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SOUTH ASIA

# ROUGH WEATHER

## Financing Climate Adaptation and Mitigation in South Asia

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# ROUGH WEATHER

## Financing Climate Adaptation and Mitigation in South Asia

Countries' quest to achieve robust economic growth in a fossil fuel-dependent production paradigm has resulted in an unsustainable accumulation of greenhouse gases (GHGs) in the atmosphere. This phenomenon threatens humankind with irreversible climatic changes in the future. Policymakers worldwide have to devise emissions-reduction plans without affecting the economic performances of countries; developing countries must reduce emissions along with meeting development goals manifested in the form of ensuring a decent quality of life. Developing countries would therefore require additional resources and support from developed countries, which are bound by the United Nations Framework Convention on Climate Change (UNFCCC) to provide such support as part of their commitment towards ensuring fair global effort-sharing. In this regard, providing financial resources to developing countries for adaptation and mitigation actions forms the core of the support mechanism as identified and agreed by all countries. According to Sir Nicholas Stern (2006), climate change is an economic problem and there will be huge economic loss if proper mitigation and adaptation actions are not undertaken. The cost of inaction is projected as 20 percent of the current global gross domestic product (GDP); meaningful climate change mitigation and adaptation actions would add 1 percent to the global GDP. The world cannot any longer choose between economic growth and protecting itself from climate change impacts; it must act now. Despite the strong promise of such benefits from adaptation and mitigation actions, a global agreement on such support and effort-sharing mechanism is yet to develop. This has become more difficult as developed countries supposed to financially support developing-country climate actions have themselves been facing economic loss and budgetary constraints over the past few years. This means the resources available for support have been shrinking and, in many cases, dried up substantially. Developing countries have therefore been undertaking climate actions with their own resources or striving for other sources of finance, such as private sector or development bank investment. Such finances have played an important role in climate finance negotiations of late, but developed countries have attempted to substitute their own commitment of support with these options. The fundamental basis of support under the UNFCCC has been the generation of additional and new resources for climate actions in developing countries apart from what they are supposed to be already doing.

The current debate on climate finance emanates from the lack of understanding of what qualifies for climate finance or, more narrowly, climate action. The absence of an internationally accepted definition of climate finance has resulted in ambiguity

in identifying programmes and actions to be qualified for climate financing, which is important for assessing both support and demand of finance for climate actions. This has led to differences between developed and developing countries. Progress in the negotiations has therefore been slow, and a trust deficit has therefore been created between countries. This is because developing countries seek that support for climate actions must be new, and additional to existing development support. However, as 'climate finance' is not clearly defined, the existing funds for support may be diverted. In our analysis, climate finance would broadly consist of the following:

- Financial flows from developed to developing countries for mitigation and adaptation activities, including R&D and capacity building, as well as broader efforts that enable the transition to low-carbon, climate-resilient development.
- Financial flows from developing to developing countries for climate actions mentioned above (South-South cooperation).
- Financial flows from developed to developed countries for climate actions mentioned above (North-North cooperation).
- Domestic financial flows for climate actions in developed and developing countries of the world.
- Incremental cost and investment capital. Understanding the incremental cost in a climate action would help determine the additional part of resources required.

Based on the broad contours of climate finance, the current analysis focusses on finance needs from the South Asian perspective and the challenges South Asian countries face in accessing international financial resources.

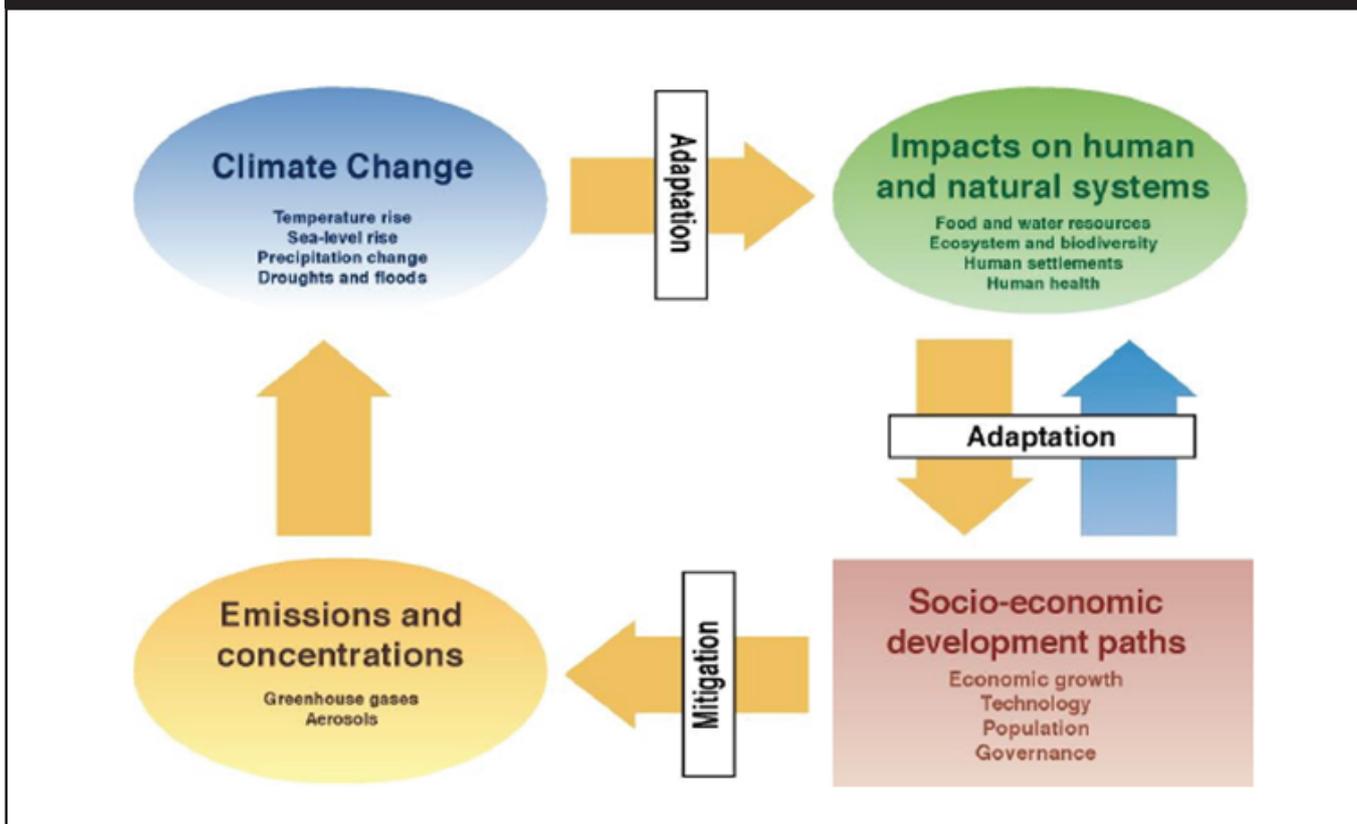
### Importance of Climate Finance for South Asia

