 \$) or 0.3 to 0.5% of the estimated global domestic product in 2030. Around half of this amount would be for developing countries.⁵ An amount approaching these figures would have to be available much earlier if global emissions are to peak sometime around 2020 and decline thereafter.

All these estimates do not yet take into full account the adaptation costs in terms of deepening existing development socio-political processes at the community and national level so that they address vulnerability to changing weather patterns and resilience in livelihoods that are equally part of climate change adaptation.

Table 1. Change to the annual investment and financial flows in 2030 for climate change adaptation

Sector	Global (billions of \$ 2005)	Developing countries (Percentage)
Agriculture	14	50%
Water Supply	11	85%
Human Health	5	100%
Coastal protection	11	45%
Infrastructure	8 to 130	25 to 35%
Total	49 to 171	35 to 60%

Source: UNFCCC 2007. *Investment and Financial Flows to Address Climate Change*, Table IX-65, p. 177

4 Oxfam International (2007). *Adapting to climate change: What's needed in poor countries, and who should pay*. Oxfam Briefing Paper 104. Oxfam International.

5 UNFCCC (2007). *Investment and Financial Flows to Address Climate Change*, UNFCCC, Bonn.

Table 2. Change to the annual investment and financial flows in 2030 for climate change mitigation

Sectors	Global (Billions of \$ 2005)	Share of NAI Parties (Percentage)
Fossil Fuel Supply	-59	50 to 55%
Electrical Supply	-7	50 to 55%
Fossil-fired generation, transmission & distribution	-156	50 to 55%
Renewables, nuclear and carbon capture & storage	-148	50 to 55%
Industry	36	50 to 55%
Building	51	25 to 30%
Waste	0.9	66 to 70%
Transport	88	40 to 45%
Forestry	21	Almost 100%
Agriculture	35	35 to 40%
Energy RD&D	35-45	-
Net Change	200-210	35 to 40%

Notes: NAI Parties: Parties to the UNFCCC that are not included in Annex 1, developing countries.

RD&D: Research, development and demonstration.

Source: UNFCCC 2007. *Investment and Financial Flows to Address Climate Change*, Tables IX-62 and IX-63, pp. 173 and 174.

What are the current sources of financing for adaptation under the UNFCCC?

There are various sources of financing for climate change adaptation at present: the UNFCCC-related funding mechanisms; the funding streams established by the World Bank and other international financial institutions; bilateral official development assistance; and private corporate investments.

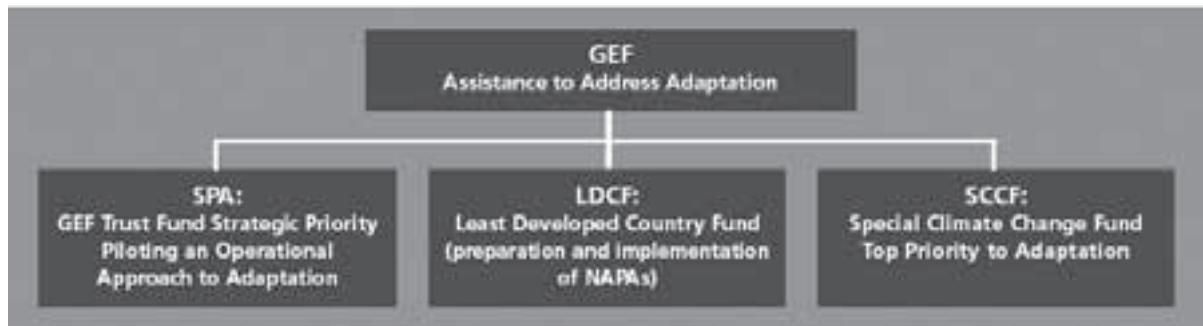
The Global Environment Facility (GEF) is a global partnership among 178 countries, international institutions, non-governmental organizations (NGOs), and the private sector to address global environmental issues while supporting national sustainable development initiatives. The GEF is the

designated financial mechanism for a number of multilateral environmental agreements (MEAs) or conventions including the UNFCCC.⁶

As the financial mechanism of the UNFCCC, the GEF allocates and disburses funds for projects implemented in developing countries and economies in transition that minimize the damage or the adverse effects of climate change. These include climate mitigation projects that reduce or avoid greenhouse gas emissions in the areas of renewable energy, energy efficiency, and sustainable transport. The GEF also supports climate change adaptation measures that increase resilience to the adverse impacts on vulnerable countries, sectors, and communities.⁷

6 GEF Website <http://www.gefweb.org/interior.aspx?id=50>. Accessed on 20 November 2008.

7 GEF Website <http://www.gefweb.org/interior.aspx?id=232> Accessed on 20 November 2008.



In 2001, two new dedicated funds were created under the UNFCCC — the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF). In managing these funds, the GEF's mandate on adaptation expanded from supporting studies, assessments, and initial pilot projects to financing the implementation of concrete actions on the ground.

The LDCF is designed to support projects addressing the urgent and immediate adaptation needs of the least developed countries (LDCs) as identified by their National Adaptation Plans of Action (NAPAs). The SCCF is designed for long-term adaptation measures which increase the resilience of national development sectors. Its main areas of funding are adaptation funding, as well as technology transfer and capacity building associated with it.

To date, 12 donors (Canada, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland and the United Kingdom) have made pledges to the SCCF while 15 donors have pledged to the LDCF: Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom.⁸

Apart from the GEF, an Adaptation Fund (AF) was established under the Kyoto Protocol to finance concrete adaptation projects to help developing countries cope with the effects of climate change. Unlike the other funds, the AF is financed by a 2% levy on Certified Emissions Reductions (CER) traded under the CDM and is therefore not dependent on voluntary contributions by developed countries. Currently, the AF is worth about \$51 million. Assuming annual sales of 300-450 million CERs, it is expected to generate up to \$80-300 million per year from 2008 to 2012.⁹

What are some of the problems with UNFCCC-related funds for adaptation?

First, the existing UNFCCC-related adaptation funds are far from adequate. The GEF allocates and disburses about \$250 million dollars per year for climate change adaptation. The total amount pledged for the SCCF and the LDCF are \$60 million and \$120 million, respectively. Some \$50 million were earmarked for the SPA when it was established. The 2% levy on CDM projects is expected to generate \$300 million, at most, for the AF. All these funds don't even add up to 2% of the estimated \$50 billion required for adaptation per year.¹⁰

8 GEF Website http://www.gefweb.org/interior.aspx?id=192&ekmense=c57dfa7b_48_60_btlink and http://www.gefweb.org/interior_right.aspx?id=194&ekmense=c580fa7b_48_62_btlink Accessed on 20 November 2008

9 Erik Haites Margaree Consultants, Inc. (2008). Negotiations on additional investment and financial flows to address climate change in developing countries. An Environment & Energy Group Publication. United Nations Development Programme.

10 Data from GEF Website http://www.gefweb.org/interior.aspx?id=192&ekmense=c57dfa7b_48_60_btlink and http://www.gefweb.org/interior_right.aspx?id=194&ekmense=c580fa7b_48_62_btlink Accessed on 20 November 2008

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Second, except for the AF, all these funds are voluntary contributions of developed countries rather than resources provided in fulfillment of their obligations under the UNFCCC. Treating these GEF funds as “voluntary contributions” eludes the fact that the industrialized countries actually owe an ecological debt to the developing world for having inflicted the most damage to the climate and the global commons. Even the UNFCCC acknowledges this in the principle of “common but differentiated responsibilities and respective capacities”. Indeed, the foremost GHG emitter, the US, has chosen not to contribute to the LDCF or the SCCF. Even the AF contradicts the polluter’s pay principle since it is a levy on mitigation effort rather than on GHG emissions.

Third, only the AF represents new funding that is not counted as ODA from developed countries. This runs counter to the intent of Article 4.3 of the UNFCCC which requires Annex 1 countries to provide “new and additional” funds for climate change mitigation and adaptation. This means that the amounts provided by developed countries as part of their commitments under the UNFCCC must be additional to their pledge of providing

ODA equivalent to 0.7% of their GDP for poverty eradication and meeting the MDGs as part of the Monterrey Consensus. As it is, only a handful have fulfilled their ODA commitment.¹¹

Fourth, because these funds are “voluntary contributions”, they are unpredictable sources of finance. As such, developing countries cannot rely on these for long-term planning and investment. Even the AF is unpredictable as it depends on the actual number of CDM projects and the quantity and price of CERs traded in any given year.

Fifth, the governance of these funds remains undemocratic. While the governing body of the GEF has 16 representatives from developing countries, 14 from developed countries and 2 from transition economies, decisions must be based on consensus or a vote weighted by donation levels. This essentially gives the five largest donor countries veto power.¹²

In contrast, the Adaptation Fund’s Board was created in 2007 with representation distributed equally between developed and developing countries,



11 Ibon International (2007). Primer on Development and Aid Effectiveness. Quezon City.

12 Solomon (2007). op.cit.

and includes representatives from least developed countries (LDCs) and small island developing countries (SIDs). When consensus is not possible, decisions are made by 2/3 majority vote according to a “one-member-one-vote” rule. Moreover, the AF is directly accountable to the COP of the UNFCCC where decisions on its overall policy are taken.¹³

Sixth, while there is explicit mention of developing countries as priority recipients of these funds, there is no mention of vulnerable communities and households within countries in any of the eligibility criteria. Indeed, there is no mechanism to ensure the meaningful participation of grassroots communities in defining priorities for adaptation, project design, implementation, monitoring and evaluation. There is a presumption that the in-country NAPA process, which varies from country to country, is inclusive and participatory. But even then, there is no assurance that the projects identified in the NAPA will actually be supported by these funding mechanisms.¹⁴

Lastly, these funds follow complex procedures and impose burdensome requirements that limit the accessibility of these funds for those who need it the most. These include co-financing requirements and the concept of “incremental costs” or “additional costs” that developing country proponents must demonstrate (i.e. they must separate the costs of adaptation from development-related costs.)¹⁵

Why is the World Bank getting more involved in climate funding?

The World Bank is one of three implementing agencies carrying out the work of the GEF, along

with the United Nations Development Programme (UNDP) and the United National Environment Programme (UNEP). Not content with its role as trustee, the World Bank is now positioning itself in the forefront of climate change financing by coming up with its own funding mechanism. It is taking advantage of the widely acknowledged urgency of the problem of climate change on the one hand, and the limitations in the main financing mechanisms available on the other, in order to reclaim its eroded influence.

In 2007 the World Bank Group began developing its strategic framework for integrating climate change and development, initially involving donors exclusively in its initial stages then involving other stakeholders in 2008 through consultations and comments. The latest draft of the Bank's Strategic Framework on Climate Change and Development (SFCCD) proposes Climate Investment Funds (CIF) and market-based carbon finance as the main mechanisms for channeling climate-related funding.¹⁶ In July 2008, the Bank unveiled the CIF with an initial pledge of \$6.1 billion from 10 industrialized countries to aid developing countries address the problem of climate change.¹⁷

The CIFs consist of a Clean Technology Fund (CTF) and a Strategic Climate Fund (SCF). According to the Bank,

“The CTF seeks to fill a gap in the international architecture for development finance available at more concessional rates than standard terms used by the multilateral development banks and at a scale necessary to help provide incentives to developing countries to integrate nationally appropriate mitigation actions into sustainable

13 Lottje, Christine (2008). International Instruments for Financing Adaptation to Climate Change. Discussion paper, October 2008. Bread for the World (Germany) and Church Development Service (EED, Germany).

14 Ibid.

15 Solomon 2007. Op.cit.

16 See articles on Carbon Trading and the Clean Development Mechanism (CDM) in this issue of Reality Check.

17 World Bank website. Viewed at <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCC/0,,contentMDK:21713769~menuPK:4860081~pagePK:210058~piPK:210062~theSitePK:407864,00.html>

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Photo: Climate Leaders Fund

development plans and investment decisions. The CTF is designed to promote scaled up demonstration, deployment and transfer of low-carbon technologies in power sector, transportation, and energy efficiency in buildings, industry and agriculture.

The SCF will provide financing to pilot new development approaches or to scale-up activities aimed at a specific climate change challenge through targeted programs. The first program to be included in the SCF would pilot national level actions for enhancing climate resilience in a few highly vulnerable countries. Other programs under consideration include: support for energy efficient and renewable energy technologies to increase access to “green” energy in low income countries; and investments to reduce emissions from deforestation and

forest degradation through sustainable forest management.”¹⁸

The Pilot Program for Climate Resilience (PPCR), established under the SCF framework, is designed to deliver “programmatic funding at scale in 5 to 10 countries to help transform national development planning to make it more climate resilient.” According to the Bank, “individual pilots will be country led and will build on National Adaptation Programs of Action (NAPAs) and other relevant country studies and strategies. The PPCR will be complementary to existing sources of adaptation funding and supportive of the evolving operation of the Adaptation Fund.”¹⁹

Each fund will be managed by a Trust Fund Committee with equal representation from donor and recipient countries and decision-making made on the basis of consensus.²⁰

18 World Bank (2008). Q & A: Climate Investment Funds. Available at http://siteresources.worldbank.org/INTCC/Resources/Q&A_CIF_July_1_08.pdf

19 Ibid.

20 Ibid.



Photo: Environmental Finance

What is wrong with the World Bank as “Climate Banker”?

First, the World Bank is using the CIFs to push the neoliberal corporate agenda on climate change. The US-sponsored Clean Technology Fund for example is intended to push “the further development of innovative financing mechanisms designed to promote market-based solutions and trigger private investments in low carbon development”.²¹ So the CTF will be 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 energy companies.

