#4.11

PERSPECTIVES

Political analysis and commentary from Africa

MOBILISING CLIMATE FINANCE FOR AFRICA

HEINRICH BÖLL STIFTUNG

Contents

Heinrich Böll Foundation – Africa

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Editorial

Climate finance has recently become a subject of profound interest to the global debates on climate change. At this year's 17th UNFCCC Conference of the Parties (COP) in Durban, climate finance is expected to feature prominently. This being the "African COP", we hope that the African perspective on climate finance will receive the attention it deserves.

While Africa has contributed the least to historic greenhouse gas emissions globally, it stands to be the hardest hit by the effects of climate change. Climate change will affect many parts of the continent causing drastic reduction in agricultural productivity while exposing its people to water stress, droughts, floods and localised outbreaks of vector-borne diseases. Addressing climate change is therefore an urgent issue and Africa will require substantial financial resources in order to adapt to the unavoidable consequences of climate change.

However, the current models of financing do not match Africa's climate change priorities. With approximately 80 percent of all climate finance directed to mitigation, adaptation, which is a priority for Africa, remains grossly underfunded. Additionally, less than 2 percent of the total Clean Development Mechanism projects implemented globally are located in Africa. These figures clearly expose the current disparity, and raise the question around Africa's access to global climate finance.

Perhaps the most notable financial commitment to address climate change for developing countries was made at COP 15 in Copenhagen, where developed countries agreed to create a fast start fund of US$30 billion by 2012, growing to US$100 billion by 2020. This commitment was further developed into action at COP 16 in Cancun, leading to the establishment of the Green Climate Fund. The 40-member Transitional Committee mandated by the Conference of the Parties to design this new fund started its work in April and ended its mandate in October 2011. However, the process led to what one of the committee's co-chairs, South African Minister Trevor Manuel, termed a "sub-optimal" outcome. Mohamed Nasr, Climate Finance Coordinator for the African Group of Negotiators, was quoted as saying that it "favours developed rather than developing countries". Ultimately, the committee members could not reach consensus on the draft text, leaving the final decision on the design of the fund to the UN climate summit in Durban.

Africa's interest in the climate finance discussions goes beyond the Green Climate Fund. Africa calls for climate finance to be predictable, sustainable, adequate and additional to the development aid it currently receives. The sources and scale of finance, although they fall outside of the mandate of the Transitional Committee, are central to the discussion on climate finance for developing countries. Africa's position, as stated by the African Group of Negotiators, is that the majority of funding should come from public rather than private sources of finance.

African women are active agents of change in addressing the impact of climate change on the continent. Many are still excluded from political participation and decision making processes that ultimately affect their well-being and that of their families. Despite this, many African states have not systematically included gender into climate policy, and more specifically, climate finance. According to gender and climate change expert, Liane Schalatek, "engendering climate finance provides an opportunity for African states to improve its equity, effectiveness and efficiency".

It is our hope that by delving deep into the issues that affect Africa's access to climate finance, we begin to explore "win-win" financing solutions that reduce vulnerability to climate change and contribute to the broader economic development of the continent.

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The Politics of Climate Finance

Climate Finance is fundamentally a matter of political economy. To apply an old but neat definition, it really is a question of "who gets what, when and how". Amidst the profound disappointment of Copenhagen, there was one shard of light: a commitment by developed countries that they would create a "fast start" fund of US$30 billion by 2012, rising to US$100 billion by 2020.

At Cancun, there was further progress on this front with an express agreement to create a Green Climate Fund (GCF). The fund was lauded by Christiana Figueres, head of the UN Climate Change Secretariat, as "…pretty historic – it's the first time that countries have agreed to such a broad set of instruments and tools that are going to help developing countries in particular to meet the challenges of mitigation and adaptation". Now, the countries and organisations representing the world's poorest and most vulnerable populations have pinned their hopes for the 17th Conference of the Parties (COP) in Durban on the idea of the GCF.

The state of the world being what it is, there are underlying power issues which must be addressed in order for the GCF to successfully tackle the adverse impacts of climate change. And the imminent prospect of a double-dip global recession is adding further caution to an already twitchy and risk-averse set of Western finance ministers. With Durban around the corner, there are big question marks hanging over each segment of the climate finance political economy. There are doubts about the "what" – where will the money come from? There are uncertainties about the "who" – which countries will be eligible and on what basis? And, there are unresolved questions about the "how" – what will be the process for accessing GCF funds?

A Transitional Committee was appointed by the 16th Conference of Parties in Cancun to design the GCF and to present to the next COP in Durban a detailed blueprint for its operational future. The aim was for it to kick-start in 2012, in accordance with the bold promise of Copenhagen. Unfortunately, despite meeting on four occasions this year at various locations around the world (Mexico, Tokyo, Geneva and Cape Town), the Transitional Committee could not reach agreement on some of the key issues.

Part of the challenge for the committee was to navigate the language of the Cancun agreement, which at clause 102 stated that the GCF "is accountable to and functions under the guidance of the Conference of Parties". There is already academic debate as to the precise meaning of this formulation. The committee appeared to arrive at a consensus on the point that the GCF should have a separate legal personality, but could not agree on the relative powers of its board and secretariat. It is clear that some of the richer countries seemed to seek to elude the dead-hand of the United Nations Framework Convention on Climate Change (UNFCCC) process by giving the Green Climate Fund's board greater autonomy. Led by the United States, most developed countries want a governance modality that is separate and distinct from the Conference of Parties (read UN). Whereas some of the members of the G77 grouping of developing countries were adamant that the UNFCCC-type representation and accountability should be fully infused into the governance modality of the fund. The Transitional Committee ran aground on the issue. In the end, it was the main obstacle to adoption of the report.

Why would developing countries insist on an institutional arrangement that on the surface runs counter to the deployment and efficient utilisation of scarce resources with maximum impact?

It is an effort to keep citizens at the centre. The last 11 months of international politics, ranging from the Arab spring to the European discontent and the American "occupy" movement, has centred on one issue: How can citizens more effectively assert

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themselves in national processes in order to change the circumstances in which they live? In the case of dealing with the impacts of climate change in Africa, this is even more apropos, as adaptation necessitates a local response, with municipalities and local government at the fore. This requires not only a devolution of responsibilities, but also of fiscal decentralisation, which runs counter to the state-centric model of international finance. Even the Paris Declaration (2005)[1] places national government at the centre of development aid flows, on the axes of principles like ownership, accountability, and managing for results. The proposed structure of the GCF does not substantially deviate from current development practice, in which citizens can feed into national processes and the extent to which that occurs differs significantly across countries and is left to the discretion of the state.

The nature and trajectory of economic development in Africa depends on the state of infrastructure services (energy, water, transport, roads, etc.), the commitment to rural development and sustainability issues, and improved public finance management. These sectors also happen to be crucial to the national response to climate change. Since municipalities are at the front line of delivering these services, and will most likely be the first responders to the adverse impacts of climate change, it is important that the GCF and other funding mechanisms reflect this reality.

A barrier to attracting the political commitment to, and the requisite funding for, adaptation and mitigation activities at local government level is the questionable state of accountability mechanisms. For inclusive and accountable climate planning and budgeting, disbursement, and monitoring processes to materialise at local levels, countries must oversee the improvement of local capacities leading to improved responsiveness and accountability. Another point of contention between rich and poor countries during the Transitional Committee negotiations was that the poor countries were aggressively seeking a funding window for capacity-building.