The rationale for international financing climate actions has been guided by Agenda 21 of the Rio Summit in 1992. In South Asia, this climate finance support would consist of new actions that address the adverse effects of climate change in addition to existing actions required to tackle impacts that deepened due to the climate crisis.<sup>1</sup> Economic growth, poverty alleviation and social welfare are overriding priorities

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1 Climate change impacts vary between regions. For South Asia these impacts are identified as sea level rise, Himalayan glacier melting, loss of biodiversity, inundation of coastal regions, saline intrusion in low-lying agricultural lands, etc. These will indirectly cause loss of lives and livelihoods in the region.

## Illustration 1 Climate Change Adaptation and Mitigation Process



Source: IPCC Expert Meeting Report on Joint Session of Adaptation and Mitigation Responses, 2010

for South Asia. Many South Asian intellectuals claim that ensuring improvements in these areas would result in making the region climate-resilient and, hence, additional resources must be earmarked from climate finance for such actions. This implies that the South Asia region as a whole should get due support from the international community in sharing effort both regionally and nationally. It also implies that the region should advocate that the fund is directly accessible, the fund generated in each time scale is predictable, the funds are generated automatically and that the scale of resources generated are in place internationally.

According to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR4), the South Asian region is a hotspot for major extreme climate events; due to these, a huge loss of economic, human and natural resources is predicted. The combined effect of such losses renders the region a highly vulnerable one. As we have seen, addressing these vulnerabilities would require integrated policymaking at the regional and sub-regional levels covering the region's mitigation and adaptation needs. The illustration below lays down the interconnectedness between mitigation and adaptation actions and their relationship with other socio-economic parameters in policymaking. Financial support for climate action would therefore mean mainstreaming climate change aspects into the planning and policymaking sphere.

### Box 1 | Climate Change Impacts

According to UNFCCC resources, climate change will enhance extreme weather incidents, and these will aggravate the conditions of people and affect many sectors, including water, agriculture, food security, ecosystems, biodiversity, human health and coastal zones. Rainfall, especially in the summer monsoon period, is predicted to increase all over South Asia and crop yield to fall by 30 percent in the coming years and endanger food availability and livelihoods. Global warming is causing Himalayan glacier melting. In the short term, this means increased risk of flooding, erosion, mudslides and glacial lake outburst floods (GLOF) in Nepal, Bangladesh, Pakistan and North India during the wet season. Because the melting of snow coincides with the summer monsoon season, any intensification of the monsoon and/or increase in melting is likely to contribute to flood disasters in Himalayan catchments. In the long term, global warming could lead to a rise in the snowline and disappearance of many glaciers, seriously affecting the people who rely on the seven main rivers in South Asia fed by Himalayan meltwater. Throughout South Asia, one billion people could face water shortage leading to drought and land degradation by the 2050s (Christensen et al., 2007; Cruz et al., 2007).

**Table 1 Climate Change: Impacts, Sectoral Vulnerabilities and Adaptive Capacity**

Impacts	Sectoral vulnerabilities	Adaptive Capacity
<p><b>Temperature</b></p> <ul style="list-style-type: none"> <li>– Warming above the global mean in central Asia, the Tibetan Plateau, northern, eastern and southern Asia. Warming similar to the global mean in Southeast Asia.</li> <li>– Fewer very cold days in East Asia and South Asia.</li> </ul> <p><b>Precipitation, snow and ice</b></p> <ul style="list-style-type: none"> <li>– Increase in precipitation in most of Asia. Decrease in precipitation in central Asia in Summer.</li> <li>– Increase in the frequency of intense precipitation events in parts of South Asia, and in East Asia.</li> <li>– Increasing reduction in snow and ice in Himalayan and Tibetan Plateau glaciers</li> </ul> <p><b>Extreme Events</b></p> <p>Increasing frequency and intensity of extreme events particularly:</p> <ul style="list-style-type: none"> <li>– droughts during the summer months and El Niño events;</li> <li>– increase in extreme rainfall and winds associated with tropical cyclones in East Asia, Southeast Asia and South Asia;</li> <li>– intense rainfall events causing landslides and severe floods;</li> <li>– heat waves/hot spells in summer of longer duration, more intense and more frequent, particularly in East Asia.</li> </ul>	<p><b>Water</b></p> <ul style="list-style-type: none"> <li>– Increasing water stress to over a hundred million people due to decrease of freshwater availability in Central, South, East and Southeast Asia, particularly in large river basins such as Changjiang.</li> <li>– Increase in the number and severity of glacial melt-related floods, slope destabilization followed by decrease in river flows as glaciers disappear.</li> </ul> <p><b>Agriculture and food security</b></p> <ul style="list-style-type: none"> <li>– Decreases in crop yield for many parts of Asia putting many millions of people at risk from hunger.</li> <li>– Reduced soil moisture and evapotranspiration may increase land degradation and desertification.</li> <li>– Agriculture may expand in productivity in northern areas.</li> </ul> <p><b>Health</b></p> <ul style="list-style-type: none"> <li>– Heat stress and changing patterns in the occurrence of disease vectors affecting health.</li> <li>– Increases in endemic morbidity and mortality due to diarrhoeal disease in south and Southeast Asia.</li> <li>– Increase in the abundance and/or toxicity of cholera in south Asia.</li> </ul> <p><b>Terrestrial Ecosystems</b></p> <ul style="list-style-type: none"> <li>– Increased risk of extinction for many species due to the synergistic effects of climate change and habitat fragmentation.</li> <li>– Northward shift in the extent of boreal forest in north Asia, although likely increase in frequency and extent of forest fires could limit forest expansion.</li> </ul> <p><b>Coastal Zones</b></p> <ul style="list-style-type: none"> <li>– Tens of millions of people in low-lying coastal areas of south and Southeast Asia affected by sea level rise and an increase in the intensity of tropical cyclones.</li> <li>– Coastal inundation is likely to seriously affect the aquaculture industry and infrastructure particularly in heavily-populated megadeltas.</li> <li>– Stability of wetlands, mangroves, and coral reefs increasingly threatened.</li> </ul>	<p>Adaptive capacity varies between countries depending on social structure, culture, economic capacity, geography and level of environmental degradation.</p> <p>Capacity is increasing in some parts of Asia, for example the success of early warning systems for extreme weather events in Bangladesh and the Philippines. However, capacity is still constrained due to poor resource bases, inequalities in income, weak institutions and limited technology.</p>