The Bank wants the Forest Investment Fund to complement, among other things, existing carbon finance instruments and to facilitate investments in forestry products and biomass and biofuel supplies as well enhance access to international markets for

these products. Thus, the Friends of the Earth International (FOEI) warns that the Bank may place the last remaining forests in so called ‘carbon offset schemes’, which would undermine indigenous peoples’ land rights and do nothing to reduce emissions. Civil society groups have expressed concerns that these market-based solutions are designed to create new sources of revenues for logging companies and other TNCs rather than safeguarding the environment or communities which depend on natural resources for their livelihoods and domicile.

Second, the CIF is a donor-driven scheme that places developing countries at a disadvantaged position. Although the funds are supposed to be governed by Trust Fund Committees with equal representation from developing and developed countries and decisions are made by consensus, donors can still pick and choose which programs to contribute to.²² Hence poor countries may be pressured to accept donor impositions just to

21 Quoted in Tan (2008), op. cit.

22 Ibid.

ensure funds flow their way. This runs counter to the principle of ownership and also makes these financing flows unpredictable. Moreover, donor countries are likely to treat their CIF contributions as part of their ODA, which is not a problem in itself as long as they are additional to current ODA commitments as stipulated in the UNFCCC.

Third, the CIFs impose new conditionalities on developing countries. For instance, the Bank wants to address the problem of ‘policy and regulatory barriers’ that create ‘disincentives’ to private sector investment in ‘clean technologies’. Access to funds from the CTF would be judged not only on the applicant’s demonstrated potential for transformation to low-carbon development but also for maintaining a ‘minimum level of macroeconomic stability and stable budget management’ as well as a ‘commitment to an enabling policy and regulatory framework’. This means that aside from specific climate-related criteria, access to the CIFs will also be based on the Bank’s traditional criteria for financing, including tight fiscal discipline and implementation of economic and other structural and policy reforms.²³ Again this is contrary to the spirit of the UNFCCC which specify binding commitments only on the advanced industrialized countries for having spewed the most GHGs into the atmosphere.

Fourth, since a large part of financing under the CIF will take the form of loans, these financial flows will add to the debt burden of developing countries. This means that developing countries will be made to pay for dealing with a problem largely caused by “donor” countries -- turning the principle of “common and differentiated responsibility” on its head. A heavier debt burden would also weigh down on poor countries’ ability to generate resources for sustainable development.

Fifth, the World Bank is hardly qualified to take a leading role in cleaning up the atmosphere given its long history of financing ecologically destructive activities and projects. For instance, from 1997-2007, the Bank has financed 26 gigatons of carbon dioxide emissions – about 45 times the annual emissions of the UK -- according to the World Wildlife Fund-UK. The Bank remains heavily committed to investments in carbon-intensive energy projects and reforms in energy sectors that focus on large-scale, privatized energy provision. Hence, climate funds under the World Bank are likely to be used to finance a version of “clean technology” that includes dirty coal, agro fuels and large hydro dams.²⁴

This year the World Bank Group’s total lending to coal, oil and gas is up 94 percent from 2007, reaching over \$3 billion, contrary to the recommendations of the Extractive Industries Review. Coal lending alone has increased an astonishing 256 percent in the last year. It reported lending over \$2.5 billion for renewable energy and energy efficiency but the bulk of this went to large hydropower projects and supply-side energy efficiency. Only \$476 million went to support “new” renewables such as wind, solar, biomass, geothermal, and hydropower projects that will produce up to 10 MW per facility.²⁵

Sixth, the Bank’s CIF does not ensure that resources will benefit the most vulnerable communities nor does it allow for meaningful grassroots participation. Like the UNFCCC-related funds, the CIF passes this burden to the in-country NAPA process. But there are no clear guidelines on how monitoring and evaluation will be conducted and by whom.²⁶

Lastly, the World Bank is creating a parallel structure for financing climate change adaptation

23 Ibid.

24 Redman, Janet (2008). *Dirty is the New Clean: A Critique of the World Bank’s Strategic Framework for Development and Climate Change*. Institute for Policy Studies, Campagna para la riforma della Banca Mondial, Oil Change International, Friend of the Earth International.

25 Ibid.

26 Lottje (2008). *Op.cit.*

and mitigation that undermines the multilateral framework of the UNFCCC; and one that is even more contradictory to the internationally agreed principle that the developed countries should shoulder the main burden for mitigation and adaptation due to their larger share of the CO2 emissions stock in the atmosphere and due to their higher technological and economic capabilities.

Celine Tan of the Third World Network (TWN) argues that the CIFs will serve as the central instruments through which donor resources are collected and disbursed for climate-related financing to the various multilateral development banks (MDBs), including the World Bank Group. Resources from the CIFs will, in effect, subsidize the financing made by the MDBs to developing countries for climate-related activities.²⁷

The Bank's CIF will not come under the authority of the UNFCCC's Conference of Parties and will not necessarily adhere to its provisions, despite assurances from the Bank that it considers the UN as the primary body for adaptation support for developing countries. Indeed, the Bank is raising much bigger amounts for the CIF and in effect will be diverting resources away from the GEF since they are dipping from the same donor pool.

What are some of the new financing instruments being proposed?

- Carbon taxes at the national and/or international levels (or a global carbon-added tax to avoid carbon leakage)
- Taxes on speculative investment,
- Taxes on oil profits
- Air and maritime levies
- Redirecting state budgets away from fossil fuel subsidies and military spending
- Debt cancellation

- Climate change insurance
- Linking adaptation funding to GHG emissions
- Fixed assessment (e.g. 0.5% of GDP for climate change adaptation funding, in addition to 0.7% as ODA commitment)
- Extending the 2% levy for the Adaptation Fund to Joint implementation projects and other activities
- Etc.

What should be the criteria for a just financing scheme for climate change adaptation and mitigation?

Climate financing must not be used to promote commercial interests, subsidize profit accumulation, or abet the business-as-usual approach of Northern elites in addressing climate change. Rather it must be used to support real and drastic reductions in greenhouse gas emissions, assist the most vulnerable and impoverished communities cope with the adverse effects of climate change, and redistribute resources according to people's needs.

Such a financing scheme must be:

based on equitable burden-sharing

This is formally expressed as the principle of "common but differentiated responsibility and respective capacities" in Article 3 of the UNFCCC. This means that restorative justice requires distribution of responsibility according to historical per capita emissions, not just on a by country basis but more significantly on a by polluter basis. The greatest burden of adjustment must be on the Northern countries and their TNCs (wherever these are located), as well as on Southern elites, who have caused and benefited the most from exploiting the global commons.

27 Tan, Celine (2008). No Additionality, New Conditionality: A Critique of the World Bank's Climate Investment Funds. TWN May 30, 2008.

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adequate

The UNFCCC Secretariat estimates that the additional investment and financial flows needed for climate change adaptation and mitigation in 2030 would range from \$249 to \$381 billion (in 2005 \$) or 0.3 to 0.5% of the estimated global domestic product in that year. Funds approaching these amounts would have to be raised and utilized soon for mitigation, adaptation, development and dispersion of appropriate technology, education and ultimately for overhauling the whole economic infrastructure into one of eco-sufficiency and sustainability.

new and additional

Adaptation finance for developing countries must come from new sources and in addition to the

long-standing (and yet to be realized) commitment of developed countries to spend 0.7 percent of their gross national income on ODA. The latter pledge is intended for poverty eradication first and foremost which remains a gargantuan unfulfilled task even when viewed without accounting for the effects of climate change on the poor and vulnerable populations. Additionality may be determined by establishing a clear donor marker for adaptation finance and identifying it separately from existing ODA flows. Nevertheless, development that supports the rights claims of poor and marginalized people must also be based on principles of ecological justice at all levels.²⁸

predictable

Long-term and reliable flow of finances must be assured rather than rely on “voluntary contributions”

28 Many thanks to Brian Tomlinson for his insightful comments and suggestions.

from industrialized countries since these will be subject to changing administration priorities and preferences, short-term budgetary or revenue fluctuations, and horse-trading. The historical responsibility of the industrialized North and their TNCs must translate to legally binding obligations to provide resources for mitigation and adaptation for the people in the underdeveloped countries.

focused on the vulnerable

Just as different countries and different classes or economic actors within the country contribute different amounts of greenhouse gas emissions to the atmosphere, the adverse consequences of climate change also impact populations and communities differently.

Article 4.4 of the UNFCCC stipulates that developed country Parties shall assist particularly vulnerable developing country Parties to meet the costs of adaptation. These include (according to Article 4.8):

- (a) Small island countries;
- (b) Countries with low-lying coastal areas;
- (c) Countries with arid and semi-arid areas, forested areas and areas liable to forest decay;
- (d) Countries with areas prone to natural disasters;
- (e) Countries with areas liable to drought and desertification;
- (f) Countries with areas of high urban atmospheric pollution;
- (g) Countries with areas with fragile ecosystems, including mountainous ecosystems;
- (h) Countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products; and
- (i) Land-locked and transit countries.

Civil society extends the principle of equity within society. Hence a focus on vulnerability refers not just to countries but also local communities including indigenous peoples, farming communities, coastal communities, urban slums, fisherfolk, rural women, children, and other marginalized groups in society.

There must be democratic governance over these financing mechanisms

Developing countries, especially the most vulnerable to climate change, should have a bigger role in the identification, definition, implementation and evaluation of programs, projects and activities for mitigation and adaptation, compared to industrialized countries. This contrasts with the donor-driven process that typifies ODA flows. Donor-imposed economic policy conditionalities would have no place under such a scheme. There must be transparency and accountability to ensure that these funds are effective and really utilized for their intended purposes and target beneficiaries. A diversity of funding channels that are more flexible should also be explored aside from macro global funds.

with meaningful people's participation

Grassroots communities through their organizations must have a principal role in the identification, definition, implementation and evaluation of programs, projects and activities for mitigation and adaptation. There must be community-level management and decision-making supported by national-level authority or public-community partnerships in the utilization of these resources. #

Financing for Climate Change Mitigation and Adaptation in the Philippines: A Pro-poor and Gender-Sensitive Perspective

Athen Peralta¹

Climate change mitigation and adaptation – why is there a need for a gender perspective?

There is now broad acknowledgement among policymakers that climate change effects will be unevenly distributed among countries and social classes. That is: poor countries and poor people will be hardest hit by climate change even though low-income countries and households contribute least to GHG emissions (IPCC 2007). However, recognition of the different vulnerabilities of women and men to climate change remains very limited.

Research on the links between climate change and gender is at a nascent stage.² Nonetheless, the rich literature around gender, natural disasters, environment and sustainable development suggests that climate change will have more severe impacts on women because of gendered norms that ascribe certain socio-economic roles to women and because of women's weaker socio-economic status vis-à-vis men (Brody et al 2008; IUCN 2007; Lambrou and Piana 2006).

Climate change produces new and different weather patterns and extreme weather events; and research findings support the view that women's economic insecurity increases more than men's in the aftermath of natural disasters (Enarson 2000). Women also recover more slowly than men from economic losses due to damage to property and the loss of livelihood.

Food, water, health and energy are particularly affected by climate change. These areas happen to be the bases of women's livelihoods and fall within the purview of women's socio-economic responsibilities (IUCN 2007). For instance, women are often in charge of growing and preparing food, gathering firewood for fuel, collecting water and caring for the ill in their families and communities – all of which tasks become more gruelling and time-consuming with the increased occurrence of floods and droughts associated with climate change. Moreover, women's lack of property rights and control over natural resources – aggravated by their limited access to information, education, credit and

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2 This has to do, in part, with the lack of sex-disaggregated data.

The Reality of Aid

technologies – translate to fewer means to deal with climate change.

While women tend to bear a disproportionate burden of adjustment to climate change, they also tend to contribute less to GHG emissions (Lambrou and Piana 2006). To cite an important example, women have a very high share of agricultural activities in many developing societies and are often involved in labour-intensive, low-emission subsistence agriculture. On the other hand, men are more likely to exercise greater decision-making power over agricultural inputs and outputs; and are mainly responsible for irrigation and the cultivation of capital-intensive, high-emission cash crops.

Additionally, women are consistently underrepresented in policy- and decision-making processes around climate change at the local, national and global levels (Brody et al 2008; IUCN

2007). This is a matter of concern not only because women comprise one of the most vulnerable groups of people, but also because women play a pivotal role in mitigating and adapting to climate change. As heads of households, active community leaders and members, and stewards of natural resources, women can and have offered different perspectives and resources in responding to climate change challenges. Case studies suggest that women have a better understanding of the causes and consequences of climate change and have the knowledge and skills to mitigate and adapt to changing weather conditions (O'Connor et al 1998; Röhr 2007).

For all of these reasons, financing policies for climate change mitigation and adaptation must explicitly consider as well as respond to the different experiences and needs of women, especially those women who are on the socio-economic margins of society.



Photo: Getty Images-Women Farmers Phils

Table 1: Summary of fiscal incentives for energy investments

Energy area	Fiscal incentives
Geothermal	<ul style="list-style-type: none"> • Exemption from taxes except income tax • Exemption from payment of tariff duties and compensating tax on the importation of machinery and equipment, spare parts and all materials required for petroleum operations • 100 % recoverable expense up to 70 percent in a given year
Mini-hydro	<ul style="list-style-type: none"> • Special privilege tax rates • Tax and duty free importation of machinery, equipment and materials • Tax credit on domestic capital equipment • Special realty tax rates on equipment and machinery • Value added tax exemption • Income tax holiday for the first 7 years of commercial operation
Bio-fuels	<ul style="list-style-type: none"> • Zero specific tax on local and imported bio-fuel components • Value added tax exemption on raw materials • Waste water charge exemption • Provision of financial service from government financial institutions equivalent to at least 60 percent of capital stock

Source: DOE (2007).

