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Principles for Delivering Adaptation Finance

There is consensus that funding for climate change adaptation must reach significant scales to match the needs of developing countries (costs are estimated to be between US$28bn–US$67bn per year by 2030). The upcoming negotiations on a new post-2012 climate change agreement provide an opportunity, not only to extend the scope and timeframe of emission-reduction targets, but also to address the urgent adaptation needs of those most at risk from climate change. Negotiators must agree how to raise additional international finance for adaptation, but also must decide on appropriate principles and mechanisms for delivering and spending the money that can command widespread support.

Introduction

This briefing proposes a set of principles for delivering adaptation finance, which are based on three elements: (i) those already enshrined in the UN Framework Convention on Climate Change (UNFCCC), (ii) the content of submissions of parties to the UNFCCC, and (iii) on potential learning from experiences of delivering development assistance. The proposed principles are then used to assess the efficacy of different country-level adaptation delivery mechanisms. The intention of this briefing is to stimulate debate about the relevant principles and mechanisms, and the relevant sources of lesson learning for the effective delivery of adaptation. Longer, more detailed publications are under preparation.

The Context: Current International Delivery Architecture for Adaptation

Parties to the 1992 UNFCCC and the 1997 Kyoto Protocol developed a legal framework to address climate change. It sets out the rights and responsibilities for resource transfers, backed by accountable institutions that seek to provide financial and technical resources to help vulnerable countries adapt to the impacts of climate change. The UNFCCC makes clear that the provision of such funding is mandatory (article 4.4) and that it must be new and additional (article 4.3/BAP 1e).

The international institutional architecture charged with delivering adaptation finance to developing countries under the UNFCCC has a multi-lateral governance structure which aims, in principle, to balance the interests of all parties. Other delivery mechanisms are emerging, but are not yet operational, such as the World Bank administered Pilot Programme for Climate Resilience (PPCR) and the European Union's Global Climate Change Alliance (GCCA). With the exception of The Adaptation Fund (AF) (under the Kyoto Protocol), finance for adaptation under the UNFCCC is currently mainly delivered through funds operated by the Global Environment Facility (GEF).

The GEF manages the Least Developed Country Fund, the Special Climate Change Fund and the Strategic Priority on Adaptation. All three are mandated to support climate adaptation in developing countries. Evidence available from the GEF demonstrates that the organisation has not prioritised the adaptation needs of the most vulnerable

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and has disproportionately funded projects in countries that have relatively low rates of poverty (e.g. Möhner and Klein 2007). Criticisms that have been levelled at the GEF by both donors and countries eligible to receive GEF funds for adaptation purposes include:

- The governance structures are seen by developing countries as complex and weighted in favour of donor countries;
- The rules and structures make accessing funding difficult and time-consuming;
- There is a lack of transparency in decision making that appears to be the prerogative of powerful individuals;
- There is an emphasis on supporting projects rather than programmatic approaches;
- The focus on securing environmental projects over development projects results in fewer global benefits.

Learning from Existing Guidelines for Delivering Adaptation Finance

Submissions by parties to the UNFCCC have included views on principles and delivery mechanisms, as well as fundamental changes in the governance of adaptation funding. For example, many developing country parties call for 'clarity' in emerging architecture both in and beyond the UNFCCC and the need to avoid confusion and lack of transparency related to the likely proliferation of funds (UNFCCC 2008 AWG-LCA/2008/11). Many also state that countries should have direct access to financial resources at low transaction costs and that those countries eligible should have ownership over how funds are invested. 'Many parties expressed their preference for a funding mechanism for adaptation that is governed within the ambit of the convention [UNFCCC] and emphasized the need for funding that is appropriate, sufficient and predictable' (Klein and Persson 2008).

In the past, the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) countries have emphasised the need to avoid proliferation of new funds and consequently indicated a preference for GEF fund management as it existed prior to the UNFCCC. Recent submissions by donor countries call for improved transparency, ensuring equitable participation of developing countries in the governance structures. Switzerland, Australia and the EU refer to ensuring consistency with aid effectiveness principles (as framed by the Paris Declaration on Aid Effectiveness 2005). Such principles, which stress recipient country ownership, alignment, harmonisation, managing for results and mutual accountability, have resulted from learning how to deliver assistance most effectively to achieve sustainable impact and from dissatisfaction on behalf of both recipient and donor countries about the delivery and impact of development assistance in the past.