Source: Unfccc.int

## Climate Finance Requirement Estimates

Many academic and non-academic estimates are that a substantial amount of finance is required for enhanced climate-friendly action for mitigation and adaptation worldwide; the consensus is that developed countries primarily responsible for most historical GHG emission must provide this finance. To ensure that the emission reduction burden is distributed fairly among the parties, the UNFCCC mandates Annex I parties to undertake the obligation of providing finance for climate actions in developing countries. During the past two decades, finance has been required for a variety of climate actions and has depended on various fund generation methods. Apart from fund generation, the other concerns for countries have

been the size and governance of funds. Indeed, all these three components are interlinked. Further, for a robust climate finance framework, countries need to reform the existing finance mechanism so that the climate finance structure can fit into the existing system. Under the current scenario, G77+China group members from the region have been laying emphasis on establishing the right architecture for the Green Climate Fund, which will then ensure that the right principles of governance are embedded into it and appropriate equity is maintained.

Tables 2 and 3 below show the substantial resources needed to meet the climate challenge worldwide.

<b>Table 2 Adaptation Costs (\$ bn per year)</b>					
	2010-2012	2010-2015	2010-2020	2020	2030
European Commission (2009)	3-4			13-30	
World Bank (2006)		41			
Stern Review (2006)		4-37			
UNDP HDR (2007)		83-105			
UNFCCC (2007)					28-67
World Bank Economics of Adaptation to Climate Change (EACC) (2010)					70-100
Project Catalyst (2009)			13-25		
G77 + China* (2009)				200-400	
African Group (2009)				>67	
Oxfam (2007)	>50				

<b>Table 3 Mitigation Costs (\$ bn per year)</b>					
	2010-2012	2010-2015	2010-2020	2020	2030
European Commission (2009)	1.25			118	
McKinsey & Co (2009)			81-113		
Pacific Northwest National Lab (2008)					139
UNFCCC (2007)					92-97
Project Catalyst (2009)			69-100		
G77+China* (2009)				200-400	
African Group (2009)				200	
Oxfam				100	

Source: [www.climatefundsupdate.org](http://www.climatefundsupdate.org)

Estimates on regional needs for funds are linked to the degree of climate change impact on the region. According to the IPCC methodology, the impacts are going to be felt in different sectors. The region is going to be undertaking mostly

adaptation activities to counteract the immediate effects of climate change. Table 4 below shows the estimated economic costs of adaptation for different sectors identified by the IPCC.

**Table 4 Cost of Adaptation (per year until 2050)**

Sector	Average Annual Cost (bn USD), 2005 prices
Agriculture	1.7
Fisheries	0.8
Flood protection	4
Human health	0.3
Coastal zones	1.9
Extreme weather events	2-3.7
Infrastructure	4-7.5

Source: Overseas Development Institute, 2010

Clearly, these funds are estimated to be new and additional to the existing support to the countries of the regions as part of Official Development Assistance (ODA), other bilateral and multilateral sources and development bank funding. However, developed countries have lately been trying to rename the existing support to developing countries as climate finance support to meet their 2009 Copenhagen Summit pledges.

Much climate finance literature notes that developing countries need to differentiate between climate finance and development finance. As adaptation needs and development actions can rarely be differentiated clearly, there is a risk that development aid might be diverted in the name of climate finance in creating climate resilience for its use in agricultural and coastal areas and the water sector, infrastructure (although adaptation costs range from low to high), and many other

social sectors. This would mean that the total funding available for undertaking development action is reduced. Such a situation would actually ensure a distorted scenario for the global support to climate actions and would minimise the benefits emanating out of timely climate actions.

### Analysis of Currently Available Funding

The main sources of funding for climate actions for the region as a whole have been UNFCCC-constituted special funds and some bilateral support. Table 5 indicates the amounts countries demanded from the multilateral sources and the amounts they received. Importantly, the bigger countries have larger success ratios between the funds demanded and actual receipt.

**Table 5 Climate Funding**

Countries	Approved Funding (USD mn)	Actual Received (USD mn)
India	143.69	141.66
Bangladesh	128.06	18.06
Pakistan	15.13	8.38
Sri Lanka	10.06	5.7
Bhutan	5.35	3.65
Nepal	16.99	3.17
Afghanistan	10.01	4.24

Source: [www.climatefundsupdate.org](http://www.climatefundsupdate.org)

Overall, there is a mismatch between the funds approved and the funds received for the countries in the region, with the exception of India. Mostly, the countries are beneficiaries of UNFCCC special funds. India receives funds from the Global Environment Facility (GEF) Trust fund for undertaking various mitigation activities, while other countries receive most of their funds from the LDCE, which is for adaptation. Furthermore, the presence of development banks like the World Bank and the Asian Development Bank (ADB) is felt palpably. For example, the second-highest funding for various climate actions in India comes from the World Bank, which provides most of Afghanistan's funding too. In Sri Lanka,

the ADB is putting in substantial amounts over and above UNFCCC special funds.

Although South Asian countries have been receiving money from international sources for different types of actions, their leaders have felt the need for dedicated funding sources for coordinated actions within the region and have attempted to develop and re-energise the SAARC Development Fund (SDF) for regional efforts. The SDF established a secretariat in Thimpu in 2010 and undertook its first few activities in renewable energy development. Furthermore, India declared during the 2008 Summit the establishment of the SAARC

Climate Change Endowment Fund for undertaking more cooperative climate change actions. However, the success of these funds hinges on their regular replenishment.