Compounding this pressure from the ground is the fact that the landscape of the international economy has changed. Significant wealth creation and economic growth is registered in middle-income countries, and there has been a marked increase in income levels across the world, access and distribution notwithstanding. Paradoxically, the majority of the world's poor now also live in middle-income countries. That is, there is a distinction that must be made between the poorest people (the bottom billion) and low-income countries. The bottom billion now live in countries like China, India, Nigeria, Pakistan, and Indonesia.[2]

> Paradoxically, the majority of the world's poor now also live in middle-income countries. That is, there is a distinction that must be made between the poorest people and low-income countries.

Flows in development aid aligned quickly to this fact. In 2007, 44 percent of aid from the European Community went to low-income countries. By 2009, this had dropped to 34 percent. This is particularly worrisome for Africa, which houses 26 of the 35 low-income countries identified by the World Bank and seven resource-rich countries that are classified as middle-income but are still considered among the least developed in the world.[3] European institutions have also shifted their geographical focus. The percentage of total aid to Sub-Saharan Africa was 60.7 percent in 1989. By 2009, it had dropped to 37.6 percent. Indonesia, China and India are among the top five recipients of official development assistance from the Organisation for Economic Co-operation and Development (OECD), a club of rich countries.[4]

Middle-income countries are also among the most vulnerable to extreme weather impacts and must address environmental sustainability challenges related to urban density, as well as being major emitters of greenhouse gases.[5] Current flows of climate finance reflect this state of affairs. According to the Climate Policy Initiative[6], the climate finance pie is estimated to be US$97 billion. Of the total amount of resources directed to climate change, only US$4 billion, mainly financed through bilateral institutions, is supporting adaptation activities. This is still only a fifth of the funding that is provided by public budgets (US$21 billion), and the bulk of climate finance is directed at middle-income countries. Climate Funds Update[7], a service which tracks commitments and disbursements of

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the "fast-start finance" pledged in Copenhagen, says that of the US$2.1 billion that has already been disbursed, just under US$1.4 billion – or approximately two-thirds – has been directed to middle-income countries. African countries have not been able to attract even the meagre portion allotted for adaptation.

Yet another spanner in the works of climate justice is the main source of climate finance: The private sector. According to Climate Policy Initiative, the amount of private climate finance is triple that of public finance. This is a problem because the US$55 billion provided by the private sector does not come in the grant form needed by developing countries to integrate adaptation into their development strategies. It also contradicts the Rio Declaration on Environment and Development (1992) that sets the overall conceptual framework of environmental sustainability and how the threats posed from climate change will be dealt with. The declaration states that developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command.

> Climate finance is not insulated from the wider – and even more exacting – questions of global climate politics.

The desire to keep climate finance separate from traditional aid is tied to the belief that adaptation funding should be made up entirely by grants and not have a loan component at all. However, a study by the European Network on Debt and Development[8] found that at most one-sixth of the financing from the Climate Investment Fund will be disbursed in the form of grants. The largest share will be in the form of concessional loans. The maturity period for the majority of the loans is 40 years, also violating the principle of intergenerational equity.

It is quite obvious that in an age of severe austerity and multiple sovereign debts in the West, traditional development assistance – let alone the "new and additional" funding for the climate finance that is envisaged with the GCF – is under threat.

Going forward, what aid is available for climate finance projects will be subject to even greater scrutiny than before in terms of both efficiency and accountability. The Japanese tsunami in March 2011 punched a hole in the fragile confidence of Western finance ministers in the afterglow of their Cancun commitments. Since then, the global economy has further dipped and the Euro-zone has entered a watershed period of crisis and profound uncertainty. Money is tighter than ever. While nation states will continue to recognise intellectually their responsibilities to take meaningful action on climate change, the domestic political imperative is governments' main priority for action. With voters concerned about joblessness, stagnant, deficit-ridden national economies, and angered by inequality, the space for climate change has been squeezed markedly.

Careful consideration of how economic forces weigh in on the current balance of power is integral to understanding how African countries will fare in the climate finance architecture. Without addressing the power imbalances described in this article, the GCF may prove to be an empty vessel. This is where governance and institutional arrangements become intertwined with political economy. Climate finance is not insulated from the wider – and even more exacting – questions of global climate politics.

Endnotes

1 The Paris Declaration on Aid Effectiveness, an output of the 2nd High Level Forum on Aid Effectiveness, was signed in 2005 by over 100 entities including foundations and international non-governmental organisations, multilateral agencies, and donor and partner countries. It was an attempt to address a number of issues regarding the insufficiency of aid: its volatility in disbursement and the existence of parallel delivery mechanisms; its non-alignment and lack of harmonisation with national development strategies; its apparent ineffectiveness against persistent poverty levels and the lack of accountability in that regard; and the marginalisation of citizens from the aid architecture.

2 Sumner A, "The New Bottom Billion: What if most of the world's poor live in middle-income countries?", Center for Global Development, March 2011.

3 See: <http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income>.

4 Glennie J, "The role of aid to middle-income countries: a contribution to evolving EU development policy", Overseas Development Insitute, Working Paper no. 331, June 2011.

5 For further discussion, see Wheeler D, "Quantifying vulnerability to climate change: Implications for adaptation assistance", Center for Global Development, Working paper 240, January 2011.

6 Buchner B et al, "The Landscape of Climate Finance" Climate Policy Initiative, 16 October 2011.

7 See: <http://www.climatefundsupdate.org/>.

8 Honkaniemi N, "Storm on the horizon? Why World Bank Climate Investment Funds could do more harm than good", Eurodad, February 2011.

Interview

Making Climate Finance Work for Africa

The 16th Conference of the Parties in Cancun mandated a 40 member Transitional Committee to design the Green Climate Fund. Tasked to come up with a draft governing instrument laying out the objectives and mission, the governance structures and core operational modalities of the new global climate fund, the committee failed to reach the unanimous agreement needed to recommend the draft text to the Conference of the Parties for adoption in Durban.

Mohamed Nasr, the Climate Finance Coordinator for the African Group of Negotiators under the UNFCCC, took some time out to provide his assessment of the process.

HBS: The Transitional Committee recently had its final meeting in Cape Town, South Africa. How would you evaluate the process and its outcome from an African perspective?

Nasr: The major problems with the Transitional Committee process were that the terms of reference did not include the discussion on the sources and the scale of finance. It was not in the committee's mandate to discuss these two items. Both of these are the cornerstones for developing countries. As developing countries, we expect that financing must encompass predictability, sustainability, adequacy and additionality – all of which are important elements of scale.

We have to deal with these issues very clearly because we cannot ask developing countries in Africa to pursue a low-carbon growth path without securing any funds or any support for that. We need to ensure that Africa is getting its fair share of funds. If you look at the Clean Development Fund, for example, you will find that less than 3 percent of the funds went to Africa and we don't want to repeat the same experience.

When we evaluate the draft governing instrument, which was tabled as a compromise to all parties, you will find that it favours developed rather than developing countries. For example, the views of African countries that were put forward through a submission that was made at the second Transitional Committee meeting, called the submission from the Group of Thirteen, are only poorly reflected in the document.

> As developing countries, we expect that financing must encompass predictability, sustainability, adequacy and additionality.

The first issue that comes to mind is that of the legal personality of the fund. It is clear that an entity without a legal personality cannot provide direct access, which is something that developing countries have been asking for, particularly in Africa. For example, the Global Environmental Facility does not have a legal personality and therefore countries have to work through agencies like the World Bank. This is not what African countries want.

