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# Rio +20: Financial Re-sources for Improved International Environmental Governance



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## **Rio+20: Financial Resources for Improved International Environmental Governance**

by

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### **Abstract**

In the run-up to the Rio+20 summit, which takes place in June 2012, this study investigates the current system for financing international environmental governance (IEG). The current architecture for IEG finance consists of a growing number of bilateral and multilateral actors, funds and financial mechanisms which leads to incoherence, inefficiencies and extra burdens on recipient countries. The resulting intransparency is exacerbated by the lack of a comprehensive system for tracking. Against this background, this study investigates the current state of the IEG funding system from a qualitative and – to a lesser degree – quantitative angle. Some of its flaws are discussed as are options for its improvement – all with a view to formulating recommendations for the Rio+20 summit.

### **Kurzbeschreibung**

Im Vorfeld des Rio+20 Gipfels im Juni 2012 untersucht diese Studie das gegenwärtige internationale System für die Finanzierung von Umweltpolitik sowie Verbesserungsmöglichkeiten. Das derzeitige internationale System für die Finanzierung für Umweltschutz ist sehr unübersichtlich: Es verteilt sich über eine wachsende Anzahl von bilateralen und multilateralen Akteuren, Fonds und Finanzierungsmechanismen. Das führt zu Inkohärenz und Ineffizienz und schafft unnötige Hürden für Emfängerländer beim Zugang zu finanzieller Förderung für Umweltschutz. Das Fehlen eines etablierten Systems für die Erfassung der internationalen, umweltbezogenen Finanzströme macht die Situation noch intransparenter. Vor diesem Hintergrund bietet die vorliegende Studie einen qualitativen und teilweise auch quantitativen Überblick über die derzeitige Finanzarchitektur. Schwächen des derzeitigen Systems werden aufgezeigt und mit Blick auf die Rio+20-Konferenz im Juni 2012 Empfehlungen formuliert, wie sich das System der multilateralen Finanzierung für Umweltpolitik besser gestalten lässt.

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## List of Abbreviations

AF	Adaptation Fund
AFB	Adaptation Fund Board
AfDB	African Development Bank
AsDB	Asian Development Bank
CBD	Convention on Biological Diversity
CDM	Clean Development Mechanism
CEO	Chief Executive Officer
CERs	Certified emission reductions (CDM)
CFC	Chlorofluorocarbons
CIFs	Clean Investment Funds
COP	Conference of the Parties
CRS	Credit Reporting System
CTF	Clean Technology Fund
DAC	Development Assistance Committee
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ETS	Emissions Trading System
EU	European Union
ExCom	Executive Committee (of the Multilateral Fund)
FERM	Fixed exchange rate mechanism (of the Multilateral Fund)
FIP	Forest Investment Program
FTS	Financial tracking system (UN)
FY	Financial year
GAVI	Global Alliance for Vaccines and Immunisation
GEF	Global Environment Facility

GFATM	The Global Fund to Fight AIDS, TB and Malaria
HCFC	Hydrochlorofluorocarbons
HSS	Health System Strengthening
IADB	Inter-American Development Bank
IATI	International Aid Transparency Initiative
IBRD	International Bank for Reconstruction and Development (World Bank Group)
ICAO	International Civil Aviation Organization
IDA	International Development Association
IEG	International environmental governance
IFAD	International Fund for Agricultural Development
IFSD	Institutional framework for sustainable development.
IFSD	Institutional framework for sustainable development
IMO	International Maritime Organization
ITPGRFA	International Treaty on Plant Genetic Resources for Food and Agriculture
LDC	Least-developed country
LDCF	Least Developed Countries Fund
MDB	Multilateral development bank
MDG	Millennium Development Goals
MEA	Multilateral environmental agreement
MLF	Multilateral Fund for the Implementation of the Montreal Protocol
MOP	Meeting of the Parties
OCHA	UN Office for the Coordination of Humanitarian Affairs
ODA	Official development assistance
ODS	Ozone depleting substances
OECD	Organization for Economic Co-operation and Development
OOF	Other official flows

OPS	Overall Performance Study
PES	Payment for ecosystem services
POP	Persistent organic pollutants
PPCR	Pilot Program for Climate Resilience
RAF	Resources Allocation Framework
REDD	Reducing Emissions from Deforestation and Forest Degradation
SCCF	Special Climate Change Fund
SCF	Strategic Climate Fund
SDG	Sustainable Development Goal
SREP	Program for Scaling-Up Renewable Energy in Low Income Countries
UN	United Nations
UNCCD	United Nations Convention to Combat Desertification
UNCSD	United Nations Commission on Sustainable Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization

## 1 Executive Summary

From 20-22 June 2012 – 20 years after the first Rio Earth Summit in 1992 – governments will come together in Rio de Janeiro to give new momentum to global sustainable development policy. Different options are on the table for addressing both of the conference's main themes – a green economy in the context of sustainable development and poverty eradication, and the institutional framework for sustainable development. Options include strengthening the UN Environment Programme or the creation of a UN Environment Organization, ambitious improvement of the institutional architecture for sustainable development situated in New York, new global Sustainable Development Goals, and support for the worldwide transformation to a green economy.

Ambitious goals can only be reached when the necessary financial means are available. The international architecture for financing environmental protection, however, has become quite confusing, spread out across an increasing number of bilateral and multilateral actors, funds and financing mechanisms. Currently, as there is no established system for the tracking of international, environmentally-focused finance streams, there are no clear and straightforward answers to questions such as: Where do the funds come from? Who decides, and by what rules, how the funds are allocated? Who monitors their use? And how can new financing mechanisms and private funds be integrated into the existing system?

This executive summary provides an overview of the structure, size, and functioning of the current system for financing international environmental governance (IEG). It analyzes the system's shortcomings and offers recommendations for improving a system urgently in need of reform. After providing a short overview of the system as it operates today, the brief focuses on options for improvement based on four aspects that the Nairobi-Helsinki Outcome<sup>1</sup> identifies as priorities for the reform of IEG financing:

- the development of financial tracking systems, including their costs and benefits, based on existing systems to track financial flows and volumes comprehensively at the international and regional levels
- increasing accessibility, cooperation and coherence among financing mechanisms and funds for the environment
- deepening the funding base for environment with the goal of securing sufficient, predictable and coherent funding and consideration of a strategy for greater involvement of private sector financing and the pooling of public and supplementary private revenue streams
- creating a stronger link between global environmental policy making and financing

This summary (and the full-length report) focus primarily on multilateral environmental funding, i.e., funding flowing through multilateral institutions, including budgets of organizations such as UNEP, but also including multi-donor funds for specific environmental purposes (e.g., the Adaptation Fund under the Kyoto Protocol). Because most of the funding for

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<sup>1</sup> Consultative Group of Ministers or High-level Representatives (2010). Nairobi-Helsinki Outcome. Second meeting of the Consultative Group of Ministers or High-level Representatives on International Environmental Governance: Espoo, Finland, 21–23 November 2010

IEG is provided by developed countries and most of it is spent in developing countries, much of the funding discussed here qualifies as official development assistance (ODA).

The full-length study discusses in greater detail the statements and arguments that appear here and also explains the underlying methodology.

### **1.1 The current system - an overview**

The current system for IEG financing involves hundreds of different funds, mechanisms and actors.

Several UN bodies spend a share of their budget for environmental purposes. In quantitative terms, UNEP and UNDP spend most of their funds for environmental purposes. Other entities within the UN system that spend a part of their budget on environmental issues include IFAD, FAO, UNIDO and UNESCO.

Multilateral development banks (MDBs), including the World Bank Group, provide the bulk of environmental funding in quantitative terms. In contrast to the UN bodies mentioned above, the MDBs mostly provide loans rather than grants.

The GEF is the largest multilateral public grant-making mechanism for environmental projects. The GEF is the financial mechanism for the Convention on Biological Diversity (CBD), the United Nations Framework Convention on Climate Change (UNFCCC), the Stockholm Convention on Persistent Organic Pollutants (POPs) and the UN Convention to Combat Desertification (UNCCD).

In addition, there are a large number of environmental trust funds. With a few exceptions, such as the GEF Trust Fund, they have been created for a single specific purpose and are administered by an organization which acts as its trustee. The World Bank and UNEP host most of these funds. Although there are significant gaps in available data, it can be estimated that there are more than 130 multilateral environmental trust funds within the World Bank, UNEP, UNDP, and the GEF.<sup>2</sup> A few trust funds, such as the Adaptation Fund, have legal personality of their own; however, for most, this is not the case.<sup>3</sup>

These various financing mechanisms for the environment are not clearly distinct and separate, but are linked by a complex web of relationships.

### **1.2 Improving tracking of IEG funding**

A key problem in the current system of financing for IEG is the lack of a comprehensive mechanism to track financing of projects and activities for environmental protection and sustainable development. This leads to a lack of accountability and transparency.<sup>4</sup> Greater transparency on environmental funding is, however, a pre-condition for any effort to improve coordination of these flows. Moreover, it provides a common basis that may facilitate political negotiations, and it allows for monitoring compliance with existing commitments.

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<sup>2</sup> See the compilation in the following our longer study, where sources are also cited.

<sup>3</sup> See Transitional Committee for the design of the Green Climate Fund, Report on the survey of relevant funds and institutions and lessons learned - A note on the results of surveys and interviews, 31 August 2011, TC-3/INF.2, p.3

<sup>4</sup> Najam and Halle 2010

Currently, the most comprehensive system for tracking environmental funding is the OECD Development Assistance Committee's (DAC) Creditor Reporting System (CRS). This system tracks funding for official development assistance (ODA)<sup>5</sup> from most donor countries as well as certain other flows (e.g. foreign direct investment in developing countries). This is done according to a number of different categories, including several environment-related ones.<sup>6</sup> While being the most comprehensive tracking system today, the OECD CRS has certain limitations. In addition to not providing data in “real time” (e.g., 2010 data is being added to the bulk download database in February 2012), there are several weaknesses of the OECD CRS concerning the scope and quality of data covered on environmental funding:

- Multilateral flows are not recorded as comprehensively as bilateral flows. For example, contributions to some multilateral climate funds are currently only counted as bilateral payments. Examples are the Least Developed Countries Fund (LDCF)<sup>7</sup> and the Special Climate Change Fund (SCCF)<sup>8</sup>, which are both administered by the GEF. Multilateral development banks report to the OECD at the activity-level, but not necessarily using the CRS’ environmental policy markers.<sup>9</sup>
- Emerging donors can report to the OECD, but are not obliged to do so. For example, Saudi-Arabia reports its ODA, but China and Brazil do not.<sup>10</sup>
- Moreover, observers have identified reporting flaws<sup>11</sup> and there are inconsistencies in reporting among donors. For example, some donors consider nuclear energy as environmental protection, while other countries do not, which makes it difficult to interpret and compare the flow of environmental funding.

Some of this may be attributable to the general difficulty of defining what is “environmental funding”. For example, funding for water and sanitation usually has the primary objective of improving the living conditions in developing countries (and may thus be considered socially or human-development-induced); nonetheless, improved sanitation will in most cases bring important environmental benefits, too. Even if a global harmonization of definitions and reporting practices may be difficult to achieve, steps to improve the comprehensiveness and quality of data can and must be taken.

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<sup>5</sup> ODA is defined as flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%), OECD (2008). Is it ODA? p. 1, <http://www.oecd.org/dataoecd/21/21/34086975.pdf>

<sup>6</sup> The CRS Database is available online here: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>.

<sup>7</sup> The LDCF funds the preparation and implementation of National Adaptation Programs of Action in least-developed countries, see [www.thegef.org/gef/LDCF](http://www.thegef.org/gef/LDCF)

<sup>8</sup> The SCCF supports various adaptation activities in developing countries, see <http://www.thegef.org/gef/SCCF>

<sup>9</sup> Personal communication, DAC, 21 February 2012

<sup>10</sup> See list of “Non-DAC countries reporting their development assistance to the DAC”, [http://www.oecd.org/document/2/0,3746,en\\_2649\\_34447\\_41513218\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/2/0,3746,en_2649_34447_41513218_1_1_1_1,00.html)

<sup>11</sup> Michaelowa and Michaelowa 2011; Roberts et al. 2009, p. 11.

For this purpose, building on the existing database is clearly preferable to duplicating the OECD's efforts – and risk failing in the process, or at least creating much additional bureaucracy. One solution could be to initiate a joint effort between the OECD and UNEP to establish and operate the tracking system. Given that the OECD and UNEP are two rather different organizations that do not have a very strong track record of cooperation, such cooperation may not be easy. Nonetheless, it would combine the (scientific) authority of UNEP on environmental matters, as well as UNEP's global mandate, with the expertise of the OECD for tracking. In this context, it is worth noting that each of the Rio Conventions asked the OECD to take on the monitoring of their funding, rather than setting up separate systems.

While there are benefits to centralizing the information flows on multilateral funding within a single tracking system – thus avoiding a duplication of reporting structures – there are also drawbacks. Where there is only one central and authoritative repository of information, it becomes much easier to gain an overview, but much harder to challenge the figures reported, as they cannot be cross-checked against others. Notably, donors may be tempted to overstate the amount of environmental funding they provide. For example, critics have argued that while the UK development agency DFID concluded that environmental projects accounted for 25% of its bilateral aid in the 1990s, the actual number may be closer to 10%.<sup>12</sup> Therefore, in order to complement the OECD figures, private and non-governmental initiatives such as AidData.org or climatefundsupdate.net should be maintained and strengthened (e.g., through additional funding) in the future, in order to continue to offer independent and impartial views on the funding landscape.

### 1.3 Improving coordination and coherence

The current funding landscape for international environmental governance is fragmented and lacks sufficient coordination – a characteristic it shares with other policy domains at the international level.<sup>13</sup> The fragmentation of the funding landscape mirrors the diversity and fragmentation of international environmental governance overall. Many funds and mechanisms are associated with particular multilateral environmental agreements (MEAs) and some MEAs have several associated funding instruments. Hence the number of funds is related to the number of relevant agreements – and currently there are more than 1,000 MEAs in force, though many of them are not global in scope.<sup>14</sup> Moreover, the current funding system is largely organized around sectoral funding mechanisms, with specific funds and their governance structures focusing on specific environmental problems. Various scholars have concluded that the current fragmentation of the IEG landscape has resulted in a lack of policy coherence<sup>15</sup>, and the same can also be said with regard to funding. The negative effects of this include inefficiencies, imbalanced distribution of funding,<sup>16</sup> difficulty in mobilizing funding for

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<sup>12</sup> Roberts et al. 2009

<sup>13</sup> Biermann et al. 2009, p. 16

<sup>14</sup> This figure is provided by the International Environmental Agreements Database Project, <http://iea.uoregon.edu/page.php?file=home.htm&query=static>

<sup>15</sup> Bernstein and Brunée n.d.; Inomata 2008

<sup>16</sup> For example, Roberts et al. 2009 have noted that bilateral aid largely neglected the issues of desertification and soil erosion in the period 1980-1999. See also Figure 2: Trends in funding from multilateral donors across six environmental themes, 1991-2010 in the full report.

large cross-cutting and integrated projects and extra burdens on recipient countries that are faced with an overwhelming number of mechanisms and associated reporting obligations.

Involvement of a large number of institutions in funding environmental activities, however, is not necessarily an unwelcome development. It indicates that environmental issues have successfully been mainstreamed into the funding activities of a range of institutions engaged in a number of different fields. While proliferation of funds makes the funding landscape complicated, it also allows donors to choose a channel they deem most effective or most appropriate for their specific interests and priorities.<sup>17</sup> Such an opportunity is an important factor motivating donors to provide funding in the first place.