To avoid irregular and/or inadequate replenishment of funds and hence, their failure, countries must generate funds through assessed contribution according to the SAARC Charter. In addition, the institutional components of the expenses should be borne by the country hosting the secretariat, and the resources generated from member contribution should be used for programmatic actions. Regional centres formed as part of the Thimpu Declaration must also follow this criterion. Therefore, what we observe as part of the current financing status for the region is a reflection of the limited availability of money for climate actions unless the countries find multiple sources of resource generation. Multilateral funding windows still form a substantial part of the funding sources, but their ratio of receipt of funds to approval is poor due to administrative and logistical issues. Therefore, the issue of direct access and governance of the multilateral funds is crucial – even little resources will be used efficiently only then.

## Uncertainties for Funding and Definitional Inconsistencies

International support for climate actions in developing countries has become coterminous with complexity, uncertainty and lack of accountability due to the repeated failures of the donors. For example, the total Official Development Assistance (ODA) disbursement of donor countries for all development activities never reached the proposed mark of 0.7 percent of their gross national income (GNI) (UNCTAD, 2010). Until 2000, the total ODA disbursed was only 0.05 percent of donor countries' GNI; it rose to 0.09 percent by the year 2008. The total ODA disbursed by 2008 amounts to USD 37 billion — a shortfall of nearly USD 243 billion, which is twice the total LDC GNP in 2008. Further, the G77+China proposal has identified that this would be the key source of climate support funding for both adaptation and mitigation activities. Notably, the ODA money is for development – not climate-related – activities. However, the major problem of utilisation is that the activities on the ground cannot be easily differentiated into developmental actions and climate actions. Thus, there is ample scope of double counting for ODA and the danger that donors will mix things up.

Further, under the current UNFCCC mechanism, the World Bank and the GEF oversee activities conducted with climate action funds and decide funding-related issues; there are several problems with their management.

## The Least Developed Countries Fund (LDCF)

The transaction cost of accessing funds under the UNFCCC-designated authorities is huge. Currently, the GEF is the managing authority of the LDCF. The following problems have been identified.

- The process of accessing funds is lengthy and cumbersome.
- The GEF governing body is decided on amounts donated by countries and not on democratic election.
- Apparently, there is competition between the LDCF and the other non-UNFCCC funding sources, which has been taking similar actions in the name of climate change.
- There is a huge mismatch between the funds available in the LDCF and the need for carrying out national adaptation programmes of action (NAPA).

## Pilot Program for Climate Resilience (PPCR) Fund

- The funding mode is loan and not the compensatory mechanism, which should have been the case.
- Multilateral development banks are the implementing authorities of the fund; this raises serious doubts about community access to the funds as well as the types of economic policy conditions for disbursement of loans under this fund.
- The World Bank manages the PPCR Fund; although there is a separate governance structure, this raises serious issues about this fund's effectiveness in undertaking climate actions.

## Climate Investment Funds (CIF)

- There is no formal relationship with the UNFCCC or the Convention of Parties (CoP) to the UNFCCC.
- The effectiveness of the sunset clause – when the new Climate Fund is being implemented and operational – is not fully clear. Various parties, including the US, interpret the sunset clause for the CIF differently, thereby making the fund competitive with the UNFCCC Climate Fund.

## Strategic Climate Change Funds

- The GEF manages these.
- These weight votes according to donations to the fund. Currently, 25 developed countries contribute to the GEF but only seven developing countries, including India and China, contribute to the LDCF and the Strategic Climate Change Fund (SCCF). This clearly skews the relationship between parties in case of differences on funding decisions.
- Countries lack direct access to funds. Extensive formalities for small sums of money work as disincentives at times and force the countries to move to a soft-loan world. This breaches the general rules of compensatory mechanism for climate action.
- Since the GEF manages the funds, the CoP lacks direct control; therefore, the funds are not accountable for their performance in climate actions.

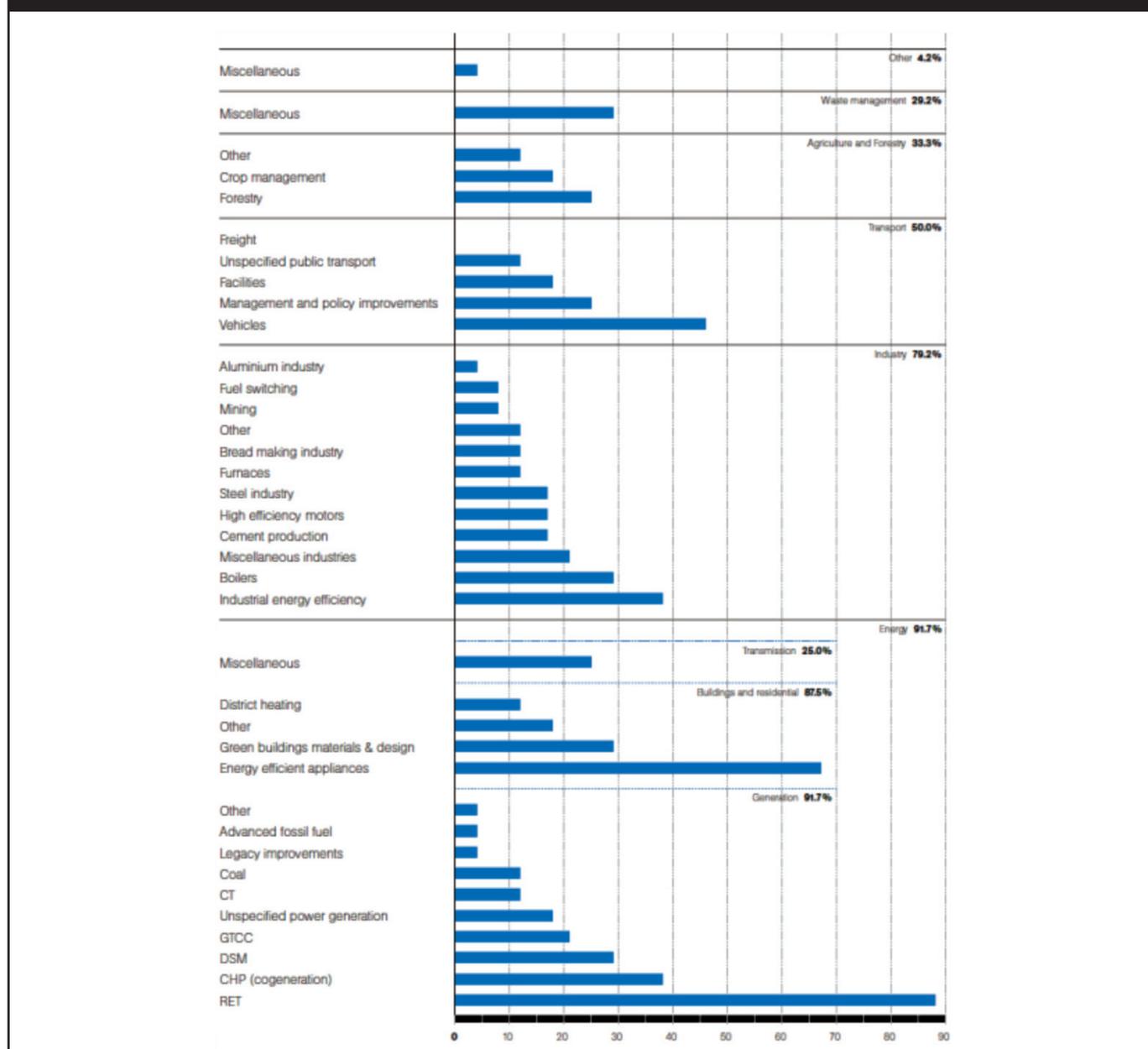
## Types of Climate Action and Funding Support Needed

