

Discussion Paper

Compensating for Climate Change:

Principles and Lessons for
Equitable Adaptation Funding



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Acronyms

AF	Adaptation Fund
AOSIS	Alliance of Small Island States
CCM	Country Coordinating Mechanism
CDM	Clean Development Mechanism
CDMP	Comprehensive Disaster Management Programme
COP	Conference of Parties
DFID	Department for International Development
DOE	Department of the Environment
GEF	Global Environment Facility
GDP	Gross Domestic Product
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
LDC	Least Developed Countries
LDCF	Least Developed Countries Fund
MOP	Meeting of the Parties
MPF	Montreal Protocol Fund
NAPA	National Adaptation Programs of Action
NIKA	Not In Kind Alternatives
NGO	Non-governmental Organization
ODA	Overseas Development Assistance
ODS	Ozone-depleting Substances
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
SPA	Strategic Priority on Adaptation
UN	United Nations
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
UK	United Kingdom
US	United States
AID	Agency for International Development

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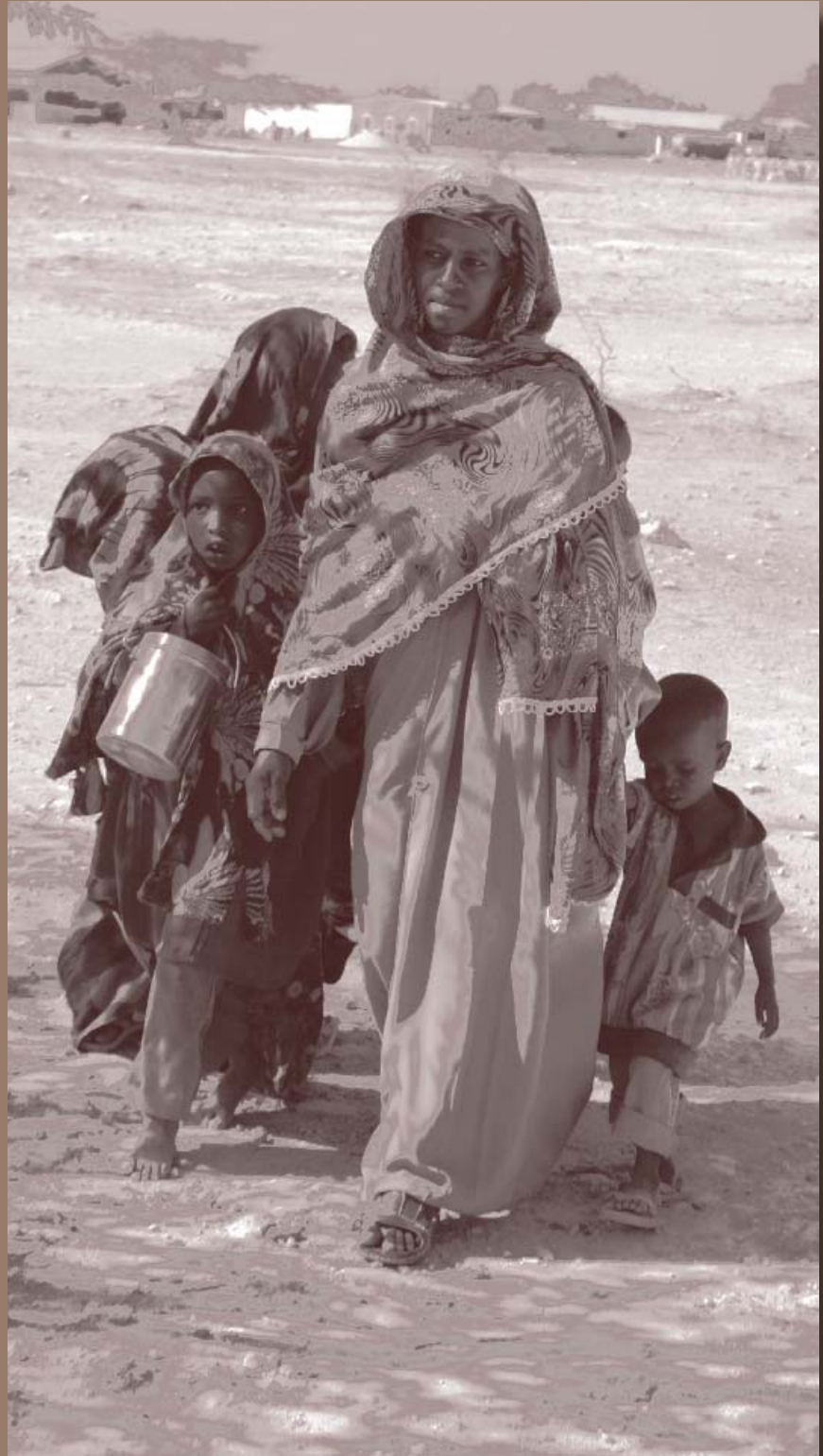


Photo (above and back cover): ActionAid International Kenya. A family walks to a food center during a drought in Northern Kenya.

Front Cover Photo: Gideon Mendel/ Corbis/ ActionAid. An Indian woman wades to safety during a flood in her village.

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Executive Summary

Rich countries that have been the major contributors to the climate crisis have an obligation to compensate impoverished nations which are bearing the brunt of global warming. However, there are significant gaps between funds pledged and the needs of developing countries struggling to adapt to the impacts of climate change. Moreover, there has been insufficient attention to the question of which funding mechanisms are most appropriate for serving affected communities.

This report identifies five principles for effective adaptation funding:

- Democratic governance
- Civil society participation
- Sustainable and compensatory financing
- No economic policy conditionality
- Access for the most vulnerable

It then reviews current available channels for adaptation funding, including the funding streams associated with the Global Environment Facility (GEF) and bilateral development assistance. Finally, it explores and evaluates alternative models for adaptation finance based on two existing precedents (the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Multilateral Fund for the Implementation of the Montreal Protocol).

Key findings:

- While the GEF adheres to the principle of “compensatory funding,” it falls short on aspects of the ActionAid principles related to democratic governance, civil society participation, sustainable funding, and access for the most vulnerable.
- While the GEF’s grants are not tied to economic policy reforms, burdensome requirements of increased reporting, additional criteria, and co-financing may deny access to some countries and vulnerable communities.
- While bilateral assistance offers some important lessons, it does not allow for the international cooperation and coordination among nations that is vital to addressing climate change, nor will it likely finance the

tens of billions of dollars needed annually for adaptation.

- The Global Fund for AIDS, Tuberculosis and Malaria could serve as a model for a climate change adaptation fund in several ways. Its governance structure strives for regional balance, country ownership, and transparency. However, many governments have not effectively involved civil society in the process and the voluntary funding mechanism has created instability.
- Another possible model is the Montreal Protocol Fund, which finances developing country activities to phase out ozone-depleting substances. This Fund applies a principle of “common but differentiated responsibility” that recognizes historical differences in the contributions to global environmental problems. This approach has boosted international cooperation with the Fund.
- One important lesson from the Montreal Protocol Fund is that establishing clarity on the means and level of assistance is critical to ensuring broad country support. The Fund has also built country ownership by covering the costs of “ozone units” within national governments.

Based on these findings, ActionAid recommends the following:

- The Kyoto Protocol Adaptation Fund should become the main channel for future adaptation funding, operating under the guidance of, and accountable to, the COP/MOP.
- Non-party countries must immediately ratify the Kyoto Protocol and re-engage in the international process of a post-2012 international agreement.
- Each participating country should constitute a multi-stakeholder committee, with broad government, expert and civil society participation.
- A Women’s Rights Desk should be responsible for ensuring that women’s leadership is central in decision-making and evaluation.
- An independent inspection panel of

representatives from affected communities should be formed to monitor the use of funds.

- The Adaptation Fund should support a combination of investment and non-investment activities, such as capacity-building initiatives, LDC workshops, and development and adaptation activities.
- All existing Overseas Development Assistance must factor in the costs and impacts of pending climate changes to their development work.

Introduction

Climate change is one of the greatest obstacles to ending poverty and one of the gravest equity challenges of our time. Over the past century, the Group of Eight (G8) industrialized countries have been responsible for a disproportionate amount of global carbon emissions.¹ And yet it is the developing world that faces the greatest difficulties in adapting to the impacts of global warming.

A recent report by the United Nations Intergovernmental Panel on Climate Change (IPCC) concluded that impoverished countries are least capable of coping with the increasingly devastating impacts of climate change, including extreme weather events, sea-level rise, drought, disruption of water and food supplies, and negative impacts on health. “Poor communities can be especially vulnerable, in particular those concentrated in high-risk areas. They tend to have more limited adaptive capacities and are more dependent on climate-sensitive practices,” the report states.²

Not all poor people will be affected equally. Women, who make up 70 percent of the world’s poor, depend more than men on natural resources that are threatened by climate change. Poor women also lack access to and control over natural resources, technologies, and credit. As a result, they are more vulnerable to seasonal and episodic weather and to natural disasters resulting from climate change. (See Box 1 for more information.)