Moreover, characterizing the existing system as completely fragmented obscures the reality that funding is clustered around a number of centers of gravity, which host most multilateral trust funds and/or provide most of the multilateral grant money available – GEF, the World Bank and UNEP. Moreover, in some instances funds are making efforts to arrive at a sensible division of labor. An example is the Governing Instrument for the Green Climate Fund, adopted in December 2011. It provides explicitly that the Fund shall operate in the context of appropriate arrangements between itself and other existing funds.<sup>18</sup>

Nonetheless, the system needs more coherence. Among the two broad options available, stronger centralization of funding decisions into the hands of one organization or stronger coordination between existing organizations, the latter seems preferable. A centralized solution would have important drawbacks. For example, donors could no longer channel their funding through those mechanisms they consider most effective and efficient or relevant, which could lead to a situation where donors provide less rather than more money and create new mechanisms and funds that better reflect their preferences. Also, necessary improvements are often easier to achieve through creating new institutions than through reforming existing ones, and this flexibility would be lost in a centralized system. Last but not least, centralization does not eliminate the need for coordination – it merely shifts the coordination challenge from external coordination among several organizations to internal coordination within one large, central institution. Experience, e.g. within the GEF, indicates that such internal coordination can be just as difficult to achieve.

Hence, stronger coordination seems to be a better option than concentrating funds and funding decisions in one central body. One avenue for enhancing coordination might be to gradually strengthen the existing “centers of gravity”, around which the current IEG finance system is already organized, while at the same time gradually reducing structures outside of them. In this process, a better division of labor between these institutions could be explored: For instance, funds serving the implementation of MEAs could systematically be entrusted to the GEF, without any pre-judgment on decision-making structures. The administration of multilateral trust funds not directly serving the implementation of MEAs could be a task for either UNEP or the World Bank – the two institutions today administering the largest numbers of environmental trust funds. The World Bank could be responsible for those mechanisms that provide assistance in the form of loans, while UNEP could handle grant-money. At the same

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<sup>17</sup> Similarly, it has been observed that specialised environmental regimes, while contributing to fragmentation, may also be desirable, because they may serve specific interests of governments and thus have higher compliance rates, Hafner 2004, p. 859f.

<sup>18</sup> Governing instrument for the Green Climate Fund, Decision 3/CP.17, Doc. FCCC/CP/2011/9/Add.1, paras. 33,34, <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>

time, efforts could be undertaken to gradually reduce the number of existing instruments, e.g. by merging smaller funds. Lessons could be learned in this regard from the private sector's practices for dealing with under-capitalized funds.

#### **1.4 Improving the amount, predictability and stability of public sector funding**

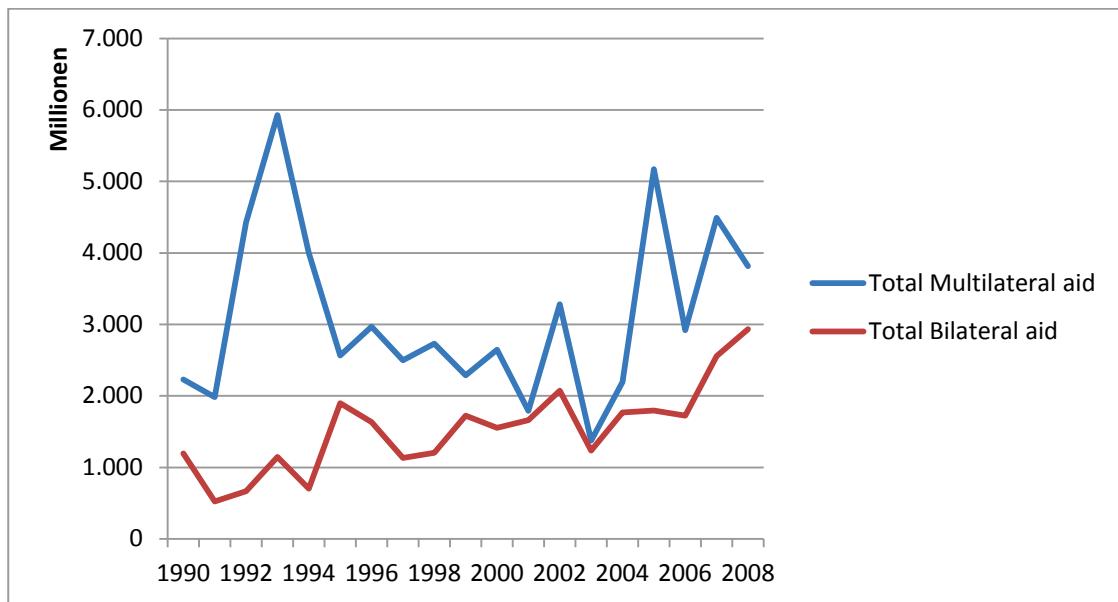
A central shortcoming of the current system is that overall funding levels are insufficient and funding tends to be unpredictable and unstable, hindering consistent long-term planning. Although the overall volume of funding for environmental activities has increased over the last few decades, it remains far short of estimates of what is necessary to achieve agreed environmental targets, e.g., in the field of climate change mitigation, adaptation or biodiversity protection. Beyond increasing the amount of financing available, another issue is the need to achieve greater diversity of contributions, in order to make funding more independent of the decisions of a limited number of donors.

The figure below shows the trend in multilateral and bilateral funding dedicated to environmental projects from 1990-2008. It represents the funds that have been dedicated to projects serving an environmental objective according to the AidData base.<sup>19</sup> The accumulated total amount for multilateral funding identified in this way for 1990-2008 is US\$ 59.3 billion. However, as explained in greater detail the full-length report, there is a share missing that cannot be quantified with any degree of precision. The figure shows that multilateral aid has fluctuated significantly over the years. There was a notable peak in 1993, the year after the Rio Earth Summit.

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<sup>19</sup> The qualification of a project as serving an environmental purpose is based on the description of purpose allotted by AidData. However, only a certain share of the projects in the database have been classified by purposes so far, making the above figures a less than complete description of the reality. For a more in-depth explanation of the data and their limitations please see below section 2.3 in the full report.

Figure 1: ODA dedicated to environmental projects, 1990-2008 (in million USD, in 2009 equivalents)<sup>20</sup>



Source: AidData

While scaling up IEG funding and making it more predictable is desirable, there are no easy ways to achieve this – increased funding is chiefly a matter of political will and subject to domestic constraints in donor countries. ODA remains the most important funding source for global environmental activities.<sup>21</sup> Overall, ODA by OECD DAC members has more than doubled from about US\$ 42 billion in 1960 to about US\$ 100 billion<sup>22</sup> in 2009. However, in terms of the percentage of the gross national income that donor countries spend on ODA, it has more than halved from 0.45% to a mere 0.21%.<sup>23</sup> Moreover, a number of factors shape levels of (bilateral) environmental aid – and are arguably unlikely to be influenced by what happens at the international level: the economic situation of a donor country, its general willingness to spend on social and environmental issues (e.g., the degree to which a country is of a “social-democratic” orientation), the strengths of pro- and anti-environmental constituencies within a country and environmental norms within a country.<sup>24</sup> While factors influencing multilateral aid are not necessarily identical with those influencing bilateral aid, there is a certain

<sup>20</sup> To make their records useful for comparison across currencies and time, AidData has employed a systematic method to convert commitment and disbursement amounts to constant 2009 US dollar equivalents, adjusted for inflation and exchange rate changes.

<sup>21</sup> Müller 2000, p. 190. Roberts et al. 2009 note that some of these factors explain better why certain countries have decreased their levels of “dirty” bilateral ODA, but not necessarily increases in bilateral funding.

<sup>22</sup> The figures are in constant 2009 US\$.

<sup>23</sup> OECD 2012, p. 227

<sup>24</sup> Müller 2009, pp.194ff. In terms of where bilateral aid is directed, Roberts et al 2009 conclude that “more traditional determinants of foreign aid allocation, such as a recipient country’s existing bilateral commercial relationship with a donor country and previous colonial ties to the donor country” are more important than questions of where environmental aid may have the best chance of actually addressing serious environmental problems. For example, Egypt or Turkey that did not face any major environmental crises or have globally relevant biological resources – received a considerable amount of bilateral environmental assistance during the 1990ies. Both are important partner countries of major donors, notably the EU.

likelihood that when policy preferences and governments in donor countries change, the mix between bilateral and multilateral aid in a given country may vary, but overall aid levels will not necessarily change substantively.<sup>25</sup> In addition, at least some countries have some long-standing political or formal constraints on funding in place, e.g., Japan seems to have a policy of never being the biggest contributor to any single multilateral fund<sup>26</sup> and Germany has a limit in place on how much of German ODA can be disbursed through multilateral channels.

However, the fact that there are no silver bullet solutions for increasing multilateral IEG funding and making it more predictable does not mean that efforts should not be undertaken. One option to consider is basing future payments to environmental mechanisms and funds on scales for specific contributions. The most relevant example in the present context is the UN scale of assessments for the UN general budget.<sup>27</sup> This scale of assessments is based on Art. 17 of the UN Charter, the Rules of Procedure of the General Assembly, as well as a General Assembly Resolution. Accordingly, the percentage contribution of each UN Member to the UN general budget is calculated mainly on the basis of gross national income, with minimum and maximum thresholds. Members are notified of the contribution once the General Assembly has approved the budget. While the contributions as such are not voluntary, most UN Members do not pay their contributions in full or on time. This is the case even though Art. 19 of the UN Charter sets forth that if a Member is behind schedule on its payment and its debt equals or exceeds the contributions due for the two preceding years, it can lose its vote in the General Assembly. UNEP currently uses a method for mobilizing contributions to the Environment Fund known as the voluntary indicative scale of contributions (VISC), following a decision by the UNEP General Council in 2002.<sup>28</sup> The UNEP VISC is similar to the scale used by the UN for its general budget. However, the member states are encouraged to contribute even more than defined in the VISC. Whether or not the members wish to base their contribution on the VISC is left to their discretion; however, UNEP reports on its website that the “introduction of VISC and other voluntary options ... has proved to be an efficient approach in stimulating voluntary contributions to the Environment Fund.”<sup>29</sup>

Thus, while the example of the UN’s general budget shows that using such a scale of assessment will not automatically result in more consistent payments from countries, the UNEP example indicates that it may still be beneficial. One option for applying this to IEG financing more broadly would be to link payments to an indicator that reflects not only a donor’s economic situation and ability to pay, but also its environmental record. For instance, for contributions to UNEP, it was originally foreseen to link countries’ expected contributions to their energy consumption, as a measure that reflects both countries’ levels of economic development and the resource-intensity of their economic model.<sup>30</sup> Such an alternative offers a number of advantages: it is in line with the polluter-pays-principle, as it reflects historical responsibilities for environmental problems. It would also enable a real differentiation, in line

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<sup>25</sup> Müller 2009, pp.194ff notes that, e.g., green parties tend to have a preference for multilateral, instead of bilateral aid.

<sup>26</sup> This is reported in Müller 2009, p. 193

<sup>27</sup> Separate budgets are drawn up for the UN courts and peace-keeping missions.

<sup>28</sup> Decision SS.VII/1: International environmental governance, <http://www.unep.org/pdfs/gcss71.pdf>

<sup>29</sup> [http://www.unep.org/rms/en/Financing\\_of\\_UNEP/Environment\\_Fund/index.asp](http://www.unep.org/rms/en/Financing_of_UNEP/Environment_Fund/index.asp)

<sup>30</sup> Ivanova 2011

with the principle of common but differentiated responsibilities, that goes beyond the current dichotomy of developed and developing countries. Moreover, such an option would seem very much in line with current debates on a greener economy and calls to think “beyond GDP”, to a world where GDP is no longer the ultimate yardstick for the well-being of societies. Yet, it raises a few important questions: Which indicators would be used to determine the size of contributions? When an indicator is successfully agreed, what year would be the baseline?

Finally, while more funding for the environment (and less funding for environmentally harmful purposes) is generally desirable, the absorptive capacity of recipient countries is not unlimited. In the context of “scaling up” ODA in general, there is a long-standing debate on the absorptive capacities and limits of recipient countries. Behind this debate is the insight that the impact of aid depends on the quality of a recipient country’s institutions and policies. Where these are not sufficiently developed, simply “pumping” more money into a country will often not produce the desired impacts.<sup>31</sup> Finally, how available funding is used is as least as important as how much is available in the first place.

## 1.5 Improving private sector involvement and use of innovative financing mechanisms

Given the difficulties in increasing funding from the public sector, mobilizing private funding will be key to improving funding for IEG. Some options include:

**Public-private partnerships** are a rather successful model in some fields of environmental policy, which are amenable to profit-seeking investments (e.g. renewable energy). But for environmental projects that are less likely to deliver a commercially relevant benefit – e.g., projects to combat desertification or to adapt to climate change – it can be much more difficult to construct a business case for private investments, even if the investment receives public support, and even if the project delivers a net benefit to society as a whole. Moreover, private sector involvement may not be the most appropriate model for services of general interest (e.g. the water sector) from a social and development point of view. While private funding can be instrumental for investments in these sectors, it only works to the benefit of all, if there is a strong regulatory framework and effective market oversight. In the absence of effective regulation, there is a risk that privatization of such services will lead to monopolistic rents, to the disadvantage of rate payers who can neither change to another supplier nor reduce their consumption. While this risk exists in developed and developing countries alike, developing countries are more vulnerable due to their weak regulatory frameworks for such markets and their limited capacities for market oversight.

**Philanthropic contributions** so far have only played a marginal role in IEG finance, and also in other fields of international policy-making. For example, the Global Fund to Fight Malaria, Tuberculosis and Aids, which is often lauded for its innovative public-private partnerships between governments, the private sector, civil society and affected communities, has so far received only about 5% of its overall funds from private donors and innovative financing.<sup>32</sup> The scale of private, philanthropic donations could possibly be enhanced by building more stable, long-term partnerships between donors and funding institutions, rather than one-off donations, also by including such donations from corporate actors as part of their corporate social responsibility efforts. It has to be noted, though, that philanthropic donations are not equally

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<sup>31</sup> See for an overview ODI 2005.

<sup>32</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/public>. Among private donors, one single foundation, the Gates Foundation, contributed significantly.

available to all funding institutions. Experience shows that generally, institutions like UNICEF that are endowed with a clear operational mandate and demonstrate visible and immediate impacts, find it easier to raise private voluntary contributions than institutions with a normative mandate.

**Market-based instruments** achieve their environmental objectives by increasing the cost of polluting activities, and rewarding environmentally beneficial behavior. One key advantage of market-based schemes is that they open up a new, dedicated revenue stream which, depending on the method of implementation, is largely independent of day-to-day politics and does not have to be re-negotiated annually, thus increasing the predictability of funding. The downside from a financial point of view, however, is that the revenue depends on the dynamics of the market through which it is generated. One example is the Adaptation Fund. Its main source of funding is a share of proceeds from the Clean Development Mechanisms (CDM); the collapsing price of CDM credits in 2010-11 has affected it.

**Charges on the use of global public goods** are another option. Several proposals for such instruments have been put forward, all of which are based on the idea that those who use global open-access public goods like the international air space or the high seas pay a user fee for their use.<sup>33</sup> User fees provide an economic incentive to use the resource in question more efficiently. But while the arguments in favor of such charges are well established, the politics involved mean that an agreement will be very difficult to reach. For bunker fuels (i.e. fuels used in aviation and shipping), there may be some renewed momentum to reach a global agreement, since the inclusion of aviation in the EU emissions trading scheme has increased pressure to reach an agreement in the International Civil Aviation Organization (ICAO). However, a global system for such charges faces considerable political, legal, and practical difficulties – including, for example, the question of who would actually collect such charges, who would oversee the process, who would determine the level of the charge, and who would decide on the use of revenues? Even if a global agreement on charges for aviation and/or shipping should be reached, it is by no means guaranteed that the revenue will go towards funding for IEG.