The second issue is the lack of a clear relationship between the Green Climate Fund [GCF] and the Conference of Parties [COP]. Such a relationship would have two benefits. The first is that you ensure ownership of all countries, and particularly developing countries, of this fund, and the second is that it would simplify many of the administrative issues like reporting. Our other concern regarding the relationship of the COP to the GCF is on the structure and format of the fund board. Issues such as membership of the board, reporting structure and decision making processes and powers needed to be well defined in the governing instrument. All these issues were not well reflected in my opinion.

Also very important to many African countries

Mohamed Nasr

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is the question of the establishment of a private sector facility within the Green Climate Fund. We acknowledge the role of the private sector, but not as a competitor to developing countries in getting finance from this fund.

HBS: How would you like to see the climate finance negotiations develop from the African perspective going up to Durban and beyond?

Nasr: Some countries are now debating the issue of having a new mandate for a legally binding agreement, which is a discussion that very much focuses on the question of emission reduction targets. But how can we move forward on that question when we didn't even finish the discussion on the means of support – finance and technology – to implement required actions?

With the draft document that has come out of the Transitional Committee process we have a proposal on the medium to long term finance, and this is something I believe is crucial to reach an agreement on in Durban. The level of climate change action in developing countries directly depends on the resolutions that we get on the issues around climate finance. Therefore, developing countries need to have a clear idea about the availability and sources of climate finance from 2013 up to 2020.

Equally important will be to establish principles of dealing with climate finance. One of them is fair and equitable distribution of the available funds. That means that Africa, just like any other region, should get its fair share based on a set of criteria, including urgent and immediate need. Related to this is the imbalance between funds available for mitigation compared to those available for adaptation, which needs to be addressed urgently.

These are some of the things that we believe should be captured and put together in clear decisions in Durban.

HBS: What do you expect from South Africa as the host country of COP 17?

Nasr: I believe South Africa is very much aware of the African position and the needs of developing countries, and I have confidence, strong confidence, in them.

They have to ensure that the processes at COP 17 will be transparent and inclusive. The needs of developing countries should be made a priority; a COP will only be successful if it delivers something on the needs of the poor. That means making developing countries part of the global action against climate change. This requires the developed countries to take the leadership in line with what is recommended by the scientific community to combat climate change. I think South Africa is aware of that and working hard to achieve a good outcome.

> The needs of developing countries should be made a priority; a COP will only be successful if it delivers something on the needs of the poor.

HBS: What do you think the role of African civil society can be in this process?

Nasr: At home African civil society can play an important role by creating awareness, through the media for example. Also, I think it would be important for them to get together with civil society organisations from developed countries and tell them about the problems their countries are facing and ask them to put pressure on their governments. I believe this kind of public participation can make an important difference.

The views expressed by the interviewee do not necessarily reflect the position of the institutions that employ him.

Engendering Climate Finance

An Opportunity for Africa

Women, who form the majority of the world's 1.4 billion people still living in abject poverty, are often disproportionally affected by climate change impacts. In many societies, including many African ones, they are often the primary carers and breadwinners in their families. But the widespread gender discrimination that denies them income, legal rights, access to resources or political participation also excludes them from many of the discussions and programmes to deal with and prevent climate change related impacts. In addition to this, they also posses unique knowledge that could help reduce emissions and help societies cope with climate change impacts. This makes African women important "agents of change" in dealing with global warming on the continent. As this article points out, gender-differentiated vulnerabilities and capabilities in the context of climate change demand gender aware and gender-equitable climate financing instruments. Unfortunately, gender considerations are not systematically addressed in existing climate financing instruments. This is particularly the case in Africa, which has received very little international funding to cope with severe climate change impacts in the first place. Engendering climate change funding directed at African countries is therefore an opportunity to improve its equity, effectiveness and efficiency.

Climate Financing for Africa

Africa has contributed minimally to global climate change, yet it is expected to be severely affected by climate change impacts. The continent is also under-represented in internationally funded mitigation projects, with South Africa being an exception. Only around 40, or just over 1 percent, of the more than 3000 projects that have been funded under the Kyoto Protocol's Clean Development Mechanism (CDM) are implemented in Africa. The 20 or so dedicated climate financing instruments that the website ClimateFundsUpdate.org tracks yields equally grim figures, in particularly when it comes to adaptation funding, which Africa needs the most. Of the roughly US$ 10 billion of funding approved by mid-2011, only US$ 350 million was devoted to climate change adaptation in Africa.

> Unfortunately, gender considerations are not systematically addressed in existing climate financing instruments.

This is hardly enough to deal with the adaptation funding needs for Africa, which are estimated to be up to US$ 2 billion per year until 2015 and higher thereafter. The UNFCCC estimated in 2007 that it would cost between US$ 7-9 billion per year by 2030 in additional investments (on top of normal development assistance) for Africa to adapt to climate change impacts, with the most additional resources needed for human health (US$ 2.166–3.328 billion per year), water resources (US$ 2.788-2.913 billion) and agriculture, forestry and fisheries (US$ 1–2 billion) respectively.

Gender and Climate Finance – A Question of Rights, Equity and Effectiveness

It is important that the international funding for adaptation available for Africa is utilised in the most effective, equitable and efficient way possible. This means allocating it in a gender-aware way, using both gender mainstreaming and women's empowerment strategies. Adaptation policies for Africa that focus on agriculture and food security illustrate this imperative well. In Sub-Saharan Africa, women are still the primary agricultural

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producers, accounting for up to 80 percent of the household food production. However, as they own little of the land they work on they are often kept out of formal consultation processes to determine adaptation needs of rural communities and unable to secure credits or other agricultural extension services. In times of food insecurity – aggravated by the extreme weather variability and long-term weather pattern changes brought on by climate change – women and girls are often likely to receive less food because of gender-based distribution dynamics within households.

To be effective, adaptation policies and funding for adaptation projects and programmes in agriculture need to consider the gender dynamics of food procurement and distribution both within households and markets. For example, they should target rural women in Africa specifically with capacity-building, consultation outreach, technical assistance and tailored agricultural extension services. International experience from development programmes has shown that integrating gender-awareness in project design and implementation improves development outcomes, and thus the effectiveness, of development aid. Without a gendered lens, climate financing instruments delivering adaptation funding for Africa will also exacerbate the discrimination of women. This threatens women's rights and directly contravenes the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW), which almost all African countries and industrialised countries – the recipients and contributors of international climate finance – have adopted.

Gender as an "Afterthought" in Existing Climate Funds

Gender considerations were not integrated from the start into the design and operationalisation of existing climate financing mechanisms. Where they are included they therefore appear to have been added as an afterthought. This is the case for the World Bank's Climate Investment Funds (CIFs), including its Pilot Programme on Climate Resilience (PPCR) focusing on adaptation, as well as for the Least Developed Countries Fund (LDCF) or the Special Climate Change Fund (SCCF) administered by the Global Environment Facility, and even the Kyoto Protocol Adaptation Fund, which started paying out project funding in 2010.

> Without a gendered lens, climate financing instruments delivering adaptation funding for Africa will also exacerbate the discrimination of women.

Gender awareness and some gender guidelines are not completely absent from climate financing instruments. The World Bank and the regional multilateral development banks implementing the Climate Investment Funds (CIFs) have gender policies for their development financing operations. The World Bank has a gender mainstreaming mandate. According to a recent report of the World Bank's Independent Evaluation Group, the development banks have accumulated evidence from development practice over the years that gender equality increases the effectiveness of their development funding. But gender is not integrated into any of the operations of the Clean Technology Fund, which finances large-scale mitigation objects in emerging market economies and accounts for roughly 70 percent of the CIFs pledged funding portfolio of US$ 6.5 billion. In the World Bank's Pilot Program on Climate Resilience (PPCR), which funds programmatic adaptation portfolios in a few developing countries, gender is not part of the operational principles – although some pilot countries have included gender dimensions in their phase I proposals. In Africa, where Mozambique and Zambia each will profit with more than US$ 100 million from the PPCR once fully implemented, both country programmes have considered some gender issues. The challenge going forward will be to ensure that the programme implementation in both countries is gender-equitable. In the Scaling-Up Renewable Energy Program in Low-Income Countries (SREP), the newest of the CIFs, the suggested structure of the investment plans requests information about "environmental, social and gender co-benefits" and asks for social co-benefits to include "greater involvement and empowerment of women and other vulnerable groups."