The Philippine government's approach to financing climate change mitigation and adaptation

The current international climate change regime under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC) recognises that developing countries require sufficient financial resources and technology transfer to respond to climate change issues (UNFCCC 1992). It also discerns that efforts to combat climate change must "take fully into account that economic and social development and poverty eradication are the first and overriding priorities" of developing countries (UNFCCC 1992: 8).

In the Philippines, existing sources of climate change finance include: national government spending, subsidies and incentives, national private sector spending, foreign direct investment (FDI), international debt and official development assistance (ODA) from bilateral donors.

Consistent with the "energy bias", fiscal policies on mitigation in the Philippines are closely associated

with the provision of subsidies and incentives under the 2004-2013 Philippine Energy Plan (PEP) to attract domestic and foreign investments in renewable energy development (see Table 1). Yet, at the same time, it is important to note that the government continues to offer a package of incentives for the expansion of investments in fossil fuels that contribute to climate change.

Other important sources of mitigation finance in the country include Climate Development Mechanism (CDM) projects, the Global Environment Facility (GEF) – which is jointly administered by the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the World Bank, loans from international and regional banks, and Official Development Assistance (ODA). The World Bank's Carbon Finance Facility is supporting seven CDM-related projects in the Philippines, mainly dealing with wind and geothermal power generation (World Bank 2008). The Asian Development Bank (ADB) has also financed renewable energy initiatives in the country including the "Rehabilitation of Renewable Energy

Projects for Rural Electrification and Livelihood Development” (Kubo 2005). Nonetheless, ADB financing for renewable energy amounts to only 0.1 percent of its entire funding support for the Philippine energy sector (Greenpeace 2005).

Similarly, financing for adaptation interventions in the Philippines, is currently sourced from national government funds as well as multilateral and bilateral loans and grants. For instance, the GEF is supporting a number of projects on disaster risk management in the country (see Table 2), while the World Bank offers a Development Policy Loan Deferred Drawdown Option and a Catastrophe Deferred Drawdown Option that provide immediate liquidity to governments hit by natural disasters (Garcia Rincón and Virtucio 2008). Bilateral donors are only beginning to include adaptation into their project portfolios for the country. One such example is the Japan International Cooperation Agency and Japan Bank for International Cooperation-funded Iloilo Flood Control Project (JBIC 2004).

While largely concentrated on disaster risk reduction, there are at least a couple of adaptation projects focusing on agriculture. The GEF-funded “Philippine Climate Change Adaptation Project Phase 1” aims to develop and demonstrate the systematic diagnosis of climate-related problems and the design of cost-effective adaptation measures in agriculture and natural resources management. Meanwhile, the World Bank and Provention Consortium-funded “Agriculture Climate Risk Assessment Project” will explore the possibility of pilot-testing a weather-based insurance system (Garcia Rincón and Virtucio 2008).

The benefits of risk-pooling and insurance against climate-related hazards in support of adaptation efforts are increasingly appreciated, for instance by the UNFCCC and the Kyoto Protocol. However, this remains a rather underdeveloped area in the Philippine context largely because of narrow private sector interest. Although the government-owned Philippine Crop Insurance Corporation

(PCIC) offers weather-related crop damage insurance, small farmers have limited access to the fund since insurance premiums continue to be too expensive for them (ACIAR, date unknown).

Overall, the Philippine government’s financing policy response to climate change mitigation and adaptation is composed of four tracks: (1) promoting investments in renewable energy projects in the country through the provision of public subsidies including fiscal incentives; (2) scaling up CDM projects and piloting and establishing a carbon trading system; (3) expanding ODA, loans and grants from donor countries as well as borrowings from the GEF, World Bank, ADB and other international and regional financial institutions for projects aimed at mitigating and adapting to climate change; and (4) charging user-fees for some environmental services, encouraging public-private sector initiatives and privatising public enterprises and lands. Will these financing interventions address the needs and priorities of those that are most vulnerable to climate change? The next section critically reviews the financial regime for climate change adaptation and mitigation in the Philippines from the perspective of people in poverty and women in particular.

A pro-poor and gendered review of the Philippine financial regime for climate change mitigation and adaptation

Amidst the various climate change-related financing initiatives put forward by the Philippine government, international financial institutions and donors, it is important to ask: where are the people – particularly the rural poor and marginalised groups such as women – in all of these? In terms of quantity, it is difficult to assess whether existing and proposed mechanisms will be able to marshal the required amounts of investments not least because of a dearth of information on the costs of mitigating and adapting to weather variations in the country. Nonetheless, if the Philippine’s track record in financing other development objectives – such as those expressed in the Millennium

Table 2: Major climate change-related projects in the Philippines funded by multilateral donors

Name of project and proponent	Status	Outcomes
Mainstreaming Disaster Risk Management (NEDA)	Ongoing; funded by the GEF	<ul style="list-style-type: none"> • Guidelines on the preparation of disaster risk management components of regional/local physical framework and land use plans • Enhanced capacities of regional/local planners in incorporating disaster risk management in physical framework and land use plans • 16 regional and local plans using disaster risk management guidelines • A communication strategy plan highlighting best practices
Philippine Climate Change Adaptation Programme Phase 1 (DENR)	Ongoing; funded by the World Bank	<ul style="list-style-type: none"> • Improved coordination of adaptation policy in the Philippines through clarity in the institutional structure • Cost-effective climate risk reduction in key productive sectors • Strengthening proactive disaster management • Enhanced provision of scientific information for climate risk management
Enabling Activity for the Preparation of the Second National Communication to the UNFCCC (DENR)	Ongoing; funded by the GEF	<ul style="list-style-type: none"> • Evaluation of national circumstances • Updating of the inventory of GHGs for the year 2000 • Assessment of needs, barriers and opportunities for mitigation and adaptation technologies and methodologies and building of capacities to perform such activities • Assessment of potential impacts of climate change in selected areas of the Philippines and prioritisation of adaptation measures • Preparation of the Second National Communications of the Philippines and submission to the UNFCCC
Strengthening the Philippines' Institutional Capacity to Adapt to Climate Change (NEDA and DENR)	Approved for funding through the UNDP	<ul style="list-style-type: none"> • Climate risk reduction mainstreamed into key national and selected local plans and processes • Enhanced national and local capacities to develop, manage and administer projects addressing climate change risks • Improved coping mechanisms improved through pilot adaptation projects

Source: NEDA (2008).

Development Goals (MDGs) – is to serve as a gauge, then the challenges are, to say the least, daunting.³ Qualitatively, the country's policy regime around financing climate change mitigation and adaptation is problematic for at least three reasons.

Lack of recognition of the links between financial strategies to address climate change and overall development financing and development goals

Firstly, the Philippine government's financial strategies – especially its fiscal policies – to address climate change fail to make the full range of connections between climate change financing and overall development financing and development goals.

On the public expenditure side, there is hardly any recognition among Philippine policymakers, for instance, that the availability of funds for government spending on climate change mitigation and adaptation – including targeted fiscal subsidies and incentives to encourage investments in GHG abatement technologies and related projects – will be in large part determined by existing government budget expenditure priorities, particularly the payment of public debts. In 2007, the Philippines had an outstanding public debt of USD 81.9 billion (FDC 2008). Debt servicing obligations, which are mandated by law, account for 85 percent of total government revenues and eat up more than 30 percent of public expenditures, severely constraining resources available for responding to climate change, gender inequality, rural poverty and other development challenges. Taking out loans from the World Bank and ADB – as well as courting more ODA, which are often in the form of loans rather than grants⁴ – to finance climate change mitigation and adaptation projects would add to the country's already heavy debt burden. At

the same time, obligations to raise foreign exchange revenues to service debt and its interest, primarily through expanding exports, could make it difficult for the county to begin to pursue a low-carbon growth trajectory. At the very minimum, this points to an urgent need for new, additional and non-debt creating sources of climate change-related finance.

Also largely missing in policymaking circles is an appreciation of how the allocation of subsidies and incentives to large-scale renewable energy projects (e.g. hydro dams and wind harvesting projects) versus other GHG abatement projects with potentially strong poverty-alleviation outcomes (e.g. community forest management and agro-forestry schemes) could have adverse gender and other social implications. Likewise, the current focus on investing in mitigation – instead of a more balanced approach that simultaneously promotes investments in adaptation – may not necessarily represent the best use of scarce government resources. From the point of view of the rural poor and women, the protection of their livelihoods and sources of sustenance are paramount, entailing adaptation measures that build in climate resilience in agriculture and fishery, ensure people's access to potable water and other necessities, and provide social insurance and protection, among others.

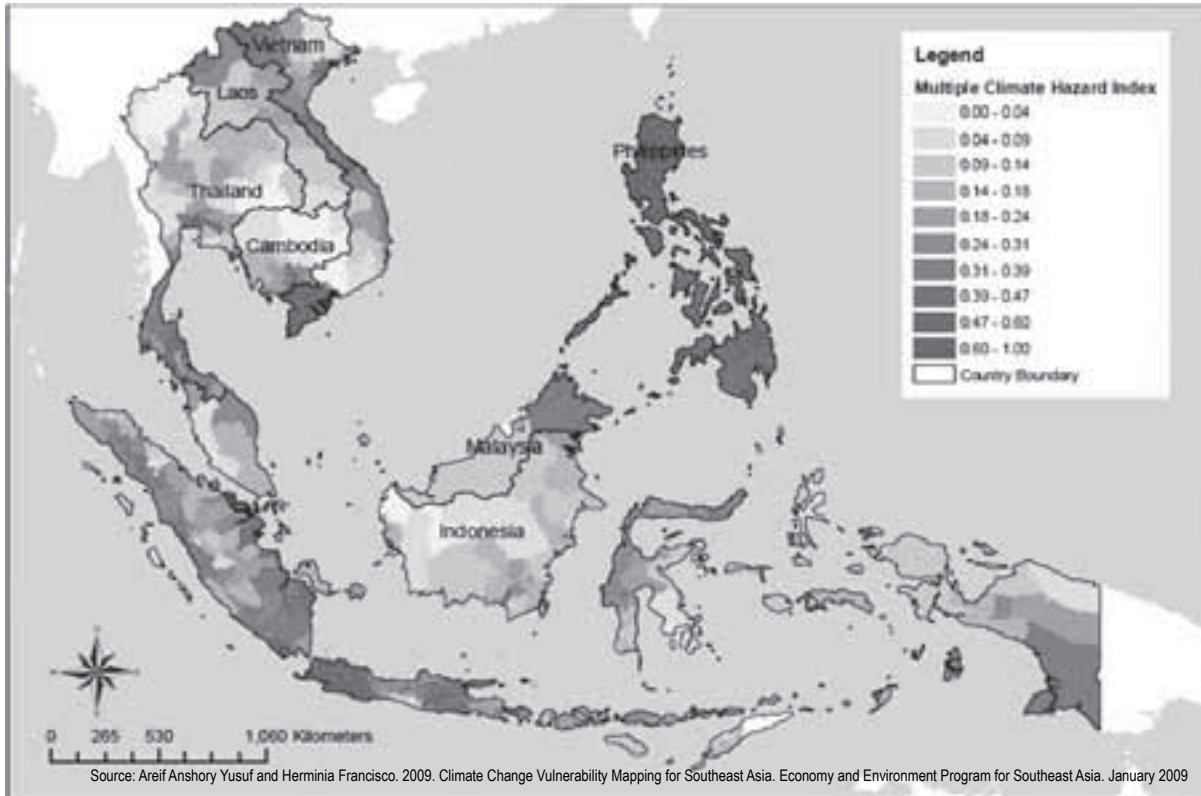
On the public revenue side, the country's policymakers demonstrate a reluctance in exploring the imposition of national carbon and other forms of pollution taxes with the dual objectives of reducing the country's GHG emissions and raising public funds for adaptation. Yet there is a growing consensus among environmental economists that national carbon taxes are superior to the cap-and-trade schemes favoured by the Philippine government as evident in the Strategic Framework of the Presidential Taskforce on Climate Change

3 A study by Rosario Manasan (2007) estimates that for the period 2007-2015, resource gaps for achieving the MDGs in the Philippines will amount to USD 13.2-18.5 billion (at the current exchange rate of USD1=PhP46).

4 See, for instance, an analysis by Antonio Tujan (2005) on the loan component of Japanese ODA to the Philippines. Japan is the country's biggest bilateral donor.

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Mitigation and Adaptation (PTFCC) and in Senate Bill No. (SBN) 1890 entitled “An Act Establishing the Framework Programme for Climate Change”, with respect to curtailing GHG emissions (Green et al 2007). Notably, there is also new and interesting evidence that a national carbon tax implemented in the Philippine scenario could reduce poverty and increase people’s welfare – provided the revenues are used to bring down income taxes (Corong 2008). While meriting further study, the previous finding suggests that linking national carbon taxation to raising revenues for adaptation could also enhance gender equality and have strong poverty alleviation benefits, particularly if adaptation finance is used to support rural development.

In generating public revenues for financing climate change mitigation and adaptation, the revised version of SBN 1890 proposes, as one of the strategies, the privatisation of public enterprises and lands. There is an extensive body of literature on

the caveats of privatisation, particularly the potential gendered consequences, depending on which sector or enterprise is targeted, for employment and people’s access to services, among others. It is equally important to note that privatisation is an unpredictable and unsustainable way of mobilising funds.

The lack of a holistic understanding of the various policy and financing relationships has, among others, the consequence of limiting the array of possible financial mechanisms to tackle climate change. While hardly exhaustive, the examples given above underline the point that financing – not least public financing – for climate change mitigation and adaptation cannot be designed in isolation from overall development financing and development policy as it is becoming more and more apparent that climate change – especially through its adverse effects on agricultural and coastal livelihoods – will have consequences for critical national goals such as

gender equality, poverty alleviation and sustainable development.