As the major current and historical polluters, rich countries have an obligation not only to cut their

own emissions, but also to fund the adaptation needs of the most vulnerable countries—especially least developed countries (LDCs) and small island developing states (SIDS). While mitigation, or the reduction of greenhouse gas emissions, has been the focus of the debate for decades, recently there has been increased pressure on rich countries to redress their historic contributions to the problem by devoting new funds to help poor countries adapt to climate change. This is in part due to new IPCC findings, which state that “even the most stringent mitigation efforts cannot avoid further impacts of climate change in the next few decades, which makes adaptation essential.”³

This shift in the debate is critical to addressing the adaptation needs of the most vulnerable countries. However, the debate has not yet adequately addressed the question of which mechanisms are most appropriate for channeling funds in ways that allow affected communities to best meet their adaptation needs.

This report will: 1) define adaptation and summarize current funding gaps, 2) present a core set of principles by which any adaptation funding mechanism should be assessed, 3) discuss the existing funding mechanisms and evaluate them on the basis of the principles, 4) explore and evaluate alternative models for adaptation finance based on two existing precedents (the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Multilateral Fund for the Implementation of the Montreal Protocol), and 5) present key recommendations for the future financing of adaptation in the global south.

I. Understanding Adaptation

ActionAid utilizes the IPCC definition of adaptation, which is: “adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.”⁴ In simpler terms, adaptation consists of planning and implementing coping mechanisms to adjust to the effects of climate change—such as increased temperatures and more frequent and intense floods and droughts.

Box 1: Women and Climate Change

There are many ways in which women are affected differently, and more severely, by climate change.

Women as Food Producers and Providers



One of the primary reasons that women are more vulnerable to the effects of climate change is that they are disproportionately dependent on threatened natural resources. The IPCC report “Impacts, Adaptation, and Vulnerability” predicts that yields from rain-fed agriculture in sub-Saharan Africa could be reduced by as much as 50 percent by 2020. Such a strain on food production will certainly translate into increased hardship for women, who often carry out farming activities. In fact, women are responsible for approximately 75 percent of household food production in sub-Saharan Africa, 65 percent in Asia, and 45 percent in Latin America.⁵ As crop yields decline and resources become scarcer, women’s workloads will expand, jeopardizing their chances to work outside the home or attend school. In times of drought, they will also have to spend more time performing another typical female responsibility — carrying, purifying, and

supplying the family’s water.⁶

Women as Guardians of Health

As water- and heat-related diseases increase because of climate change, women will bear the burdens of increased caregiving and threats to their own health.⁷ The World Health Organization states that “Changes in climate are likely to lengthen the transmission seasons of important vector-borne diseases, and to alter their geographic range, potentially bringing them to regions that lack population immunity and/or a strong public health infrastructure.”⁸

Malaria is one example a vector-borne disease that will likely increase due to climate change, particularly as a result of increased temperatures and rainfall. Pregnant women are particularly vulnerable because they attract malaria-carrying mosquitoes at twice the rate as non-pregnant women. Moreover, pregnancy reduces a woman’s immunity to malaria, making her more susceptible to infection and increasing her risk of illness, severe anemia, and death. Maternal malaria increases the risk of spontaneous abortion, premature delivery, stillbirth, and low birth weight—a leading cause of child mortality.⁹

Women as Agents of Change

Because of a lack of access to information and exclusion from political discourse and decision-making, women have an information deficit with respect to climate politics and climate protection. Yet despite their relative lack of knowledge, they often are more willing to alter environmentally harmful behavior once they are aware of the urgent need for change. In many ways, women’s traditional knowledge and skills have helped communities cope with severe weather. For example:

- During water shortages, women’s knowledge of managing and maintaining water sources becomes critical to communities’ survival.¹⁰
- Women’s traditional knowledge about building wind-resistant housing, planting trees to mitigate erosion, preserving seeds, composting to improve soil quality, and conserving safe drinking water have protected generations of communities from the worst effects of flooding.¹¹
- In many communities, women hold the most reliable knowledge about promoting food security, preserving threatened food supplies, and ensuring their family’s survival in the face of shortages. Women’s knowledge of and experience in maintaining bio-diversity through the conservation and domestication of wild edible plant seeds and through food crop breeding is key to adapting to climate change more effectively.¹²

Photo: Gideon Mendel/ Corbis/ ActionAid. Women carry firewood from a raised platform to their home in Pir-muhammadpur village, India, which was twice submerged by recent flooding.

Poor communities have been adapting to climate change for years, although they might not recognize their efforts as such. A recent ActionAid report, “Unjust Waters: Climate Change, Flooding and the Protection of Poor Urban Communities: Experiences from Six African Cities,” documents the various ways in which poor people are already responding to the increased floods brought on by climate change.¹³

Examples include:

- digging trenches around houses before and during floods,
- constructing temporary dykes or trenches to divert water away from the house, securing the structures with waterproof recycled materials,
- using sandbags to prevent the entrance of water into houses, and
- constructing outlets at the rear of houses so any water entering flows out quickly.

Another ActionAid study, “Climate Change and Smallholder Farmers in Malawi: Understanding Poor People’s Experiences in Climate Change Adaptation,” reports how weather patterns are affecting the livelihoods of smallholder farmers. ActionAid found that changing rainfall patterns and higher temperatures have forced farmers to shorten the growing season and switch to more expensive hybrid crops in order to adapt to climate change.¹⁴

Finally, in a third ActionAid study, “We Know What We Need! South Asian Women Speak Out on Climate Change Adaptation,” poor women living in the Ganga river basin speak directly to their adaptation needs with respect to their livelihoods and the changes in the flood patterns. Among their priorities:

- **A safe place to live:**
 - Relocation of communities to safer areas
 - Solid houses built with a high plinth level to reduce inundation
 - Shelters required for people, animals and agricultural inputs/products

- **Better access:**
 - To climate change information and related knowledge and skills
 - To services, such as doctors and veterinarians
 - To safe, reasonable and fair credit and insurance
 - To communications, through safer roads and access to boats
- **Other livelihood options:**
 - Through knowledge and resources for crop diversification and adaptive agricultural practices
 - Through access to irrigation
 - Through locally available training.

This research demonstrates how women are particularly vulnerable to climate change and underscores the need to explicitly consider women’s rights and needs in adaptation finance mechanisms.

Cost Estimates

Poor people in impoverished countries cannot (and should not) be expected to shoulder the burden of adaptation. As the major current and historical polluters, rich countries must accept their obligation to fund global adaptation needs. This paper does not attempt to offer precise figures on how much funding is necessary. There have been too few formal adaptation projects completed to provide an accurate assessment. However, what is clear is that there is an enormous disconnect between funds needed and funds raised and pledged.

The World Bank has estimated that it will cost US \$10 billion to \$40 billion annually to “climate-proof” investments in developing countries.¹⁵ However, as a recent Oxfam report points out, this estimate is only a small proportion of what developing countries need to adapt to climate change because it only refers to integrating adaptation into ongoing planning, policies, and practices, and to climate-proofing ongoing infrastructure investments.¹⁶ 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.¹⁷

Thus, Oxfam estimates that the true monetary cost of adaptation could be upwards of \$50 billion annually. And this estimate may become significantly higher if current emissions levels are not immediately and significantly reduced.¹⁸

Additionally, the Stern Review on the Economics of Climate Change estimates that if no mitigation action is taken, overall damage costs from climate change will be equivalent to losing at least 5 percent of global GDP each year, with higher losses in developing countries.¹⁹

This paper does not give an analysis of where new funds for adaptation can come from, as others have already performed this analysis. However, among the options for generating new funds for adaptation are: carbon taxes, levies on carbon-trading mechanisms, air and maritime adaptation levies; and the redirection of fossil-fuel subsidies to adaptation.²⁰

Funds Raised and Pledged

Only a fraction of the funds needed for adaptation have been pledged. Currently, the primary financial instruments for adaptation are donor contributions to the Global Environment Facility, the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC).²¹ Contributions to the GEF are anticipated to amount to US \$200 million dollars per year.²² Another financial instrument is the Adaptation Fund, set up under the Kyoto Protocol, which is not yet operational. The World Bank estimates that the amount of money available under this fund may amount to US \$100 million to \$500 million by 2012.²³ Finally, adaptation is also financed through bilateral development assistance.