At the Kyoto Protocol Adaptation Fund, existing project proposals unevenly include some gender analysis. Up until a recent revision of the operational guidelines adopted in July 2011, it was not mandatory or a strong consideration for the project approval and subsumed under a vulnerability focus. The new version of the guidelines makes the inclusion of gender considerations in project and programme planning, as well as in project consultation processes, if not mandatory, then at least an important review criterion. For the Least Developed Countries Fund (LDCF) under the Global Environment Facility (GEF), which is supposed to fund and implement National Adaptation Programmes of Action (NAPAs) that define a poor country's most urgent adaptation action needs, gender has so far not been an obligatory decision criterion for project review and approval. Only roughly a third of the NAPAs include gender analysis or gender indicators. Women's participation in their development has been likewise uneven, despite clear guidance by the UNFCCC. And most of the handful of NAPA implementation projects funded under the LDCF lack the gender component entirely. However, as a result of some prodding by Northern contributor countries during the GEF's last replenishment cycle, the facility is working to implement its own gender mainstreaming policy. The goal is to ensure that gender expertise in the GEF Secretariat is improved and all GEF implementing agencies are applying and documenting a gender mainstreaming approach to GEF project implementation.

> On its own, a formal gender policy or a gender action plan for a climate financing instrument is not enough.

Experience in other areas of development show that it is possible to include gender considerations systematically and effectively in a global financing mechanism devoted to developing country actions. Both the Global Fund to Fight Aids, Tuberculosis and Malaria (Global Fund) and the Global Alliance for Vaccines and Immunizations (GAVI) have had either a gender action plan or a detailed gender policy on the books since 2008. In addition, they have a "gender infrastructure" for both funds. This constitutes a Gender Working Group in the case of GAVI, which includes representatives from all secretariat teams. In the case of the Global Fund, there are several full time gender advisors as well as gender experts on the monitoring, evaluation, legal advisory and civil society outreach teams.

If climate change financing has a poor track record in terms of gender sensitivity, the Green Climate Fund, which has been designed over the past six months by the 40 members of the Transitional Committee, has a chance to do better. It is not clear yet how much of the long-term commitment of industrialised countries of US$100 billion per year by 2030 will flow through the Green Climate Fund, especially in form of public finance, but it is nevertheless certain that the new fund will provide significantly scaled-up adaptation funding opportunities for African countries. The GCF has an opportunity to be truly transformative and distinguish itself from existing funds by being the first to integrate a gender perspective from the outset. Gender as a cross-cutting issue must not only guide the discussions about the scope, the governance and operational guidelines of the GCF, but also be confirmed as an issue of critical importance at COP 17 in Durban in late November 2011 when Parties consider the recommendations of the Transitional Committee and approve the final shape of the GCF. Gender equality must also inform the deliberations and decisions by the GCF's new board as soon as it convenes in 2012 to begin its work on the details of funding allocation and disbursement policies.

On its own, a formal gender policy or a gender action plan for a climate financing instrument is not enough. Equally important is the systematic integration of gender equality in a fund's governance structure as well in its public participation mechanisms. For example, the Kyoto Protocol Adaptation Fund is the most representative of the existing multilateral climate funds in terms of countries' inclusion (with a majority of seats for developing countries and a dedicated board seat each for Least Developed Countries and Small Island Developing Countries). But none of the multilateral climate funds seek a gender-balance on the board. Also, most don't allow for an active participation of members of civil society on their boards. Nevertheless, a "best practice" precedent exists. The statutes of the Amazon Fund, the Congo Basin Forest Fund and the UN-REDD (Reducing Emissions from Deforestation and Forest Degredation) Programme allow for representatives of stakeholder groups to be voting members of the fund's decision-making body. Climate funds don't go this far, but some, for example the CIFs, give civil society representatives the right to take the floor, add agenda items and recommend outside experts for consideration by a fund board. At the CIFs, special representation is accorded to indigenous peoples with a separate seat that is not counted toward the overall civil society quota. Women deserve no less.

Double-Mainstreaming to Engender Climate Financing – Some Key Principles and Actions

What is needed in public climate change financing to benefit Africa and developing countries in other regions of the world, particularly in adaptation, is a double mainstreaming approach. This would involve on the one hand climate-proofing development policy and planning while simultaneously incorporating a gender mainstreaming approach to reach the goal of long-term low-carbon, climate-resilient and gender-equitable development. Some key principles and actions to gender-sensitise climate finance with relevance for both traditional development and dedicated climate financing instruments are listed below. They are of particular importance for the new Green Climate Fund, which is supposed to channel a significant portion of the new multilateral financing for adaptation, in order to provide better balance between allocations for adaptation and mitigation.

- **Gender equality should be a guiding principle and a cross-cutting issue** for all climate finance instruments, but particularly for the Green Climate Fund, being enshrined in the fund's mission and vision statement and its articles of agreement.
- **Gender-responsive funding guidelines and criteria** should be developed for each of the proposed thematic funding windows.
- **Explicit gender criteria** must be included in performance objectives and criteria to evaluate funding options under the Green Climate Fund and other dedicated climate funds. Such criteria should include a **mandatory gender analysis** of the proposed project or programme, a **gender budget** and some **clear indicators** measuring how projects and programmes contribute to gender equality objectives. In this context it is important to **systematically collect sex-disaggregated data** by establishing a programme or project baseline and following it through implementation and evaluation. This is a prerequisite for an increased focus on, and budget allocations for, climate actions that also contribute to gender equality and women's empowerment.

> The input and participation of women as stakeholders and beneficiaries must be guaranteed at each level and step before, during and after the programme or project's duration.

- Funding instruments should consider **earmarking funding for gender equality** as a focal area of programming, or even a special women's sub-fund or facility in addition to mainstreaming efforts.
- **Gender-balance** should be guaranteed in **all decision-making bodies** of climate financing instruments, including on a fund's board and possible sub-boards for individual funding windows. In addition to this gender balance, the fund boards must include gender experts. Members of civil society, including representatives of gender equality organisations and women groups, should be given opportunities for active participation in the work of a fund's board or sub-boards, ideally as voting members. Active civil society observers to such boards should include gender experts and/or women's organisations.
- **Gender-balance and gender-expertise of an institution's staff administering climate financing** is important to ensure that gender equality principles are considered in programme and project review and the monitoring, reporting, verification and evaluation of a mechanism's funding portfolio.
- The **input and participation of women as stakeholders and beneficiaries** must be guaranteed at each level and step before, during and after the programme or project's duration. Climate funds should provide resources to enable women's groups and other community and civil society groups to fully engage with the programmes and projects.
- **Funding allocation** should be coherent and

consistent with national development plans and national mitigation and adaptation strategies (PRSPs, NAPAs, NAMAs, NAPs), which must be developed in a **country-driven, gender-sensitive, fully participatory and transparent process**. These plans and strategies need to take into account the special needs of vulnerable people, including women and indigenous peoples, local communities and ecosystems and the contributions of traditional and indigenous knowledge. Funding support for the development of such plans needs to support and encourage the inclusion of gender considerations.