Guidance relevant to the delivery of adaptation finance is already included in UNFCCC and Kyoto Protocol decisions, sometimes explicitly, but often implicitly. For example, the National Adaptation Programmes of Action (NAPAs) are intended to promote country ownership, whilst meeting DAC country requirements for transparency and accountability. Decision 5/CMP.2 outlines that the AF be guided by the following principles:

- access to funds is balanced and equitable for all eligible countries,
- there is transparency and openness in its governance,
- that projects and programmes can qualify,
- that there is accountability in management, operation and use of the Fund,
- that there is no duplication with other sources of funding,
- and that the Fund demonstrates efficiency and effectiveness in its use.

The AF Board, an entity with representation deliberately favouring poor and vulnerable countries, has committed to allow countries to decide their own priorities for how the money will be spent.

Potential Learning from Transferring Resources for Development Assistance

As outlined, principles for the effective delivery of development assistance (Paris Principles) were agreed in 2005 and progress on the implementation was reviewed in September 2008 during the 3rd High Level Forum on Aid Effectiveness. A selection of current debates and lessons emerging from the Forum and from recent literature (e.g. Williamson and Kizilbash 2008; Wood et al. 2008; Lawson and Bird 2008) that potentially have a bearing on delivering adaptation finance, are synthesised and summarised here:

- Country-led approaches that provide a clear national strategy encourage ownership by developing countries and are more likely to be effective in strengthening governance systems, and achieving results on the ground.

- Programme-based approaches are a more effective means of encouraging leadership and ownership by host countries than project-based approaches. However, not all countries 'qualify' for programme-based funding as they do not meet international standards on public financial management.

These standards are designed to ensure fiduciary discipline and effective prioritisation of spending to deliver objectives and serve to promote international and domestic accountability. Tailoring approaches to the individual country contexts is crucial and in some cases, such as in some conflict-affected states, project-based or mixed project-programme approaches are most appropriate. However, these tend to have higher transaction costs and managing projects can be a drain on government employees. In practice, moves to programme-based approaches have been slow and recent debates call for donors to accept and manage the risks of programme-based approaches better.

- Fragmentation and proliferation of funding delivery mechanisms at national scale continues and is detracting from core development objectives. This means more time is spent on learning rules, brokering relationships and reporting. To counter this, much more effort must be placed on harmonising donor activity at the country-level.

- Strong national monitoring and evaluation (M&E) structures are a critical part of effective governance, of learning and of promoting efficiency and accountability in programmatic delivery mechanisms. The development of M&E structures should be country-led and not imposed externally, something which leads to loss of ownership. Civil society organisations must be much more closely involved in devising M&E structure and in setting national strategic priorities.

- Blueprint approaches are not effective – understanding local contexts and formulating local solutions are vital to the success of programmes.

In places where the state is not functioning effectively, a blend of delivery mechanisms should be favoured. Delivery may involve civil society, regional and UN organisations, while simultaneously developing state capacity. Additionally, while 'effective' states may pursue policies designed to deliver assistance to the poorest and most vulnerable people, in many cases people are poor and vulnerable because they are excluded from accessing state resources on the basis of their political or religious beliefs or for other social reasons. In such cases, rights or needs-based delivery mechanisms may supplement support to the state.

- 'Vertical funds', which focus on a single issue (such as HIV/AIDS) have the potential to undermine country ownership and systems by bypassing national planning processes, and can have heavier transaction costs than integrated approaches.

Proposed Principles for Delivering Adaptation Finance

In collating and synthesising relevant principles already included in the UNFCCC, those cited in submissions and potential learning from development assistance, we propose the following principles for effective delivery of integrated adaptation finance:

- **Country ownership**: eligible states should be allowed to set their own adaptation priorities through dialogue with other in-country stakeholders, supported by finance delivery mechanisms that promote programmatic approaches to adaptation. However, in recognising the considerable differences between states, delivery mechanisms will need to be flexible and tailored to specific needs and contexts. For example, Annex I countries suggest that some states will require capacity building on managing fiduciary risk to improve accountability and transparency before programme-based approaches to adaptation can be supported. Other countries will require assistance to scale up adaptation efforts and to create effective institutions and planning approaches for adaptation. In some cases, project-based funding will be needed to catalyse, develop capacity, mobilise and test scaling-up possibilities
- **Prioritising the most vulnerable**: with climate change being cast as a social justice issue by many, adaptation delivery mechanisms must channel resources effectively to those most in need as a priority. Integration of adaptation into Poverty Reduction Strategy Papers and national adaptive social protection mechanisms are options where pro-poor state-led processes are potentially effective in reaching the most vulnerable groups. In cases where states are unable to provide adaptation goods and services to those people, alternative delivery mechanisms – such as through CSOs or regional institutions – may be necessary. In many cases, a blend of delivery channels is likely to be most effective at reaching all groups. Care must be taken to protect the 'country ownership' principle wherever possible.
- **Mutual accountability**: the governance of international adaptation delivery mechanisms must be transparent, equitable in representation and power, and possess clear lines of accountability. At country-level, adaptation M&E structures should also be: transparent, locally owned, formulated in partnership with other stakeholders and subject to clear accountability measures.
- **Harmonisation**: delivery mechanisms at a country level must not become unnecessarily fragmented and must not duplicate functions. Measures to counter fragmentation at this level may include multi-donor trust funds, an approach recently adopted by Bangladesh to 'harmonise support for its national climate change strategy'. Once eligibility criteria are set, eligible states and those prioritised within states, should be able to directly access financial and technical resources, with minimal transaction costs.

Applying the Principles to Country-level Delivery Mechanisms

The principles set out can be used to evaluate current and future mechanisms for delivering adaptation assistance, both at international and national scale. While a subsequent paper will use the principles to evaluate current and planned international adaptation finance delivery mechanisms, such as the SCCF, LDCF, AF and PPCR, this briefing applies them at the national level. Evidence from 16 actual or analogous cases of supporting adaptation has been used to determine common delivery mechanisms and provides data to judge whether mechanisms are coherent with the principles. The results are shown in the table overleaf, and are drawn from an extended paper, due to be published in early 2009. It is worth stressing that the judgements made in the table are based on the available evidence rather than on the potential role of delivery mechanisms to meet the principle.

Applying the Principles for Country-level Delivery Mechanisms

Principle \ Delivery Mechanism	State-led: Adaptation integrated into national planning	Multi- and Bi-lateral funded projects for adaptation	International and National NGO managed adaptation	Private sector provision of adaptation goods and services	Combination: Social protection for building adaptive capacity
Country Ownership	**Coherent** Capacity development often cited as being required before effective adaptation planning can happen	**Coherent / Incoherent** Coherent where proposals are genuinely developed by partner country agencies. Problems of coherence arise when implementing agencies not sufficiently engaged	**Incoherent** Lack of ownership can occur due to choice of implementing agencies and due to poor alignment of external agencies and funding sources. Also where partner country does not share priorities for action.	**Coherent / Incoherent** Enabling business environment required, therefore coherence 'by de fault'	**Coherent** Most examples show complete or high levels of ownership. NGOs and others experimenting with adaptation-relevant asset transfers pilots that might be taken up by governments
Prioritise most vulnerable	**Incoherent** Evidence shows initial efforts ineffective at prioritising most vulnerable; though further tying adaptation to pro-poor policies likely to help coherence	**Incoherent** Little evidence to suggest widespread and systematic targeting of most vulnerable though some exceptions. Much still to do to achieve coherence	**Coherent** Delivery at community-level has been the focus with strong vulnerability lens used	**Incoherent** Overwhelming majority of evidence suggests private sector unable to support adaptation of most vulnerable	**Coherent** Social protection measures are designed to target different categories of poor and vulnerable though problems of exclusion persist
Mutual accountability	**Coherent** Evidence suggests promise though efforts needed to establish national M&E framework on adaptation/climate-resilient development	**Incoherent** Evidence of mistrust between multi-lateral agencies and some partner country governments in part due to lack of accountability of the agencies. Much still to do to achieve coherence	**Incoherent** Evidence of mistrust between I/NGOs and some partner country governments in part due to lack of accountability of the INGOs. Much still to do to achieve coherence	**Coherent / Incoherent** Partner countries need to develop business guidelines that show how private sector can best contribute to building adaptive capacity into the economy	**Coherent** Evidence of multi-stakeholder delivery with promising signs of accountability and joint delivery
Harmonisation	**Coherent** National plans can and should provide donors with polices they can agree to support together. Donors are already identifying which agency is best to lead on climate change in particular countries	**Coherent / Incoherent** There are opportunities for partner country to apply for funding and thereby shows willingness to engage planning for adaptation investments	**Incoherent** Donors can influence I/NGOs through funding provision as an incentive to harmonise. However, I/NGOs can also be used to try out approaches before harmonisation decisions taken	**Coherent** Donors can agree how best to influence the partner country business enabling environment	**Coherent** National social protection planning can and should provide donors with polices they can agree to support together

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Credits

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