It is important to note that one must consider not only the amount of funds pledged and needed, but the quality of those funds. The primary intention of this paper is to evaluate the current mechanisms based on a set of principles to determine whether adaptation funds will be used in a way that best meets the needs of affected communities.

II. Principles to Guide Effective Adaptation Funding

A vast increase in new funds is only part of the solution to the developing world's staggering adaptation needs. Even if rich countries were to announce massive pledges tomorrow, whether such funds would truly meet the needs of poor communities will depend on how these funds are disbursed, managed, and governed. In essence, the funds will only be as effective as the institutions through which they are transferred.

Based on ActionAid's decades of experience working on issues related to foreign aid, ActionAid has developed a set of core criteria to be used in assessing any funding mechanism for adaptation. Application of these principles is necessary to address the needs of those most vulnerable to climate change:

1. **Democratic Governance:** A system of democratic governance will ensure that all decision-making power, rights, and responsibilities are equitably distributed among the countries represented in the mechanism. There are various ways to ensure democratic decision-making. Options include each country representing one vote (referred to as one-country-one-vote); or a more complex voting system that weights voting share according to various factors such as population density, emissions levels, and vulnerability to climate change; or a double majority system in which decisions have to gain a majority of votes under a weighted system as well as a one-country-one-vote system.

ActionAid believes that more discussion and analysis is needed to endorse a specific method of democratic decision making for an adaptation funding mechanism. However, a system that weights votes purely according to financial contributions is counter to the principle of democratic decision making. For example, the IMF and World Bank have long been criticized for their system of weighted voting, based on the financial strength

and contributions of member countries.²⁴ A “one-dollar-one-vote” system would place developing countries at a clear disadvantage -- despite the fact that they have not been the major contributors to climate change.

Another important aspect of democratic governance is meaningful transparency and accountability. Accountability in the funding relationship must flow not only from recipients to donors, but also from donors to recipients, including communities of poor and excluded people. This means ensuring transparency and clarity on amounts and sources for all funds received and amounts and uses for all disbursed funds. It is also necessary to create an enforcement mechanism to allow poor countries to hold their governments and donors accountable to the commitments they have made. Where appropriate, gender-disaggregated data should be used for allocation and disbursement and incorporated into public documents.

- 2. Civil Society Participation:** It is widely accepted that ownership is the cornerstone of development; unless poor countries are able to direct their own development paths, development will fail to be inclusive, sustainable, or effective.²⁵ Country ownership of development programs should be understood not only as government ownership; the involvement of civil society stakeholders in the formulation and delivery of policy and programs should be seen as integral parts of ensuring real ownership.

With respect to adaptation, poor communities have already been coping with climate change for decades, and they know best what strategies for adaptation will work in their local contexts. For these reasons, the adaptation funding mechanism must guarantee community level participation — particularly through leaders or institutions accountable to poor people, such as parliaments, local government, community-based organizations, women’s organizations, farmers’ organizations, labor unions,

and so forth. Participation of women and women’s organizations is essential, as funding for adaptation must address the needs of poor women. Civil society participation will be key in deciding how funds are disbursed and used as well as by whom projects are implemented, monitored and evaluated.

3. Sustainable and Compensatory

Funding: Due to the enormity of climate change-related threats, it is essential that the funding mechanism has the capacity to manage sufficient funds for addressing poor countries’ adaptation needs. The funding mechanism should be dedicated not to short-term fixes, but to predictable and dependable funding streams.

Additionally, adaptation finance must be based on the “polluter pays” principle, which recognizes that financing for adaptation is not owed to poor countries as “aid,” but as compensation from high-emissions countries to those that are most vulnerable to the impacts.²⁶ In the same manner, funds must be provided in addition to existing Overseas Development Assistance (ODA) commitments. Funds must also be in addition to the 1970 UN commitment in which donors agreed to spend 0.7 percent of their gross national income on ODA.²⁷ Finally, adaptation finance must be given as grants, not loans.

4. No Economic Policy Conditionality:

“Conditionality” refers to the often controversial economic policy changes upon which donors condition access to aid. Donors use conditionality in a number of ways: as a means of holding recipient governments accountable for aid, as a commitment device, and as a way of inducing policy change.²⁸ There is a growing consensus that the impact of conditionality on poor countries has often been negative.²⁹ As the ActionAid International report “Real Aid: An Agenda for Making Aid Work”³⁰ states, one of the strongest criticisms of conditionality is that it has given significant policy influence to donor agencies, which are outside the domestic political process and therefore

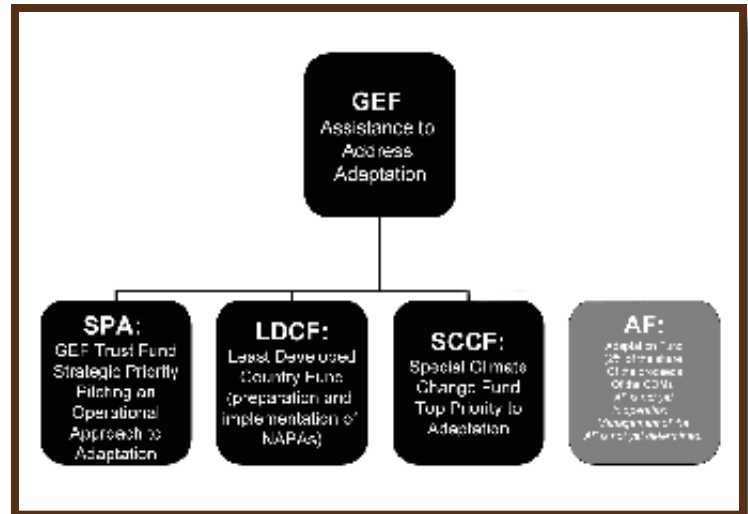
not answerable to the electorate. Conditionality thus serves to undermine ownership and domestic accountability.

Another important critique of conditionality is that it lends itself to “stop/start” financing because any noncompliance with conditions will often result in the donor abruptly ending its aid program and sending a signal to other donors that the country is no longer trustworthy.³¹ Because of the harmful impacts associated with conditionality, in addition to the fact that financing for adaptation must not be considered aid in the first place, access to money in the adaptation fund must not be contingent on economic or other reforms.

5. Access for the Most Vulnerable:

Various impediments often prevent the most vulnerable communities from accessing much-needed funding. These barriers may include a lack of information about a fund and the way it works, the complexity of program design and implementation, and the need for compliance with overwhelming administrative and financial management requirements. Because climate change will affect poor women disproportionately, it is essential that an adaptation mechanism be structured in a way that facilitates access by women and other vulnerable communities. The principle of access to the most vulnerable is complimentary to the principle of non-discrimination, which requires the equal treatment of an individual or group irrespective of their particular characteristics.

III. Current Available Channels for Adaptation Funding



Global Environment Facility (GEF)

The Global Environment Facility (GEF) is the primary financial mechanism through which the United Nations Framework Convention on Climate Change (UNFCCC) operates. It provides the structure for the transfer of financial resources from developed to developing countries and is currently the most significant source of funding for adaptation. This section will describe the GEF and associated funding instruments and evaluate them based on ActionAid’s principles for adaptation funding.

The GEF was established after the 1992 Rio Earth Summit as a mechanism to fund projects and programs that protect the global environment. GEF aims to produce “global environmental benefits” in six areas:³³

- Climate change: clean energy and the reduced consumption of fossil fuels; adaptation strategies
- Biodiversity: conservation and sustainable use of biodiversity to improve livelihoods
- International waters: integrated management of land and water resources

- **Ozone depletion:** phasing out ozone-depleting substances
- **Persistent organic pollutants:** reduction and elimination of a number of POPs (harmful chemicals widely used as pesticides and in industrial applications)
- **Land degradation:** deforestation and desertification to be addressed by sustainable land management

The GEF is funded by donor countries (some of which may also be recipients) that commit to replenishing the fund every four years.³⁴ During the fourth GEF Replenishment in 2006, 32 donor countries pledged US \$3.13 billion, which will fund operations between 2006 and 2010.³⁵

It is important to note that the GEF is physically housed within the World Bank in Washington, D.C. Many have questioned the close relationship between the GEF and the World Bank, which has been a major contributor to climate change through its financing of oil, mining and gas projects.³⁶ Technically, however, the World Bank is just one of three GEF implementing agencies (UN Development Program and UN Environment Program being the other two.)

GEF Trust Fund

The GEF Trust Fund is the common funding resource for all six focal areas in which the GEF is active. At their first session in 1995, the Conference of the Parties (COP)³⁷ to the UNFCCC agreed that the GEF would be entrusted with the provision of financial support for climate change, including adaptation.