- Climate financing instruments must include a **regular gender-audit of their funding allocation** in their overview and reporting in order to ensure balance between mitigation and adaptation activities and gender-responsive delivery. Currently, adaptation projects, which have the most obvious gender linkages, are chronically underfunded.
- All climate financing instruments or programmes must have a **robust set of social, gender and environmental safeguards and guidelines** for their implementation that guarantee gender equality, women's rights and women's full participation. These safeguards need to be developed with stakeholder input and participation, including from women's and gender groups. They also need to comply with existing international obligations, including on human and women's rights, labor standards and environmental law.
- Lastly, climate financing instruments or programmes should establish **an independent evaluation and recourse mechanism and regular reporting requirements** to address if and how funding activities are promoting gender equality. Groups and individuals affected by climate change funding, including affected women in recipient countries, should be able to voice their grievances and seek compensation and restitution.

Debate

Maximising Africa's Potential in the Carbon Market

Africa's potential in the carbon market lies both in its ability to produce a wide range of carbon reduction projects as well as its scope for sustainable economic development. However, its potential for projects associated with energy production and distribution, agriculture, domestic lighting, forestry and other nation building activities has not been met with the scale of development it deserves. Projects remain unequally developed, concentrated mostly within Sub-Saharan Africa and are often considerably delayed. They also usually need to jump considerable hurdles due to the lack of capacity and resources of the host countries and their Designated National Authorities (DNA), affecting the average credit issuance success of projects.

> The CDM's limited success in Africa in delivering the sort of investment and infrastructure development experienced in other eligible regions is arguably due to internal institutional issues.

In a very short period of time, the Clean Development Mechanism (CDM) has assisted in mobilising billions of dollars in public and private investment for projects to reduce emissions and contribute to sustainable development in developing countries. Apart from the direct financial benefit, this has also facilitated the emergence and growth of a plethora of partnerships that have, in the best cases, had a trickle-down effect in the host country. The effect is seen both in terms of boosted technical knowledge and continued investment in the host nation. There are, however, still relatively few CDM projects in Africa, especially outside of the Sub-Saharan region. Africa made a strong showing in 2005 with a 14 percent share in CDM projects. But by 2011, Africa is receiving only a 3.6 percent share of total investments in CDM projects and a share of projects of just 2.6 percent. In other words, net progress in the region would appear to be *in the red*. With a continuation of the CDM in some form looking likely, and the prospect of a "REDD+" (Reducing Emissions from Deforestation and Forest Degradation) mechanism to reduce deforestation gathering more momentum and finance, now is the time to realise Africa's potential for attracting clean development projects and funding.

The CDM's limited success in Africa in delivering the sort of investment and infrastructure development experienced in other eligible regions is arguably due to internal institutional issues. But it can also be traced to a laissez-faire approach towards project development in these institutions due to a lack of capacity and underfunding. Two parties are chiefly to blame. Host governments have failed to see past the blur of finance and focus on the real long-term profit of capacity building. And the United Nations Framework Convention on Climate Change (UNFCCC) and its CDM Executive Board have ultimately failed to define and enforce what it means to "achieve sustainable development", leaving a void in which the concept can be reduced by host parties and project financiers to simply meaning the transaction of finance between cooperating entities. In order for "sustainable development" to be achieved, it should have at its heart the pursuit of long-term benefits to the host country, development of the host country's indigenous human resources and the installation in the host country of a legacy of development orientated around the ethos of sustainability. This means developing conducive structures to achieve sustainable development, including legal, economic, civil society, political, industry and infrastructure. Reforms have to focus on improving capacity, transparency, minimising institutional corruption

cont. p16

Sam R. Davidson

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Unclean Development Mechanism

How African Carbon Markets are Failing

Stories of the carbon market's potential to mobilise billions of dollars in investment for projects to reduce emissions and contribute to sustainable development in the developing world tend to rely on aggregate figures about the value of the global carbon market. This value was US$142 billion in 2010. However, there is a major discrepancy between this value and Clean Development Mechanism (CDM) financial flows, and the gap continues to grow. In 2010, the "primary trade" in CDM offsets was worth US$1.5 billion, its lowest level since the Kyoto Protocol entered into force in 2005. Although that figure is generally taken as an estimate of how much money goes to projects, a recently leaked World Bank report suggests that the actual financial flows may be five times lower (US$300 million) if the real purchase prices of credits are used instead of estimates.

The geographical scope of the CDM is also highly uneven, with over 80 percent of registered CDM projects (and almost 86 percent of credits issued) located in the Asia-Pacific region. By contrast, Africa hosts 1.9 percent of projects and issues 1.3 percent of credits, according to data from the Denmark-based United Nations Environment Programme Risoe Centre on Energy, Climate and Sustainable Development. These continental figures mask significant discrepancies between countries as well as regions. The majority of credits issued in Africa so far have gone to Egypt, while South Africa has the largest number of registered projects (19). The rest of Sub-Saharan Africa hosts just 31 projects, amounting to 0.9 percent of the total projects globally and just 0.005 percent of credits issued to date.

Africa's largest fertiliser factory, located on the north coast of Egypt, generates more carbon offsets than the rest of the continent combined. These are sold to coal-fired power stations in Germany's industrial heartland to help them avoid cutting their greenhouse gas emissions. In 2010, the Abu Qir factory made an estimated US$25 million profit from these offset sales, while the German power stations avoided 3 million metric tonnes of carbon dioxide reductions.

> Project developers point to a lack of capacity in African states, but the main explanation for these disparities is economic.

The story of Abu Qir is a snapshot of how the carbon offset market under the CDM has worked to date. Most credits are generated by industrial gas reduction projects, using cheap end-of-pipe technologies that generate far more money from the sale of carbon credits than they cost to buy and run. The largest buyers of these credits, in turn, are European energy producers keen to extend the lifespan of their coal-based power plants.

The fact that such a high proportion of Africa's credits come from just one factory illustrates how marginal Africa is to the carbon market, and that the carbon market has been largely irrelevant to the continent's efforts to tackle climate change.

Project developers point to a lack of capacity in African states, but the main explanation for these disparities is economic. The largest global investors direct their efforts to the most profitable projects. Economies of scale invariably point to the larger projects, and since offsets represent "avoided emissions", these involve heavy industries or power sector projects in countries where grid energy already register significant greenhouse gas emissions. Such project opportunities rarely exist in Sub-Saharan Africa, which is not dirty enough or does not consume enough to compete successfully within the CDM.

cont. p17

Oscar Reyes

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and more proactive engagement with the market as a method of delivering real benefits to sustainable development in host countries. However, internal reform must also be met with reform and pragmatism from the CDM and its facilitating body the UNFCCC.

Participation in the carbon market and the development of CDM projects requires more than just cash injections. The type of investment is also crucial. In Africa finance is channeled predominantly through large Development Finance Institutions (DFIs) and other national and non-governmental macro-regional investment agencies. There are only a few local consultants with expertise in CDM, and knowledge remains concentrated within small pockets. Expertise also usually resides very close to host country governments, often within the outposts of foreign developed country consultancies and usually within the hands of the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and other international organisations such as Energy and Sustainable Development in Africa (ESDA). There is no point to needlessly demonise such bodies for their work. But the fact remains that after several years of concerted climate finance intervention there still remains a deficiency of domestic capacity within host countries. Such capacity includes the ability to satisfy the demand to develop carbon reduction projects, but also capacity for developing the sort of conducive structures – legal, institutional, civil society, economic, etc. – which give rise to flourishing developed nations. "Blind aid" thrown at either the already powerful or the already wealthy, or at organisations which essentially don't have a strong indigenous tie to the host country, will have little positive effect on sustainable development. It is imperative that we return to the overriding purpose of climate finance: To direct investment into sustainable development so that it firstly doesn't follow the destructive path blindly accomplished by the so-called developed countries, and secondly so that it enables recipient nations to adapt to the predicted scenarios and inevitable effects of climate change.