**Environmentally harmful subsidies** are a significant driver of environmental degradation, both in developed and developing countries. The IEA has estimated that, for the consumption of fossil fuels alone, worldwide subsidies amounted to US\$ 409 billion in 2010, half of which for the consumption of oil products.<sup>34</sup> Fossil fuel subsidies are equally common in both developed and developing countries. The difference is that subsidies in developing countries are directed mainly to the consumption of fossil fuel resources, while those in developed countries go to the production of those resources. While there is no international data set for production subsidies, the total volume of such subsidies has been estimated at US\$ 100 billion in 2009 – for the OECD countries alone. This compares to some US\$ 57 billion annually for the support of renewable energy sources.<sup>35</sup>

Hence, rather than taxing pollution, and thereby providing an economic incentive to use natural resources more efficiently, many countries around the world do the exact opposite and continue to subsidize the consumption of natural resources. The size of these subsidies dwarfs

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<sup>33</sup> WBGU 2002

<sup>34</sup> IEA 2011

<sup>35</sup> Belschner and Westphal 2011

the funding available for environmental purposes. However, there are several reasons why it would be simplistic and misguided to pin too many hopes on subsidy removal as a source of funds or even consider subsidy removal as a panacea for IEG financing. Any removal of subsidies would be politically very controversial in many countries and much of the money freed might be needed at least initially for flanking measures or some kind of 'safety net' to protect low-income households and other vulnerable groups, in order to limit social imbalances and the resulting opposition to subsidy cuts. Moreover, even if the subsidies are ultimately reduced and financial resources are freed, this money would become part of general national budgets, with no guarantees that it would be used for IEG purposes.

Thus, realistically speaking, none of these options provides an easy or automatic way of improving overall IEG funding levels, or making such funding more predictable. Currently, charges on bunker fuels (aviation and maritime) seem to be the most promising option for establishing a revenue stream for IEG funding that is independent of donor contributions. While mobilisation of private funding is crucial to bridge the funding gap for international environmental policies, it adds a whole new set of challenges for tracking, documenting and analysing policy-induced financial flows. Moreover, it raises issues about the transparency of such flows and accountability. Therefore, no single one of the options discussed here can serve as a blanket solution; instead, it will be important to use these options in combination, applying them in the situations and circumstances in which they are best suited and most effective.

## 1.6 Improving the link between policy and funding

Another frequent criticism of the current IEG finance system is that funding decisions are insufficiently linked to policy decisions. Funding mechanisms, notably the GEF, are criticized for a failure to act in line with the political guidance given to them, in particular by COP decisions. However, to put this into perspective, the guidance issued by COPs is often itself a wish-list of issues to tackle without any indication of priorities,<sup>36</sup> and thus not necessarily easy to implement by financing institutions. This is, of course, a direct consequence of COP decisions often being political compromises. Moreover, states often do not reach agreement on financial burden-sharing at the same time as they agree on substantive obligations, leading to a situation where later funding commitments do not match what would be needed for obtaining the agreed objectives.

If decisions on substantive goals and financial resources needed to attain them were aligned more closely at the international level, the gap between the two might become smaller. Something could potentially be learned in this regard from the national level. For example, in Germany or the EU, the examination of legislative issues is normally either accompanied by an estimate on the costs of implementation or preceded by an impact assessment, which also looks at costs. Of course, this could cut both ways – not only raising the funding to the amount required, but potentially also lowering the level of ambition for policy objectives to a level commensurate with the available funds.

In sum, in order to better translate political priorities into funding decisions, improvements will be needed on both the policy end and the funding end, but likely more on the policy end. Moreover, it has also been observed that the success of the MLF and the GEF in the Montreal Protocol is largely a result of the freedom and flexibility granted to them by the Protocol's

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<sup>36</sup> See GEF 2010, p. 46

Parties.<sup>37</sup> Thus, if donors give particularly detailed guidelines to funding mechanisms, this is not necessarily a recipe for obtaining optimal results in all cases.

### **1.7 Refocusing the current debate**

The current debate on IEG reform and IEG funding uses quite general terms. There is a tendency to make bold calls for increasing IEG funding, without properly reflecting on the actual causes for the inadequacy of IEG finance. Factors influencing a donor country's willingness to contribute funds include domestic issues such as current economic conditions and budget crises, but there are also other important factors that may limit donor countries' readiness to dedicate funding to environmental purposes at the international level that must also be considered. For example, donors often want to retain a degree of control over the funds they contribute, and are therefore interested in giving part of their money in the form of bilateral funding. Some donors also show a preference for channeling their contributions through certain funding mechanisms (e.g. the GEF) over others.

The overall debate on funding for IEG would benefit from recognition of these existing and entrenched constraints which have been discussed above. It would also benefit from a better linking of the various strands of the discussion concerning IEG finance. For example, discussions on climate finance – currently the largest and most dynamic field of funding for environmental activities – are not well-connected to the overall debate on how to better finance international environmental governance.

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<sup>37</sup> Andersen et al. 2007

## 2 Zusammenfassung

Vom 20.-22. Juni 2012 – 20 Jahre nach dem Erdgipfel von Rio im Jahre 1992 – werden Regierungsvertreter erneut in Rio de Janeiro zusammenkommen, um den politischen Bemühungen um nachhaltige Entwicklung neuen Schwung zu verleihen. Verschiedene Optionen zur Umsetzung der beiden Hauptanliegen der Konferenz – die Transformation zu einer umweltfreundlichen Wirtschaft in Kombination mit nachhaltiger Entwicklung und Armutsbekämpfung sowie die Verbesserung des institutionellen Rahmens für nachhaltige Entwicklung auf der internationalen Ebene – liegen auf dem Tisch. Dazu gehören die Stärkung des UN-Umweltpogramms UNEP oder die Schaffung einer UN-Umweltorganisation, weitreichende Verbesserungen der institutionellen Architektur in New York zu nachhaltiger Entwicklung, neue globale Ziele für nachhaltige Entwicklung sowie Unterstützung für die weltweite Transformation hin zu einer umweltfreundlichen Wirtschaft.

Solche ehrgeizigen Ziele lassen sich nur erreichen, wenn die nötigen finanziellen Mittel dafür zur Verfügung stehen. Die internationale Architektur für die Finanzierung von Umweltschutz ist jedoch inzwischen recht unübersichtlich und umfasst eine größere Anzahl von bi- und multilateralen Akteuren, Fonds und Finanzierungsmechanismen. Da es gegenwärtig kein umfassendes System für die Erfassung umweltbezogener Finanzströme gibt, ist es auch schwierig, Fragen wie die folgenden eindeutig zu beantworten: Woher kommen Gelder? Wer entscheidet nach welchen Regeln über ihre Verwendung? Wer überprüft ihre Verwendung? Und wie können neue Mechanismen in das bestehende System integriert werden?

Die vorliegende Zusammenfassung bietet einen Überblick über die Struktur, den Umfang und die Funktionsweise des gegenwärtigen Systems zur Finanzierung internationaler Umwelt-Governance ("international environmental governance", IEG). Sie analysiert Schwächen und formuliert Empfehlungen für die Reform eines dringend reformbedürftigen Systems. Nach einem kurzen Überblick über das gegenwärtige System liegt der Schwerpunkt auf Verbesserungsmöglichkeiten. Wichtig sind dabei vor allem vier Aspekte, die in dem sog. Nairobi-Helsinki-Outcome<sup>38</sup>, welcher das Ergebnis eines mehrjährigen Diskussionsprozesses unter Führung von UNEP zur IEG-Reform darstellt, als Prioritäten identifiziert werden:

- die Entwicklung von Systemen für die Erfassung von Finanzströmen, die auf existierende Ansätze für die umfassende Erfassung von Finanzströmen und -volumina auf der internationalen und regionalen Ebene aufbauen
- die Vereinfachung des Zugangs zu Finanzmitteln sowie eine verbesserte Kooperation und Kohärenz zwischen Finanzierungsmechanismen und Fonds für umweltbezogene Zwecke
- die Verstärkung der finanziellen Basis internationalen Umweltschutzes mit dem Ziel, eine ausreichende, vorhersehbare und kohärente Finanzierung sicherzustellen sowie die weitere Erörterung einer Strategie für eine stärkere Einbeziehung des Privatsektors und die Bündelung von öffentlichen sowie ergänzenden privaten Finanzmitteln
- die stärkere Verbindung von internationaler Umweltpolitik und ihrer Finanzierung.

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<sup>38</sup> Consultative Group of Ministers or High-level Representatives (2010). Nairobi-Helsinki Outcome. Second meeting of the Consultative Group of Ministers or High-level Representatives on International Environmental Governance: Espoo, Finland, 21–23 November 2010

Diese Zusammenfassung (und die Langfassung der Studie) beschäftigen sich in erster Linie mit multilateraler Umweltfinanzierung, d.h. Finanzmitteln, die durch multilaterale Institutionen wie UNEP oder durch von mehreren Gebern finanzierte Umweltfonds (z.B. der Anpassungsfonds unter dem Kyoto-Protokoll) vergeben werden. Weil der größte Teil der entsprechenden finanziellen Mittel von Industrieländern zur Verfügung gestellt, aber in Entwicklungsländern ausgegeben wird, fallen die hier diskutierten Finanzströme zum großen Teil unter die Kriterien für staatliche Entwicklungshilfe ("official development assistance", ODA).

Die Langfassung des Berichts beschreibt die Aussagen und Argumente, die in dieser Zusammenfassung vorkommen, detaillierter und erklärt die zu Grunde liegende Methodik.

## 2.1 Das gegenwärtige System - ein Überblick

Zum gegenwärtigen internationalen System der Umweltfinanzierung gehören Hunderte von Fonds, Mechanismen und Akteuren.

Verschiedene UN-Institutionen geben einen Teil ihres Budgets für Umweltzwecke aus. In quantitativer Hinsicht geben UNEP und das UNDP den größten Teil ihres Gelds für umweltbezogene Zwecke aus. Weitere Institutionen innerhalb des UN-Systems, die einen Teil ihres Budgets für Umweltzwecke verwenden, sind unter anderem IFAD, FAO, UNIDO und UNESCO.

Multilaterale Entwicklungsbanken, zu denen auch die Weltbank gehört, stellen quantitativ betrachtet am meisten Geld für Umweltzwecke zur Verfügung. Im Gegensatz zu den bereits beschriebenen UN-Institutionen zahlen sie allerdings zumeist Kredite und keine (nicht-rückzahlbaren) Zuschüsse aus.

Die globale Umweltfazilität (GEF) ist der größte multilaterale Zuschussgeber für Umweltprojekte. Die GEF dient als Finanzierungsmechanismus für die Konvention über biologische Vielfalt (CBD), die Klimarahmenkonvention (UNFCCC), das Stockholmer Abkommen zu persistenten organischen Schadstoffen sowie die UN-Konvention zur Bekämpfung der Wüstenbildung (UNCCD).

Daneben gibt es eine größere Anzahl umweltbezogener Treuhandfonds. Diese wurden, mit wenigen Ausnahmen wie z. B. dem GEF-Treuhandfonds, für einen spezifischen Zweck geschaffen und werden von einer Organisation, die als Treuhänderin fungiert, verwaltet. Die Weltbank und UNEP verwalten die meisten dieser Fonds. Trotz begrenzter Daten zu diesen Fonds lässt sich schätzen, dass die Weltbank, UNEP, UNDP und die GEF zusammen mehr als 130 solcher umweltbezogenen Treuhandfonds verwalten.<sup>39</sup> Einige der Treuhandfonds, wie z.B. der Anpassungsfonds, verfügen über eine eigene Rechtspersönlichkeit; bei den meisten ist dies aber nicht der Fall.<sup>40</sup>

Diese verschiedenen Finanzierungsmechanismen operieren nicht völlig getrennt voneinander, sondern sind in komplexer Art und Weise miteinander verbunden.

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<sup>39</sup> Für die Zusammenstellung siehe die Langfassung der Studie.

<sup>40</sup> Vgl. Transitional Committee for the design of the Green Climate Fund, Report on the survey of relevant funds and institutions and lessons learned - A note on the results of surveys and interviews, 31 August 2011, TC-3/INF.2, p.3

## 2.2 Verbesserte Erfassung der Umweltfinanzierung

Ein Schlüsselproblem ist gegenwärtig das Fehlen eines umfassenden Systems für die Erfassung der Finanzierung von Projekten und Aktivitäten, die dem Umweltschutz oder nachhaltiger Entwicklung dienen. Dies führt auch zu einem Mangel an Kontrolle, Verantwortung und Transparenz.<sup>41</sup> Eine stärkere Transparenz hinsichtlich der Finanzflüsse ist jedoch eine Bedingung für eine verbesserte Koordination dieser Flüsse. Eine umfassende und gemeinsame Datenbasis kann auch politische Verhandlungen erleichtern und ermöglicht es, die Einhaltung eingegangener Verpflichtungen zu überprüfen.

Das umfassendste System zur Erfassung umweltbezogener Finanzströme ist derzeit das vom Development Assistance Committee (DAC) der OECD betriebene Creditor Reporting System (CRS). In diesem System werden staatliche Entwicklungshilfezahlungen aus den meisten Geberländern erfasst<sup>42</sup>, zudem bestimmte andere Finanzflüsse (z.B. ausländische Direktinvestitionen in Entwicklungsländern). Dabei kommt eine Anzahl von Kategorien zum Einsatz, einige davon mit Umweltbezug.<sup>43</sup> Zwar ist das CRS der OECD das bislang umfassendste Erfassungssystem für derartige Finanzströme, es weist jedoch gewisse Beschränkungen auf. Zum einen liefert es Daten nicht zeitnah (z.B. standen die Daten für 2010 erst im Februar 2012 zur Verfügung); zum anderen existieren einige Probleme hinsichtlich des Umfangs und der Qualität der zur Verfügung stehenden umweltbezogenen Daten:

- Multilaterale Zahlungen werden nicht so umfassend erfasst wie bilaterale. So werden Beiträge zu bestimmten multilateralen Klimafonds derzeit nur als bilaterale Zahlungen erfasst. Beispiele hierfür sind der Least Developed Countries Fund (LDCF)<sup>44</sup> und der Special Climate Change Fund (SCCF)<sup>45</sup>, die beide von der GEF verwaltet werden. Multilaterale Entwicklungsbanken berichten an die OECD über ihre Aktivitäten, aber verwenden nicht notwendigerweise die für Umweltzwecke vorgesehenen Schlagworte der OECD.<sup>46</sup>
- Neue Geberländer (sog. emerging donors) können an die OECD berichten, sind dazu aber nicht verpflichtet. Beispielsweise berichtet Saudi-Arabien über seine staatliche Entwicklungshilfe, China oder Brasilien aber nicht.<sup>47</sup>

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<sup>41</sup> Najam und Halle 2010

<sup>42</sup> ODA ist definiert als "Flüsse in Länder und Territorien auf der DAC Liste mit ODA Empfängern und Flüsse an multilaterale Entwicklungsorganisationen, die i. von öffentlichen Stellen, einschließlich regionaler und lokaler Stellen und Ausführungsorganen zur Verfügung gestellt werden und ii. jede Transaktion, die a) mit dem Ziel vorgenommen wird, ökonomische Entwicklung und soziale Sicherheit in Entwicklungsländern zu fördern und b) vergünstigte Konditionen beinhaltet, nämlich ein Zuschusselement von mindestens 25%", eigene Übersetzung von OECD (2008). Is it ODA? S. 1, <http://www.oecd.org/dataoecd/21/21/34086975.pdf>

<sup>43</sup> Die CRS Datenbank ist online zugänglich unter: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>.

<sup>44</sup> Der LDCF finanziert die Erstellung und Umsetzung von National Adaptation Programs of Action in least-developed countries, vgl. [www.thegef.org/gef/LDCF](http://www.thegef.org/gef/LDCF)

<sup>45</sup> Der SCCF unterstützt Anpassung in Entwicklungsländern, vgl. <http://www.thegef.org/gef/SCCF>

<sup>46</sup> Persönliche Mitteilung, DAC, 21. Februar 2012

<sup>47</sup> Siehe die Liste mit "Non-DAC countries reporting their development assistance to the DAC", [http://www.oecd.org/document/2/0,3746,en\\_2649\\_34447\\_41513218\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/2/0,3746,en_2649_34447_41513218_1_1_1_1,00.html)

- Zudem wurden von unabhängigen Dritten einige Fehler bei der Berichterstattung festgestellt<sup>48</sup> und teilweise berichten Geberländer und -institutionen uneinheitlich. So kategorisieren einige Geber beispielsweise Atomenergie als dem Umweltschutz dienend, andere aber nicht. Dies macht es schwierig, umweltbezogene Finanzflüsse zu interpretieren und zu vergleichen.