The purpose of the GEF was to provide new and additional funding to meet the agreed “incremental costs” of projects to generate global environmental benefits in climate and other areas.³⁸ Incremental costs refer to the additional costs associated with transforming a project with national benefits into one with global environmental benefits. For example, because using solar energy technology is more costly than using coal or diesel fuel, GEF grants cover the difference, or “increment,” between a less costly, more polluting option and a costlier, more environmentally friendly option.³⁹ Remaining project costs are borne by recipient countries and/or other bilateral or multilateral donors.⁴⁰

The original mandate for the GEF in relation to climate change adaptation was to support studies, assessments, and planning. However, the declaration of the COP 7 conference in 2001, known as the Marrakesh Accords, further requested that the GEF should fund pilot or demonstration projects to show how adaptation planning and assessment can be practically translated into projects that will provide real benefits.

Additional Funding Streams

COP 7 also gave rise to three new funds for adaptation beyond those contributed to by the GEF: the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and a Kyoto Protocol Adaptation Fund. Following lengthy negotiations on how to operationalize the LDCF and the SCCF, the COP 9 decided that both these funds be brought under the guidance of the GEF. This structure has given rise to four main avenues for adaptation funding: The GEF Trust Fund, the LDCF, the SCCF, and the Kyoto Protocol Adaptation Fund.

1. GEF Trust Fund's Strategic Priority on Adaptation

The GEF Trust Fund has operationalized one activity on climate change adaptation — the Strategic Priority on Adaptation. This fund contains \$50 million from the GEF trust funds to support adaptation pilot projects. The COP has not stated whether the full or partial costs of adaptation projects are to be covered.⁴¹ However, the GEF Council has requested that all projects under the GEF Trust Fund be consistent with the principles of the Trust Fund, including the principles of incremental costs and global environmental benefits.⁴²

2. Least Developed Countries Fund (LDCF)

The LDCF was established by the UNFCCC in 2001. Managed by the GEF, it supports projects addressing the urgent adaptation needs of the least developed countries.⁴³ As of April 30, 2007, 17 countries had pledged a total of \$115.8 million to the LDCF.⁴⁴ The United States, currently the single biggest emitter of greenhouse gasses, has not contributed to this voluntary fund.

The LDCF supports the development of National

Adaptation Programs of Action (NAPA), through which least developed countries identify priority projects and requisite funding. Although NAPAs have a common template and methodology developed by the LDC Expert Group,⁴⁵ they are developed in-country with no interference from the LDCF or the GEF. According to the UNFCCC website, “NAPAs focus on urgent and immediate needs — those for which further delay could increase vulnerability or lead to increased costs at a later stage....They must be action-oriented and country-driven and be flexible and based on national circumstances.”⁴⁶ As of May 21, 2007, a total of 15 NAPAs had been completed.⁴⁷

3. Special Climate Change Fund (SCCF)

The SCCF was established by the UNFCCC in 2001 but has been operational under the GEF since 2005. The SCCF is intended for all developing countries and designed to finance activities in the following areas: adaptation; transfer of technologies; energy, transport, industry, agriculture, forestry and waste management; and diversification of economies.⁴⁸ The Parties to the Climate Convention identified adaptation to climate change as the top priority of the SCCF.⁴⁹

As of April 30, 2007, 13 countries had pledged contributions to the SCCF: Canada, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.⁵⁰ The total amount pledged was \$62 million.⁵¹ The United States is once again absent from this list.

As of May 29, 2007, six projects had been approved under the SCCF adaptation program, and two proposals are awaiting approval.⁵² Ten project proposals in the pipeline are expected to be submitted for approval during upcoming GEF Council meetings.⁵³ The GEF has acknowledged that the demand for projects in the adaptation program under the SCCF is high, and they have communicated to donor countries the urgency to contribute to the SCCF adaptation fund.⁵⁴

Adaptation Fund

The Adaptation Fund is not yet operational; the Conference of the Parties is still negotiating how it will be managed. The AF was created under the Kyoto Protocol to support adaptation measures in highly vulnerable countries that are parties to

the Protocol. This fund’s financing mechanism is unique, because it will rely primarily on a two percent levy on Clean Development Mechanism (CDM) projects. Negotiated as part of the Kyoto Protocol, these projects are intended to channel carbon-cutting energy investments financed by rich-country companies to developing countries, in exchange for carbon credits.⁵⁵ Additional funds will come from other unspecified sources.⁵⁶

The AF is expected to become the largest and most reliably funded of the existing funds. The World Bank estimates that the amount of money available may amount to US \$100 million to \$500 million by 2012.⁵⁷ It is important to note that if two percent levy on CDM projects were expanded to other flexible mechanisms within the Kyoto Protocol,⁵⁸ in addition to new levies on air and maritime travel, the amount of money available under the Adaptation Fund could amount to tens of billions of dollars a year. Because the AF has the potential to generate large amounts of money that is, by nature, additional to ODA, and because its management and governance structure is still being negotiated by the COP, the Adaptation Fund is an ideal candidate for a new and significant channel for adaptation funding.

Assessment of the GEF and Associated Funding Streams

Over the years, developing countries have expressed dissatisfaction with the GEF as a mechanism for implementing financial assistance for adaptation. Their concerns have focused largely on areas in which they believe the GEF has fallen short of upholding the principles proposed by ActionAid in this paper. The following assessment of the GEF will be based on a number of these principles.

Democratic Governance

The GEF Council, the main governing body of the GEF, functions as an independent board of directors, with primary responsibility for developing, adopting, and evaluating GEF programs. Council members represent 32 constituencies (16 from developing countries, 14 from developed countries, and two from countries with transitional economies). While most decisions of the GEF Council are taken by consensus, if no consensus is available, then

any council member can request a formal vote. In this case, a measure cannot be passed unless there is a double majority, based on both individual country votes and on votes weighted by donation levels. This means that GEF Council members from countries that make the largest contributions carry the most clout,⁵⁹ and that the five largest donor countries essentially have veto power.

This governance structure has raised concerns, particularly from the developing country Group of G77, and has eroded its political acceptability. There is a lack of any “feeling of ownership” over the GEF in smaller, poorer, and politically weaker developing countries.⁶⁰

The LDCF and SCCF were designed to be potentially more flexible, accessible, and democratic than the GEF Trust Fund. However, despite developing countries’ reservations, the COP 9 brought these funds under the responsibility of the GEF. Even with continuing difficulties accessing GEF funds, developing country parties went along with the decision because of a desire for quick progress on achieving funding for concrete adaptation projects. Once again, the power balance within the LDCF and SCCF favored the major donors.

For example, at COP 10, the LDCs objected to proposals requiring co-financing of NAPAs, because in practice this would make funding inaccessible to many countries. (Co-financing refers to project funding being subsidized by other sources, such as recipient governments, international organizations, nongovernmental organizations, or other donors. In essence, the GEF would not meet the full project cost, and the recipient country would be responsible for finding funds to meet the shortfall.)

Despite LDCs’ concerns, co-financing requirements for NAPAs remain in place. Such outcomes highlight the inevitable challenges faced by developing countries during negotiations with more powerful, developed countries that are the major contributors to much-needed funds.

Civil Society Participation

The NAPA process is designed to be a country-driven, bottom-up process to generate a list of priority activities for adaptation in LDCs. The process involves the assembly of a national multidisciplinary team, composed of lead

stakeholder and agency representatives. Each NAPA, once developed, is exposed to public review and comment, endorsed by the relevant national government, and then published. Through the NAPAs, the LDCF and consequently the GEF have taken steps to incorporate civil society participation.

However, the extent to which civil society participation is incorporated into the NAPA, and thus the GEF process, depends on both effective participation during the in-country process and on the input being fed up to the international GEF forum. As with any participatory development effort, achieving an effective “bottom-up” approach depends on the individual country’s governance system, institutional culture, and traditions.⁶¹ A recent critique of the NAPA process in Uganda from DENIVA, a local NGO, provides a case in point. Uganda has adopted the NAPA, carrying out vulnerability assessments in sectors such as agriculture, water resources, and forestry. Some efforts have also been made at the policy level to communicate urgently needed adaptation interventions. However, according to the report, entitled “Indigenous Adaptation,” the issue of popular participation remains an open question:

There is an alarming gap between need and reality regarding providing vulnerable people with the power to choose between courses of action, and providing them with the assurance that decisions made regarding adaptation strategies will be implemented.⁶²

Even if the NAPA process is open to community participation at the country level, once it is designed, there is a lack of any mechanism to implement the identified priority projects. As M. J. Mace, co-editor of the book *Fairness in Adaptation to Climate Change*, states, “although NAPA priorities are to be ‘made available’ to the GEF and to other sources of funding, there is presently no guarantee that any of the activities identified as priorities will be funded.”⁶³ While the GEF cannot be expected to fund everything that countries include in the NAPA, it must consider national plans carefully and use a transparent mechanism to identify funding priorities. Additionally, the GEF must explain why certain activities were prioritized over others.