While I am not suggesting that the status quo in climate finance is part of a conspiratorial or determined effort of individual actors or organisations, it is clearly a reflection of deeper structural problems that limit progress. Forming bilateral partnerships with a diversity of organisations, rather than large supra-national organisations, is one way of building capacity, developing domestic technical expertise and increasing the productivity of local organisations. The emphasis on these partnerships should be outlined in tender documents and host country environmental law to highlight their importance in project development.

The shortcomings of the carbon market occur at the global policy level, at the regulatory level within the UNFCCC CDM Executive Board and at that of the market itself. However, they may be more accurately described as problems relating to the market's functionality in the context of a vast array of differing objectives, opinions and uncertainty. From a project developer's point of view, the problems often come down to the inability of host countries to support and facilitate project development. This introduces delays, increases the cost and risk of the project and frustrates the process of delivery. This shortcoming is more relevant in some parts of the world than in others. But as an attempt to find some common ground between project developers, host countries, host populations and even the UNFCCC, what is needed is a clear, pragmatic and transparent process with specific guidance for developing carbon reduction projects. This also has to be bolstered by a clear reassurance and statement from the UNFCCC of the role, purpose and future of the CDM.

I agree with former UNFCCC executive director Yvo de Boer that COP 17 is set to be a very difficult meeting, and as such, ambitious strategies such as the ones outlined above will be difficult to achieve in their entirety. However, it is encouraging that the chair of the CDM Executive Board's comprehensive review strategy aims to include all stakeholder dialogues from civil society to policy-makers. This is absolutely necessary to reform and direct the mechanism on the path to addressing the problems and shortcomings associated with it.

Ultimately, the biggest issue is whether there is enough time for these reforms to take effect and for the market to direct finance to carbon reduction projects in the sort of volumes forecast to be required for sustainable development. The responsibility to deal with the shortcomings and problems of the carbon market falls to both the UNFCCC and the host countries. After many years of trying to pin the blame on one party or group of actors, with the result of very little net progress, perhaps an epiphany is needed to realise that ultimately we are all in this together and climate change is not contained by borders on a map.

This picture is clearly borne out in projections of how the scheme is likely to look by 2020. African projects already in the CDM pipeline would issue less than 4 percent of credits by 2020. Almost half of these would come from a handful of gas-flaring projects in the Niger Delta, which looks set to overtake Egypt as the country with the highest number of credits by the end of the decade. The economic fundamentals limiting African involvement in the CDM as it is currently structured remain firmly intact, with project developers gravitating towards large-scale extractives and the industrial sector.

> The CDM is failing in Africa because the economics of carbon markets create regional imbalances and favour large projects

Various rule changes are on the table in Durban that could exacerbate this trend. The inclusion of Carbon Capture and Storage (CCS) could depress offset prices that have already fallen so low as to be the "world's worst performing commodity", according to Reuters. The early beneficiaries would be in South Africa, where Sasol is looking at the possibility for its gas-to-liquids/ coal-to-liquids plants; and in Algeria, where BP, Sonatrach and Statoil run the world's largest onshore CCS demonstration project on their gas fields.

Other major changes could affect agriculture and forestry projects, which advocates for increasing the use of CDM in Sub-Saharan Africa have identified as the sectors with the greatest "potential". The World Bank is hoping to expand CDM to cover carbon storage in the soil as part of its proposals for "climate smart agriculture" – its version of the agricultural deal that the South African COP presidency hopes to be Durban's main legacy. The World Bank claims that soil carbon storage will see smallholder farmers "benefiting from significant payments for emission reductions". However, its flagship pilot project in Kenya would see over 40 percent of the costs – or US$1.05 million – spent on "transaction costs" such as monitoring and registering the project, leaving just over US$1 per year for each farmer involved.

This cost profile is fairly typical of agricultural projects, which fetch much lower than average offset prices due to issuance uncertainties and restrictions imposed on these project types due to difficulties in accounting for forest and agricultural carbon. As a result, the cards in this sector are stacked in favour of agribusiness, which have better economies of scale. For example, the largest of a handful of CDM "reforestation" projects proposed (but not yet approved) would see the replacement of grasslands in Ghana with large-scale biodiesel monoculture plantations. Campaigners suggest that the inclusion of agriculture, forests and soil carbon in the CDM could lead to a "triple lose" for farmers: leaving them dependent on unpredictable carbon prices, increasingly vulnerable to land grabs, and left shouldering the burden of a climate crisis that they did not create.

In summary, the CDM is not failing Africa because of the inertia of policy makers and the CDM Executive Board. The CDM is failing in Africa because the economics of carbon markets create regional imbalances and favour large projects, subsidising the extractive sector and heavy industry, which are generally highly polluting and socially harmful. These same dynamics, if extended to agriculture, would favour agribusiness over small farmers. Various capacity-building initiatives are underway but these cannot alter the market fundamentals. They serve to merely divert scarce public resources away from directly addressing climate change.

This article is a summary of an Institute for Security Studies/ Pan African Climate Justice Alliance briefing paper titled "Carbon Trading in Africa" published in mid-November 2011.

Interview

"Direct Access is an Act of Empowerment and Ownership"

The total cost of Africa's adaptation to climate change is estimated to be between US$10-30 billion a year by 2030. However, the funding that is currently delivered is far from fulfilling these needs. How African countries are able to access available climate funds has become a hotly debated issue.

Senegal is the first African country that has been able to access funds directly from the recently established Adaptation Fund (AF). Déthié Ndiaye shares his views on the issue of direct access to climate change funding in Africa.

HBS: Why is direct access important for Africa?

Ndiaye: Direct access is an act of empowerment and ownership, which aligns with the Paris declaration on aid effectiveness.

The perception that African governments are unable to implement projects effectively has led to a situation where access to funds for applicants from the region is almost exclusively available through Multilateral Development Banks or UN agencies. Even though this can guarantee greater efficiency in project implementation and monitoring, it deprives countries of the opportunity to develop their own capacities. It can also lead to outcomes that are more in line with agency policy than with national and local priorities. Given that adaptation is very site- and content-specific, and needs to deliver benefits where the impacts occur, the issue becomes even more problematic.

Direct access also helps countries optimise the use of the available financial resources by cutting down on transaction costs and domesticating core activities. It also allows for improved participation of civil society and most vulnerable communities in programme prioritisation, preparation and oversight.

For these reasons, African countries expect direct access to become the main access modality for any new fund such as the Green Climate Fund, bringing the responsibility of decision making to the national level.

HBS: What are the challenges direct access poses for African countries?

Ndiaye: Undeniably, the accreditation process for direct access represents huge challenges for African countries. For example, expectations towards the National Implementing Entity [NIEs] range from high fiduciary standards and zero tolerance to fraud to the competence to assume responsibility and accountability for the full project cycle.

Considering the weaknesses of institutional arrangements and governance structures in Africa these requirements appear to be difficult to meet. But I believe African countries have realised that there's a price to pay if they want to raise their credibility and have direct access, and they're ready to pay it. While at the moment there are only three African countries with an accredited NIE (Senegal, South Africa and Benin), many more are working hard in this direction in spite of the many difficulties and obstacles to becoming NIE ready.