An inordinate reliance on market-based solutions

Secondly, many of the financing proposals that are currently on the table, particularly the CDM and other emissions trading projects as well as the imposition of user fees for environmental services, manifest an inordinate reliance and confidence in market-based solutions that essentially commodify the carbon-recycling capacity of the planet. No doubt markets have a role to play in raising climate change funds. But, as stand-alone policies, market-based solutions will always be imperfect and inadequate.

Perhaps the most cogent argument against market-based financing has to do with its failure to account for fair distribution. As emphasised by feminist and environmental economists, market prices are in essence about determining who is



willing to pay for a scarce good, and thus have inherent tendencies to “price out” or exclude the world’s poor – majority of whom are women – as well as the non-monetised and non-commercial sectors where women predominate (Gender CC 2007; Lee 2007).

For instance, CDM projects that combine GHG abatement with poverty alleviation would

tend to be micro-scale projects in micro hydro and biomass energy as well as community reforestation and agro-forestry activities (Lambrou and Piana 2006). However, the approval process for CDM projects is both cumbersome and costly, rendering small-scale projects unviable and making it difficult for poor communities to formulate and apply for approval of CDM projects. Moreover, while the CDM could in theory offer opportunities for the diffusion of renewable energy options addressing rural women’s daily energy needs (e.g. solar stoves), in actuality carbon investors are likely to find such projects considerably less financially attractive than one-off investments in industry and transportation (Skutch 2002).

To cite another example, the introduction of user fees for environmental services, with the sound objective of internalising environmental costs in market prices, could, depending on how it is implemented, have regressive distributional impacts, preventing the rural poor and women, who are the most dependent on the environment, from accessing such services.

More generally, the Gender and Climate Change Network (Gender CC 2007) points out that markets are oriented towards short-term profitability whereas climate change mitigation and adaptation policies must necessarily take a long-term view if it is to address the needs of present and future generations of human beings. This is a key principle in understanding the concept of sustainable development. In the context of heightened economic globalisation, the Gender and Climate Change Network also expresses the concern that a market-based approach would tend to prioritise international and regional trade and financial agreements, such as World Trade Organisation regulations, over climate change mitigation and adaptation policies.

Lack of consultation of women’s organisations

Last of all, the design and implementation of the Philippines’ current and planned financial policy

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interventions for climate change mitigation and adaptation are characterised by an overall failure to consult those most affected by climate change: the rural poor and women's groups.

While the PTFCC's Philippine Climate Change Strategic Framework is currently undergoing consultation among stakeholders, women's groups are not among them. Similarly, the government discussions around SBN 1890 exclude the departments that promote gender equality (such as the National Commission on the Role of Filipino Women or NCRFW), and the inclusion of women in policymaking since issues around climate change are considered to be irrelevant to these agencies. These practices demonstrate the prevailing view among policymakers that climate change and financing for climate change mitigation and adaptation in particular are gender-neutral. Yet we have shown earlier that this is a concern, not only on grounds of justice and equity, but because the poor and women are clearly

part of effective mitigation and adaptation strategies. Women farmers in the Philippines have clearly articulated their priorities and needs in improving climate change mitigation and coping mechanisms. They must be fully integrated in decision-making processes around financing design, management and operation. Indeed, there is a strong case for channelling mitigation and adaptation funds towards rural women who are already in the frontline of mitigation and adaptation efforts.

International financing facilities such as the GEF and donor grants have been likewise criticised for systematically failing to consider the gendered and social costs of climate change-related projects. The World Bank's Climate Investment Fund (CIF) has remained a donor-driven endeavour: developing countries and civil society – including women's groups – have been largely marginalised from the design of these climate investment monies (Tan 2008). An Action Aid study (Mitchell et al 2007)

also concludes that there is little evidence of specific efforts to target poor women in mitigation and adaptation activities funded as part of multilateral and bilateral programmes.

Towards a holistic, pro-poor and gender-sensitive financing framework for climate change mitigation and adaptation

Basic principles

Climate change effectively introduces new dimensions to the social construction of risk (Carvajal-Escobar et al 2008). In this context, a just and sustainable financing framework for climate change mitigation and adaptation must guarantee that the financial burden of coping with climate-change risks are not transferred to those who contribute minimally to GHG emissions, who possess scant financial resources to deal with its effects, and yet

who are particularly exposed to its impacts. Rather, such a financing framework must distribute the required financial outlays for responding to climate change mitigation and adaptation among and within countries in proportion to their contribution to climate change – according to the “polluter pays” principle – and capacity to pay.

Moreover, such a financing framework must be founded on democratic and participatory decision-making processes that include all stakeholders. It must carefully consider and give weight to the perspectives and needs of rural and coastal communities and poor women who comprise the group most vulnerable to climate change. It must focus on safeguarding people’s livelihoods, creating sustainable economic opportunities for the poorest and ensuring their access to basic needs and services (e.g. food, water, health, shelter, and etcetera) including through the protection of communal resources. It must consider gendered vulnerabilities and risks. It must be community-driven, national and global at the same time. It must take a holistic approach that sees explicit connections between climate change policies and socio-economic policies and development paths. And it must pull together new, additional, predictable, and reliable sources of finance.

Financing climate change mitigation and adaptation through the lenses of the “ecological debt” concept

A number of innovative, non-debt creating multilateral financing mechanisms such as the Climate Change Fund, Solidarity Fund, Climate Change Insurance Fund, International Air Travel Adaptation Levy and various international carbon taxes have been proposed by various groups.⁵ These proposals need to be studied closely for urgent implementation.

Box 1: Recommendations for ensuring the participation of rural poor and women in climate change mitigation and adaptation financing policies

- Ensure procedural justice in the design and implementation of mitigation and adaptation financing
- Prioritise the adaptation needs of the rural poor and women in mitigation and adaptation funds
- Include disaggregated indicators on mitigation and adaptation funds for targeting and monitoring benefits to the rural poor and women
- Create mechanisms for the rural poor and women’s participation in mitigation and adaptation fund management
- Ensure mitigation and adaptation finance mechanisms are able to support livelihood priorities of the rural poor and women

Source: Mitchell et al (2007).

⁵ For a brief description of these alternative financing mechanisms, see the Oxfam (2007) briefing paper entitled “Adapting to Climate Change – What’s Needed in Poor Countries and Who Should Pay” and the South Centre (2008) briefing note entitled “Financing Climate Change Responses: Suggestions for a Climate Change Fund”.

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Nonetheless, in mobilising international resources for climate change mitigation and adaptation, it is argued that the concept of “ecological debt” offers critical and cutting edge insights. According to the “ecological debt” framework, rich, industrialised countries do not only have the responsibility of drastically cutting GHG emissions based on historical accountability and the principle of “common, but differentiated responsibilities”. They also have an ethical and moral obligation to provide compensatory finance to developing countries to fund climate change mitigation and adaptation efforts. In this regard, Oxfam (2007) has developed an Adaptation Financing Index that is grounded on the “polluter pays” as well as capacity to pay principles. According to the index, the United States and European Union nations must contribute

over 75 percent of the annual USD 50 billion needed for adaptation in developing countries; while Japan, Canada, Australia and Korea must provide 20 percent of the amount. Such compensatory finance must be in addition to – and not counted as – ODA. In future climate change negotiations, developing nations, not least the Philippines, will need to harness the political will to seek financial payments from rich, industrialised countries as compensation and reparation for ecological damages, not as aid and assistance.

Non-government organisations in the forefront of “ecological debt” campaigns such as Accion Ecologica and the World Council of Churches point out that applying the concept also entails the unconditional cancellation of illegitimate financial

debts being claimed from poor countries in order to free up resources for mitigation and adaptation (Peralta 2006).

Some recommendations for national and local government financing interventions

While addressing the global inequities described above – through ecological reparation and compensation as well as through debt cancellation for developing countries – is the most justice-oriented and significant method of raising funds for tackling climatic vulnerabilities, national and local strategies could also have important impacts.

At the national level, financing for climate change mitigation and adaptation must be situated within the broader context of development financing and development goals, namely: gender equality, poverty eradication and sustainable development.

In the Philippines, the ongoing discussions around SBN 1890 and the establishment of a Framework Programme on Climate Change provides a crucial opportunity to discuss alternative policy regimes and to reshape the financial architecture around climate change mitigation and adaptation from the perspective of the rural poor and women. Needless to say, a first step would be to intentionally involve the rural poor and women in policymaking around financing for climate change and to provide a space for them to articulate their needs and priorities. Towards this end, several concrete recommendations can be made (see Box 1), which largely build on the proposals put forward by Mitchell et al (2007) for the utilisation of the UNFCCC's Adaptation Funds.

In consultation with all stakeholders, especially the rural poor and women's groups, the Philippine government could consider and study the following national proposals for mobilising funds for climate change mitigation and adaptation:

- Formulate and implement progressive national and/or local carbon taxes. Funds generated could be earmarked for financing climate change mitigation and adaptation measures, especially investments towards climate-proofing the agriculture and fishery sector, where the poor and women predominate.
- Direct domestic investments and FDI towards mitigation and adaptation, especially in areas with potentially strong gender equality and poverty reduction impacts: land-use, agriculture, fishery and forestry, through the provision of subsidies and incentives (as well as through regulations, e.g. building codes.)
- In partnership with the private sector, develop and provide insurance schemes especially targeted at small-scale farmers and rural women to protect them against weather-related agricultural losses.
- Conduct an ecological debt audit in partnership with civil society, including farmers', fisher folk and women's groups. The findings of the debt audit could be used to seek for the unconditional cancellation of the country's illegitimate debts, which, in turn, would make available resources for financing mitigation and adaptation.

At core, however, there can be no easy fix to the climate change financing problem because of the complicated and dynamic relationships between poverty, growth and the environment as well as inequitable structures of power at local, national and global level. Climate change mitigation and adaptation is a political issue – as much as it is an ecological and economic one – that demands deep-seated changes in the current, dominant model of development. Any effective, long-term response to the climate crisis will therefore entail fundamental transformations in production and consumption patterns particularly in the developed world but also for developing countries like the Philippines.

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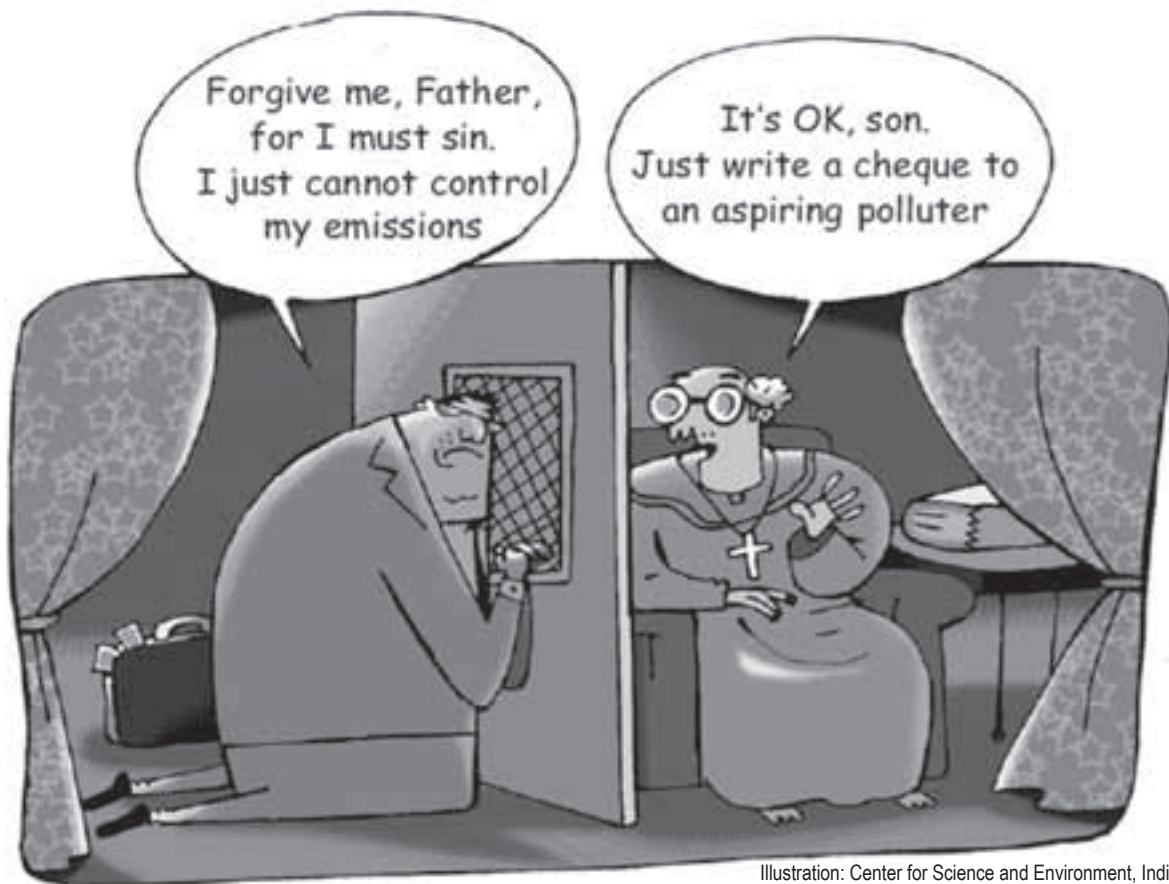


Illustration: Center for Science and Environment, India

The Clean Development Mechanism

Neither clean nor pro-development

Paul L. Quintos

The United Nations Framework Convention on Climate Change (UNFCCC) is the multilateral environmental agreement adopted at the United Nations Conference on Environment and Development, better known as the Earth Summit, in 1992. With 192 parties to the Convention, it sets the overall framework for intergovernmental efforts to tackle the problem posed by climate

change. Its principal goal is to stabilize greenhouse gas (GHG) concentrations in the atmosphere to prevent dangerous anthropogenic interference with the climate system. The UNFCCC does not specify how this goal will be achieved. Rather, it lays out a process through which various protocols with more specific and binding commitments might be negotiated among the Parties to the Convention.