The South Asia region is identified as one of the most vulnerable regions of the world, which has been also substantiated by the 2007 IPCC AR4. Ever since, various efforts have been taken to develop a coherent climate action strategy. Politically, the region is now represented as SAARC in the UNFCCC and has 'Observer State' status. While this is not a huge step forward for enhanced climate change action, it has made some definitive changes over the past couple of years, starting from the 2008 Dhaka Declaration. Regional activities include enhanced adaptation action because immediate action is needed to build a climate-secure future. Until today, majority of the climate support coming to region are mainly in the form of the mitigation activities (Heinrich Böll Foundation, 2010). Of the resources allocated for Asia for climate change action, 24 percent (USD 119 million) has come to India. The total resources made available for climate change work in India until

2009 amounts to USD 172 million in mitigation and USD 5 million in adaptation. The amount includes total international support and various investments in the country (Heinrich Böll Foundation, 2010). Countries like Bangladesh, Sri Lanka and Bhutan have received minimal amounts.

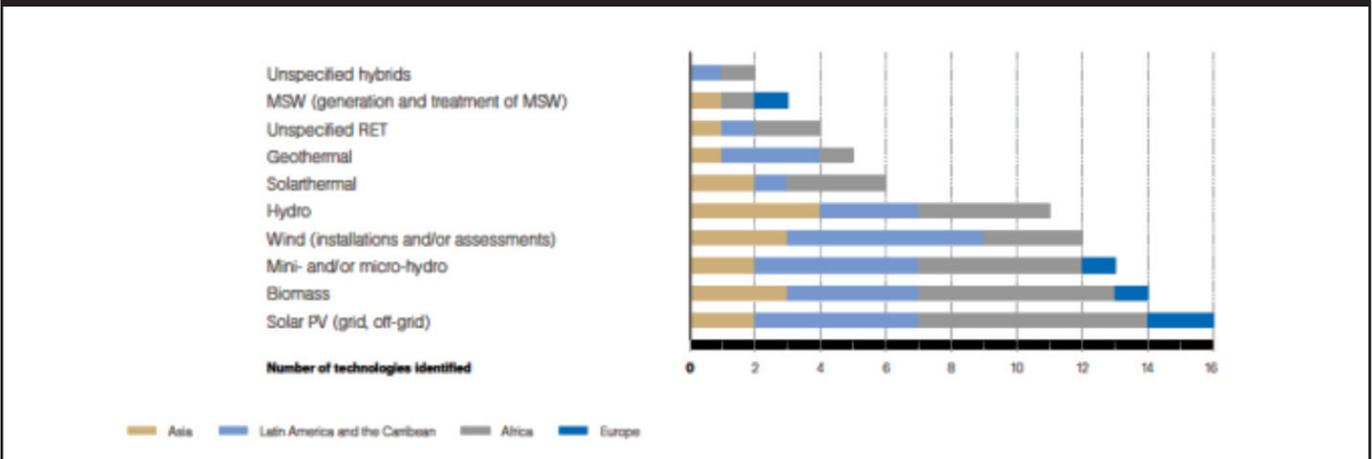
The 2009 UNFCCC report identifies the various activities required, demands and needs as reported by the countries. The distribution of the projects shows that the key areas identified by the parties include energy supply, energy efficiency, public transport and residential accommodation. The energy sector is the priority for most developing countries. In South Asia, financing will be needed for securing basic energy supply to the majority of the population for the next couple of decades. Development goals are closely linked to energy access. Therefore, energy provisioning will automatically mean upliftment of the people. This is reflected by the demands made by the parties in terms of activities (see Tables 6 and 7).