HBS: What needs to be done to make direct access work in Africa?

Ndiaye: Firstly, external support to capacity building should be clearly integrated in the mandate of any new fund. Secondly, African national institutions and governments play a central role in this context. They need to continuously enhance their own capacities to implement projects in an efficient and effective way and make sure that a sound and transparent financial management system is in place. But they also should build institutional frameworks that facilitate effective exchange between vulnerable communities, scientists, policy- and decision makers.

In addition, the accreditation of NIEs should not be considered an end in itself, but as the starting point of a permanent effort to improve competencies, especially in the fields of research, monitoring and evaluation and project management. However, the enhancement of country ownership, capacity building and strengthening of country systems should not come at a great expense to the effectiveness of project implementation.

Déthié S. Ndiaye

Déthié is the coordinator of the Bureau for the Adaptation Fund at the Centre de Suivi Ecologique (CSE) in Dakar, Senegal. The CSE is the first African organisation to be accredited as a National Implementing Entity (NIE) by the Adaptation Fund Board. It supports the formulation and implementation of adaptation projects in Senegal.

The Governance of Climate Finance at National and Local Level

A Basis for Improving Africa's Absorptive Capacity

Introduction

Many international discussions and agreements on climate change, including those under the UNFCCC process, have focused on the global governance architecture of climate funds and mechanisms. However, as negotiators deliberate on the operational modalities for the recently established Green Climate Fund (GCF)[1], and as the Adaptation Fund (AF)[2] rolls out funding under a direct access provision, there is increased interest in national and local levels of governance. Debates on how the funds will be channelled to developing countries and allocated at national levels are on-going.

> The immensity of Africa's climate change challenges requires governance structures that can effectively deliver finance at national and local levels.

Regional banks, such as the African Development Bank (AfDB), are making efforts to be the institutions of choice for channelling funds destined for their regions. But at national and local levels, the governance competencies of institutions are of growing concern. Pearl-Martinez notes that national ownership and governance of climate finance is essential if funds are to be allocated and disbursed efficiently to meet the needs of the most vulnerable.[3] Equally important is that finance is allocated in a transparent manner and that the institutions responsible for its governance are accountable not only to the providers of funds but also to those vulnerable to climate change.

Africa, being one of the poorest regions in the world and facing significant climate-related risks, has performed poorly in accessing global funds. Petrie and Eustace point to the lack of high-resolution evidence of climate change in the development of project proposals, the exclusive location of climate change issues in environmental ministries and the lack of institutional capacity to develop funding proposals as some of the barriers to the continent faces in accessing funds for climate action.[4] With current targets to raise about US$100 billion per year by 2020, it is essential that these issues are addressed if African countries are to tap the global funding available for climate change action.

This article discusses the high vulnerabilities to climate change in Africa and the low climate finance absorptive capacity thus far as a basis for strengthening institutional capacity. Institutions should be accountable to fund providers through strengthened fiduciary competencies and to vulnerable groups in their countries through targeted and timely implementation of adaptation initiatives that build resilience to climate change. As such, national and local governance of climate finance is as much about issues of transparency and accountability as it is about ensuring technical expertise in relevant institutions.

High Vulnerabilities to Impacts of Climate Change in Africa

The immensity of Africa's climate change challenges requires governance structures that can effectively deliver finance at national and local levels. The continent is particularly exposed to the physical effects of climate change, and most of its citizens have limited capacity to deal with the resulting impacts. More than 70 percent of the population depends on rain-fed agriculture for food, while climate projections say that most of the continent will experience reduced rainfall and increased temperatures. This will directly and indirectly impact on livelihoods and food security. Warmer temperatures and erratic rainfall have implications

Webster Whande

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for other sectors as well, such as health. While no accurate figures of the costs of adaptation exist,[5] achieving the Millennium Development Goals (MDGs) will become more costly due to climate change.[6]

As well as having direct and indirect implications for agriculture, climate change has the potential to undercut development trajectories in Africa. The cross-sectoral implications of climate change – on food security and agriculture, ecosystems and water, and health and energy – makes it a particularly challenging issue for development. As a result, national and local institutions dealing with climate finance not only have to address external funding requirements, but also deal with climate change as a development challenge, as the recent Climate Change and Development in Africa (CCDA) conference emphasised.[7] Addressing these issues requires institutions to have technical knowledge of climate change and its impacts on key sectors and human well-being.

> As well as having direct and indirect implications for agriculture, climate change has the potential to undercut development trajectories in Africa.

Financing climate-resilient development can improve the chances of communities, countries and societies to deal with the implications of climate change. There is no doubt that the continent will benefit immensely from a global fund architecture that prioritises adaptation to climate change, improved environmental and human resilience, and that is accessible and simplified to enable national and local governance structures to receive funds for climate change action. But to date, the scale of financial commitments seem inadequate. While the global commitment is to raise US$100 billion per year by 2020, the African Union (AU) estimated during 15th Conference of the Parties (COP) in Copenhagen in 2009 that Africa alone will need US$67 billion per annum to fund climate change adaptation and mitigation. The AU figure suggests that the global estimates might fall short of the costs of climate change. There are those who question whether African countries will be able to absorb such amounts, especially given the transparency problems in their institutions. Nonetheless, to maximise the benefits of climate finance, there is a need for strengthened national and local governance structures or institutions.

Low Absorptive Capacity in African Countries and Institutions

While national and local level governance structures exist in Africa, the low levels of climate finance absorption suggest institutions need strengthening. The low absorptive capacity of African institutions is one of the reasons for the continent's poor track record in accessing large financial pledges by developed countries.[8] Petrie and Eustace suggest the low absorptive capacity is not only a function of institutional capacity in relation to governance aspects, but that the lack of scientific basis for crafting viable projects is a key constraint.[9] Consequently, improved research in areas requiring adaptation and improved resilience is essential to developing strong proposals. This requires an understanding of the vulnerable areas, engaging social groups most vulnerable and incorporating both scientific and local or indigenous knowledge of vulnerability and adaptation options in project proposals.

National and local institutions therefore do not only need an understanding of the climate funds and mechanisms; they also need the skills and experience to develop competitive funding proposals. This is made more difficult given that the climate change funding "landscape" is characterised by an increasingly complex global architecture. Because each fund has application procedures that are different from the next, and eligibility criteria are determined by thematic foci and development objectives, institutions often do not have the capacity to deal with the respective stipulations and criteria for financing programmes and projects.

It is clear that in order to improve absorptive capacities in African countries, institutional staff require better understanding of the different funding opportunities available. This can be attained through supporting capacity development and assistance with developing funding proposals targeted for specific funds and mechanisms. The support, however, needs to be structured on the basis of clear skills support and transfer that result in strengthened national and local level institutions. Currently, even for the AF with its direct access modalities, multilateral institutions play a prominent role in proposal development[10] and implementation oversight. While this meets the current skills gap, it is not particularly clear it will strengthen national and local level institutions and prepare them for future involvement in proposal preparation, project implementation and oversight.

Direct Access under the AF – Some Observations

The structure of climate funds also contributes to the problem of low absorptive capacities. With the exception of the Adaptation Fund (AF), most existing funds do not have the provision to directly fund national institutions, programmes and projects, even though ongoing negotiations suggest that the GCF will also provide for direct access.