Ein Teil dieser Schwierigkeiten mag darin begründet liegen, dass es generell schwierig ist, zu definieren, was zu umweltbezogener Finanzierung zählt. Beispielsweise dienen Maßnahmen im Wasser- und Abwassersektor in der Regel in erster Linie der Verbesserung der Lebensbedingungen in Entwicklungsländern (und sind daher in erster Linie sozial- oder entwicklungspolitisch motiviert); gleichzeitig hat eine verbesserte Abwasserentsorgung in aller Regel jedoch auch positive Umweltauswirkungen. Zwar mag es schwierig sein, die Definitionen und Standards für Datenerfassung und -berichte global vollständig zu vereinheitlichen; dennoch ist es möglich und notwendig die Vollständigkeit und Qualität der erfassten Daten zu verbessern.

Zu diesem Zwecke sollte auf die existierende OECD-Datenbank aufgebaut werden, statt ein vollständig neues System zu errichten – und damit zusätzliche Bürokratie zu schaffen oder ein Scheitern zu riskieren. Eine Möglichkeit wäre, dass OECD und UNEP gemeinsam tätig werden. Da beide Organisationen sehr verschieden sind und bisher nicht intensiv zusammengearbeitet haben, mag eine solche Kooperation zwar gewisse Schwierigkeiten mit sich bringen. Sie würde jedoch die wissenschaftliche Autorität und das globale Mandat von UNEP in Umweltfragen mit der OECD-Expertise in Fragen der Erfassung von Finanzströmen kombinieren. Diese Expertise ist weithin anerkannt – so haben z.B. alle Rio-Konventionen die OECD gebeten, die Erfassung der Zahlungen für die Umsetzung dieser Konventionen zu übernehmen, statt jeweils ein eigenes System dafür zu schaffen.

Während die Zentralisierung von Informationsflüssen in einem einheitlichen Erfassungssystem Vorteile mit sich bringt und die Verdoppelung von Strukturen vermeidet, hat sie auch einige Nachteile. Wenn es nur eine zentrale und anerkannte Informationsquelle gibt, wird es einfacher einen Überblick zu gewinnen, aber schwieriger, die entsprechenden Zahlen zu hinterfragen, denn sie können nicht mit anderen Zahlen verglichen werden. Beispielsweise neigen Geberländer teilweise dazu, hinsichtlich der geleisteten Zahlungen für Umweltzwecke zu übertreiben. So wurde z.B. die britische Entwicklungsgesellschaft DFID dafür kritisiert, dass nach ihren Angaben in den 1990er Jahren 25% ihrer bilateralen Projekte Umweltzwecken dienten, während der tatsächliche Anteil wahrscheinlich eher bei 10% lag.<sup>49</sup> Daher sollten zur Ergänzung der OECD-Zahlen private Nicht-Regierungs-Initiativen wie aiddata.org oder climatefundsupdate.net erhalten und ausgebaut werden (z. B. durch die Bereitstellung einer Finanzierung), um zu gewährleisten, dass es weiterhin unabhängige und nicht parteiische Einschätzungen zu internationalen Finanzflüssen gibt.

## 2.3 Verbesserung von Koordination und Kohärenz

Das internationale Institutionenengefüge zur Finanzierung der internationalen Umwelt-Governance ist zersplittert und leidet unter einem Mangel an Koordination – ein Zustand, der

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<sup>48</sup> Michaelowa und Michaelowa 2011; Roberts et al. 2009, S. 11.

<sup>49</sup> Roberts et al. 2009

auch andere internationale Politikfelder charakterisiert.<sup>50</sup> Die Fragmentierung der Finanzierungslandschaft spiegelt dabei die Diversität und Fragmentierung der internationalen Umwelt-Governance im Allgemeinen wider. Viele Fonds und Mechanismen gehören zu einem multilateralen Umweltabkommen und manche solcher Umweltabkommen haben mehr als einen Finanzierungsmechanismus. Daher steht die Anzahl von Fonds in einer gewissen Beziehung zur Anzahl multilateraler Umweltabkommen – gegenwärtig sind mehr als 1000 multilaterale Umweltabkommen in Kraft, allerdings haben nicht alle von ihnen eine globale Reichweite.<sup>51</sup> Das gegenwärtige Finanzierungssystem ist im Wesentlichen entlang sektoraler Mechanismen strukturiert, mit spezifischen Fonds und den dazugehörigen Institutionen, die sich auf spezifische Umweltprobleme konzentrieren. Nach Meinung verschiedener Beobachter führt die Fragmentierung der IEG-Landschaft zu einem Mangel an Politikkohärenz<sup>52</sup> – und dasselbe lässt sich auch über die Finanzierungslandschaft sagen. Negative Folgewirkungen sind Ineffizienz, eine unausgewogene Verteilung von Finanzmitteln<sup>53</sup>, Schwierigkeiten, die Finanzierung großer, sektorübergreifender Projekte und Programme sicherzustellen, sowie zusätzliche Hürden für Empfängerländer, die sich einer überwältigenden Anzahl von Mechanismen und Berichtspflichten gegenüber sehen.

Die Beteiligung einer großen Anzahl von Institutionen an der Finanzierung von Umweltschutzaktivitäten ist allerdings eine nicht nicht nur negativ zu sehende Entwicklung. Vielmehr zeigt sie, dass Umweltbelange in die Aktivitäten einer Anzahl von Institutionen in verschiedenen Politikbereichen integriert worden sind. Während die wachsende Anzahl an Fonds die Finanzierungslandschaft unübersichtlich macht, ermöglicht sie Geberländern auch, ihre Ressourcen in diejenigen Kanäle fließen zu lassen, die sie gemäß ihren Prioritäten als am effektivsten oder am angemessensten ansehen.<sup>54</sup> Diese Möglichkeit ist ein wichtiger Faktor, wenn es darum geht, Geberländer dazu zu bewegen, überhaupt Mittel zur Verfügung zu stellen.

Zudem ist das gegenwärtige System nicht vollständig fragmentiert, sondern gruppiert sich um bestimmte Schwerpunkte, an denen die meisten multilateralen Treuhandsfonds angesiedelt sind und/oder welche den Großteil der multilateralen Zuschüsse bereitstellen – die GEF, die Weltbank und UNEP. Weiterhin gibt es immer wieder Bemühungen von Seiten verschiedener Fonds und Institutionen, zu einer vernünftigen Arbeitsteilung zu kommen. Ein Beispiel ist das „Governing Instrument“ des Green Climate Fund, das im Dezember 2011 angenommen wurde.

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<sup>50</sup> Biermann et al. 2009, S. 16

<sup>51</sup> Diese Zahl stammt vom International Environmental Agreements Database Project, <http://iea.uoregon.edu/page.php?file=home.htm&query=static>

<sup>52</sup> Bernstein und Brunée n.d.; Inomata 2008

<sup>53</sup> So beobachten beispielsweise Roberts et al. 2009, dass im Rahmen bilateraler Entwicklungszusammenarbeit die Themen Wüstenbildung und Bodenerosion in dem Zeitraum 1980-1999 kaum Beachtung gefunden haben, vgl. auch die Abbildung 2: Trends in funding from multilateral donors across six environmental themes, 1991-2010 in der Langfassung des Beirichts.

<sup>54</sup> Ebenso wurde festgestellt, dass spezifische Umweltregime wünschenswert sind, weil sie, obwohl sie zur Fragmentierung beitragen, den besonderen Interessen von Regierungen dienen und daher die Erfüllungsquote höher liegt, siehe Hafner 2004, S. 859f.

Es sieht ausdrücklich vor, dass der Green Climate Fund Vereinbarungen mit existierenden Fonds zur Arbeitsteilung schließen soll.<sup>55</sup>

Nichtsdestotrotz must das System kohärenter werden. Von den beiden zur Verfügung stehenden Optionen, eine stärkere Zentralisierung von Finanzierungsentscheidungen in den Händen einer Organisation oder stärkere Koordinierung zwischen existierenden Organisationen, scheint letztere vorzugswürdig. Ein stark zentralisierter Ansatz hätte nämlich gravierende Nachteile. So könnten beispielsweise Geberländer ihre Mittel nicht länger denjenigen Mechanismen zur Verfügung stellen, die sie für effektiv, effizient oder relevant halten; dies könnte dazu führen, dass Geberländer weniger statt mehr Geld zur Verfügung stellen und neue Mechanismen und Fonds schaffen, die ihren Präferenzen besser entsprechen.

Zudem lassen sich notwendige Verbesserungen oft leichter durch die Schaffung neuer Institutionen erreichen als durch die Reform existierender, und diese Flexibilität würde in einem zentralisierten System verloren gehen. Schließlich beseitigt eine Zentralisierung auch nicht die Notwendigkeit von Koordinierung – statt externer Koordinierung zwischen verschiedenen Akteuren ist nun interne Koordinierung innerhalb einer Institution erforderlich. Vorhandene Erfahrung (z.B. mit der GEF) lehrt, dass solche interne Koordinierung genauso schwierig sein kann wie diejenige zwischen Organisationen.

Eine verbesserte Koordinierung scheint deswegen gegenüber der Konzentration von Finanzen und Finanzierungsentscheidungen in den Händen einer zentralen Organisation vorzugswürdig zu sein. Eine Möglichkeit dies zu erreichen, könnte darin bestehen, die gegenwärtigen institutionellen „Schwergewichte“ des Systems (GEF, Weltbank, UNEP) weiter zu stärken, und gleichzeitig Strukturen, die außerhalb dieser Institutionen operieren, zu reduzieren. In diesem Kontext könnte eine bessere Arbeitsteilung zwischen diesen Institutionen angedacht werden: Beispielsweise könnten diejenigen Fonds, die der Umsetzung multilateraler Umweltabkommen dienen, systematisch bei der GEF angesiedelt werden, ohne damit gleichzeitig eine Vorentscheidung über die dazugehörigen Entscheidungsmechanismen zu treffen. Multilaterale Treuhandsfonds, die nicht unmittelbar der Umsetzung von multilateralen Umweltabkommen dienen, könnten von UNEP oder der Weltbank verwaltet werden – den beiden Institutionen die bereits jetzt die größte Anzahl an multilateralen Umweltfonds beherbergen. Die Weltbank könnte sich dabei auf diejenigen Mechanismen konzentrieren, über die Kredite zur Verfügung gestellt werden, UNEP auf solche, die Zuschüsse bereit stellen. Weiterhin könnte die Anzahl existierender Instrumente weiter reduziert werden, z.B. dadurch, dass kleinere Fonds zusammengelegt werden. Hierbei könnten Erfahrungen des Privatsektors aus dem Umgang mit unterkapitalisierten Fonds nützlich sein.

## 2.4 Mehr, vorhersehbarere und stabilere Finanzmittel aus dem öffentlichen Sektor

Eine zentrale Schwäche des gegenwärtigen Systems ist, dass die Gesamtmengen, die an Finanzmitteln bereitstehen, relativ unvorhersehbar und instabil sind, und damit längerfristige Planung erschwert wird. Obwohl das Gesamtvolumen an Zahlungen in den letzten Jahrzehnten gestiegen ist, liegt es unter dem geschätzten Bedarf für die Erreichung vereinbarter Umweltziele, z.B. im Bereich des Klimaschutzes, der Klimaanpassung oder der Erhaltung der

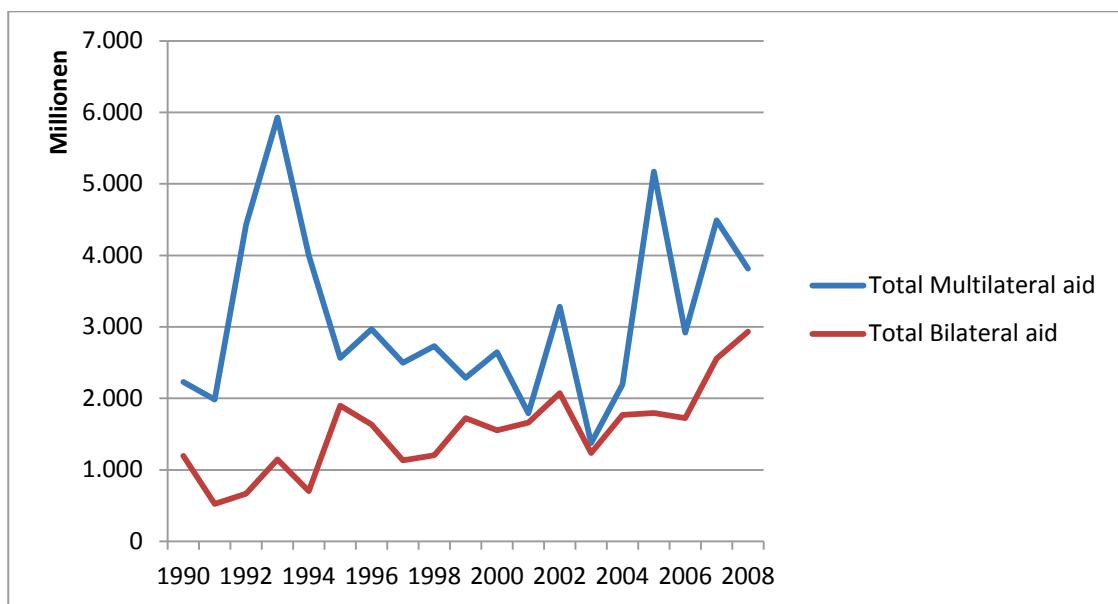
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<sup>55</sup> Governing instrument for the Green Climate Fund, Decision 3/CP.17, Doc. FCCC/CP/2011/9/Add.1, Abs. 33,34, <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>

Biodiversität. Neben der Erhöhung der zur Verfügung stehenden Finanzmittel ist dabei auch eine stärker Diversifizierung der Finanzierungsquellen erforderlich, damit die Finanzströme unabhängiger von den Entscheidungen einer kleinen Anzahl von Geberländern werden.

Die Abbildung 1 unten zeigt Trends der multi- und bilateralen Finanzierung für die Umwelt in den Jahren 1990-2008. Erfasst sind Finanzmittel, die gemäß der AidData Datenbank für Umweltzwecke eingesetzt wurden.<sup>56</sup> Das Gesamtvolumen an multilateralen Mitteln, das sich auf dieser Grundlage ermitteln lässt, beläuft sich auf 59,3 Milliarden US\$ für den Zeitraum 1990-2008. Allerdings fehlt, wie in der Langfassung der Studie detaillierter erläutert, hierbei ein nicht näher quantifizierbarer Anteil. Die Abbildung zeigt auch, dass multilaterale Zahlungen im Lauf der Jahre erheblich fluktuieren. Ein Spitzenvwert wurde im Jahr 1993 erreicht, also kurz nach dem Rio-Gipfel im Jahr 1992.

Figure 2: Staatliche Entwicklungshilfe für Umweltprojekte, 1990-2008 (in Millionen USD, in konstanten 2009 US\$)



Quelle: AidData

Eine Erhöhung der für Umweltzwecke international zur Verfügung stehenden Mittel und eine konstantere Bereitstellung dieser Mittel sind also sehr wünschenswert – sie sind aber nicht einfach zu erreichen. Eine Erhöhung der umweltbezogenen Zahlungen ist in erster Linie eine Frage von politischem Willen und bestehenden Beschränkungen in Geberländern. Staatliche Entwicklungshilfe ist immer noch die wichtigste Quelle für globale Umweltaktivitäten.<sup>57</sup> Zwar haben sich die staatlichen Zahlungen für Entwicklungshilfe von OECD DAC Geberländern zwischen 1960 und 2009 von 42 Milliarden US\$ auf 100 Milliarden US\$<sup>58</sup> mehr als verdoppelt.

<sup>56</sup> Die Einstufung eines Projekts als umweltbezogen beruht auf einer entsprechenden Zweckbeschreibung in der AidData Datenbank. Allerdings ist bisher nur ein gewisser Teil der Projekte in der Datenbank mit solchen Zweckbeschreibungen versehen worden, so dass die oben genannte Zahl die vorhandenen Projekte nicht vollständig erfasst. Für eine umfassendere Beschreibung der Datenlage, siehe Kapitel 2.3 der Langfassung des Berichts.