**Table 6 Technology Needs Submitted to the UNFCCC**



Source: UNFCCC.int

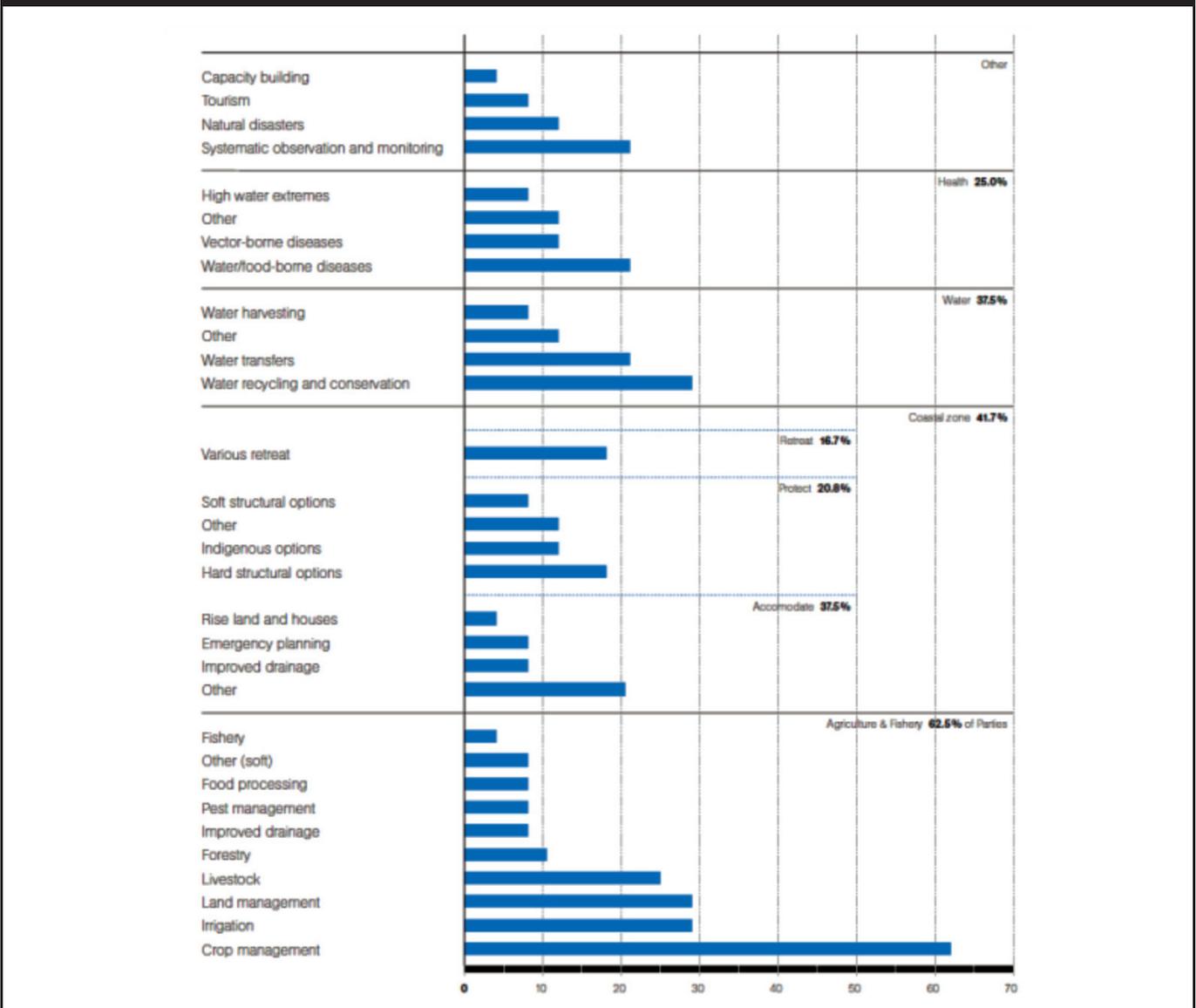
**Table 7 Distribution of Renewable Energy Needs**



Adaptation activities will run into various types of resource management issues. Water and coastline management, protection against the rising sea level, sustainable agricultural practices and biodiversity protection are needed immediately. Further, a large majority of people in South Asia live along the coastline; therefore, flooding entails the risk of relocation and geopolitical tension. An analysis by the requirement of

adaptation support depicts that coastal zone management and agricultural security form the top priority of issues. Multilateral and regional development banks have been undertaking specific adaptation activities in South Asia. The World Bank and the ADB are the major players; there is some bilateral aid too.

**Table 8 Adaptation Needs Submitted to the UNFCCC**



## Box 2 | Adaptation Activities in South Asia – Major Players

### World Bank Activities

**Improving natural disaster forecasting capacity**, for example through the Bihar State Flood Management Information System Project in India and the India National Cyclone Risk Mitigation Project

**Improving irrigation supplies and efficiency**, for example through the Tamil Nadu Irrigated Agriculture Modernisation and Management Project in India

**Adaptation to drought**, for which a pilot activity is being undertaken in Andhra Pradesh, India, to build an extensive and comprehensive drought resilience programme

**Coastal zone management**, which is of particular urgency in South Asia, given that a one-metre rise in sea level would submerge Maldives and affect millions of people in low-lying areas, and which is being addressed, for example, by a Coastal Zone Integrated Management Project in India

**Watershed management**, to improve the productivity of water and land resources and thus build the climate resilience of rural communities, for example through the Himachal Pradesh Mid-Himalayan Watershed Development Project

**Water resources management** through approaches that enhance adaptation to climate change, including various projects in Maharashtra, Rajasthan, Andhra Pradesh and Bangladesh

**Urban sector adaptation**, through a host of initiatives in Bangladesh and India (for example, Gujarat Urban Renewal) that recognise the vulnerability of South Asian coastal cities to sea level rise and aim to improve the understanding of the scale of the problem and to identify feasible adaptation solutions

### ADB Activities

The ADB has undertaken a USD 3 million project; of this, co-financing amounts to USD 2.8 million under the small grants activities. It also assesses climate change problems for different countries at the national level and designs solutions. The core emphasis of the ADB's activities is building capacities for backward countries to address climate change problems in the specific national context; for example, it has conducted several water management-related studies for a number of Himalayan states in India and for other countries.

### Bilateral Aid

Various organisations work with governments to develop micro-level climate change frameworks – examples are GIZ, UNDP and KfW – and sometimes governments involve civil society organisations (CSOs).

However, despite the substantial engagement of various actors and entities, the existing support is focused on mitigation and not on the core necessities of the region; also, there is a wide gap between the climate change action needed and the scale of support being provided. There has been little institutional international support; it is yet to be developed.

## Climate Finance Principles

The global climate justice community agrees that climate finance must be

- public,
- obligatory and predictable,
- impose no conditionality on developing countries,
- new and additional to existing financial commitments,
- channelled through a financial architecture under the authority of the UNFCCC, and that it
- should not generate external debt.

Many of these points are also enshrined in the Kyoto Protocol and in follow-up ministerial agreements; for example, the

Bali Action Plan sets out that funding must be adequate, sustainable, predictable and additional.

### *Adequate*

There are different estimates of the climate financing required as a range of assumptions is used to make projections and the need depends on the overall emissions reductions deal. Developed countries must financially compensate developing countries for the historic and ongoing impacts of GHG emissions (adaptation) and invest in low-carbon development strategies (mitigation) in developing countries. The World Bank, for example, estimates that annual mitigation costs in developing countries could reach USD140-175 billion by 2030 and that annual adaptation costs could reach USD30-100 billion by 2030. This makes for an annual total of

USD170-275 billion in 20 years, a level that should be built up to rapidly now on. The sources of climate finance must be additional to the ODA, as specified in the UNFCCC. This additionality should be measured against the UN pledge of 0.7 percent of GNI and not existing ODA, which for all except four rich country governments are below the pledged level and in many cases far below. The four countries that currently provide above the UN-pledged amount should also be encouraged to provide more.