This process led to the adoption of the Kyoto Protocol during the 3rd Conference of Parties (COP) to the UNFCCC held in Japan in December 1997. The central feature of the Protocol is that it sets binding targets for 37 industrialized countries and the European community (Annex B countries) for reducing the level of GHG emissions by an average of five per cent compared to 1990 levels over the five-year period 2008-2012.

A market-friendly climate protocol

The Protocol does not mandate what domestic policies can or must be implemented to achieve these reductions. But it does introduce three market-based mechanisms – Emissions Trading (ET), the Clean Development Mechanism (CDM) and Joint Implementation (JI) -- to help countries meet their emission targets, and to encourage the private sector and developing countries to contribute to emission reduction efforts.¹

Parties with emission reduction commitments under the Kyoto Protocol (Annex B Parties) have emission targets expressed as assigned amount units (AAUs) over the 2008-2012 commitment period. Emissions trading, as set out in Article 17, allows countries that have “unused” AAUs - emissions permitted them but not “used” - to sell this excess capacity to countries that exceed their targets.

Joint implementation, defined in Article 6, allows an Annex B country to earn emission reduction units (ERUs) from an emission-reduction or emission removal project in another Annex B Party, each equivalent to one tonne of CO₂, which can be counted towards meeting its Kyoto target.²

The Clean Development Mechanism allows emission-reduction (or emission removal) projects

in developing countries to earn certified emission reduction (CER) credits, likewise equivalent to one tonne of CO₂ each. These CERs can be traded and sold, and used by industrialized countries (Annex B countries) to meet a part of their emission reduction targets under the Kyoto Protocol.³

According to neoclassical economic theory, by treating the right to dump CO₂ in the atmosphere (expressed as CO₂ emission allowances) as a scarce tradeable commodity, the carbon market creates incentives for emissions reductions because the more CO₂ you emit above your allowance, the more money you would have to shell out. In this sense, it functions like a carbon tax. But unlike a carbon tax, carbon trading reduces emissions in the least cost manner because those that can easily reduce emissions most cheaply will do so the most and sell their excess allowances to those who face higher costs for emission reductions. This is premised on the fact that greenhouse gas emissions don't respect borders and, therefore, in environmental terms a tonne of GHG reductions from one place is just as good for the climate as a tonne of reductions from another place -- or so goes the theory.

A shotgun marriage

Proponents of the CDM add that this scheme not only allows a cost-effective approach to GHG reduction, it also mobilizes resources for sustainable development in developing countries. The CDM is therefore supposed to represent the happy marriage between the environmental objectives of the Protocol and the development needs of poor countries. But examining its history and the current reality of its implementation suggests that it's more like a shotgun marriage.

1 United Nations Framework Convention on Climate Change. http://unfccc.int/kyoto_protocol/items/2830.php

2 United Nations Framework Convention on Climate Change. http://unfccc.int/kyoto_protocol/mechanisms/joint_implementation/items/1674.php

3 United Nations Framework Convention on Climate Change. <http://cdm.unfccc.int/about/index.html>

Box 1. What is the CDM?

- Project undertaken in a developing country generates reductions in greenhouse gas emissions
- Accrues Certified Emission Reduction ('CER') credits (equal to 1 MT CO₂ equivalent)
- The credits can be used to contribute to the emission reduction commitments of industrialized countries
- A project based activity between developed and developing countries



Global GHG emission reduction at lower cost through flow of fund from developed to developing countries, where marginal cost of GHG abatement is lower

Source: Ernst & Young Climate Change Advisory Services. <http://www.ey.com/global/content.nsf/India/CCSS - Climate Change-Advisory Services>

In the lead-up to the 3rd Conference of Parties (COP) at Kyoto in 1997, Brazil proposed the creation of a Clean Development Fund (CDF) to be made up of penalties paid by industrialized countries that emit GHGs in excess of their allocations under the Protocol. This fund was to be used in support of GHG mitigation projects in developing countries. This proposal was backed by the G77 and China. At the same time developing countries and civil society organizations (CSOs) were strongly opposed to any mechanism whereby industrialized countries could evade their GHG reduction commitments by paying for offsets or emission-reducing projects elsewhere.⁴

But through intense pressure exerted principally by the US negotiators who were determined to avoid

drastic cuts in emissions that were enforceable with penalties, the idea of a 'penalty for non-compliance' was spun into 'investing in GHG reduction in developing countries' and the CDF was transformed into the Clean Development Mechanism (CDM) during the final stages of negotiations for the Kyoto Protocol, leaving no time for a discussion of how to implement this.⁵

It took another four years of negotiations after the COP3 in Kyoto to hammer out the operational guidelines for the CDM. According to the Marrakesh Accords of 2001, "emission reduction projects in developing countries must qualify through a rigorous and public registration and issuance process designed to ensure real, measurable and verifiable emission reductions that are additional

4 Lohman, Larry. 2006. Carbon Trading: A critical conversation on climate change, privatisation and power. Development Dialogue No. 48, September 2006. Dag Hammarskjöld Centre.

5 Franck Lecocq and Philippe Ambrosi. 2007. The Clean Development Mechanism: History, Status, and Prospects. Policy Monitor ed. Maureen Cropper. Review of Environmental Economics and Policy, Volume 1, Issue 1, Winter 2007, pp. 134–151. Oxford University Press.

to what would have occurred without the project. The mechanism is overseen by the CDM Executive Board (EB), answerable ultimately to the countries that have ratified the Kyoto Protocol.”⁶

In the context of Kyoto negotiations, therefore, the CDM was a compromise between developed countries who wanted means to lower the costs of compliance to the Kyoto Protocol, and developing countries who expected the CDM to become a new channel for development assistance.

More recently, the CDM has also been tapped for financing concrete adaptation projects and programs as well. Since 2007, a 2% levy has been applied on all CERs issued for CDM projects and deposited into the Adaptation Fund for developing country Parties to Kyoto that are particularly vulnerable to the adverse effects of climate change.⁷

The CDM is therefore a potentially significant source for investments and financial flows for climate change mitigation, adaptation and sustainable development in the South.

A bull market

The first investors in the CDM consisted of six governments and fifteen private companies who were participants in the Prototype Carbon Fund (PCF) of the World Bank. The PCF is a closed \$180 million mutual fund managed by the Bank to purchase emission reduction credits under the Joint Implementation scheme and the CDM of the Kyoto Protocol. The PCF was explicitly set up in 1999 to acquire early experience in the carbon market and influence the UNFCCC process. It became operational in April 2000, and signed its

first emission reduction purchase agreement for a CDM project in Chile in 2002.⁸

The adoption of the Marrakesh Accords in December 2001 led more players to participate in the CDM. Private firms from Japan started to enter the market in 2002 and 2003 followed by European firms about a year later, when it became clear that CERs would become eligible at least in part, under the EU-Emissions Trading Scheme (ETS) which was to be operational in 2005.⁹

Since the Kyoto Protocol entered into force in 2005, the CDM has developed very rapidly, from a handful of projects in 2004 to more than 4,500 projects in the pipeline as of March 2009 and a further 120 new projects entering the pipeline every month.

The CDM is now by far the biggest offset market ever created and constitutes a major part of the emerging global carbon market. CDM projects expect to generate a cumulative total of 2.8 billion CERs, equivalent to 2.8 billion tonnes of GHG reductions by 2012 -- bigger than the GHG emissions of all of South Asia in a year.¹⁰ These reductions are supposed to be “additional” to what would otherwise be achieved without the CDM.

Fictive figures

But there lies the rub. The requirement of additionality is the crux of the CDM. Without it, the CDM is merely a mechanism for industrialized countries to evade their commitments under the Kyoto Protocol by paying for projects in developing countries that would have been undertaken anyway. By making CERs tradeable in the carbon market, the CDM also has the effect of increasing emissions

6 United Nations Framework Convention on Climate Change. <http://cdm.unfccc.int/about/index.html>

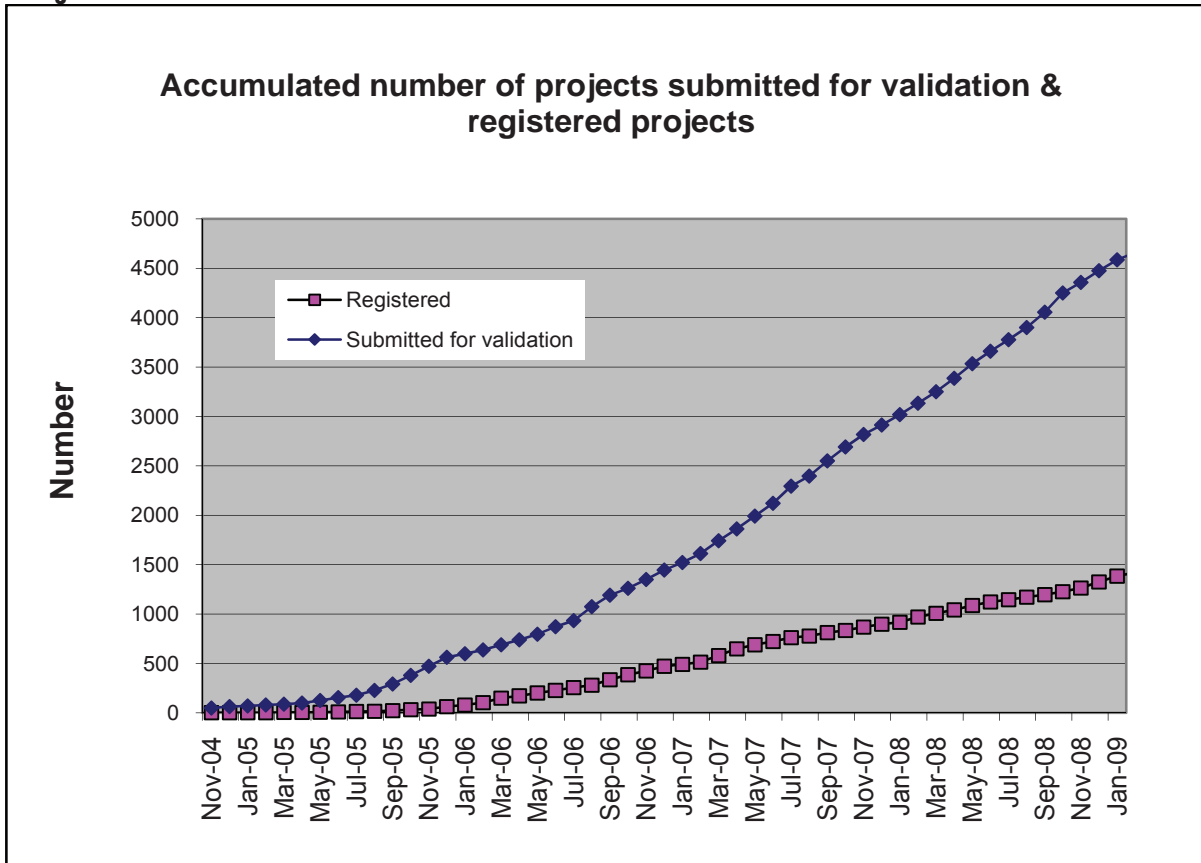
7 United Nations Framework Convention on Climate Change. http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php

8 Lecocq and Ambrosi. *op.cit.*

9 Capoor, Karan and Philippe Ambrosi. 2006. State and Trends of the Carbon Market 2006. International Emissions Trading Association (IETA) and the World Bank.

10 UNEP RISO Centre CDM/JI Pipeline Overview Page. <http://www.cdmpipeline.org/overview.htm>. Accessed 1 April 2009.

Figure 1. CDM takeoff



Source: UNEP RISO Centre CDM/JI Pipeline Overview Page. <http://www.cdmpipeline.org/overview.htm>. Accessed 1 April 2009.

permits (i.e. removing the cap) and lowering the “carbon price” therefore dampening the market incentive to make costly long-term investments in low-carbon energy infrastructure for instance. In short, its critics point out, the CDM does the exact opposite of its avowed intention -- it encourages delay in the structural shift to low-carbon production and consumption patterns in the industrialized North and accelerates climate change.

To steer away from this pitfall, the Marrakesh Accords sets out a complex accreditation process for CDM projects.

However critics maintain that there is no foolproof way to prove additionality or that carbon finance is what made an emissions-reduction (removal) project possible. As researcher Dan Welch puts it: “Offsets are an imaginary commodity created by deducting what you hope happens from what you guess would have happened.”¹¹ Hence, much depends on the “storytelling skills” of “third party verifiers” who are paid by project developers and therefore have a strong incentive to approve the projects that they check. ‘Reliable’ third party verifiers typically graduate to working as well-paid carbon accountants for these project developers.¹²

¹¹ quoted in Lohman 2006.

¹² Victor, David and Michael Wara. 2008. A Realistic Policy on International Carbon Offsets. Program on Energy and Sustainable Development Working Paper #74. April 2008. Stanford University. Stanford.

Box 2. The CDM Project Cycle

First, the project proponent—for example, the project sponsor, one of the investors, the potential carbon buyer, or a third-party (e.g., a consultant company)—produces the Project Design Document or PDD. The PDD includes, inter alia, a description of the project, an explanation of how the baseline and monitoring methodology will be applied, a discussion of the environmental impacts of the project, and a compilation of stakeholders' comments, if any.

In addition, the buyer(s) and the seller—even if they are private entities—must each get a Letter of Approval (LoA) from the Designated National Authority or (DNA). This is the entity in charge of reviewing CDM projects in their respective governments. The LoA states that the country approves participation in the project, and for the host country, that the project contributes to sustainable development.