<sup>57</sup> Müller 2000, S. 190. Roberts et al. 2009 beobachten, dass einige dieser Faktoren besser dafür geeignet sind, zu erklären, warum Länder ihre Zahlungen für "dreckige" Ziele im Rahmen bilateraler Entwicklungszusammenarbeit reduziert haben, nicht aber den Anstieg von bilateralen Zahlungen.

<sup>58</sup> Die Zahlen sind in konstanten 2009 US\$ angegeben.

Der Anteil der Entwicklungshilfe am Bruttoninlandsprodukt der entsprechenden Länder ist allerdings von 0.45% auf 0.21%, und damit auf weniger als die Hälfte, gesunken.<sup>59</sup> Verschiedene Faktoren beeinflussen die Höhe (bilateraler) umweltbezogener Entwicklungshilfe – und diese Faktoren sind auf der internationalen Ebene nur wenig beeinflussbar. Dazu gehören die wirtschaftliche Lage eines Landes, die generelle Bereitschaft Geld für soziale und umweltbezogene Zwecke auszugeben (d.h. seine „sozial-demokratische“ Orientierung), die Stärke von Einflussgruppen, die sich für Umweltbelange oder dagegen einsetzen und die Stärke von umweltfreundlichen Einstellungen in den jeweiligen Ländern.<sup>60</sup> Zwar sind Faktoren, die die Höhe von multilateralen Zahlungen beeinflussen, nicht notwendigerweise deckungsgleich mit solchen, die bilaterale Zahlungen beeinflussen. Es besteht jedoch eine gewisse Wahrscheinlichkeit, dass, wenn sich politische Präferenzen und die Regierung in einem Land ändern, sich zwar das Verhältnis von bi- und multilateraler Entwicklungshilfe ändert, nicht aber die Gesamthöhe der Zahlungen.<sup>61</sup> In einigen Ländern existieren auch langfristige politische oder formelle Begrenzungen für Entwicklungshilfezahlungen. So gibt es Hinweise darauf, dass Japan die Politik hat, niemals der größte Geber für einen bestimmten Fonds zu sein<sup>62</sup>, und in Deutschland existiert eine Begrenzung hinsichtlich des Anteils der Entwicklungshilfe, die multilateral geleistet werden kann.

Die Tatsache, dass es keine Patentrezepte gibt, um die multilateral zur Verfügung stehenden Mittel für Umweltzwecke zu erhöhen, bedeutet aber natürlich nicht, dass entsprechende Bemühungen nicht unternommen werden sollten. Eine mögliche Option ist, zukünftige Zahlungen für Umweltzwecke auf eine spezifische Bemessungsgrundlage zu stützen. Das wichtigste Vorbild ist in diesem Kontext der Beitragsschlüssel für das allgemeine Budget der Vereinten Nationen.<sup>63</sup> Er beruht auf Art. 17 der UN-Charta, den Verfahrensregeln der UN-Vollversammlung sowie einem ihrer Beschlüsse. Gemäß diesen Rechtsgrundlagen wird der prozentuale Beitrag jedes UN-Mitgliedstaats zum UN-Budget auf Grundlage des Bruttoinlandseinkommens des jeweiligen Staates kalkuliert, wobei es Minimal- und Maximalwerte gibt. Den Mitgliedstaaten wird die Höhe ihrer Beiträge mitgeteilt, sobald die UN-Vollversammlung das Budget angenommen hat. Obwohl die Beiträge an sich nicht freiwillig sind, zahlen die meisten Staaten ihre Beiträge nicht vollständig oder rechtzeitig. Dies gilt, obwohl Art. 19 der UN-Charta vorsieht, dass ein UN-Mitglied, das hinter seinen Zahlungsverpflichtungen zurückbleibt, sein Stimmrecht in der UN-Vollversammlung verlieren kann, wenn seine Schulden größer oder gleich dem für zwei Jahre geschuldeten Beitrag sind. UNEP nutzt seit einer entsprechenden Entscheidung des UNEP-Verwaltungsrats im Jahr 2002

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<sup>59</sup> OECD 2012, S. 227

<sup>60</sup> Müller 2009, S. 194ff. In Bezug auf die Frage, wohin bilaterale Entwicklungshilfe fließt, stellen Roberts et al. 2009 fest, dass „more traditional determinants of foreign aid allocation, such as a recipient country’s existing bilateral commercial relationship with a donor country and previous colonial ties to the donor country“ wichtiger sind als die Frage, wo umweltbezogene Zahlungen wahrscheinlich die schwersten Umweltprobleme beseitigen könnten. Zum Beispiel haben Ägypten und die Türkei, beides Länder die keine großen Umweltkrisen durchlaufen haben oder global bedeutsame biologische Ressourcen haben – in den 1990er Jahren eine beträchtliche Summe an bilateraler, umweltbezogener Entwicklungshilfe erhalten. Beide sind wichtige Partnerländer für große Geberländer, insbesondere die EU.

<sup>61</sup> Müller 2009, S. 194ff stellt fest, dass beispielsweise grüne Parteien multilaterale Entwicklungszusammenarbeit gegenüber bilateraler bevorzugen.

<sup>62</sup> Siehe Müller 2009, S. 193

<sup>63</sup> Für die UN-Gerichtshöfe sowie Friedensmissionen werden gesonderte Budgets aufgestellt.

einen freiwilligen Beitragsschlüssel (sog. voluntary indicative scale of contributions, VISC).<sup>64</sup> Dieser ähnelt dem von der UN für das allgemeine Budget verwendeten Beitragsschlüssel. Allerdings werden Staaten ausdrücklich ermutigt, mehr zu zahlen als gemäß dem Beitragsschlüssel vorgesehen. Ob die Staaten ihre Zahlungen auf den freiwilligen Beitragsschlüssel stützen, bleibt ihnen überlassen; UNEP berichtet jedoch auf seiner Website, dass die „Einführung des VISC und anderer freiwilliger Optionen ... sich als effiziente Möglichkeit erwiesen hat, freiwillige Zahlungen an den Environment Fund zu bewirken.“<sup>65</sup>

Während also das Beispiel des allgemeinen Budgets der UN zeigt, dass ein festgelegter Beitragsschlüssel nicht automatisch zu regelmäßigen Zahlungen der Mitgliedsländer führt, zeigt die Erfahrung von UNEP, dass er dennoch Vorteile haben kann. Für die Finanzierung der internationalen Umwelt-Governance könnte diese Erfahrung möglicherweise fruchtbar gemacht werden, indem Zahlungen an einen Indikator gekoppelt werden, der nicht nur die wirtschaftliche Lage und die Zahlungsfähigkeit eines Landes widerspiegelt, sondern auch seine Umweltbilanz. So war für Zahlungen an UNEP ursprünglich vorgesehen, die Höhe dieser Zahlungen an den Energieverbrauch des jeweiligen Landes zu knüpfen – eine Maßgröße, die sowohl den wirtschaftlichen Entwicklungsstand von Ländern widerspiegelt als auch die Ressourcenintensität des jeweiligen Wirtschaftsmodells.<sup>66</sup> Die Verwendung eines derartigen Indikators bietet eine Reihe von Vorteilen: Sie entspricht dem Verursacherprinzip, da sie historische Verantwortlichkeiten für Umweltprobleme widerspiegelt. Sie würde auch eine Differenzierung gemäß dem Prinzip der gemeinsamen, aber unterschiedlichen Verantwortung jenseits der Zweiteilung in Industrie- und Entwicklungsländer ermöglichen. Zudem wäre ein solcher Ansatz sehr anknüpfungsfähig an gegenwärtige Diskussionen zu „green economy“ und Versuche, Wohlstand unabhängig vom Bruttonsozialprodukt zu messen. Allerdings wirft der Ansatz auch einige Fragen auf: Welche Indikatoren könnten verwendet werden, um die Beiträge zu bestimmen? Und wenn man sich auf einen Indikator geeinigt hat, welches Jahr soll dann zu Grunde gelegt werden?

Abschließend ist zu bemerken, dass mehr Geld für die Umwelt (und weniger Geld für umweltschädigende Zwecke) zwar wünschenswert ist, die Fähigkeit von Entwicklungsländern, Geld sinnvoll einzusetzen, d.h. ihre Absorptionsfähigkeit, aber nicht unbegrenzt ist. Im Rahmen von Bemühungen zur Aufstockung der Mittel für die Entwicklungszusammenarbeit gibt es schon seit längerem eine Diskussion über die Absorptionsfähigkeit und -grenzen in Entwicklungsländern. Dieser Debatte liegt die Einsicht zu Grunde, dass der Einfluss von Entwicklungshilfe unter anderem von geeigneten Institutionen und Politiken in Entwicklungsländern abhängt. Wo es einen geeigneten politischen und institutionellen Rahmen nicht gibt, hat ein simples „Pumpen“ von mehr Geld in die entsprechenden Länder oft nicht die gewünschten Effekte. Zudem ist die Art und Weise der Verwendung von Geldern für die Erreichung von Politikzielen mindestens ebenso wichtig wie die Höhe der zur Verfügung stehenden Mittel.

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<sup>64</sup> Entscheidung SS.VII/1: International environmental governance, <http://www.unep.org/pdfs/gcss71.pdf>

<sup>65</sup> Übersetzung durch die Verf., Quelle:  
[http://www.unep.org/rms/en/Financing\\_of\\_UNEP/Environment\\_Fund/index.asp](http://www.unep.org/rms/en/Financing_of_UNEP/Environment_Fund/index.asp)

<sup>66</sup> Ivanova 2011

## 2.5 Verstärkte Beteiligung des Privatsektors und Nutzung neuer Finanzquellen

Da die Mobilisierung zusätzlicher öffentlicher Geld absehbar schwierig wird, gewinnen Finanzmittel aus privaten und neuen Finanzquellen an Bedeutung. Einige der wichtigsten Optionen sind in diesem Zusammenhang die folgenden:

**Public-private partnerships** sind in einigen Bereichen der Umweltpolitik (z. B. erneuerbare Energien), wo profitbringende Investitionen prinzipiell möglich sind, ein recht erfolgreiches Modell. Bezuglich von Umweltprojekten, die einen derzeitigen kommerziellen Mehrwert nicht generieren – beispielsweise Projekte zur Bekämpfung der Wüstenbildung oder der Anpassung an den Klimawandel – gibt es allerdings kaum derartige Anreize für private Investitionen, selbst wenn ein Projekt öffentliche Unterstützung erhält und eine gesamtgesellschaftlichen Mehrwert schafft. Zudem ist eine Beteiligung des Privatsektors unter sozialen und entwicklungsrechtlichen Gesichtspunkten nicht notwendigerweise das geeignetste Modell für die Erbringung von Dienstleistungen, an denen ein Allgemeininteresse besteht (z. B. Wasserversorgung). Während eine private Beteiligung an der Finanzierung von Investitionen in solchen Sektoren manchmal erforderlich sein kann, sind gesamtgesellschaftlich positive Effekte nur zu erwarten, wenn die entsprechenden Sektoren effektiv reguliert sind und die Einhaltung der entsprechenden Regeln überprüft wird. Wo eine solche Regulierung nicht existiert, besteht das Risiko, dass eine Privatisierung von entsprechenden Dienstleistungen auf Grund der Monopolstellung der entsprechenden Unternehmen dazu führt, dass Verbraucher, die weder zu einem anderen Anbieter wechseln noch ihren Verbrauch reduzieren könne, besonders hohe Preise zahlen müssen. Dieses Risiko besteht prinzipiell sowohl in Industrie- als auch in Entwicklungsländern; Entwicklungsländer sind allerdings wegen ihrer häufig schwächer ausgeprägten regulatorischen Rahmenbedingungen und begrenzten Fähigkeiten zur Durchsetzung entsprechender Regeln verwundbarer gegenüber solchen Risiken.

**Beiträge des gemeinnützigen Sektors** waren bisher von untergeordneter Bedeutung für die Finanzierung von Umweltschutz auf der internationalen Ebene und haben auch in anderen Politikbereichen keine bedeutende Rolle gespielt. So belaufen sich beispielsweise die beim Global Fund to Fight Malaria, Tuberculosis and Aids, der wegen der intensiven Zusammenarbeit mit dem Privatsektor, der Zivilgesellschaft und Betroffenen häufig gelobt wird, die Beiträge von privaten Gebern und aus innovativen Finanzquellen auf bisher ungefähr 5% des Gesamtbudgets.<sup>67</sup> Der Umfang privater, gemeinnütziger Beiträge könnte möglicherweise durch den Aufbau stabiler, langfristiger Partnerschaften zwischen Spendern und bestimmten Institutionen an Stelle einmaliger Zahlungen ausgebaut werden; Beiträge von Unternehmen, die im Rahmen von Bemühungen um die sog. corporate social responsibility geleistet werden, könnten ein Teil davon sein. Gleichzeitig ist jedoch festzustellen, dass gemeinnützige Spenden nicht allen Institutionen gleichermaßen zur Verfügung stehen. Bisherige Erfahrungen zeigen, dass diejenigen Institutionen, die - wie beispielsweise UNICEF - ein eindeutiges und spezifisches Mandat haben und unmittelbare, sichtbare Erfolge erzielen, freiwillige Beiträge Privater einfacher mobilisieren können als Institutionen, deren Aufgabenfeld beispielsweise eher im Bereich der Entwicklung internationaler Abkommen liegt.

**Markt-basierte Instrumente** erreichen ihre Umweltziele dadurch, dass sie Kosten für umweltzerstörendes Handeln steigern und umweltfreundliches Handeln belohnen. Ein

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<sup>67</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/public>. Unter den privaten Finanzgebern hat die Gates-Stiftung den Großteil beigetragen.

Schlüsselvorteil entsprechender Ansätze ist, dass sie eine neue Finanzquelle erschließen, die, je nach konkreter Umsetzung, größtenteils unabhängig von tagesaktuellen Politikentscheidungen ist und nicht jährlich neu verhandelt muss. In dieser Hinsicht bieten derartige Instrumente im Idealfall eine relativ konstante Einnahmequelle. Ihr Nachteil in finanzieller Hinsicht ist jedoch, dass die Einnahmen von der Dynamik des Marktes abhängen, wo der jeweilige Mechanismus angesiedelt ist. Ein Beispiel ist der Anpassungsfonds. Seine Hauptfinanzierungsquelle ist ein Teil der Einnahmen aus dem Clean Development Mechanism (CDM); der stark gesunkene Marktpreis für CDM- Gutschriften 2010/2011 hatte daher negative Auswirkungen auf den Anpassungsfonds.

**Abgaben auf die Nutzung global öffentlicher Güter** sind eine weitere Option. In der Vergangenheit gab es mehrere entsprechende Vorschläge, die alle auf der Idee beruhen, dass diejenigen, die den freien Zugang zu globalen öffentlichen Gütern wie z.B. die Atmosphäre oder die Ozeane nutzen, eine Abgabe für diese Nutzung zahlen.<sup>68</sup> Derartige Abgaben bieten einen ökonomischen Anreiz, entsprechende Ressourcen effizienter zu nutzen. Die Argumente für solche Abgaben sind weithin bekannt und akzeptiert, politisch ist eine Einigung auf solche Abgaben allerdings bisher sehr schwierig. Im Bezug auf Bunker-Treibstoffe (d.h. Treibstoffe, die in der Luft- und Schifffahrt Verwendung finden) ist derzeit allerdings eine gewisse Bewegung hin auf ein globales Abkommen zu beobachten, da die Einbeziehung der Luftfahrt in den EU-Emissionshandel den Druck auf die Internationale Zivilluftfahrt-Organisation (ICAO) erhöht hat, sich auf ein solches Abkommen zu einigen. Ein globales System für die Erhebung derartiger Abgaben hat allerdings erhebliche politische, rechtliche und praktische Hürden zu überwinden – einschließlich beispielsweise der Frage, wer die Abgaben einziehen würde und wer über ihre Höhe und die Verwendung der Einnahmen bestimmen würde. Selbst wenn ein globales Abkommen über Abgaben für die Luft- und/oder Schifffahrt geschlossen würde, ist keinesfalls garantiert, dass die entsprechenden Einnahmen in den Umweltschutz fließen würden.