Sustainable and Compensatory Funding

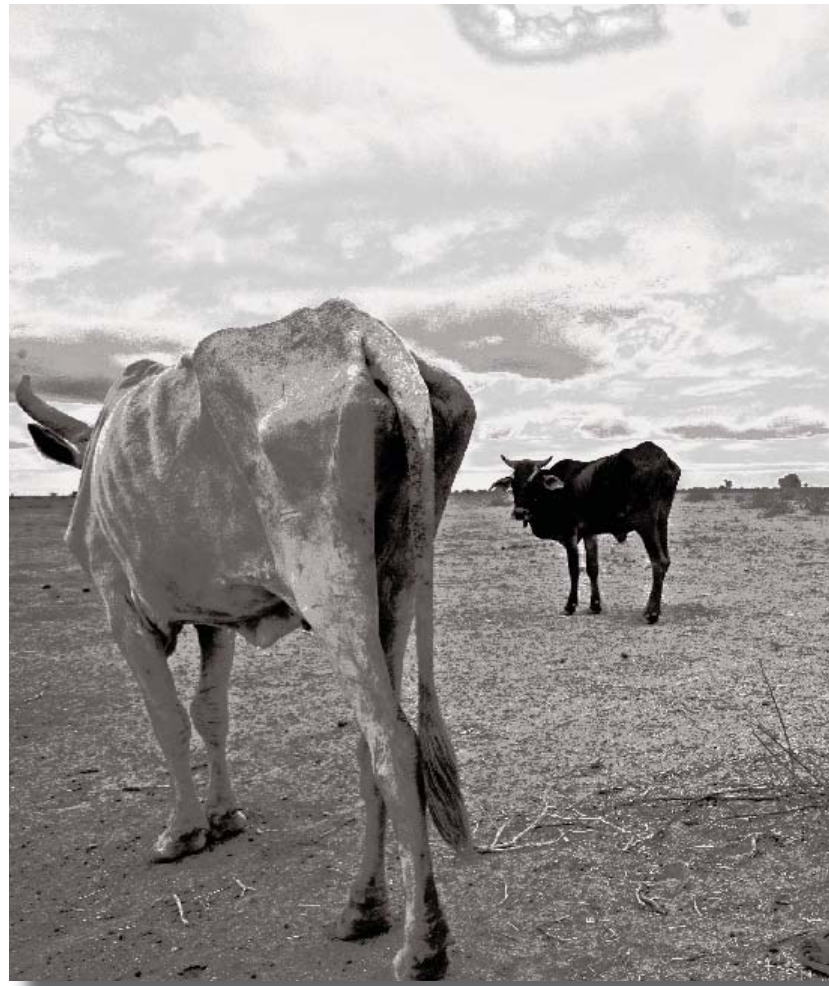
Funding for adaptation should be based on the principle of “compensation” from countries historically most responsible for climate change to countries most affected; furthermore, funds must be additional to the long-standing commitment to spend 0.7 percent of gross national income on ODA. The GEF does live up to some aspects of these principles. For example, Article 4.3 of the UNFCCC, relating to additional funding to meet the costs for developing countries’ national communications, does stipulate that funding should be “new and additional” (meaning above and beyond expected flows of development assistance).

However, the World Bank notes that the projected availability of total funding by 2012 falls significantly short of the amounts needed to cover the costs of adaptation.⁶⁴ Furthermore, while the need for an equitable burden-sharing arrangement in relation to the LDCF and the SCCF was acknowledged at COP 7, implementation was left unaddressed. The LDCF and SCCF remain supported by non-mandatory developed country payments; certain major emitters of greenhouse gases, including the United States, have chosen not to contribute.

Access for the Most Vulnerable

Formally, it is the COP that decides on the GEF’s eligibility criteria, programs, and policies. However, at COP 10, developing countries challenged what they viewed as the GEF’s creation of new policies to hinder their access to Special Climate Change Fund. These new requirements included increased reporting, additional criteria, and burdensome co-financing requirements. The Alliance of Small Island States (AOSIS), the LDC Group, and the African Group highlighted the difficulty these new requirements posed for developing countries trying to access these funds.⁶⁵

Another key problem with the GEF as the financing mechanism for adaptation is its two core criteria of global environmental benefits and incremental costs. These criteria have created extremely



complex and time-consuming arrangements for accessing GEF support. For example, as explained in a recent report from the Stockholm Environment Institute, “The Global Environment Facility: Funding for Adaptation or Adapting to Funds?” the GEF’s Strategic Priority on Adaptation (SPA) requires countries to go through the following steps:

1. Outline a baseline scenario, which includes activities that countries are undertaking as part of their ongoing development efforts.
2. Construct an alternative GEF scenario, including activities that would give rise to global environmental benefits in the absence of climate change.
3. Add activities to the GEF scenario that would ensure robustness of the global environmental benefits.⁶⁶

The difference between the costs associated with the baseline scenario and the alternative GEF



Photo: Jehad Nga /Corbis/ActionAid. A young Pastoralist grazes cows in a time of severe drought in Kenya.

Global environmental benefits: In the area of climate change, global environmental benefits refer to global reductions in greenhouse gasses. However, according to the GEF's operational guidelines, global environmental benefits can also relate to other environmental benefits purported to be global (such as the protection of biodiversity). Such attributes do not necessarily lend themselves to adaptation projects. As Mace notes, "the need for adaptation arises from a global cause, but the remedy must yield local benefits. Thus the requirement of global benefits is an absurd limitation in the adaptation context."⁶⁷

It must be noted that although the GEF manages the LDCF and the SCCF, these two funds are independent from the GEF trust fund and so do not have to adhere to global environmental benefits and incremental costs criteria. Instead, the GEF has created the concept of "additional costs," which refers to the costs needed to make development projects climate-resilient. Funding only comes in one increment, which is the difference between the baseline scenario (development activities pursued in the absence of climate change and already being funded by the government or other donor as a development project) and the alternative adaptation scenario. The difference between these two scenarios is the portion that will be funded by the GEF.⁶⁸ Thus, although the LDCF and SCCF are more accessible than the GEF trust fund, procedures that are still lengthy and complex will potentially hinder access. For example, it is difficult to clarify the additional cost element, because this raises the question of which part of a project concerns adaptation (funded by the GEF) and which part is merely development (which is the recipient country's own responsibility).

In summation, while the GEF does adhere to the principle of "compensatory funding," it falls short on aspects of the ActionAid principles related to democratic governance, civil society participation, sustainable funding, and access. On the principle of "no economic policy conditionality," it is important to note that while the GEF's grants are not tied to economic policy reforms, developing countries have criticized the requirements of increased reporting, additional criteria, and co-financing as burdensome conditionalities.

scenario are called the incremental costs. It is only these incremental costs that receive funding from the SPA. Costs associated with global environmental benefits receive funding from other programs within the GEF. The remaining costs must be funded by the recipient country, or other bilateral or multilateral donors.

Additional Barriers Created by the Criteria

Incremental costs: It is extremely difficult to establish a baseline scenario for adaptation measures because responses to climate change are so varied and context-specific. An incremental cost calculation also assumes that the baseline scenario would have been undertaken to address an existing need, but many adaptation measures would not have been considered at all were it not for the knowledge of trends resulting from climate change.

Bilateral Development Assistance

Because ActionAid believes that multilateral mechanisms should be the primary sources of new funding for adaptation, this paper has primarily focused on such mechanisms.

Advantages of multilateral assistance:

Less volatility: Funds from bilateral institutions are often short-term and subject to change as a result of political or economic shifts in the donor country. Although funds through multilateral institutions are not always predictable, a decrease in funds from one country into a multilateral funding pot will likely not have the same potentially devastating effects as a decrease in bilateral aid. Hence, multilateral institutions can often fund more effectively for the long term.

Pooling: Multilateral funding provides a more effective means of pooling the necessary resources needed to deal with large-scale issues such as adaptation to climate change. As the need is likely to be at least tens of billions of dollars annually, it is unlikely that bilateral donors would have the political will to commit the funding necessary to address this challenge. Funding for adaptation must come from the countries most historically responsible for pollution and with the capacity to give;⁶⁹ a multilateral institution would allow for such pooling of financial resources.

Cooperation: A multilateral approach will also likely lead to increased harmonization and cooperation among donors. Climate change is a global problem that must be dealt with by global coordination. Of course, multilateral funds will only be as effective as the institution that governs and manages them. Therefore, it is not just any multilateral institution, but one which adheres to ActionAid principles, that will be most effective in dispersing funds that will meet the needs of poor communities.