Once finalized, the PDD and the LoAs are validated by an independent third party—the Designated Operational Entity (DOE). This is typically an auditing company accredited by the CDM Executive Board (EB). By validating the project, the DOE determines that the project has been approved by the parties involved, and that it correctly applies the selected baseline and monitoring methodology.

The DOE then submits the PDD to the CDM EB for registration. (If there is no off-the-shelf baseline and monitoring methodology available, the DOE first submits a new methodology for validation by the EB, and once the methodology is approved, the DOE submits the PDD.)

Finally, once the project is registered and has become operational, a second DOE is charged with reviewing and certifying the emission reductions generated by the project. The CERs are formally issued by the EB and transferred to the project participants' accounts. At that point, CERs are essentially fungible with other Kyoto allowances such as AAUs or ERUs.

Source: Franck Lecocq and Philippe Ambrosi. 2007.

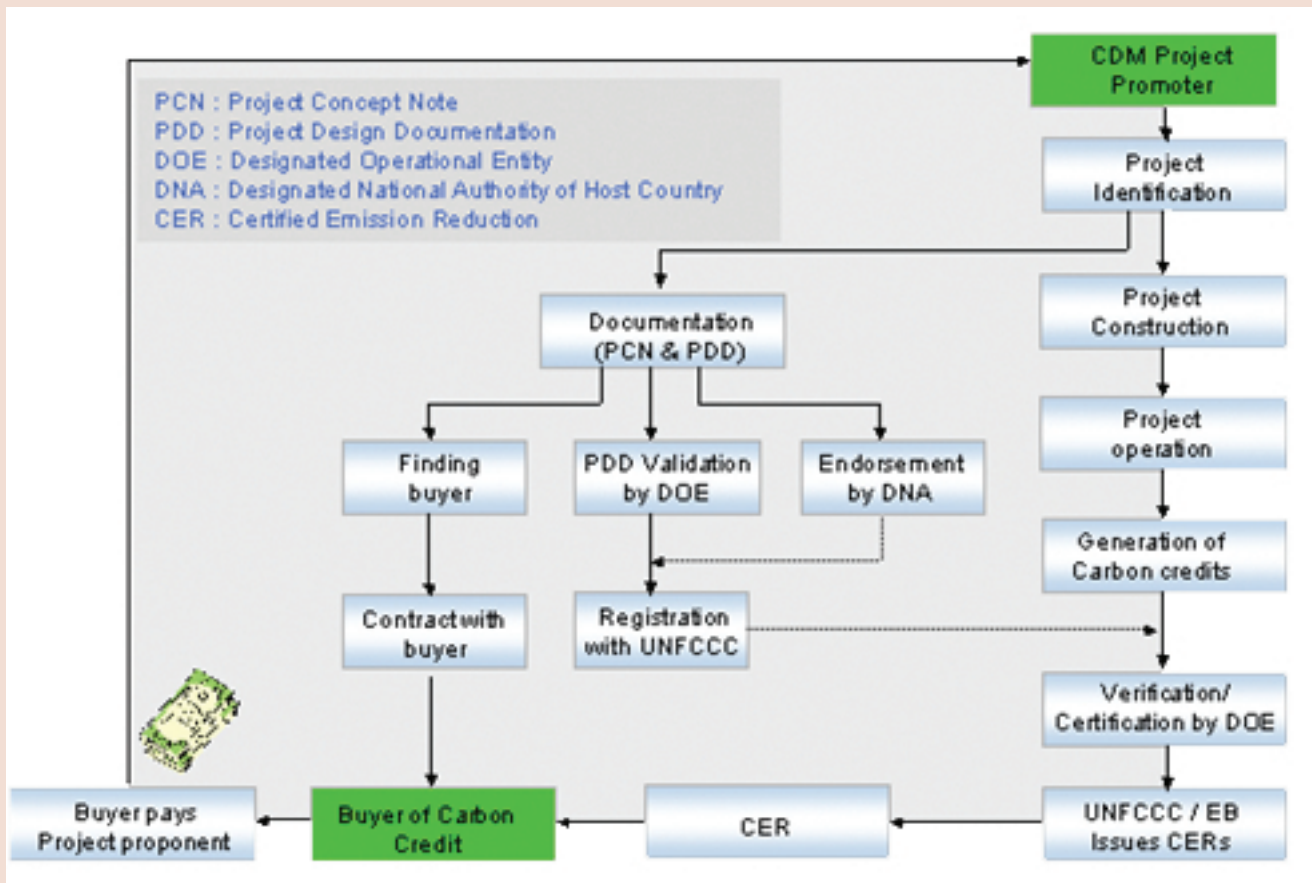
On the other hand, the CDM EB is sorely understaffed. The CDM-EB is only able to process projects at 1% to 2% of the actual rate needed to issue all the CERs in the CDM pipeline in a timely manner.¹³ Hence there is intense pressure from investors to speed up approval of CDM projects.

CDM guidelines notwithstanding, a study by International Rivers in 2008 reveals that as of October 1, 2008, 76% of all registered CDM projects had not only started construction, but were already completed by the time they were approved as eligible to sell CERs—a glaring indication of

13 Ibid. p. 16

RealityCheck

APRIL 2009



Source: Ernst & Young Climate Change Advisory Services. http://www.ey.com/global/content.nsf/India/CCSS_-_Climate_Change-Advisory_Services

non-additionality. Considering that projects face considerable risks of non-registration — almost a fifth have been rejected by either the CDM EB or DOEs — “it is difficult to believe that thousands of project developers and investors would risk tens, even hundreds, of millions of dollars in projects that would lose money if they were not registered.”¹⁴

Business as usual

Furthermore, carbon offset trading encourages low-cost CER generation but not necessarily long-term investments in low-carbon energy and economic infrastructure. For instance, close to 200 million CERs -- 76% of all CERs issued so far -- are

14 International Rivers. 2008. Rip-offsets: The Failure of the Kyoto Protocol's Clean Development Mechanism. Factsheet, November 2008. Berkeley.

due to projects that destroy hydrofluorocarbons (HFCs) and nitrous oxide (N₂O). These GHGs are vastly more potent than CO₂ but are quite easy to burn or capture through low-cost abatement technology. In fact, many manufacturers in the US and Europe voluntarily eliminated their emissions of HFCs in the 1990s. But by virtue of the CDM, refrigerant manufacturers in developing countries can now earn

more from selling CERs than from selling their own products. Michael Wara of Stanford University's Program on Energy and Sustainable Development estimates that manufacturers in developing countries can sell 47 million Euros worth of CERs for every 1 million euro that they spend on retrofitting their factories with HFC-abatement technology.¹⁵

Table 1. CDM Projects with CERs issued

Type	Projects		Issued CERs	
	Number	Share of Total	Number (thousands)	Share of Total
Agriculture	39	8.2%	3,670	1.4%
Biogas	7	1.5%	1,111	0.4%
Biomass energy	103	21.8%	11,619	4.4%
Cement	7	1.5%	1103	0.4%
CO ₂ capture	1	0.2%	43	0.0%
Coal bed/mine methane	2	0.4%	638	0.2%
EE industry	21	4.4%	921	0.4%
EE own generation	29	6.1%	10,543	4.0%
EE service	1	0.2%	4	0.0%
EE supply side	4	0.8%	328	0.1%
Fossil fuel switch	16	3.4%	1,817	0.7%
Fugitive	3	0.6%	5,153	2.0%
Geothermal	2	0.4%	318	0.1%
HFCs	17	3.6%	14,2337	54.4%
Hydro	89	18.8%	9,086	3.5%
Landfill gas	32	6.8%	5,771	2.2%
N ₂ O	11	2.3%	56,523	21.6%
Solar	1	0.2%	1	0.0%
Transport	1	0.2%	129	0.0%
Wind	87	18.4%	10,642	4.1%
Total	473	100.0%	261,756	100.0%

Source: UNEP RISO Centre CDM/JI Pipeline Overview Page. <http://www.cdmpipeline.org/overview.htm>. Accessed 1 April 2009.

¹⁵ Wara, Michael. 2006. Measuring the Clean Development Mechanism's Performance and Potential. Program on Energy and Sustainable Development Working Paper #56. July 2006. Stanford University. Stanford.

This implies that the 200 million tonnes of CO₂e emissions reduction resulting from these projects could have been achieved at just 2% of the financial cost of these CERs -- belying the claim that carbon trading is the most efficient and least-cost way to encourage GHG emissions reduction. Worse, it also allows the predominantly European companies that buy these cheaper emissions permits to put-off costly but urgently necessary investments in cleaner technologies. Indeed, Michael Wara and David Victor of Stanford University estimates that imported CERs could account for up to ten times the actual emission reductions from within the EU cap-and-trade. "Total required reductions to meet the limits under the EU's ETS during the 2008-2012 period are expected to be about 700 million metric tonnes of CO₂-equivalents, of which perhaps only a small percentage would be accounted for through actual reductions within EU borders."¹⁶ Energy consultants Wood MacKenzie point out that UN offset credits "will easily exceed the shortage of carbon emissions permits within Europe, making it cheap for European firms to avoid cutting their own emissions at all."¹⁷

More disturbingly, many offset projects in the works directly support fossil fuel industries, such as schemes to burn off methane from coal mines or use carbon dioxide to pump out the remaining sticky oil at the bottom of nearly-exhausted wells. In effect, CDM finance can provide additional subsidies for fossil fuel extraction.¹⁸

Sustainable development left out

Furthermore, although the resources invested for projects in the South through the CDM is substantial – around US\$ 7 billion in 2006 according

to UNFCCC estimates compared to around US\$800 million available annually from the Global Environmental Facility (GEF) on average¹⁹ -- the financial resources spent on CER generation and trading tend to be disproportionately captured by foreign investors and traders from the North together with local elites from a handful of big developing economies. This is because resource-poor proponents cannot comply with the costly upfront investments, the highly burdensome process of designing a CDM project, proving additionality, having it verified, validated and registered, and the high uncertainty in economic returns (which depends on CER pricing at the carbon market). Small scale project participants are particularly disadvantaged.

Hence, more than 70% of all CDM projects in the pipeline are located in just four developing countries -- China, India, Brazil and Mexico -- while the African continent is host to only 2.1% of such projects.²⁰

Within countries, CDM projects may also reinforce social inequalities. In surveying the results of studies of early pilot CDM forestry carbon projects, Karen Holm Olsen of the United Nations Environment Programme (UNEP) observes that "middle-income communities and relatively well-off farmers with property rights to forests are more likely to be among the beneficiaries than poor households or women-headed households with no land titles and less formal rights to access forest resources... Resource strong stakeholders are often able to define the terms of the carbon trade."²¹ Olsen notes that CDM investors perceive the issue of equity to be the least relevant to the CDM, in contrast to the perception of users of CDM projects who rank development benefits highest.

16 Victor and Wara, op.cit. p. 9

17 Wynn, Gerard. "Glut of European Carbon Permits Likely", Reuters, 26 September 2007.

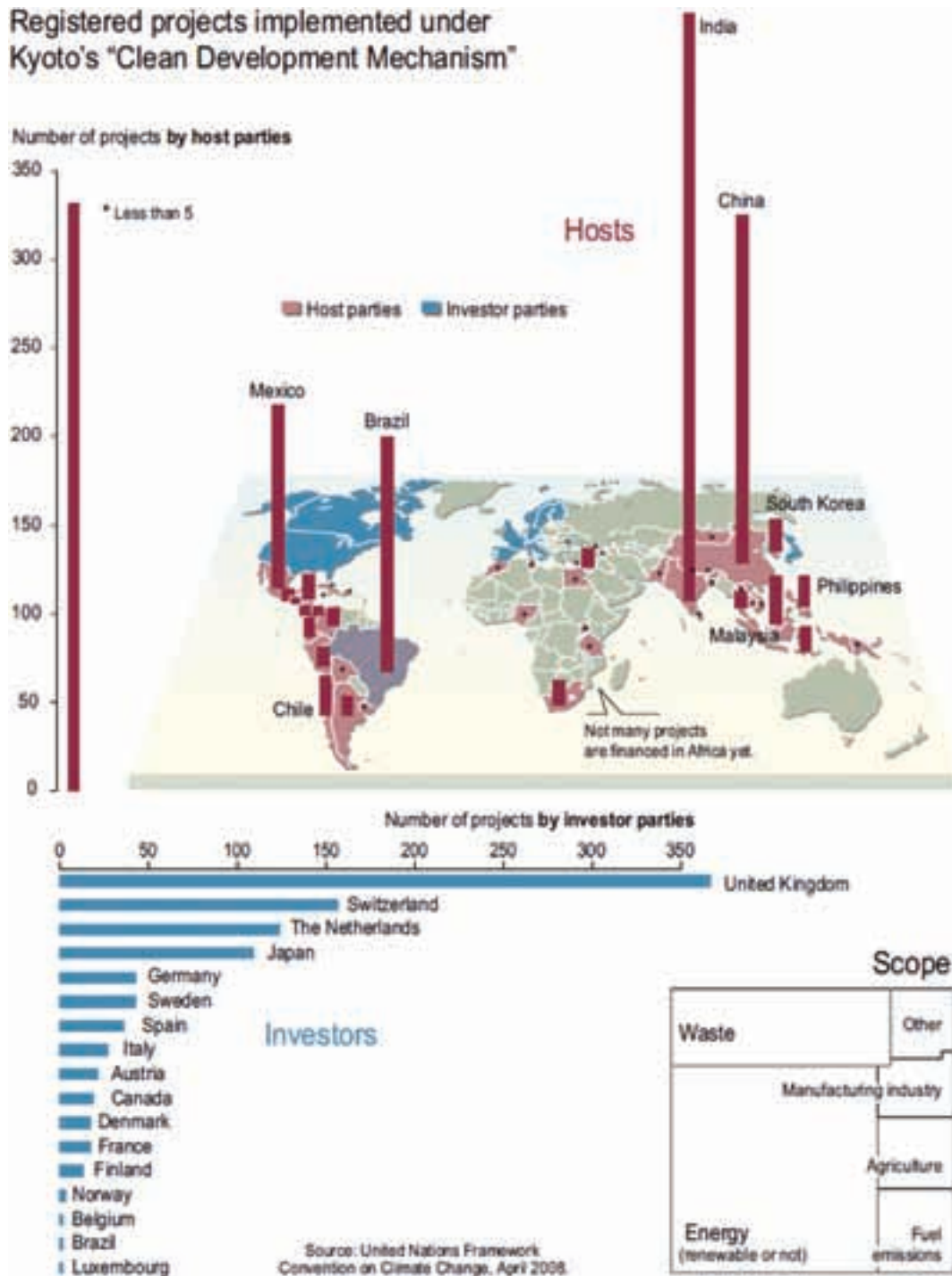
18 Lohman, Larry 2008. Carbon Trading: Solution or Obstacle? In *The Impact of Climate Change on India*.