**Umweltschädliche Subventionen** sind ein wesentlicher Faktor für Umweltzerstörung, sowohl in Industrie- als auch in Entwicklungsländern. Gemäß Schätzungen der IEA wurden im Jahr 2010 weltweit 409 Milliarden US\$ für die Subventionierung des Verbrauchs von fossilen Treibstoffen ausgegeben, die Hälfte davon für den Verbrauch von Ölprodukten.<sup>69</sup> Subventionen für fossile Produkte sind in Industrie- und Entwicklungsländern gleichermaßen zu finden. Der Unterschied zwischen beiden liegt darin, dass in Entwicklungsländern zumeist der Verbrauch von fossilen Ressourcen subventioniert wird, während Industrieländer deren Produktion subventionieren. Für produktionsbezogene Subventionen liegen keine umfassenden Daten vor; schätzungsweise betrug ihr Volumen allein in den OECD-Ländern allerdings 100 Milliarden US\$ im Jahr 2009. Demgegenüber werden erneuerbare Energien mit 57 Milliarden US\$ jährlich unterstützt.<sup>70</sup>

Statt Verschmutzung zu besteuern und dadurch Anreize für die effizientere Nutzung natürlicher Ressourcen zu bieten, tun also viele Länder der Welt das genaue Gegenteil und subventionieren weiterhin den Verbrauch natürlicher Ressourcen. Im Vergleich zu den dafür zur Verfügung gestellten Subventionen muten die Gelder für Umweltzwecke winzig an. Dennoch wäre es zu vereinfachend gedacht, zu viele Hoffnungen in den Abbau von

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<sup>68</sup> WBGU 2002

<sup>69</sup> IEA 2011

<sup>70</sup> Belschner und Westphal 2011

Subventionen als Quelle oder Patentlösung für die Finanzierung von internationalem Umweltschutz zu setzen. Der Abbau von Subventionen ist nämlich in vielen Ländern höchst kontrovers und frei werdende Mittel würden wahrscheinlich in vielen Fällen zumindest anfänglich für begleitende Maßnahmen zum Schutz von einkommensschwachen Haushalten oder anderen besonders betroffener Gruppen benötigt, um soziale Unausgewogenheiten zu begrenzen und der politischen Oppositionen gegen die Kürzung von Subventionen zu begegnen. Zudem würden die Mittel, die durch die Kürzung von Subventionen freigesetzt werden, in den allgemeinen Haushalt der entsprechenden Länder fließen – es gäbe keine Garantie, dass sie für Umweltzwecke zur Verfügung stünden.

Realistisch betrachtet stellt daher keine der betrachteten Optionen einen Königsweg für die Erhöhung oder bessere Planbarkeit der Mittel für IEG dar. Abgaben auf Bunker-Treibstoffe (Luft- und Seefahrt) stellen derzeit die wahrscheinlich aussichtsreichste Möglichkeit für die Schaffung einer Finanzquelle dar, die unabhängig von den Entscheidungen von Geberländern ist. Während die Mobilisierung von privaten Mitteln essentiell ist, um die Lücke in der Finanzierung der internationalen Umwelt-Governance zu schließen, bringen solche Mittel auch neue Schwierigkeiten mit sich, etwa in Bezug auf ihre Erfassung und Dokumentation; sie werfen auch Fragen im Hinblick auf Transparenz und Kontrolle auf. Keine der hier diskutierten Optionen bietet also eine umfassende Lösung für die festgestellten Probleme; stattdessen müssen einzelne Aspekte je nach Situation und dort, wo sie geeignet und effektiv sind, in Erwägung gezogen werden.

## 2.6 Eine engere Verbindung von Politik und Finanzen

Eine weitere häufig geäußerte Kritik am gegenwärtigen System der Umweltfinanzierung ist, dass Finanzentscheidungen nicht eng genug mit politischen Entscheidungen verbunden sind. Finanzierungsmechanismen wie z.B. die GEF werden kritisiert, weil sie angeblich politische Vorgaben nicht umsetzen, die z.B. die Vertragsstaatenkonferenzen von multilateralen Umweltabkommen machen. Allerdings stellen derartige Vorgaben häufig eher eine Art Wunschzettel mit zu bearbeitenden Themen dar,<sup>71</sup> der Prioritäten nicht deutlich macht und deswegen nicht unbedingt einfach umzusetzen ist. Das ist eine Folge der Tatsache, dass solche Entscheidungen von Vertragsstaatenkonferenzen häufig politische Kompromisse sind. Zudem wird häufig nicht zur selben Zeit über substantielle Verpflichtungen entschieden wie über die Aufteilung finanzieller Lasten; daher reichen später zugesagte Finanzmittel oft nicht dafür, die vereinbarten Ziele zu erreichen. Wenn internationale Entscheidungen über politische Ziele und die dafür nötigen finanziellen Mittel enger miteinander verbunden würden, würde möglicherweise die Lücke zwischen beiden kleiner. Die nationale Ebene kann hier als Vorbild dienen. In Deutschland oder der EU werden Gesetzesvorschläge in der Regel von einer Kostenschätzung oder einer umfassenderen Folgenabschätzung begleitet. Ein entsprechendes Modell auf internationaler Ebene könnte allerdings Auswirkungen in unterschiedliche Richtungen haben – vielleicht werden mehr Finanzmittel zur Verfügung gestellt werden, aber ebenso besteht die Möglichkeit, dass politische Ziele weniger ambitioniert formuliert werden, um sie an die zur Verfügung stehenden finanziellen Ressourcen anzugleichen.

Insgesamt werden, wenn die Verbindung zwischen Politik und Finanzen enger werden soll, Veränderungen hinsichtlich der politischen und der finanziellen Entscheidungen nötig sein –

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<sup>71</sup> Vgl. GEF 2010, S. 46

vermutlich sogar in erster Linie hinsichtlich der politischen Entscheidungen. Zudem lässt sich auch beobachten, dass der Erfolg von z.B. dem MLF und der GEF bei der Umsetzung des Montreal-Protokolls zu einem Großteil darauf zurückzuführen ist, dass die Vertragsparteien ihnen eine gewisse Entscheidungsfreiheit gelassen haben.<sup>72</sup> Wenn Geberländer besonders detaillierte Vorgaben für die Verwendung von Finanzmitteln machen, führt dies also nicht notwendigerweise in allen Fällen zu optimalen Ergebnissen.

## 2.7 Neuausrichtung der Diskussion

Die gegenwärtige Diskussion über die Reform der internationalen Umwelt-Governance und ihrer Finanzierung wird auf einer recht allgemeinen Ebene geführt. Tendenziell wird häufig nach mehr Geld für IEG gerufen, ohne dass substantiell über die tatsächlichen Ursachen für den Mangel an Finanzmitteln nachgedacht wird. Zu den Faktoren, welche die Bereitschaft von Geberländern beeinflussen, Mittel für Umweltzwecke zur Verfügung zu stellen, gehören innerstaatliche Aspekte wie die wirtschaftliche und finanzielle Situation eines Landes. Daneben gibt es weitere wichtige begrenzende Faktoren wie z.B. der Wunsch von Geberländern, ein gewisses Maß an Kontrolle über die Verwendung der bereit gestellten Mittel zu haben und eine daraus resultierende Präferenz für bilaterale Mechanismen. Ebenso haben einige Geberländer eine ausgewiesene Präferenz für bestimmte Finanzierungsmechanismen wie z.B. die GEF.

Die Debatte über die IEG-Finanzierung würde von einer stärkeren Berücksichtigung derartiger struktureller und tief verankerter Faktoren profitieren. Ebenso wäre es sinnvoll, verschiedene Teilespekte der Diskussion stärker zu verbinden. So werden beispielsweise Verhandlungen über Klimafinanzierung – derzeit wohl der größte und dynamischste Bereich, wenn es um die internationale Finanzierung von Umweltschutz geht – weitestgehend isoliert von der allgemeineren Debatte über Umweltfinanzierung geführt.

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<sup>72</sup> Andersen et al. 2007

### 3 Introduction

From 20-22 June 2012—20 years after the first Rio Earth Summit in 1992—the governments of the world will come together in Rio de Janeiro to give new momentum to global sustainable development policy. Different options are on the table for addressing both of the conference's main themes—a green economy in the context of sustainable development and poverty eradication, and the institutional framework for sustainable development. Options on the table include the creation of a UN Environment Organization, ambitious improvement of the institutional architecture for sustainable development situated in New York, new global Sustainable Development Goals, and support for the worldwide transformation to a “Green Economy.”

Such ambitious goals can only be reached when the necessary financial means are available, and this brings the international architecture for financing environmental protection into focus. Unfortunately, this architecture has become quite confusing, spread out across an increasing number of bilateral and multilateral actors, funds and financing mechanisms. Currently, as there is no established system for the tracking of international, environmentally-focused finance streams, there are no readily available answers to questions such as: Where do the funds come from? Who decides, according to which rules, how the funds are allocated? Who monitors their use? And how can new financing mechanisms and private funds be integrated into the existing system?

The Nairobi-Helsinki Outcome (2010), which reflects the conclusions of a two-year political process for international environmental governance (IEG) reform launched and facilitated by UNEP, presents potential system-wide responses to the challenges in the current system of IEG. The ideas for improving funding for IEG identified in the document are the following:

“...To create a stronger link between global environmental policy making and financing aimed at widening and deepening the funding base for environment with the goal of securing sufficient, predictable and coherent funding and increasing accessibility, cooperation and coherence among financing mechanisms and funds for the environment, with the aim of helping to meet the need for new and additional funding to bridge the policy-implementation gap through new revenue streams for implementation. Enhanced linkage between policy and financing is needed along with stronger and more predictable contributions and partnerships with major donors and the pooling of public and supplementary private revenue streams. To consider the development of financial tracking systems, including their costs and benefits, based on existing systems to track financial flows and volumes comprehensively at the international and regional levels, as well as a strategy for greater involvement of private sector financing.”<sup>73</sup>

Against this background, and at the request of the German Federal Environment Agency (UBA) and the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), Ecologic Institute investigates in the following report the current system for funding

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<sup>73</sup> Consultative Group of Ministers or High-level Representatives (2010). Nairobi-Helsinki Outcome. Second meeting of the Consultative Group of Ministers or High-level Representatives on International Environmental Governance: Espoo, Finland, 21–23 November 2010.

international environmental governance (IEG). The main purpose of this report is to provide a clear picture of ongoing debates, structural limitations and the pros and cons of different political choices about IEG funding. While conclusions and some recommendations are presented in the end, the report does not pretend that there are any silver bullets, which will easily provide the long-desired and discussed solution to a complex problem.

The report is primarily focused on multilateral environmental funding, i.e., funding provided to multilateral institutions, including budgets of organizations such as UNEP or the GEF, but also including multi-donor funds for specific environmental purposes (e.g., the Adaptation Fund under the Kyoto Protocol). Other funding sources and types, notably bilateral funding and funds from the private sector, are discussed where pertinent. As most of the funding for IEG is provided by developed countries and most is spent in developing countries, much of the IEG finance discussed here qualifies as official development assistance (ODA).

The present report is overall qualitative rather than quantitative in nature. This is a result of the lack of comprehensive and reliable data on IEG funding, a gap which cannot be filled in the context of this report. A further limitation is that the report does not look at two questions that are also very relevant in the context of IEG funding: First, we do not discuss if and to what extent aid has been greened. Thus, while we look at what is provided in funding for the environment, we do not look at whether less money is provided for environmentally harmful purposes at the international level. Some studies indicate that the amounts of money provided for such “dirty” purposes are indeed significant.<sup>74</sup> Second, we only marginally touch upon what happens with the money once it is actually disbursed. Obviously, whether or not IEG funding is put to good and efficient use, is a very important point when discussing overall funding requirement. However, this is a question we could not fully investigate in this study.

Finally, it should be noted that semantics play a role in the discussion about the current funding landscape for IEG. Notably, the often heard term “fragmentation”<sup>75</sup> suggests that environmental funding is something that at some stage was one coherent whole, but has been broken up into fragments. Obviously, this is not the case. By contrast, describing the system of IEG funding as poly-centric or having a de-centralized structure that is clustered around some key players has more positive connotations. While the report will use terms such as “fragmentation”, readers are asked to keep in mind the connotations of such terms.

Methodologically, the study is mainly based on desk research. However, formal interviews and background conversations were conducted with experts at several relevant institutions, some of whom did not wish to be named. Several organizations have also kindly provided information via email. In addition, interim results were presented at a workshop in Berlin in February 2012 to selected experts who provided feedback.

The study is structured as follows: Section 4 provides an overview of the current system of IEG finance, including a brief explanation of different types of contributions and their legal base, an overview of current tracking systems, estimates of current funding quantities and an

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<sup>74</sup> Roberts et al. 2009 find that donors between 1980 and the end of the 1990s considerably reduced their bilateral aid for “dirty” projects. They conclude that at the beginning of the 1980s, dirty projects received roughly 10 times as much in bilateral aid as environmental projects. By the end of the 1990s, that ratio was down to “only” three to one. Moreover, as discussed below, sizeable amounts of money are also spent on environmentally harmful subsidies.

<sup>75</sup> On the use of the term see Biermann et al. 2009, p. 17, who, however, use “fragmentation” as a “value-free” term, p. 18.

overview of largest donors to multilateral funds, comments on the efficiency of use as measured by the share of finance going towards administrative costs, and an overview of environmental trust funds. It also includes in-depth analyses of six particularly important or innovative funding mechanisms and a brief overview of other relevant mechanisms. Section 5 discusses shortcomings and reform needs of the existing system. Section 6 provides an overview of IEG reform proposals from the political and academic sectors, with a focus on IEG finance. Section 7 focuses on key design choices and the tradeoffs that they imply. Section 8 discusses options for improvement, using different political scenarios as a base. Section 9 presents reform options in general, and Section 10 focuses on Rio+20 specifically. Conclusions and recommendations are presented in a final Section 11.

## 4 The existing system of IEG finance

In the following we provide an overview of the current system for IEG funding, from a qualitative and, to some extent, quantitative perspective. As explained in greater detail below, the availability and quality of data are major issues under the current system, a shortcoming that could not be rectified in a study such as this.

The section is structured as follows: First (4.1), we describe the different channels and ways through which funding is disbursed, including some reflection on the respective legal foundations. Section 4.2 contains an overview of current tracking systems. Section 4.3 provides tentative figures on the overall amounts of IEG funding committed, including an estimate of multilateral funds for different sectors; Section 4.4 also presents quantitative insights, namely on the contributions that the largest donors have made to the major multilateral environmental funds over the past 15 years. Section 4.5 offers an overview of multilateral environmental trust funds, and Section 4.6 shares insights on how much money is spent on administrative costs by multilateral funding organizations. Section 4.7 provides a more in-depth analysis of six selected funds (UNEP Environment Fund, GEF Trust Fund, the Clean Investment Funds, the Adaptation Fund, the Montreal Protocol's Multilateral Fund and the Global Fund to Fight Aids, Tuberculosis and Malaria). In conclusion, Section 4.8 offers a brief overview of some other relevant funding instruments.

### 4.1 Types of funding and their legal basis

There are several different types of mechanisms through which funding is provided and disbursed at the multilateral level, each with different legal foundations. In the following, we discuss the distinction between trust funds vs. funding for an organization's general budget, negotiated/pledged contributions vs. contributions defined by the receiving organization and grants vs. loans. An understanding of these different mechanisms is needed for the analysis in the remainder of the study.

**Trust funds vs. funding for an organization's general budget:** A first distinction with regard to public sector funding can be made between contributions to trust funds dedicated to a specific environmental purpose and funding for the general budget of an organization, which in turn can be used for operational purposes of the organization itself or for funding projects.

Trust funds are created for a specific purpose and administered by an organization which acts as its trustee. Trust funds are established at a certain point in time and typically for a specific duration, even though some of them are replenishable (e.g., the GEF Trust Fund). For trust funds, donors thus normally make commitments either at one specific moment in time i.e. when the trust fund is established (such as in the case of the CIFs) or at pre-defined intervals (such as in the case of the GEF). By contrast, in the case of funding for an organization's general budget, donors' regular contributions are either made annually or multi-annually (e.g., in the case of the UN) or at more or less regular intervals when a donor wishes to contribute to the fund or acquire additional shares (e.g., in the case of the World Bank).