Lack of direct access contributes to low levels of country-level ownership of funds, which Pearl-Martinez identifies as a key issue for funding adaptation. Direct access under the AF enables national institutions to exercise ownership over funds. The current rate of accrediting national institutions as National Implementing Entities (NIE) suggests that capacity strengthening is essential if direct access is to succeed. As of October 2011, six NIEs – three of them in Africa, one Regional Implementing Entity (RIE) (also in Africa) and nine Multilateral Implementing Entities (MIEs) were accredited.

As funds begin to flow from the AF, the direct access provision is putting national and local institutions to the fore of country-driven ownership of funds. The low levels of accreditation, however, suggest that national and local institutions need to be strengthened – to meet the fiduciary requirements of the AF but also to be better prepared for receiving funds in the future. This can be achieved by using the conditions for institutions to be accredited as NIEs for the AF as a basis for strengthened institutions.

The AF fiduciary standards are not only applicable to funds but to the successful implementation of projects and programmes. They require that institutions demonstrate financial integrity to accurately record transactions and to disburse funds efficiently. The AF also requires institutions to demonstrate transparency and self-investigative powers as a basis for dealing with

> The low levels of accreditation suggest that national and local institutions need to be strengthened.

possible financial mismanagement. Additional requirements include institutional capacity for procurement procedures that provide for transparent practices, capacity to undertake monitoring and evaluation and ability to identify, develop and appraise projects and programmes.[11] The "package" of standards under the AF can contribute to the strengthening of institutions in Africa.

Increased Transparency, Accountability and Competitiveness for Improved Governance

The aspects of transparency, accountability and competitiveness are critical for improved governance of climate finance at national and local level. These concepts are explained below.

Transparency means that criteria for distributing financial resources is clearly articulated and subject to public scrutiny. Ballesteros *et al* highlight the importance of non-state actors and civil society organisations in monitoring the governance of climate finance.[12] Transparency in designing, implementing and monitoring adaptation can be improved if multi-stakeholder accountability mechanisms are used in climate finance.[13]

Accountability relates to institutions being answerable to both the providers and the beneficiaries of funds.[14] In other words, it requires both an upward and downward accountability structure. Wilks suggest that reporting should be primarily aimed at citizens and not donors. Other actors, who can track expenditure performance against national development strategies, including climate change action, are community-based organisations and civil society.[15] Accountability of national and local institutions is particularly important from the perspective of supporting the most vulnerable to adapt to climate change. National institutions can be held to account at a national level. Parliaments are important given their oversight role and functions. In southern Africa, the continued evolution of parliamentary budget committees increasingly looks at environmental issues.[16] The work the IIED has conducted in the Southern Africa Customs Union (SACU) has highlighted that while parliamentarians are well aware of climate change issues, they are less knowledgeable about effective responses and need more information to hold the executive to account.[17] Since parliamentarians serve local constituencies with specific climate and development challenges, their knowledge of climate finance can also play a crucial role in ensuring that vulnerable communities and environments receive the requisite attention to enable adaptation and strengthen climate resilience.

Competitiveness is determined by institutions' ability to manage funds in a transparent and accountable manner. Given the high vulnerabilities on the African continent, strengthened institutions are not only important to meet funding requirements, but also to provide predictable funding flows that will enable adaptation and climate-resilient development.[18] The effective allocation of funds at national and local levels is just as important as the sourcing and channelling of it from global level.

> Recent developments, not only in Africa but globally, show that certain environmental issues are best placed in planning, development and finance ministries.

Ballesteros *et al* propose the creation of multiple national-level institutions that have the capacity and creativity to articulate country specific concerns and spend financial resources well.[19] Governance from this perspective speaks of the competence of the institutions at a national level, which is important if providers of funds are not to continuously insist on the support of development agencies and multilateral institutions.

The strengthening of national and local level institutions has in the past been affected by donor country preferences to work with development partners, most of whom originate in the specific donor country providing the funds. This suggests that issues of transparency and accountability need not only apply to how national and local level institutions disburse funds, but also the conditionalities in place in the donor country. The involvement of multilateral institutions conveys two messages, both requiring urgent attention if the governance of climate finance at national and local levels is to be effective. The first speaks of the previously mentioned low capacity levels in national institutions to be able to access global funds. The second relates to the challenges developing countries face in accessing global funds, which often results in funds flowing through development agencies as opposed to national institutions.

Institutional Set-Up for Climate Finance at National and Local Levels

Environment-related national institutions are often junior in terms of influence in government. Yet, considering the role of natural resources in Africa, they probably constitute one of the most important group of ministries. Recent developments, not only in Africa but globally, show that certain environmental issues are best placed in planning, development and finance ministries. This is not least in relation to the issue of climate finance. However, Whande argues for balanced institutions that can demonstrate fiduciary competencies to meet the requirements of global funds while also articulating local climate change challenges in funding proposals. Such "hybrid" institutions would combine treasury, finance and development planning with climate or environmental science. Efforts focusing on fiduciary requirements for climate institutions can build upon the current requirements of the AF. Strengthening these institutions is a role that African governments can play to prepare for the potential flow of climate funds.

Conclusions

National and local level governance of climate finance in Africa needs to be approached from a number of factors and angles. Firstly, Africa is highly susceptible to climate change. Not only does the continent need finance to deal with the multiple effects of climate change, but competent and effective governance structures are needed to deliver such financing to the most vulnerable.

Climate finance is important for the African continent as it can result in climate-resilient development and improve the chances of communities, countries and societies to deal with the implications of climate change. Climate finance should prioritise adaptation to climate change and improved environmental and human resilience, and should be accessible and simplified to enable national and local governance structures to receive funding for climate change action.

The current low absorptive capacity of national and local institutions for climate finance suggests that governance should not only focus on issues of transparency and accountability, but also include issues of institutional competencies to deal with technical climate change issues. Competent institutions are important not only to meet the requirements of climate funds, but to deliver climate-resilient development to the most vulnerable communities.

Governments in Africa can respond to this challenge by strengthening existing institutions and facilitating the formation of "hybrid institutions" that possess fiduciary and environmental expertise. As well as demonstrating such knowledge, governance structures need to respond to the needs and rights of the most vulnerable members of their societies. Other actors such as parliamentarians, community-based and civil society organisations can contribute to the governance of climate finance through exercising oversight roles and holding institutions to account.

Endnotes

1 The GCF was set up at the UNFCCC Conference of the Parties in Cancun in 2010.
2 The Adaptation Fund was set up under the Kyoto Protocol of the UNFCCC in 2001 and became operational in 2009.
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GHADA AMER AND REZA FARKHONDEH

Ghada Amer and Reza Farkhondeh were born in Egypt and Iran respectively, and are now based in the United States. They both studied at Villa Arson, in 1989 Ghada received her Masters in Fine Arts with a concentration in painting and in 1991 Reza received his Masters of Fine Arts degree in video. Ghada and Reza continued their studies in Paris, France at the Institut Des Hautes Etudes en Art Plastique. In the mid-90s they moved to New York where they currently live and work.

Ghada and Reza have been collaborating for a decade, however each maintain their own art practice. Ghada's work focuses on issues of gender and Reza's body of work primarily depicts landscape.

About the artwork

Title: No Romance
Dimensions: 108 x 149.9 cm
Technique/Material: Acrylic, stencil cardboard and embroidery on paper
Year of Production: 2011
Credits: Goodman Gallery, Cape Town and Johannesburg; Tina Kim Gallery, New York

Published by the Heinrich Böll Foundation Southern Africa 2011

Editors: Dr Antonie Katharina Nord, Jochen Luckscheiter and Kulthoum Omari
Layout: Catherine Coetzer, c2designs

Cover image: © Ghada Amer and Reza Farkhondeh

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