That being said, bilateral agencies should be explored as one component of adaptation financing. Bilateral funding through overseas development assistance involves financing the integration of climate change adaptation activities

into development cooperation activities. This section will review common approaches among the two largest bilateral agencies — the UK Department for International Development (DFID) and the United States Agency for International Development (USAID) — to supporting adaptation in developing countries. Although these institutions work at a national, regional, and international level, this section will focus on in-country operational support for adaptation. The following section does not present a broad analysis of the agencies themselves, but a review of their stated work on adaptation.

Bilateral Development Assistance for Adaptation

Mainstreaming

DFID aims to “mainstream” adaptation activities into its development assistance. Mainstreaming involves screening all development projects to assess and address climate risks. The screening prioritizes key planned and ongoing activities according to the extent to which they are “at risk” from climate variability and climate change and the extent to which they present opportunities for reducing risk and vulnerability. Based on this assessment, recommendations are made for integrating disaster risk reduction and climate change adaptation within program activities. These recommendations are then assessed for impact, cost-effectiveness, and feasibility.⁷⁰ The pilot program for mainstreaming began in Bangladesh in 2006. This project is now finished, and efforts in China, Ethiopia, India, and Kenya are underway.

USAID has adopted a similar approach, initiating four pilot projects to assess potential climate change impacts on particular sectors or projects and to gain new understandings of how to adapt projects so that they are more resilient to climatic changes. Pilot projects have focused on coastal development in Honduras, water resources and infrastructure in South Africa, agriculture in Mali, and rural livelihoods in Thailand.⁷¹ USAID recently produced a resource manual with examples taken from the pilot studies, called “A Guidance Manual for Development Planning.”⁷² The manual outlines

a six-stage approach for integrating adaptation into the design of development projects.

The advantage of mainstreaming adaptation into existing programs is that there is already a long-standing aid framework in place that can be utilized. DFID's livelihoods programs aims to identify and target the extreme poor, so mainstreaming adaptation into these programs *should* make adaptation accessible to the most vulnerable communities. As one example, the DFID-funded Chars Livelihoods Programme in Bangladesh provides financial assistance to 6.5 million residents of chars, small riverine silt islands and banks that face frequent flooding and erosion. Other adaptation measures include the promotion of livelihood diversification in non-climate sensitive sectors, integration of climate change and disasters issues into research and monitoring, and information dissemination to support the formation of national policies.

On the other hand, it is also important to note that focusing on mainstreaming may result in many development projects simply being “repackaged” as adaptation, at the expense of urgent adaptation-led activities. Therefore, mainstreaming should be maintained as part of the approach, in addition to direct funding for adaptation.

Direct Bilateral Funding for Adaptation

DFID also provides funding for adaptation directly through bilateral programs in developing countries. In Bangladesh, for example, DFID's Comprehensive Disaster Management Programme (CDMP), established in 2003, aims to increase the government's emphasis on disaster preparedness and risk reduction rather than disaster response. DFID is providing a total of £5.7 million over 5 years supporting a range of sub-elements in the program — among them establishing an integrated approach to climate change and disaster management.

An important CDMP component is capacity-building for the Ministry of Environment and the Department of the Environment (DOE). The CDMP built a “climate change cell” within the DOE that coordinates awareness raising, advocacy, and mechanisms to promote climate change adaptation and risk reduction in development activities. It also strengthens existing knowledge

and information accessibility on impacts and adaptation to climate change.⁷³

This climate cell represents a commitment by DFID to foster a country-led and country-owned approach to climate change adaptation by building capacity at the country level for program learning and implementation. Implementation at the field level is carried out through community initiatives, local disaster risk-reduction and other local partners, with specific attention paid to acquiring community inputs and learning from traditional knowledge. It is important to note that while the CDMP takes steps to include minority and excluded groups in the community participation process, in practice, this does not equal village-level participation. Rather, village representatives are invited to participate at workshops held at the level of local or district government. Although an early review⁷⁴ raised concerns that CDMP was not paying sufficient attention to gender issues, a more recent review suggests that this has since been addressed.⁷⁵

Assessment of Bilateral Mechanisms

Bilateral mechanisms can provide useful inputs into a model for adaptation funding because they have people, networks, and in-country partners that can support a country-driven and locally focused approach to adaptation. Frameworks are in place for consultation with communities on local needs and for monitoring and evaluation. Bilateral partnerships also have the potential to result in a flexible and accessible funding that is appropriate to the wide range of vulnerability needs on the ground in developing countries.

Nevertheless, it is important to emphasize that bilateral funding in and of itself is not sufficient. While important lessons can be learned from some aspects of bilateral assistance, such as DFID's CDMP, bilateral funding does not allow for the international cooperation and coordination among nations that is vital in order to meaningfully address climate change, nor will it likely finance the tens of billions needed for adaptation. Bilateral assistance has also been criticized as a mechanism for adaptation funding because adaptation then has to compete with other pressing and immediate needs and commitments.⁷⁶

IV. Alternative Channels for Adaptation Funding

Given the concerns raised about the appropriateness of the available channels for adaptation funding, there is a need to consider alternative mechanisms. This section will explore and evaluate alternative models for adaptation financed based on two existing precedents: the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the Multilateral Fund for the Implementation of the Montreal Protocol.

Global Fund to Fight AIDS, Tuberculosis and Malaria

An international fund to fight HIV/AIDS, tuberculosis, and malaria was first proposed at the July 2000 G8 Summit in Okinawa, Japan. In June 2001, the UN General Assembly Special Session on HIV/AIDS, at the urging of UN Secretary-General Kofi Annan, unanimously endorsed the concept. By the next G8 Summit, in Genoa in July 2001, the G8 had pledged approximately \$1.5 billion to the fund,⁷⁷ and by 2002 the GFATM became fully operational.

As the fund's Framework Document states, "The purpose of the Fund is to attract, manage, and disburse additional resources through a new public-private partnership that will make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis, and malaria in countries in need, and contributing to poverty reduction as part of the development goals contained in the Millennium Declarations."⁷⁸

Governance

The governance structure of the GFATM serves in some ways as a model for an adaptation fund because it is based on the principle of one-country-one-vote and strives for regional



Photo: Gideon Mendel/ Corbis/ ActionAid. A hand-pump in a flooded Indian village.

balance, participation of civil society, and transparency.

An international board consisting of 20 voting members and four nonvoting members govern the Fund. The voting members include seven World Health Organization regional representatives from developing countries, eight donors, and five representatives from civil society (including one from the private sector).⁷⁹ Each voting member has one vote. The Board is advised by a number of committees set up to address any specific difficulties that may arise.

A Technical Review Panel, which is an independent, impartial team of experts appointed by the Global Fund Board, guarantees the integrity and consistency of an open and transparent proposal review process. This panel reviews applications for support, makes recommendations to the Board, and undertakes such other functions as may be directed by the Board.

Funding Process

The Global Fund serves as a model for an adaptation mechanism because of its commitment to country ownership. As stated in the Global Fund's Framework Document, "the Fund will base its work on programs that reflect national ownership and respect country-led formulation and implementation processes."⁸⁰ As a result, its grants contain only a limited number of requirements, primarily ensuring that recipients create and maintain a transparent, accountable, and participatory process for implementing the grant agreement.⁸¹

In order to ensure country ownership, once a government or organization has decided to apply for Global Fund money, a Country Coordinating Mechanism (CCM) is established in

that country. The purpose of the CCM is to help organize and submit grant applications to the Fund and monitor their implementation. The CCM is supposed to be comprised of a broad range of representatives from government agencies, NGOs, local community and faith-based organizations, individuals, and private sector institutions.

Another function of the CCM is to appoint a body, called the Principal Recipient, which is the organization that will be legally responsible for distributing or using Global Fund money. In most cases the Principal Recipient is a government agency, although in cases where government capacity has been insufficient, civil society organizations have been considered. Eligible proposals are then submitted for consideration to the Technical Review Panel, which then makes recommendations to the Global Fund Board on whether or not to fund the proposal.

Susana Fried, of the Women Won't Wait Coalition, argues that the CCMs have had mixed results:⁸²

"The lack of conditionality for funding and its emphasis on a country-driven process generates both strengths and weaknesses of the Global Fund...CCM processes have shown successes and weaknesses, and in many cases have changed the relationship between governments and NGOs ...but all too often, these processes are still driven by the government in many countries."

Nevertheless, the CCM process reflects the Global Fund's much greater degree of commitment to broad country ownership than the existing adaptation funds.

Civil Society Participation

The five civil society and private sector representatives that are appointed to the GFATM Board must fulfill the following criteria: two NGO representatives (one from a developed and one from a developing country), one private sector representative, one representative from a private foundation, one NGO representative who is a person living with HIV/AIDS or who comes from a community living with tuberculosis or malaria.