In legal terms, the establishment of a trust fund requires the consent of the donors and the consent of the institution acting as a trustee for the respective trust fund. The consent of the trustee is provided according to the trustee's procedural rules. In the case of the World Bank, for example, usually the Board of Executive Directors adopts a resolution to enable the World Bank to act as trustee. Agreement of donors often comes in the form of a MEA COP decision. In

the case of the Montreal Protocol's Multilateral Fund (MLF), for example, the Parties to the Montreal Protocol decided to create the fund during their Second Meeting, through an amendment to the Protocol.<sup>76</sup> Finally, some type of agreement is needed between the trustee and the trust fund donors, and this can come under a variety of headings (e.g., a memorandum of understanding).

In the case of single or repeated contributions to the core budget of an organization, the legal foundation is normally provided by the legal act establishing that institution, which countries must ratify when becoming members. For example, the basic rules for the operation of the International Bank for Reconstruction and Development (IBRD), the largest of the World Bank Group institutions, are contained in its Articles of Agreement; they set forth, *inter alia*, how shares in the IBRD can be acquired by members.<sup>77</sup> Procedures for budget approval vary by organization. For the UN, the General Assembly approves the budget.<sup>78</sup>

With regard to environmental spending out of a general budget, several UN organizations and programs spend a larger or smaller share of their budget for environmental purposes. In quantitative terms, UNEP and UNDP spend most funds for environmental purposes. Other entities within the UN system spending a part of their budget on environmental issues are IFAD, FAO, UNIDO, and UNESCO. Multilateral development banks (MDBs), including the World Bank Group, provide the bulk of environmental funding in quantitative terms. However, the MDBs mostly provide funding in the form of loans rather than grants.

**Negotiated/pledged contributions vs. defined contributions:** Another important distinction is between contributions that are negotiated or pledged unilaterally versus contributions that are pre-defined by the receiving organization, which are often, but not always mandatory contributions. Most funds operate by a modus of negotiated or pledged contributions; the contributions are entirely voluntary and can be any amount that the donor country wishes to make. Some evidence of the donor country commitment is usually required, e.g., a letter of commitment, unless the contribution is paid at once.

A different model is contributions defined by the recipient organization. The most relevant example in the present context is the UN scale of assessments for the UN general budget.<sup>79</sup> The scale of assessments is based on Art. 17 of the UN Charter, the Rules of Procedure of the General Assembly, as well as a General Assembly Resolution. Accordingly, the percentage contribution of each UN Member to the UN general budget is calculated mainly on the basis of gross national income, with minimum and maximum thresholds. Members are notified of the contribution once the General Assembly has approved the budget. While the contributions as such are not voluntary, most UN Members do not pay their contributions in full or on time. This is the case even though Art. 19 of the UN Charter sets forth that if a Member is behind schedule concerning its payment and its debt equals or exceeds the contributions due for the two preceding years, it can lose its vote in the General Assembly.

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<sup>76</sup> The amendment to the Montreal Protocol agreed by the Second Meeting of the Parties (London, 27–29 June 1990, [http://ozone.unep.org/Ratification\\_status/london\\_amendment.shtml](http://ozone.unep.org/Ratification_status/london_amendment.shtml)

<sup>77</sup> IBRD Articles Of Agreement, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20049564~pagePK:43912~piPK:36602,0,0.html#I2>

<sup>78</sup> See Art. 17 of the UN Charter

<sup>79</sup> Separate budgets are drawn up for the UN courts and peace-keeping missions.

Predefined contributions are also used by international organizations outside of the environment field. For example, the Union for the Protection of Plant Varieties requires members to pay a contribution according to their economic status; the World Trade Organization determines contributions according to each Member's share of international trade, based on trade in goods, services, and intellectual property rights for the last three years for which data is available, with a minimum amount and a maximum cap.<sup>80</sup>

UNEP currently uses a specific method for mobilizing contributions to the Environment Fund known as the voluntary indicative scale of contributions (VISC), following a decision by the UNEP General Council in 2002.<sup>81</sup> The UNEP VISC is similar to the scale used by the UN for its general budget. However, the member states are encouraged to contribute even more than defined in the VISC, and the cited decision of the UNEP General Council also mentions other options for voluntary contributions aside from the VISC (e.g., biennial pledges). Whether or not the members wish to base their contribution on the VISC is left to their discretion; however, UNEP reports on its website that the “introduction of VISC and other voluntary options ... has proved to be an efficient approach in stimulating voluntary contributions to the Environment Fund.”<sup>82</sup>

**Grants vs. loans:** Finally, it is important to distinguish between grants and loans. Most of the funds that MDBs provide are in the form of (preferential) loans, whereas UN organizations and trust funds normally provide grants. The two are seen quite differently from donor and recipient country perspectives. From a donor perspective, loans can be more easily provided in larger quantities than grants, because ultimately, the expectation is that the money will be paid back. From a recipient country perspective, loans are less desirable than grants, because they must be paid back at some stage. Loans granted on non-commercial terms (i.e. lower interest rates, long-term duration) may therefore still be beneficial for a country, but ultimately the funding is generated by the recipient country itself.

## 4.2 Current system for tracking

A key problem in the system of financing for IEG is the lack of a comprehensive mechanism to track financing of projects and activities for environmental protection and sustainable development. Basic questions cannot easily be answered regarding who gives and receives funding. The lack of a comprehensive, easily accessible mechanism to report finances leads to significant problems with respect to accountability and transparency.<sup>83</sup>

A general problem with the tracking of environmental funding is what should be included in the accounting – i.e. what qualifies as “environmental” funding. In practice, when defining environmental funding, there are several borderline cases, for which it is a matter of judgment if an activity is considered as (primarily) environmental. A case in point is funding for water supply and sanitation (as distinguished from water resources management). On the one hand, improved water supply and sanitation could be seen as primarily targeting human health; on

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<sup>80</sup> Members' contributions to the WTO budget and the budget of the Appellate Body for the year 2011, [http://www.wto.org/english/thewto\\_e/secre\\_e/contrib11\\_e.htm](http://www.wto.org/english/thewto_e/secre_e/contrib11_e.htm)

<sup>81</sup> Decision SS.VII/1: International environmental governance, <http://www.unep.org/pdfs/gcss71.pdf>

<sup>82</sup> [http://www.unep.org/rms/en/Financing\\_of\\_UNEP/Environment\\_Fund/index.asp](http://www.unep.org/rms/en/Financing_of_UNEP/Environment_Fund/index.asp). It should be noted that the UNEP website has undergone a fundamental revision in late March 2012, which is currently less than fully functional. Many of the links cited in this report may not work for the new UNEP website.

<sup>83</sup> Najam and Halle 2010

the other hand, it also clearly benefits the quality of the environment. Likewise, improving water resources management—which is primarily an environmental policy—is clearly beneficial for improving water supply and sanitation. Whether or not water supply and sanitation are included as environmental funding influences considerably the overall volume of the funding amount that counts as environmental.<sup>84</sup>

Since the 1960s, when the OECD Development Assistance Committee (DAC) began tracking ODA through its Creditor Reporting System (CRS), multiple efforts have been launched to improve tracking of global finances for the environment.<sup>85</sup> For the most part, these efforts focus on ODA; however, there is increasing effort to include non-ODA environment-related funding as well.

Specific to environmental objectives, the OECD DAC has been using the so-called ‘Rio Markers’ since 1998 to track funding for climate change mitigation, desertification, and biodiversity to assist in implementation of the three Rio Conventions agreed in 1992: the Framework Convention on Climate Change (UNFCCC), the Convention to Combat Desertification (UNCCD), and the Convention on Biological Diversity (UNCBD).<sup>86</sup>

The International Aid Transparency Initiative (IATI) currently seeks to improve the existing tracking system and move toward a more comprehensive, standardized approach to increase transparency and accountability—and ultimately efficiency and effectiveness—in order to achieve global social and environmental objectives. The IATI was launched in 2008 at the Accra High Level Forum on Aid Effectiveness.<sup>87</sup> Although it is not specifically focused on environmental aid, it could represent a key vector for change in tracking of environmental funding since it aims to be a comprehensive standard. The IATI so far includes 28 donors (e.g. World Bank, UNDP, European Commission, United States, and Hewlett Foundation) who, along with 22 developing countries, have signed on to the initiative, which is supported by funding from the governments of Finland, Ireland, Switzerland, Netherlands, Germany, Australia, Spain, Norway and the UK. Membership is not restricted and is voluntary. At the December 2011 Busan High Level Forum on Aid Effectiveness, a key conclusion was to:

“Implement a common, open standard for electronic publication of timely, comprehensive and forward-looking information on resources provided through development co-operation, taking into account the statistical reporting of the OECD-DAC and the complementary efforts of the International Aid Transparency Initiative and others. This standard must meet the information needs of developing countries and non-state actors, consistent with national requirements. We will agree on this standard and

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<sup>84</sup> Roberts et al. 2009 note that with regard to bilateral aid “water and sanitation projects appear to have attracted by far the most environmental funding”. This statement relates to 1980-1999.

<sup>85</sup> Führer 1994

<sup>86</sup> OECD, Measuring aid targeting the objectives of the Rio Conventions.  
<http://www.oecd.org/dataoecd/46/13/42819225.pdf>

<sup>87</sup> International Aid Transparency Initiative Accra Statement (2008), <http://www.aidtransparency.net/wp-content/uploads/2009/06/iatи-accra-statement-p1.pdf>

publish our respective schedules to implement it by December 2012, with the aim of implementing it fully by December 2015.”<sup>88</sup>

The IATI standard now includes separate standards for activities (e.g., programs or projects) and for organizations (e.g., future aggregate budget data). The IATI is working closely with the OECD Development Assistance Committee (DAC), which implements the Creditor Reporting System (CRS), described below.

The following sections present an overview of existing tracking efforts for international environmental financing by both governmental and non-governmental organizations, including the OECD, AidData, and Climate Funds Update; in addition, the UN Financial Tracking Service (UN FTS) of the UN Office for the Coordination of Humanitarian Affairs (OCHA) is discussed to show a possible model for tracking global environmental finances.<sup>89</sup> The OECD Creditor Reporting System (CRS) represents the most comprehensive effort to track global environmental finances; both AidData and Climate Funds Update are non-governmental tracking efforts providing examples of broad and focused issue areas, respectively. The UN FTS tracks humanitarian aid, which is also a cross-cutting issue, and an area where similar problems in tracking provide some lessons learned for environmental tracking. Although IEG by definition includes all countries, the focus of this section is on ways to improve tracking for environmental aid that flows through multilateral institutions to developing countries and countries in transition. The focus here is on a description of the existing systems, including a brief analysis of their strengths and weaknesses. Shortcomings are further discussed in section 5.1 and recommendations for improvement in section 9.1.

#### **4.2.1 DAC statistics and the Creditor Reporting System (CRS)**

The Creditor Reporting System (CRS) comprises a set of aid and funding databases maintained by the OECD Development Assistance Committee (DAC). The DAC aggregate statistics date back to 1960. The CRS was introduced first in 1966 by the OECD and the World Bank as the "Expanded Reporting System on External Lending" to report grant and loan transactions.<sup>90</sup> The CRS online database includes comparable data for the past 16 years.

The current OECD DAC mandate includes the following:

“monitor, assess, report, and promote the provision of resources that support sustainable development, ... by collecting and analysing data and information on ODA and other official and private flows;”<sup>91</sup>

To achieve this, the DAC tracks ODA and other official and private flows. The DAC system is technically divided into an Aid Database, which includes flows of funding

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<sup>88</sup> Busan Partnership for Effective Development Cooperation, Fourth High-Level Forum on Aid Effectiveness, 1 December 2011, <http://www.aideffectiveness.org/busanhlf4/component/content/article/698.html>

<sup>89</sup> The idea to use the UN Financial Tracking Service (UN FTS) of the UN Office for the Coordination of Humanitarian Affairs (OCHA) as a possible model for tracking global environmental finances was first presented by Najam and Munoz 2008.

<sup>90</sup> Fuhrer (1994). The Story of Official Development Assistance. OECD. p. 18 Available at: <http://www.oecd.org/dataoecd/3/39/1896816.pdf> (viewed 3 February 2012)

<sup>91</sup> DAC Mandate 2011-2015, <http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=DCD/DAC%282010%2934/FINAL&doclanguage=en>

to ODA eligible countries and institutions, and separate databases of other official flows (OOF) and private funds. ODA has been defined since 1972 as follows:

“flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%)”<sup>92</sup>

ODA eligible institutions are described in Box 1.

OOF is funding that does not qualify as ODA funding because it does not primarily serve development purposes or comes in the form of loans for which the grant element is less than 25%. One typical example is military aid. By definition, ODA funds are from government institutions, while non-ODA funds can come from any source (e.g., private sector).<sup>93</sup> Databases for private funds include foreign direct investment as well as bank and non-bank flows from the DAC members to developing countries on the DAC list.<sup>94</sup>

Donor contributions are grouped according to bilateral or multilateral funding. It is important to note here the way in which bilateral and multilateral funding are distinguished in order to avoid double counting: The category ‘bilateral’ includes funding from donor countries to multilateral institutions that is effectively controlled by the donor country (i.e., the donor country defines the parameters for the funds in terms of purpose, terms, total amount, etc.) or to NGOs to implement projects on behalf of DAC members.<sup>95</sup> Unspecified core funding given by donor countries to multilateral institutions is captured in ‘multilateral outflows’ of multilateral organizations.

The OECD aims to have a comprehensive database that covers both bilateral and multilateral funding for aid from DAC countries and accepts information from non-DAC countries as well.

**Box 1: OECD DAC list of ODA-eligible institutions**

The OECD DAC maintains a list of ODA-eligible institutions, including multilateral agencies and international NGOs for donor countries to use in determining which contributions can be reported as ODA. DAC members are asked to use their best judgment in determining whether all or part of the funding to a specific institution qualifies as ODA. For instance, contributions to the WHO bilharzias program are 100% ODA reportable, but contributions to the WHO International Agency for Research on Cancer are not ODA reportable.<sup>96</sup>

The most recent list, approved in June 2011, includes public sector institutions; international NGOs; donor country based and developing country based NGOs; public-private partnerships

<sup>92</sup> OECD (2008). Is it ODA? p. 1, <http://www.oecd.org/dataoecd/21/21/34086975.pdf>

<sup>93</sup> OECD (2008). Is it ODA?, p. 3 <http://www.oecd.org/dataoecd/21/21/34086975.pdf>

<sup>94</sup> OECD (2010) DAC Reporting Directives, para 215. <http://www.oecd.org/dataoecd/28/62/38429349.pdf>

<sup>95</sup> OECD (2010) DAC Reporting Directives, para 8, 9, and 10, <http://www.oecd.org/dataoecd/28/62/38429349.pdf>

<sup>96</sup> OECD (2008). Is it ODA? p. 2, <http://www.oecd.org/dataoecd/21/21/34086975.pdf>

(including fifteen organizations, some with environmental focus, such as the Global Water Partnership and Global Energy Efficiency and Renewable Energy Fund); multilateral organizations (including UN agencies, funds, and commissions); EU institutions; the International Monetary Fund (IMF); the World Bank Group; the WTO; regional development banks; and 119 other multilateral institutions, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Environment Facility - Special Climate Change Fund. DAC members (and in exceptional cases, the DAC Secretariat) can propose new institutions to the ODA eligible institution list in February of each year.<sup>97</sup> No information was found on which institutions have failed to be included in the list in previous years.