North-to-South climate finance should exclude financial flows from carbon offsets sales. Carbon offsets let richer countries continue to pollute while compensating impoverished countries for enacting efficiency measures. If offsets are allowed to continue, they will be counted as contributions to Northern emissions reductions; therefore, they should not be counted towards their financing goals either (this is commonly known as double counting).

The sources of climate finance have to be diversified, as it is unlikely that a single source will provide the funding required. Therefore, proposals are adjudged adequate if they can provide over \$30 billion per year for developing-country climate finance (regardless of the amount raised for other purposes) or if they combine well with other major proposals to provide some additional contribution. Financing mechanisms' contribution should be judged net of the transactions costs for collecting the money and policing the instrument.

## ***Predictable***

Finance flows must be predictable so that governments and CSOs can make the most use of them. Recipients need predictability to plan and to build programmes and systems that require regular payments on staff and other fixed costs. Predictability requires that the revenue contribution cannot easily be evaded and that it is constant and does not decrease. Comprehensive sector or country coverage will prevent companies from moving their operations to get around the ban. Predictability is most likely to be achieved through non-discretionary flows not subject to revision or cuts by national governments when producing their budgets. An internationally agreed and levied tax is, for example, more predictable than a nationally implemented tax that could be either reduced or redirected unilaterally by a government facing a budget squeeze and strong domestic lobbies. Predictability, thus, takes into account revenue generation and its targeting to climate finance for developing countries.

## ***Public***

Northern governments are responsible for raising funds to meet climate finance obligations and obtain reparations from Northern private corporations and international institutions they can influence. Climate finance should not depend on direct private contribution or investment or be used as instruments or an arena for promotion and expansion

of private profit. Mechanisms that involve carbon market speculation should be excluded (because it runs counter to the equitable allocation of emissions rights) while taxation can be included (on specific forms of transport, for example).

## ***Equitable***

Developed countries are responsible for the global climatic mess through centuries of unsustainable and unregulated fossil fuel-based growth. This has severely limited the atmospheric space left for countries of the global South to develop and caused severe climate impacts; impoverished people in the South are the worst affected. As part of reparations for this climate debt, finance must flow from the countries and people most responsible for the climate problem to those suffering from it. Governments have agreed to respect the principles of 'responsibility' and 'capability', but there are open debates about how to interpret these and about their relative importance. There are several independent initiatives to propose equitable arrangements to determine financial obligations.<sup>2</sup>

These approaches recognise the need for a climate regime to bring global emissions rapidly under control while allowing the developing world to scale up energy services to fight poverty. People under a certain 'development threshold' are not expected to share climate transition costs. All populations above this threshold must ration their carbon use based on a 'fair shares' formula that takes into account historical cumulative emissions and with the aim of keeping the warming as far below 1.5-2 degrees Celsius as possible.

## ***Simple and accountable***

Revenue raising mechanisms should be simple and accountable so that all can easily see how much money is being generated from what sources and how enforcement is being undertaken. Publishing accurate, comprehensive and timely data using common definitions is important for easy aggregation and analysis. All documents and data should be published; a very narrow set of exceptions may be allowed for personal or other, purely internal information. There must also be an appeal mechanism for citizens who are denied information.

## **Principles of Governance**

The key concepts of financing and governance of climate funds for climate actions have are power, accountability and responsibility as part of the governance structure to provide effectiveness and legitimacy to the climate finance mechanism. According to a 2010 World Resources Institute (WRI) report, the three interrelated features overlap so that

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<sup>2</sup> See, for example, (1) initial work on a Greenhouse Development Rights Framework at [www.ecoequity.org](http://www.ecoequity.org); (2) Carbon Debt, Jubilee South Journal at: [www.jubileesouth.org/journal/carbon.htm](http://www.jubileesouth.org/journal/carbon.htm); and (3) Adapting to Climate Change: What's Needed in Poor Countries, and Who Should Pay, Oxfam, 2007

a proper legitimate and effective structure is established. Climate governance aims to ensure a democratic structure to balance power, accountability and responsibility between climate finance contributors and recipients. This is primarily because the climate finance mechanism is looked upon as

a compensation mechanism for historical contributors to atmospheric GHG concentration for natural resource over-exploitation and, thereby, acquisition of carbon space, part of the global commons. These polluters are the ones who have the highest responsibility to pay as compensation.

### Box 3 | Governance Features in Finance Mechanism

#### POWER:

The capacity—both formal and informal—to determine outcomes

- How will the financial mechanism's governance structure distribute voice and vote between and among contributors and recipients?
- What role will the United Nations Framework Convention on Climate Change's (UNFCCC) institutions, including the Conference of the Parties, play in guiding the financial mechanism?
- To what extent will contributors be able to determine funding priorities by placing conditions on the resource mobilization and allocation process?
- How influential will the secretariat and management staff of the financial mechanism be in determining project design and selection?
- Will advisory groups, civil society observers, and local communities play a role in determining how the financial mechanism operates?

#### RESPONSIBILITY:

The exercise of power for its intended purpose

- Are the financial mechanism's standards, program priorities, and eligibility criteria strong enough to ensure its resources are invested fairly and effectively?
- How do cost-sharing formulas (e.g., incremental, marginal, transformative costs) allocate responsibilities between contributor and recipient countries, and between the financial mechanisms and recipient countries?
- To what extent are national institutions and local civil society entrusted with ensuring the effective design and implementation of investments?

#### ACCOUNTABILITY:

The standards and systems that ensure power is exercised responsibly

- How does the financial mechanism measure, evaluate, and incentivize results?
- Are effective environmental and social safeguards in place to ensure the investments do no harm?
- How are fiduciary duties and financial management standards supported and enforced?
- Are grievance and inspection mechanisms in place to ensure that standards are followed?