A 2005 evaluation of civil society participation in the Global Fund written by the International Center for Research on Women and commissioned by the Board found that:⁸³

- While top-level leadership of the Global Fund has expressed commitment to civil society participation, this commitment is not reflected at the country level, where many governments lack the experience or willingness to work with civil society organizations.
- It is difficult to assess civil society engagement in GFATM processes at the national level because the CCMs do not use indicators to evaluate their participation.
- Poor communication with civil society impedes their participation and engagement.

Summary of GFATM and ActionAid Principles

- **Democratic Governance:** The governance structure of the GFATM is based on the “one-country-one-vote” principle and strives for regional balance and participation of civil society. The GFATM has also shown commitment to transparency and accountability, as is evident by the fact that the Global Fund is one of the only funding agencies that publicly provides information on actual donors’ commitments versus funds disbursed.⁸⁴
- **Civil Society Participation:** The GFATM has shown commitment to community level participation, as is evidenced by their governance structure and by the CCM process. Additionally, the GFATM has shown commitment to country ownership, as stated in their principles and as evidenced by their lack of conditionality.

However, although CCMs are advised to ensure gender-balanced representation and to incorporate a gender analysis into their applications, they are not required to demonstrate measurable outcomes, aside from collecting sex-disaggregated data.⁸⁵

- **Sustainable Funding:** Although the Global Fund is the largest funding agency for HIV/AIDS in the world, official aid commitments and disbursements have been erratic since the Fund’s establishment. The Global Fund and civil society members regularly warn that programs may be jeopardized by low disbursements and insufficient funding commitments made through the voluntary replenishment mechanism.⁸⁶
- **Access for the Most Vulnerable:** The evaluation of civil society participation in the Global Fund commissioned by the Fund’s board in 2005 indicates that many governments lack the experience or willingness to work with civil society organizations; that there are no indicators for civil society engagement at the national level; and that poor communication with civil society impedes their participation and engagement.⁸⁷

Multilateral Fund for Implementation of the Montreal Protocol

The Montreal Protocol on Substances That Deplete the Ozone Layer is an international treaty signed in 1987 designed to phase out the production and consumption of ozone-depleting substances (ODS).⁸⁸

To help developing countries achieve this goal, the Second Meeting of the Parties to the Montreal Protocol created a Multilateral Fund for the Implementation of the Montreal Protocol in 1990.⁸⁹ Known as the Montreal Protocol Fund (MPF), this mechanism was operationalized in 1991 to finance activities in developing countries, such as the closure of ODS production plants and industrial conversion, technical assistance, information dissemination, training, and capacity building. As of March 2007, contributions to the Fund by some 49 industrialized countries have amounted to approximately US \$2.2 billion.⁹⁰

Four implementing agencies carry out MPF work on the ground: United Nations Environment Programme (UNEP), United Nations Development Programme (UNDP), United Nations Industrial

Development Organization (UNIDO), and the World Bank. The Fund itself operates under the authority of the parties to the Protocol, with its operations overseen by an executive committee with equal representation of seven industrialized and seven Article 5 countries (i.e., developing countries with an annual per capita consumption of ODS of less than 0.3 kg a year, as defined in Article 5 of the Protocol⁹¹). The Meeting of the Parties sees this as a means of ensuring that neither donors nor recipients dominate the operations of the MPF. The Committee reports annually to the Meeting of the Parties on its operations.

Realizing that implementing the Montreal Protocol is ultimately the responsibility of national governments, the MPF provided funding to establish national ozone units within the governments of each recipient developing country.⁹² The funding is intended to cover at least one full-time staff member and basic office and communications costs. It is these units' responsibility to design, monitor and implement the ODS phase-out Country Programme and to select enterprises to receive MPF support.⁹³ The national ozone units have enhanced governments' capacity to manage the phase out of ozone-depleting substances and have provided a channel of communication from developing countries to the Montreal Protocol Fund itself, as well to the implementing agencies of the Montreal Protocol projects.⁹⁴

Assessment of the Montreal Protocol Fund

There are various ways in which the Montreal Protocol Fund can serve as a model for an adaptation fund, particularly given the historical parallels between efforts to reduce ozone-depleting substances and greenhouse gases. The issue of equity that is present in the climate change debate today was also present in the debate around ozone depletion. In 1986 industrialized countries consumed 86 percent of the most important ozone-depleting substance.⁹⁵ Because of this imbalance, the MPF embodies the principle agreed to at the United Nations Conference on Environment and Development in 1992 which states that countries

have a “common but differentiated responsibility” to protect and manage the global commons. The principle of common but differentiated responsibility recognizes historical differences in the contributions of developed and developing states to global environmental problems and also differences in their respective economic and technical capacities to tackle these problems.⁹⁶ In line with this principle, industrialized countries agreed to help Article 5 countries by contributing to the MPF and allowing these countries a 10-year transition period before they had to meet ODS reduction goals.

The principle of common but differentiated responsibility is not only important as a principle in and of itself; it has also led to widespread adoption and implementation of the Protocol and the Fund in both developed and developing countries. For this reason, the Fund has been hailed as an example of exceptional international cooperation. In these regards, the MPF does serve as a good model for an adaptation funding mechanism.

It must also be noted that the Montreal Protocol as originally drafted did not specify the means or degree of assistance that would be provided to LDCs to meet the goals of the Protocol beyond the 10-year grace period. Because of this, China and India initially refused to sign the Montreal Protocol. Both have since signed because of the changes made to the Montreal Protocol in the London Revisions of 1990. This provides an important lesson for the adaptation debate – that there is a need to provide clear funding assurances in order to ensure the engagement of all countries.

With regard to its governance structure, the intent of the Executive Committee (with equal representation among industrialized and Article 5 countries) is noble and in line with ActionAid's “democratic governance principle.” However, there are other ways in which the MPF structure contradicts principles of democratic governance, transparency, and accountability.

The 1994 Greenpeace report, “Money to Burn: The World Bank, Chemical Companies and Ozone Depletion,” revealed that in 1994 — seven years after the signing of

the Montreal Protocol and four years after the establishment of the MPF — the World Bank controlled 78 percent of MPF funds and had not completed one single project.⁹⁷

By 2006, the Bank had completed 509 projects in its portfolio.⁹⁸ Nevertheless, the Bank continues to be widely regarded as a slow-moving institution, with an extensive bureaucracy that makes it difficult to administer small-scale, small fund projects effectively. Furthermore, the Bank places an emphasis on cost-effectiveness, defined as “the lowest possible amount of funds required to eliminate the maximum amount of controlled substances during a certain period of time,” without considering environmental externalities.⁹⁹ Given that the purpose of the Montreal Protocol is to address negative environmental externalities of industries pollution, the Bank’s biases appear to be antithetical to the Protocol.¹⁰⁰

The most serious criticism made against the World Bank’s administration of the Multilateral Fund is that it has been co-opted by chemical industry interests. The record of Fund disbursements indicates a disproportionate number of projects that provide markets for HCFCs, an ozone-

depleting substance,¹⁰¹ and no funding at all for projects that propose “not in kind alternatives” (NIKAs), which include all non-fluorocarbon options and eliminate the need for ozone-depleting substance.¹⁰² The result of the Bank’s decision-making bias is that Article 5 countries are developing a dependence on technologies that use ozone-depleting substances even though there are better alternatives available.¹⁰³

Summary of MPF and ActionAid Principles

- **Democratic Governance:** The MPF governance structure achieves balance between industrialized and Article 5 countries and states their commitment to having neither donors nor recipients dominate the fund. However, it also must be noted that the World Bank has held considerable power over Montreal Protocol funds. A new adaptation fund must avoid being dominated by a single donor or a single technology (such as chemical industries, in the case of the MPF).