19 Murphy, Deborah, Aaron Cosbey and John Drexhage. 2008. Market Mechanisms for Sustainable Development: Implications for the Development Dividend. In *A Reformed CDM – including mechanisms for sustainable development*. Eds. Olsen, Karen, and Jorgen Fenham. 2008. Capacity Development for CDM Project. UNEP Riso Centre. Denmark.

20 UNEP RISO Centre CDM/JI Pipeline Overview Page. <http://www.cdmpipeline.org/cdm-projects-region.htm>

21 Olsen, Karen Holm. 2005. *The Clean Development Mechanism's Contribution to Sustainable Development: A Review of Literature*. Research Network on Environment and Development.

Figure 2



Source: UNEP/GRID-Arendal, Registered projects implemented under Kyoto's "Clean Development Mechanism", UNEP/GRID-Arendal Maps and Graphics Library, <http://maps.grida.no/go/graphic/registered-projects-implemented-under-kyoto-s-clean-development-mechanism1> (Accessed 1 April 2009)

Table 2. Projects in the CDM Pipeline in less developed countries, by host region

Region	Number		kCERs	2012 kCERs		2012 CER	
						Pop'n	per cap.
Latin America	854	18.8%	80,240	422,243	14.5%	449	0.94
Asia & Pacific	3,493	76.9%	501,605	2,338,282	80.4%	3,418	0.68
Europe & Central Asia	44	1.0%	3,943	17,438	0.6%	149	0.12
Africa	95	2.1%	19,433	94,038	3.2%	891	0.11
Middle-East	55	1.2%	8,366	37,981	1.3%	186	0.20
Total	4,541	100%	613,587	2,909,982	100%	5,093	0.57

Note: In some project more than one investor country participate.

Source: UNEP RISO Centre CDM/JI Pipeline Overview Page. <http://www.cdmpipeline.org/cdm-projects-region.htm>

Community development goals are often absent from carbon contracts which only value carbon assets, or exaggerated to satisfy the dual criteria -- environmental integrity and sustainable development -- of CDM projects. Elenita Dano of the Third World Network cites projects from the Philippines which include the “construction of basketball courts and waiting sheds, contribution to local beauty pageants, payment of local taxes, etc.” as examples of contributions to sustainable development.²²

A major reason is that developing countries and their DNAs tend to compete for CDM projects like any other foreign investment. On the other hand, investors and CER buyers are looking for large blocks of low-cost, easy to obtain carbon credits and they have a global scope of possible locations to choose from. Hence, most developing countries’ DNAs, let alone host communities, have little power to insist on sustainable development principles or standards. The upshot is a trade-off between sustainable development objectives and cost-reduction, in favor of the latter.

Olsen concludes that from a sustainable development perspective, ‘the CDM does not work’

in that it does not drive sustainable development and does not fund renewable energy projects or carbon forestry projects with high development co-benefits. However, the problem can be turned around. The real problem is that the CDM works perfectly! It produces the lowest-cost emission reduction. Left out of the market are the sustainable development benefits. While rhetorically mandated in the Kyoto Protocol, they are not monetized and therefore play a limited role in directing investments²³

Moreover, by channeling resources according to carbon assets, the CDM and carbon trading “disincentivizes” other options that may have wider benefits to marginalized communities such as community organizing and mass education campaigns. It can even have the perverse effect of discouraging the adoption of policies in the Global South that could have much greater impact on GHG mitigation and development but would have the effect of disqualifying projects for CDM credits. For instance, many renewable projects in India, particularly wind energy projects, often cannot qualify because the Indian government already has a policy to support and promote this source of energy. Similarly, if a solar energy project

²² Presentation made at the First National Grassroots Conference on Climate Change in the Philippines, April 20-21, Balai Kalinaw, UP Diliman, Quezon City, Philippines.

²³ Olsen, op.cit. p. 13

Box 3. CDM Aggression in India

The carbon boom is not merely a financial game and a distraction from genuine climate action. It has also had severe negative effects on the ground in countries such as India, which already boasts hundreds of offset projects contributing to the appropriation of local land, water and air. In the flat farmland outside Raipur, for example, factories producing sponge iron for export to China pumps out smoke that dims the sun and blackens trees, soil and workers' faces alike. Yet in return for documents claiming that they are making part of their operations more energy-efficient, many of the owners are selling carbon pollution licenses to the North through the UN. Local activists are concerned: with or without efficiency improvements, Chhattisgarh's largely coal-fired iron works will continue to spoil farmland and crops, usurp local groundwater, displace villagers, and damage the health of local residents. Farmers that are displaced are rarely hired to work in the factories, which are staffed mostly by laborers brought in from outside. Many displaced women are forced into prostitution. Closure orders were slapped on several of the plants for pollution violations in December 2006. To the activists, the firms' carbon schemes look like little more than opportunism on the part of a dirty and exploitative industry. Twenty kilometers away from the biggest complex of factories, many residents of Chauranga village would agree: they resorted to vigilante action to keep a nearby factory from operating for fear their livelihoods would be lost.

In Maharashtra, the Sayadhri Range of the Western Ghats in India has been profoundly affected by wind energy development at the hands of Suzlon, Bharat Forge and other companies. As the plateau has become cluttered with wind energy generators, power lines and fences, the villages below have found themselves barred from the common lands they once used for grazing and gathering, and much wildlife has disappeared. As investigations by Nishant Mate have revealed, when one village, Kadve Kurd, where villagers hold documents dating back to colonial times attesting to their land rights, tried to stop generators from going up on the plateau, they were intimidated by police. The wind generating company involved tried to force one villager to sell his land to the project for Rs. 50,000, then made death threats, compelling him to leave his village for two months, and also tried to derail his attempts to use the courts to hold on to his land; company agents burned village records he was using as evidence of possession. Several companies involved in the wind developments have requested carbon finance from the UN's Clean Development Mechanism, including Tata Auto, Bajaj Auto, ENERCON and Bharat Forge. One local activist noted that "the windmills protect the polluting companies" by boosting their green credentials. Villagers are not supplied with electricity from the windmills.

A third example is from the Bhilangana river in Uttaranchal, near the village of Sarona. There, Swasti Power Engineering Ltd. is benefiting from Clean Development Mechanism money in its development of a 22.5 megawatt run-of-the-river hydroelectric project that would devastate local farmers' finely-tuned customary terraced irrigation system that provides them with rice, wheat, mustard, fruits and vegetables. A survey for the project conducted over ten years ago reported that there were no villages near the project; Sarona residents were never consulted and first

learned about the project only in 2003, when construction machines arrived. Older women in the village led the first actions of opposition, and in March 2005, 120 villagers were jailed for four days, and another 79 arrested in July. In November 2006, at least 29 people were arrested and forced to sign a document that they would cease resistance. One village woman told Tamra Gilbertson of Carbon Trade Watch, "The children were at school and they took us all to jail. I was so worried for the children being alone for so long, but the older children cared for the younger ones and they made food together." In police raids since, people have had their clothes torn off and been beaten, and women in the village have been assaulted, dragged by their hair and tortured. Yet the villagers continue to embrace nonviolent tactics. One villager stated, "We did not put sand in the petrol tanks – we are nonviolent, and want an honest fight." In the mountainous river valleys of Uttaranchal, some 146 such dam projects are proposed or underway, and hundreds of hydroelectric schemes in India are seeking carbon finance.

Source: Lohman, Larry 2008. Carbon Trading: Solution or Obstacle? In The Impact of Climate Change on India.

receives assistance from the government, such as a mandated purchasing-power agreement or an attractive tariff for the sale of electricity, the project is not considered additional, but 'business as usual' and does not qualify for CDM credits.²⁴

Post-2012

With so much controversy surrounding the CDM, numerous proposals have been put forward to reform the mechanism. Among the major reforms being explored at the Ad Hoc Working Group on Further Commitments for Annex 1 Parties under the Kyoto Protocol for a post-2012 CDM are:²⁵

- broadening the scope of the CDM to include more types of activities or projects such as Land Use, Land-use Change and Forestry (LULUCF), carbon capture and storage and nuclear projects;
- expanding the CDM to include sectoral, programmatic and/or nationally appropriate

mitigation actions (NAMA)-based crediting of emissions reductions;

- introducing differentiation and graduation criteria among developing countries;
- improving access to the CDM for least developed countries (LDCs) and small island developing states (SIDS);
- institutional reforms to reduce transactions costs such as the use of standardized baselines, positive or negative lists, multiplication factors for CERs applied to specific project activity types, etc.;
- specifying co-benefits as a criteria for registration;
- converting the CDM into a fund-based mechanism

Expanding the scope and/or loosening the criteria for CDM projects would generate more resources for CDM projects but threatens to swamp the market with CERs. Unless combined with much more ambitious emission reduction commitments on the part of industrialized countries -- which is less likely given the global economic downturn -- this could drive down carbon prices and defeat

24 Centre for Science and the Environment. 2007. C is for unclean. Down to Earth: Science and Environment online. Dec. 15, 2007. http://www.downtoearth.org.in/cover.asp?foldername=20071215&filename=news&sid=41&page=16&sec_id=9&p=1

25 Murphy et al. (2008). op. cit

The Reality of Aid

the purpose of arresting global warming since it would then be much cheaper to buy offsets than reduce emissions. Tightening the criteria to ensure environmental integrity (additionality) and sustainable development benefits would tend to have the opposite effect of raising costs which would favor big projects promising large quantities of CERs located in a few large developing countries. Introducing differentiation and/or graduation criteria would most likely be resisted by the targeted countries (China, India, etc.)

Except for the fund-based mechanism, none of the above proposals escape from the three binding elements of the CDM that make it fundamentally flawed. First, it is intended as an offset option for industrialized countries and therefore the question of additionality will always bedevil its design.

Second, it is market-based and therefore unable to value non-monetized social goals such as equity, popular participation, ecological sustainability, and awards entitlements according to purchasing power, hence, marginalizes the poor. Third, it is investor-driven and therefore further disadvantages poor and vulnerable communities in the South who are made to “compete” for CDM resources, or worse, lead to the dispossession and oppression of those who resist.

Converting the CDM into a non-offsetting fund-based mechanism that is additional to the aid commitments of developed countries and financed according to the ecological debt owed by industrialized countries to the peoples of the Global South offers more hope for the future. But only if it is premised on the recognition that Clean Development is a right and an imperative, not a business venture. #

CARBON TRADING A NEW CURRENCY





REDD and Indigenous Peoples¹

Tebtebba Foundation

Forests are massive reservoirs of carbon, estimated to be 4,500 gigatonnes (Gt) -- more CO₂ than in the remaining oil stocks (2,400 Gt) and greater than all the CO₂ currently in the atmosphere (3,000 Gt). Forests are being lost at an average 9-13 million has. per year.

But for indigenous peoples, forests are not just carbon stocks. They have developed and sustained intricate relationship with forests: as habitat; source of livelihood; ecosystem services; source of health services; and cultural and spiritual functions. A significant part of the remaining tropical and sub-

tropical forests are found in indigenous people's territories. There is persistence of conflicting claims over ownership with conflicts ending up in courts or in violent confrontations.

Most indigenous peoples have not experienced nor seen satisfactory experiences, mechanisms and arrangements at the national level nor at the regional and global levels on governance of forests (e.g., Tropical Forestry Action Plan, Forest Policies of the World Bank, recommendations of the UN Forum on Forests, etc.). For this reason, indigenous peoples are wary of ongoing negotiations within the UNFCCC

¹ Excerpt from Tebtebba (2008). Guide on Climate Change and Indigenous Peoples, Part V, pp. 43-58.

that seeks to include forests under the purview of a multilateral protocol on climate change.

Forests and the UNFCCC

Reducing Emissions from Deforestation and Forest Degradation (REDD) is a climate change mitigation concept that seeks to reduce greenhouse gas emissions (GHGs) by preventing or reducing forest loss which accounts for 20% of global GHG emissions. REDD is currently under negotiations in the ongoing climate change talks but is just one small part of the overall negotiations leading up to the Copenhagen Conference of Parties in December 2009. The big issues include finance, technology, adaptation and mitigation, capacity building, the Kyoto Protocol and the Clean Development Mechanism (CDM).