Source: WRI, 2010

The key message is that an effective climate governance structure must ensure direct access to and democratic distribution of funds. This gives legitimacy and effectiveness to the finance mechanism under the Climate Fund. In 2010, the WRI evaluated the existing funds under the multilateral gateways for climate change actions worldwide and found the balance of power in favour of contributors for most funds analysed. This needs to be shifted, and that shift is possible only if enough safeguards and accountability are established – through the features mentioned above. Greater developing-country representation and representative governance ensuring recipient ownership will ensure effective resource utilisation and best address the climate change problem. One of the major problems of any international financing mechanism is inclusion of voices at the base of the pyramid. This can be resolved through the proposed climate finance mechanism. Further, sustainability and compensatory funding will be key to an effective finance mechanism. The other important challenge to effectiveness is ensuring that the governance structure manages huge funds efficiently and that it has minimal formality and a one-window approach. Current discussions on the financial mechanism have been perceived as a fight for control over the Green Climate Fund. The negotiating strategy of developing countries in this regard is based on the assumption that control over fund governance would give them decision-making power and hence ensure direct access to funds. During the CoP-16 at Cancun, South Asian countries identified direct access to funds as their central

demand in a joint submission about the financial mechanism. The current arrangement through the GEF has been unable to provide such direct access and the huge administrative and logistical issues involved in funds transfer has rendered it ineffective. South Asian countries look towards the replication of the Adaptation Fund board governance structure in the current discussion on Green Climate Fund. During the October 2011 meeting of the Transitional Committee of the Green Climate Fund, South Asian countries<sup>3</sup> emphasised the need for Fund operationalisation and reiterated the need for agreeing on it at Durban (CoP-17).

For South Asian countries, the governance issue is important because it will determine the efficient usage of the available money. Since there is no clarity currently on the ways and means of fund generation or its scale, it is necessary that developing countries have control over fund governance to ensure fair and equitable disbursement based on developing-country needs. To ensure this, countries like India have demanded that a commitment-based support mechanism be built for developed countries.

3 South Asian countries are part of the G77+China group and various other sub-groups of the UNFCCC. As part of these sub-groups, the respective South Asian countries have agreed on the need to conclude and operationalise the architecture of the Fund at Durban.

## Climate Finance: Way Forward

Clearly, the finance regime proposed under the UNFCCC has to shift the balance of power towards recipients. This is not a new demand, and it has already been happening in various other forums, especially after the economic crisis. A WRI analysis found it important to change the traditional governance structure. From a developing-country viewpoint, the hard-to-access, opaque and cumbersome international financial mechanisms need simplifying.

From the sources viewpoint, the international Climate Fund needs to consider various possible sources of finance for global climate actions. Various options have been put forward in this regard; however, the principle of common but differentiated responsibility (CBDR) has to be respected in all these issues. While financial transaction taxes (FTT) and special drawing rights (SDR) for climate finance and Bunker fuel levy have been identified as possible sources of funds, none has won political support at UNFCCC negotiations. Reports on SDR becoming a vehicle to generate new resources have been doing the rounds within CSOs globally. In one of the most famous opinion-building exercises, George Soros identified SDRs as a major source of funds that could infuse USD 100 billion into the system for climate actions. This was supported by the then IMF chief during the January 2010 World Economic Forum meeting. However, control of this fund was not made clear at the World Economic Forum, and this was a major reason for its subsequent lukewarm response. Emerging economies like China, India, Brazil have been demanding a shift and restructuring of the governance mechanism of IMF and World Bank. The recent allocation of USD 250 billion of SDRs has been used as per the 2009 G-20 suggestion. This was the impetus for parties to claim parallel usage of SDR for climate actions. The main reason for reconsidering this option is the control of money and its relationship with the UNFCCC in terms of climate financing. In the current scheme of things, the only donor country from South Asia is India. The major problem that will be faced with the current governance structure of the SDR money is that the voting structure is determined by the amount of contribution and not by democratic structure. Historically, the IMF money for restructuring regional economies has involved strict conditionalities on national governments. If the SDR money comes to the region for climate support, the cloud of conditionalities looms large over the region.

The FTT and bank transaction taxes are seen as major alternatives for climate finance. The EU recently began imposing taxes on financial transactions. This will reduce financial speculation and reduce the velocity of money used mostly for stock market investments and speculation. This sort of tax has some merit, although the Government of India disagrees. The FTTs would reduce the speculation in the markets and mobilise investments in greenfield projects, which would ensure global financial stability. However, such a financing regime would face major difficulty in regulation. Stock exchanges are currently ruled by national regulations.

However, the regulatory authority has to be carefully designed in case of the proposed FTTs to avoid complications.

While most other financial sources identified like Bunker fuels and taxes on trade in commodities do not meet CBDR requirements, South Asian countries are yet to take a position on these.

The next important issue of climate finance is governance. In this regard, there contributor-recipient balance of power must be reworked. This will require nationally driven investments and will ensure global emissions reduction and recipient ownership of funds.

The international regime for climate finance would require national-level regulation and decision-making changes. This might lead to the creation of one or more new national-level climate finance mechanism, such as the Bangladesh Climate Fund. The fundamental requirement at the national level is that there should be adequate flexibility and effective governance to make effective use of climate finance.

The climate finance mechanism must ensure that no conditionality attached to the financial support truncates regional development policy or its MDG goals as most climate actions overlap with development actions.

South Asian countries should develop a coherent SAARC-level climate agenda. This would set the tone of climate actions by identifying priority areas and immediate action-specific information. A medium- and long-term SAARC Work Programme on Climate Change will ensure that various climate-related issues are addressed and effective fund utilisation plans are developed.

The recent declaration on SAARC-level activities has identified major areas of research and ground actions on climate change. However, funds have been allocated ad hoc; a discussion on developing sustainable climate action funds is required and can form part of the agenda of the SAARC Environment Ministers' next rounds of meetings.

The role of civil society has been an important source of capacity building and innovative ideas on development issues. Under the climate change regime, CSOs from SAARC region have to play a pragmatic role. Since the region is unique in having almost all the major physiographic regions of the world, effective roadmap-building will ensure that all issues pertaining to the decision-making pyramid's base have been resolved.

Finally, climate financing in South Asia needs a development orientation under which adaptation issues are given due importance and addressed. The staggering difference in the money available for adaptation and mitigation across the world shows that it is important to focus on adaptation programmes for the region. It would ensure that equity issues and development objectives are properly addressed through climate finance.