Photo: Gideon Mendel/ Corbis/ ActionAid. A man forced to a rooftop during a 2007 flood in Vardaha village in India

- **Common but Differentiated Responsibility:** Closely associated with the principle of compensatory funding, the MPF principle of common but differentiated responsibility recognizes the historic role of rich countries in creating the problem. This principle has led to widespread adoption and implementation of the fund and thus is held up as an example of effective international coordination.
 - **Sustainable Funding:** Although the MPF initially failed to specify the means or degree of assistance that would be provided to LDCs to meet the goals of the Protocol beyond the 10-year grace period, this was later corrected, resulting in increased developing country support.
 - **Access for the Most Vulnerable:** MPF-funded ozone units within the governments of each recipient developing country have enhanced governments' capacity to manage the phase-out of ozone-depleting substances and provided a communications channel to the Montreal Protocol Fund, as well to the implementing agencies of the Montreal Protocol projects.
- “stand-alone” entity, with an independent governance and management structure, and should continue to operate under the guidance of, and be accountable to, the COP/MOP.¹⁰⁵
- The Fund's governing body should be made up of members of the Parties to the Kyoto Protocol, with a majority from Parties not included in Annex I,¹⁰⁶ and should follow a “one-country-one-vote” rule, as decided at the second meeting of the Parties to the Kyoto Protocol (MOP2) in 2006 (held in conjunction with COP 12).¹⁰⁷ ActionAid further recommends that specific interest groups, particularly leaders of women's rights organizations and members of Least Developed Countries and Small Island Developing States, be represented in the governing body.¹⁰⁸
 - The Least Developed Countries Fund and the Special Climate Change Fund should be brought under the management of this new framework.
 - Data collection should be a core function of the Adaptation Fund secretariat, including information on the Fund's impacts on women, marginalized communities, and the environment.

With regard to funding, ActionAid recommends:

V. Recommendations

Based on lessons-learned from the Global Environment Facility; Official Development Assistance; the Global Fund to Fight AIDS, Tuberculosis and Malaria; and the Multilateral Fund for Implementation of the Montreal Protocol, ActionAid makes seven key recommendations for the future of adaptation finance.

1. The Kyoto Protocol Adaptation Fund should become the main channel for future adaptation funding.¹⁰⁴

With regard to governance, ActionAid recommends:

- The Adaptation Fund should function as a
- The Adaptation Fund's key revenue source, a two percent levy (known as an “adaptation levy”) on Clean Development Mechanism projects, should be expanded to include other flexible mechanisms within the Kyoto Protocol.
- Since the amount of money generated by these levies, as well as voluntary contributions, may still be insufficient, developed countries must seek other ways and means of financing adaptation. ActionAid recommends that new levies on air and maritime travel be pursued as an additional source of revenue for the Adaptation Fund.
- Countries that are not party to the Kyoto Protocol should be encouraged to make voluntary contributions to the Adaptation

Fund. However, ActionAid insists that all such contributions abide by the core principles outlined in this paper.

2. Non-party countries must immediately ratify the Kyoto Protocol and re-engage in the international process of a post-2012 international agreement.

Failure to ratify the Kyoto Protocol or to subscribe to a post-2012 agreement is not an excuse for failure to deliver on adaptation funding. Non-party countries must still designate additional funds to adaptation commensurate with their ecological debt. The governing body of the Adaptation Fund should monitor such funds to ensure they address globally prioritized adaptation needs.

3. Each country participating in the Adaptation Fund should constitute a multi-stakeholder committee, with broad government, expert and civil society participation.

The Global Fund to Fight AIDS, Tuberculosis, and Malaria's Country Coordinating Mechanism (CCM) offers some lessons on how this can best be achieved. ActionAid further recommends that at least one member of the committee represent a women's rights organization. The Adaptation Fund governing body should provide overall guidance for adaptation projects but national committees should be allowed to develop specific criteria to avoid a "one size fits all" approach.

4. A Women's Rights Desk should be created within the Adaptation Fund.

This entity would be responsible for ensuring that women's leadership is central in decision-making around how funds are disbursed and used as well as by whom projects are implemented, monitored and evaluated. It would also be responsible for ensuring that adaptation funds are meeting the needs of poor and marginalized women affected by climate change and should coordinate closely with the multi-stakeholder committee's in-country.

ActionAid further recommends that all proposals to the Adaptation Fund must first be reviewed and evaluated by the women's rights desk before going to the governing body. The Women's Rights Desk will therefore have input and decision-making power with regards to the funding priorities of the Adaptation Fund.

5. An independent inspection panel of representatives from affected communities should be formed to monitor the use of the funds.

The panel should consist of persons with a range of expertise (in finances, adaptation, and poverty reduction), representatives from women's rights organizations, and representatives from poor people's organizations. As explained above, one of the concerns with the Montreal Protocol Fund has been that a substantial portion of money has appeared to have benefited industry rather than poor communities and the environment. Likewise, the clean development mechanism has been criticized for funding projects that have no climate benefits whatsoever.¹⁰⁹ The independent inspection panel should help ensure that funds are reaching poor and excluded communities – especially poor and marginalized women – and that projects do not further harm the environment.

6. The Adaptation Fund should support a combination of investment and non-investment activities, such as capacity-building initiatives, LDC workshops, and development and adaptation activities.

ActionAid also recommends that a specific percent of funding be allocated to the capacity-building needs of women and women's organizations with respect to adaptation. More analysis is needed to determine the appropriate percentage of funds to be allocated.

7. All existing Overseas Development Assistance must factor in the costs and impacts of pending climate changes to their development work.

Although ODA is an insufficient mechanism for compensating developing countries for the

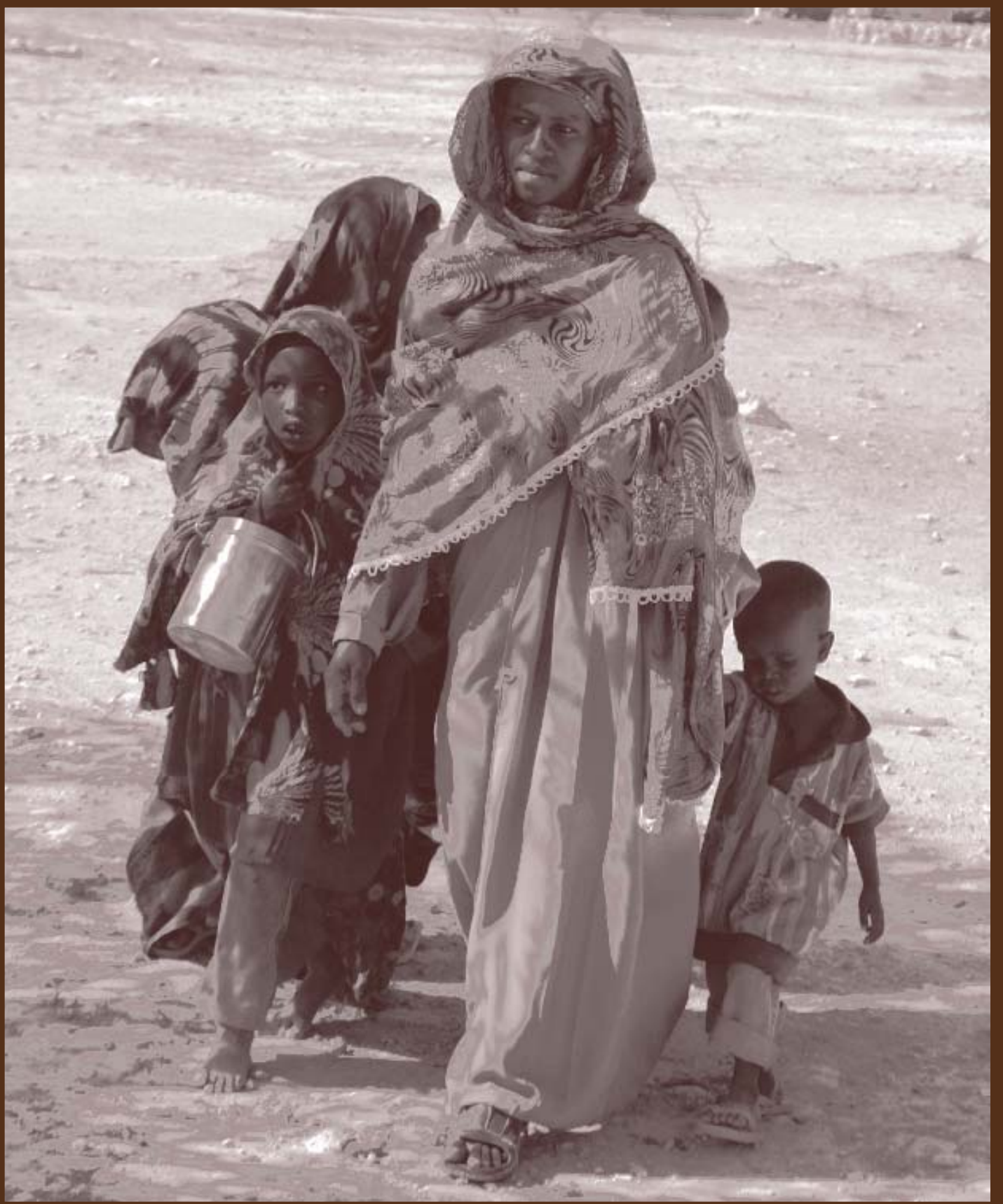
damaging effects of climate change, it will continue to be one component of adaptation funding. Therefore, it is critical that these bilateral and multilateral agencies climate-proof their work.

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