In December 2005, the Coalition of Rainforest Nations led by Costa Rica and Papua New Guinea presented a formal proposal for reducing GHG emissions from deforestation to the 11th Conference of the Parties (COP) of the UNFCCC and first Meeting of the Parties to the Kyoto Protocol (COP11/MOP1).² In the meeting, several NGOs and scientists led by Environmental Defense reiterated earlier calls for inclusion of forests under Kyoto's trading instruments. As a result, COP11 requested that its Subsidiary Body for Scientific and Technological Advice (SBSTA) evaluate the issue of avoided deforestation and climate change mitigation and report back to UNFCCC COP13/MOP3 in December 2007. The UNFCCC organized two international meetings on avoided deforestation in July 2006 and March 2007.³

In October 2006, economist Sir Nicholas Stern came out with the Stern Review on Climate Change. He suggested that "avoided deforestation measures should be included in the post-2012 commitment

period under Kyoto, but urges that action to prevent deforestation on a large scale must be taken as soon as possible through pilot avoided deforestation schemes to test methodologies and iron out any remaining technical and social difficulties."⁴

In December 2007, the UNFCCC (COP13/MOP3) came out with the Bali Action Plan [FCCC/CP/2007/6/Add.1*] that gave the go-ahead to continue negotiations by considering "Policy approaches and positive incentives on issues in relation to reducing emissions from deforestation and forest degradation in developing countries. Negotiations will be undertaken by the Adhoc Working Group on Long Term Cooperative Action (AWG-LCA) with a decision to be made in COP15 in 2009.

In the meantime, pilot schemes on REDD are already being undertaken and funding mechanisms are being set up by multilateral bodies – including international financial institutions, private companies governments and conservation groups in anticipation of the inclusion of REDD in the post-2012 commitment period.

Funding REDD

While REDD is still being negotiated, funds are already made available to pilot REDD projects. Currently, the major sources are:

- Proposed global and regional funds such as the World Banks' Forest Carbon Partnership Facility (FCPF)
- Annex 1 countries who will provide funds directly to countries and through multilateral channels
- Private sector
- Voluntary carbon markets
- UN-REDD

2 Tom Griffiths, "Seeing Red: Avoided Deforestation and the Rights of Indigenous Peoples and Local Communities," June 2007.

3 *Ibid.*, p.3.

4 *Ibid.*

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The World Bank wants to be the lead international player in this initiative. Since 2000, it has already set-up “10 carbon funds and facilities with a total capitalization of over US\$2 billion.”⁵ Initiatives to set up the FCPF started in 2006 with consultations with governments and organizations, including big environmental NGOs. In June 2007, the G8 summit supported the establishment of the fund.

The FCPF was launched in Bali, Indonesia in 2007 during the UNFCCC COP13. Indigenous peoples and the Chair of the UNPFII raised serious objections over the FCPF and its lack of consultation with indigenous peoples. In response, the Bank conducted regional consultations with indigenous peoples in Asia, Latin America and Africa in 2008.

FCPF Donors include Australia, Finland, France, Japan, Norway, Spain, Switzerland, the UK and the US. It has two components: the Readiness Mechanism which is meant to support government capacities to participate in REDD initiatives; and

the Carbon Finance Mechanism for funding specific pilot projects in developing countries.

There are 14 subtropical and tropical countries included in the FCPF as of Sept. 2008:

- Africa: Gabon, Kenya, DRC, Ghana, Liberia, Madagascar
- Asia: Nepal, Laos, Vietnam,
- Latin America: Guyana, Mexico, Bolivia, Costa Rica, Panama

Aside from the Bank, some Annex 1 Countries are also providing funds for REDD. Norway launched its Climate Change Forest Initiative in Bali with a funding of \$600M annually for the next 6 years to support UN-REDD, among others. Norway believes both market and fund-based approaches to a REDD regime are needed. Australia has earmarked A\$200M (US\$185M) for the next 5 years mainly for Indonesia, Papua New Guinea and the FCPF.

5 World Bank, Forest Carbon Partnership Facility: A Framework for Piloting Activities to Reduce Emissions from Deforestation and Forest Degradation.

The private sector is also mobilizing funds for REDD. The Rainforest Project, launched by Prince Charles in October 2007, aims to bring together scientists and leaders from industrialized countries to stop deforestation. It is funded by 12 private sector companies such as Rio Tinto, KPMG, Deutsche, Morgan Stanley, Goldman Sachs. Several foundations who have programs in deforestation are now supporting some REDD-related activities. These include the Gordon and Betty Moore Foundation in the Amazon and the David and Lucile Packard Foundation in Brazil; the Rockefeller Foundation in support of the Clinton Climate Initiative to develop forests projects in tropical countries, among others.

Afforestation and deforestation projects also account for 36% of the voluntary market offsets while 3% of the voluntary transactions involve avoided deforestation.

The UN has also stepped into the picture with a collaborative program of UN agencies (UNDP, FAO and UNEP) on REDD. This was established in response to the Bali Action Plan and the COP13 Decision 2/CP.13, requests from countries and with the encouragement of the Norwegian government which pledged more than US\$3.0B over 6 years in support of REDD. Its aim is to generate the requisite transfer flow of resources to significantly reduce global emissions from deforestation and forest degradation and assist forested developing countries and the international community to gain experience with various risk management formulae and payment structures.

Its immediate goal is to assess whether carefully structured payment structures and capacity support can create the incentives to ensure actual, lasting, achievable, reliable and measurable emission reductions while maintaining and improving the other ecosystem services that forests provide. A multi-donor trust fund was established in July 2008 that allows donors to pool resources and provides funding to activities towards this program.

Opportunities for Indigenous Peoples?

Because of REDD, indigenous peoples and local communities are mentioned in the negotiating texts (Decision 2/CP 13, 1(b) (ii) of the Bali Action Plan, etc.). Except for some of the IPCC (Intergovernmental Panel on Climate Change) Reports, the phrase “indigenous peoples and local communities” cannot be found in any final documents of the UNFCCC.

The renewed focus on forests may be maximized to push for legal reforms of forests laws and other laws dealing with the ownership, access and control of forests to ensure that indigenous people’s rights to their forests are recognized and respected. Negotiations on REDD may be an opportunity to get the UNFCCC to include the UN Declaration on the Rights of Indigenous Peoples (UNDRIP) as a legal framework to guide the design and implementation of mitigation and adaptation processes. REDD, if designed properly, may help strengthen the implementation of UNDRIP and national laws and policies on indigenous people’s rights; increase possibilities of preventing deforestation; and may benefit indigenous peoples if the REDD architecture is designed with indigenous peoples.

Spaces and mechanisms in the UNFCCC negotiations may be explored such as the establishment of a Working Group on local adaptation and mitigation measures of indigenous peoples and local communities; and setting up of an Indigenous People’s Fund for Climate Change which will have a component for funding readiness activities or capacity building activities of indigenous peoples for REDD.

Risks of REDD

On the other hand there are numerous risks that indigenous peoples face as REDD gains ground.

On Governance:

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- Exclusion of indigenous peoples from decision-making due to highly centralized, top-down management of forests.
 - Renewed and even increased state and “expert” control over forests.⁶
 - Overzealous government support for anti-people and exclusionary models of forest conservation (evictions, expropriation) to protect lucrative forest carbon “reservoirs.”
 - Violations of land and resource rights, particularly forests rights.
 - State and NGO zoning of forest lands without the informed participation of forest dwellers.
 - Potential increase on judicial and physical conflicts due to contested claims over forests and between recipients and non-recipients of REDD funds.
 - Unequal and abusive community contracts.
 - Land speculation, land grabbing and land conflicts (competing claims on REDD compensation).
 - Corruption and embezzlement of international funds by national elites.
 - Potential conflict among indigenous communities (over acceptance or rejection of REDD schemes).
 - Violation of the right to free, prior and informed consent.
 - Historical and present lack of legitimacy, equity, justice in land-use planning and benefit sharing schemes.
- Perverse Incentives:
- Funds for REDD may fall into the hands of deforesters (loggers, plantation owners, etc.) and will be provided only to national governments while indigenous peoples, who continue to play their stewardship roles over forests and who practice traditional sustainable forest management practices, are not rewarded.
 - Unjust targeting of indigenous and marginal peoples as the “drivers” of deforestation.
 - Unequal imposition of the costs of forest protection on indigenous peoples and local communities.

6 Tom Griffiths, “Seeing Red: Avoided Deforestation and the Rights of Indigenous Peoples and Local Communities,” June 2007.

- REDD could be disadvantageous for countries with large forest areas and low deforestation rates. Instead of providing incentives for developing countries which have forest covers from 50%-70% (e.g., Democratic Republic of Congo, Malaysia, Brazil, etc.), those who will receive incentives are the deforested countries who will undertake REDD, reforestation and afforestation.
- Industrialized countries (Annex 1 countries, the main polluters) continue their unsustainable and high-carbon production and consumption patterns so long as they pay poor countries to do REDD.
- Developing countries and indigenous peoples and other forest dwellers may end up as tenants being paid to take care of the forests which will provide emissions credits to Annex 1 countries.
- c. Other funding mechanisms – e.g., hybrid approach as proposed by Greenpeace which means use of both public and private funds, levy on bunker fuels, aviation fuels, forest industry, etc. which can be used to fund REDD.

Current State of Negotiations

Negotiations on REDD have proceeded according to the Bali Action Plan. These include the Climate Change Talks in Bangkok (April 2008), Bonn (June 2008), Accra (August 2008) and Poznan (December 2008). REDD proponents wish to include REDD in the scope of the 2012 Commitments and to set up a multilateral mechanism which will establish national level baselines and accounting with option of project level implementation; and create financial incentives which include a development fund or a market mechanism on tradeable carbon credits or a combination of both.

Some of the questions and issues raised in discussions on REDD include the following:

Carbon Market as Main Means to Fund REDD:

- Reliance on the private sector and the carbon market to provide funding for REDD; this will be driven more by speculation and an increase in the unregulated carbon market.
- There is still lack of scientific proof that offsets can readily reduce GHG emissions. These offsets come from CDM projects and voluntary markets, REDD, etc.
- Linking REDD mainly to the carbon market or offset markets is one source of the resistance to REDD. Forests play multifunctional roles and furthermore, to be reduced as a commodity for carbon trading. Forests are “places of great biodiversity, homes, and the source of livelihood for the very people who have been protecting them for millennia.”
- Diverts us from seriously considering and developing:
 - a. Non-monetary mechanisms – e.g., recognition of indigenous people’s rights, reform of laws and policies, etc.
 - b. Other market mechanism outside of the carbon market (e.g. rewards for ecosystem services)
- Funding mechanisms – How to ensure that funding is done on a sustainable basis for REDD? Is this through private (market-based approach or a Kyoto Protocol-type market mechanism design to create “tradeable emissions units”) or public (fund-based approach which is a fund paid to developing countries that meet performance objectives) or a combination of both (hybrid approach)? Should REDD be included in the offset or carbon market?
- Substantive issues – what activities should be covered under REDD? Forest conservation; sustainable forest management (SFM); enhancement of carbon stocks; others?
- Methodological issues – how are baselines determined to estimate forest cover and deforestation rates? How to address problems of “leakage” and permanence (i.e., forests being converted to other uses in the future).

- Beneficiaries of funds/compensation and participation -- How to ensure that funds for REDD will reach the real target groups and how to ensure that they will continue to conserve that forests and not be pushed to engage in deforestation and degradation? How can stakeholders – like indigenous people and forest dwellers – be involved in all phases of designing, implementing, monitoring and benefiting from REDD? Will the free, prior and informed consent of indigenous peoples be obtained when REDD is going to be implemented in their forests?

At the Accra Climate Talks, some countries already made submissions on REDD to the Secretariat. These included references to indigenous peoples. Japan and the European Union called for the inclusion of indigenous peoples in the REDD negotiations, including identifying and addressing the social implications of REDD.

At the COP 14 in Poznan, the United States, Canada, Australia and New Zealand (often known as the ‘CANZUS Group’) maintained their intent to include REDD in the future climate agreement but opposed the inclusion of the recognition of the rights of indigenous peoples and local communities in a decision on REDD drafted by government delegates at the Conference. This was promptly condemned by representatives of indigenous peoples, local communities and non-governmental organizations monitoring the progress of negotiations in Poznan.

Indigenous peoples' response

In previous regional consultations on the FCPF in Asia, Latin America and Africa in 2008, indigenous peoples have expressed that:

- The UN Declaration on the Rights of Indigenous Peoples and the ILP Convention No. 169 should guide the formulation and implementation of projects supported by this Facility.
- The right to self-determination, including free, prior and informed consent, should be

respected. If indigenous peoples in the States who are willing to be part of this do not give their consent for such a scheme to be done in their communities, then this should not be pursued.

- The World Bank Operational Policy 4.10 on Indigenous Peoples should be used from the inception to the implementation of FCPF-supported projects.
- The final decisions on how to treat the FCPF/REDD should be done by the indigenous peoples at the community and national levels.

In the side event on “REDD, avoided deforestation policies and indigenous peoples: potential impacts and possible strategies” organized by Forest Peoples Programme, Tebtebba, IPACC and FPCI, during the 7th Session of the UNPFII last April 25, 2008, indigenous participants stated, among others, that:

- REDD, as currently formulated, is unacceptable for many indigenous peoples.
- Indigenous peoples must put forward their own proposals, following their own logic and perspectives for forests protection. They must not just be reactive to REDD/AD proposals, but take a broader view integrating indigenous peoples rights, biodiversity health and climate solutions.
- Indigenous peoples must stand united and adopt a strong position about the unacceptability of REDD in its current form given the fact Parties to the UNFCCC are still in the process of negotiating the policy approaches and positive incentives on REDD.
- At the national level, indigenous peoples can make demands for law and policy reforms and use the political space opened up by readiness activities and pilot projects to advocate for reforms and recognition of indigenous people's rights and to ensure that indigenous peoples are centrally involved in all the processes related to REDD. #

Reality Check

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The Reality of Aid Project 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 Ibon International, Canadian Council for International Cooperation (CCIC), African Forum and Network on Debt and Development (AFRODAD), Asociación Latinoamericana de Organizaciones de Promoción (ALOP) and the European Network on Debt and Development (EURODAD).

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