Data are reported as part of the DAC members' official reporting to the OECD. Members include 23 countries, the European Commission and a host of multilateral organizations which includes three UN agencies (not including UNEP), the World Bank (IDA and IBRD), some regional development banks (AfDB, AsDB, and IDB), and the International Fund for Agricultural Development (IFAD). Several non-DAC countries (e.g., Saudi Arabia) report on a voluntary basis.<sup>98</sup> A network of statistical offices at local, state, and central levels collects data for processing by the DAC Secretariat.<sup>99</sup>

The CRS activities database tracks funding according to a number of different environment-related categories, including the Rio Markers, policy objective markers (related to the MDGs), and sectors related to the environment.<sup>100</sup> Every activity is screened and marked separately according to the Rio Markers, policy objectives and sectors. In other words, particular sectors are not linked to Rio Markers or policy objectives.<sup>101</sup>

The Network on Environment and Development Co-operation within OECD coordinates with DAC members to track aid for environmental purposes.<sup>102</sup> A brief description of each Rio marker excerpted from the Reporting Directives for the Creditor Reporting System follows, below.

- 1) Aid for biodiversity: Activity promotes one of three objectives of the UNCBD: (1) protect or enhance ecosystems; (2) integrate biodiversity and ecosystem services into recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; (3) facilitate countries' efforts to meet their obligations under the Convention. (Example project: Promotion of sustainable marine, coastal and inland fishing).<sup>103</sup>

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<sup>97</sup> A list of ODA eligible institutions is online here:

[http://www.oecd.org/document/9/0,3746,en\\_2649\\_34447\\_43748297\\_1\\_1\\_1,1,00.html](http://www.oecd.org/document/9/0,3746,en_2649_34447_43748297_1_1_1,1,00.html)

<sup>98</sup> A list of countries reporting voluntarily is available at

[http://www.oecd.org/document/2/0,3746,en\\_2649\\_34447\\_41513218\\_1\\_1\\_1,1,00.html](http://www.oecd.org/document/2/0,3746,en_2649_34447_41513218_1_1_1,1,00.html)

<sup>99</sup> Users Guide to the CRS Aid Activities database,

[http://www.oecd.org/document/50/0,3746,en\\_2649\\_34447\\_14987506\\_1\\_1\\_1,1,00.html](http://www.oecd.org/document/50/0,3746,en_2649_34447_14987506_1_1_1,1,00.html)

<sup>100</sup> The CRS Database is available online here: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>

<sup>101</sup> For policy objectives see Annex 6: <http://www.oecd.org/dataoecd/14/58/31738731.pdf> and for Rio Markers: Annex 6b: <http://www.oecd.org/dataoecd/44/46/35646074.pdf>

<sup>102</sup> Statistics on Environmental Aid,

[http://www.oecd.org/document/59/0,3746,en\\_2649\\_34421\\_46670203\\_1\\_1\\_1,1,00.html](http://www.oecd.org/document/59/0,3746,en_2649_34421_46670203_1_1_1,1,00.html)

<sup>103</sup> OECD (2007). Reporting Directives for the Creditor Reporting System, p. 122,

<http://www.oecd.org/dataoecd/16/53/1948102.pdf>

- 2) Aid for desertification: Activity promotes one of three objectives of the UNCCD: (1) protect or enhance dry-land ecosystems or remedying existing environmental damage; (2) integrate desertification concerns into recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; (3) facilitate countries' efforts to meet their obligations under the Convention. (Example project: Support for population/migration policies to reduce population pressure on land).<sup>104</sup>
- 3) Aid for climate change mitigation: Activity promotes one of four objectives related to the UNFCCC: (1) mitigation of GHG emissions (including pollutants in Montreal Protocol); (2) protection/enhancement of GHG sinks or reserves; (3) integration of climate change concerns into the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; (4) development of countries' efforts to meet their obligations under the Convention. (Example project: Methane emission reductions through waste management or sewage treatment).<sup>105</sup>
- 4) Aid for climate change adaptation: This is a new marker definition, and statistics are not yet available. It is designed to track activities specifically aimed at climate change adaptation (e.g., capacity development, planning and implementation of adaptation activities). (Example project: Improving regulations and legislation to provide incentives to adapt).<sup>106</sup>

Besides the Rio Markers, policy objective markers aim to track activities that cut across several sectors—and include, for example: gender equality, aid to environment, and participatory development/good governance.<sup>107</sup> Of these, aid to environment is obviously most relevant to tracking environmental goals. However, the definition of aid to environment makes it a very broad category:

“Activity aims to improve the environment (physical and/or biological environment of the recipient country, area or target group) or integrate environmental concerns with development objectives (institution or capacity building)”.<sup>108</sup>

Finally, CRS ODA data is marked according to four broad sectors: (1) social infrastructure and services, e.g., water supply and sanitation; (2) economic infrastructure and services, e.g., transport and energy; (3) production, e.g., agriculture, forestry, fishing, mining, tourism; (4) multi-sector/cross-cutting, e.g., general environmental protection and urban and rural development. The sectors are further defined through purpose codes, and each entry is only assigned one purpose code. For example, within the multi-sector/cross-cutting category for

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<sup>104</sup> OECD (2007). Reporting Directives for the Creditor Reporting System, p. 124, <http://www.oecd.org/dataoecd/16/53/1948102.pdf>

<sup>105</sup> OECD (2007). Reporting Directives for the Creditor Reporting System, p. 123, <http://www.oecd.org/dataoecd/16/53/1948102.pdf>

<sup>106</sup> OECD (2010). Reporting Directives for the Creditor Reporting System: Addendum on the climate change adaptation marker, <http://www.oecd.org/dataoecd/1/45/45303527.pdf>

<sup>107</sup> OECD (2007). Reporting Directives for the Creditor Reporting System, p. 114, <http://www.oecd.org/dataoecd/16/53/1948102.pdf>

<sup>108</sup> OECD Aid to the Environment description, <http://www.oecd.org/dataoecd/4/6/38025362.pdf>

general environmental protection, the purpose codes include: environmental policy and administrative management, biosphere protection, biodiversity, site preservation, flood prevention/control, environmental education/training, and environmental research.<sup>109</sup>

### **Strengths and weaknesses**

There are clear strengths to the OECD CRS database. The online data have a 16-year comparable time series, and all data is verified by OECD staff, although it is not clear how this happens. The OECD DAC has established a simple reporting structure that also allows non-DAC countries to voluntarily report information. Although the CRS Aid Activity Database is tracking ODA funding only, the information is presented alongside the overarching DAC database which also has data for OOF and private funds. Thus, the OECD is already monitoring different types of funding from both DAC and non-DAC donor countries to developing countries on the DAC list.

This system allows environmental tracking of all funding not only according to sector (including general environmental protection), but also according to cross-cutting policy objectives as well as the Rio Markers to track progress toward the three Rio Conventions on biodiversity, desertification, and climate change. OECD's Network on Environment and Development Co-operation shares a contact email with the DAC to answer questions. The database structure appears relatively flexible, as new markers can be added (e.g., the climate change adaptation Rio Marker, implemented at the end of 2011). The OECD could thus, in principle, add different funding flows or additional markers to improve the overall tracking system for environmental governance.

At the same time that the OECD CRS database stands as the primary source for environmental funding data, it also has certain weak points. A first main point is that it is not (yet) comprehensive. Notably, the DAC Secretariat has indicated that multilateral flows are not recorded as comprehensively as bilateral flows. For example, the CIFs are so far only captured as bilateral aid in the CRS, which could change if they are added to the list of ODA-eligible institutions. Other specific multilateral climate funds, such as the GEF LDC and SCCF funds are also only counted as bilateral at this time. Multilateral development banks report to the OECD at the activity-level, but not necessarily using the environmental policy markers.<sup>110</sup> Emerging donors so far can report to the OECD, but do not have to do so. There are several possible reasons why countries do not wish to report to the OECD. Some countries may be in opposition to the OECD for political reasons, especially those aiming to promote "south-south" cooperation, or simply have no incentive to participate. Others may not have the necessary technical capacity—staff and experience—to meet requirements, such as some Eastern European countries.

A second important weak point is that observers have identified reporting flaws. There are inconsistencies in reporting among donors. For example, some donors consider nuclear energy as environmental protection, while other countries do not, which makes it difficult to follow

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<sup>109</sup> OECD (2005) Reporting Directives for the Creditor Reporting System: Addendum 2 Annex 5. Reporting on the purpose of Aid. p. 20

<sup>110</sup> Personal communication, DAC, 21 February 2012

the flow of environmental funding. Moreover, there are documented errors in project coding, especially as relates to the Rio Markers.<sup>111</sup>

Another weakness of the OECD CRS is that the data is not available in “real time” (e.g., 2010 data is being added to the bulk download database in February 2012). Moreover, the CRS online system includes commitment data only from 1995 and expenditure data only from 2002.<sup>112</sup>

The database is relatively user-friendly, but would benefit from a search field to allow users to query data more easily.

#### 4.2.2 AidData

AidData is a partnership among two US-based universities (Brigham Young University and the College of William and Mary) and a non-profit development organization (Development Gateway) with private foundation funding from the William and Flora Hewlett Foundation. The objective of AidData is twofold: (1) to increase transparency and accessibility of aid data to relevant stakeholders and (2) to improve research on where aid is allocated and its effectiveness.<sup>113</sup> AidData complements the OECD CRS database by aiming to make the CRS data more accessible and by including additional information to provide a more comprehensive picture. In addition, they have a more detailed coding scheme that allows for comprehensive analysis over time.

AidData includes approximately one million data entries and spans from 1947 to 2011, although the coverage is incomplete for the earlier years in this time span. The AidData team is working to create a project-level database, with one record per project.<sup>114</sup> Data will soon be available in the standardized format agreed so far by the International Aid Transparency Initiative (IATI). Sources of data include the following:

- OECD CRS data;
- Data that is no longer part of OECD CRS (e.g., aid to recipients that are no longer ODA eligible—known as “previous aid flows”—and information pre-1995 from OECD that is not standard quality);<sup>115</sup>
- Non-ODA data and non-DAC country data (collected by AidData staff from donors, donor websites, or donor publications).<sup>116</sup>

Projects are tagged with one purpose code and at least one, but possibly several activity codes (see Table 1).<sup>117</sup> The purpose codes are nearly identical to the CRS purpose codes, and the

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<sup>111</sup> Michaelowa and Michaelowa 2011; Roberts et al. 2009, p. 11.

<sup>112</sup> AidData User Guide, p. 10

<sup>113</sup> AidData (2011). AidData User’s Guide Version 2.0, p. 5.  
[http://www.aiddata.org/weceem\\_uploads/\\_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf](http://www.aiddata.org/weceem_uploads/_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf)

<sup>114</sup> AidData (2011). AidData User’s Guide Version 2.0, p. 11.  
[http://www.aiddata.org/weceem\\_uploads/\\_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf](http://www.aiddata.org/weceem_uploads/_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf)

<sup>115</sup> AidData and the CRS, <http://aiddata.org/content/index/about/AidData-and-the-CRS>

<sup>116</sup> AidData website “AidData and the CRS”, <http://aiddata.org/content/index/about/AidData-and-the-CRS>

<sup>117</sup> AidData (2011). AidData User’s Guide Version 2.0, p. 13.  
[http://www.aiddata.org/weceem\\_uploads/\\_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf](http://www.aiddata.org/weceem_uploads/_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf)

activity codes are intended to add additional specific information to give a more “granular picture” of the project and allow aggregation of projects per activity type.<sup>118</sup> The methodology for coding involves a three-step process whereby at least two (sometimes three) different members of AidData evaluate the project to reach agreement on the project codes.<sup>119</sup>

In addition, the AidData team is retroactively recoding all OECD data according to these codes and this data will be added to the database soon. This means that all AidData will be coded according to a consistent coding scheme from 1973 to present for all data in the AidData database, allowing for analysis of environmental funding.

Table 1: Examples of AidData purpose and activity codes

<b>Purpose code: Energy policy and administrative management</b>
<b>Activity codes: Energy policy and administrative management, activity unspecified or not fitting elsewhere in group; Energy sector policy, planning and programs; Institution capacity building, Energy; Aid to energy ministries; Energy conservation</b>
<b>Purpose code: Biodiversity</b>
<b>Activity codes: Biodiversity, activity unspecified or not fitting elsewhere in group; Natural reserves; Species protection</b>

In addition to the AidData database, the AidData partners host AidData Raw, which is a temporary place to store and share information submitted by a variety of sources that is not yet verified by the AidData team. The data is not necessarily formatted according to CRS or IATI standards, but provides the most recent information available. After the data is properly formatted and coded, it is included in the AidData database.<sup>120</sup>

Datasets in AidData Raw include:

- 1) **Donor Datasets:** Information given to AidData by donor countries or agencies, found on third-party websites known as “webscraped”, or gathered from print publications. Examples of donor datasets are:
  - Korea International Cooperation Agency (KOICA), webscraped data, which includes 29,549 KOICA projects covering 1991-2007 and totaling nearly US\$ 1.5 billion in commitments; with AidData sector and activity codes.
  - Lithuanian Development Cooperation, from 2009 project list released by the Development Cooperation and Democracy Promotion Department of the Ministry of Foreign Affairs, in Lithuanian with automatically translated English descriptive information and commitment amounts in Lithuanian Litas.<sup>121</sup>
- 2) **Geocoded Datasets:** Information mapped in collaboration with the World Bank Institute and others to increase transparency about project locations. Examples of geocoded

<sup>118</sup> AidData (2011). AidData User’s Guide Version 2.0, p. 14,  
[http://www.aiddata.org/weceem\\_uploads/\\_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf](http://www.aiddata.org/weceem_uploads/_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf)

<sup>119</sup> AidData (2011). AidData User’s Guide Version 2.0, p. 15,  
[http://www.aiddata.org/weceem\\_uploads/\\_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf](http://www.aiddata.org/weceem_uploads/_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf)

<sup>120</sup>See AidData Raw: <http://www.aiddata.org/content/index/AidData-Raw>

<sup>121</sup> See AidData Raw: <http://www.aiddata.org/content/index/AidData-Raw/other-donor-datasets>

datasets are 2,500 active World Bank projects in over 30,000 locations across 144 countries, or African Development Bank Projects, with all 183 African Development Bank activities, in nearly 2,000 locations across 43 African countries.<sup>122</sup>

- 3) IATI Datasets: Links to information submitted to the IATI initiative by donors according to the IATI standard, such as from the European Union, UN Office for Project Services, and the William and Flora Hewlett Foundation.
- 4) Monitoring and Evaluation Data: Information on project implementation and evaluation; so far only includes information from the World Bank's Independent Evaluation Group, which includes 8,000 project evaluations conducted since the 1970s.

The AidData project team, with members from Brigham Young University, the College of William and Mary, and Development Gateway, collect data from the OECD CRS database, donor countries, donor websites (e.g., World Bank project pages), and donor publications (especially annual reports). The “live website” includes the most current validated data as well as raw data, as discussed above, that is not yet validated and included in the main database.<sup>123</sup>

### **Strengths and weaknesses**

A key strength of the AidData database is that it builds on the OECD CRS database to provide a more easily accessible and more up-to-date picture of aid data. Detailed purpose codes and activity codes allow AidData to provide a more detailed picture about how the different projects are related to environmental issues, thus allowing for quicker, more realistic and more in-depth analysis than is possible with OECD CRS data. All CRS and non-CRS data is in the process of being coded according to the same purpose and activity codes from 1973 to present. Therefore, analysis of environmental funding over time will soon be possible using AidData.

It includes aid to all countries around the world. The AidData team works closely with the OECD and World Bank, along with other donors and recipients, to ensure higher standards for information flow.

In terms of weaknesses, the AidData database has varying levels of information at different time scales, based on the unavoidable fact that it includes data from different sources. As the majority of the records come from the CRS, it also suffers the same problem of timeliness. It also includes unverified information, which might mean that in some cases it cannot be used for official purposes. However, in general, these weaknesses are minor as compared to the effort being made to collaborate with donor institutions and raise the level of transparency and effectiveness through mapping projects and including monitoring and effectiveness project results.

A key risk is that the project could be abandoned in the future due to lack of continued private funding. Also, a privately conducted database lacks the credibility that an inter-governmental agency has, as well as the authority to question official data.

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<sup>122</sup> See AidData Raw: <http://www.aiddata.org/content/index/AidData-Raw/geocoded-data>

<sup>123</sup> AidData User's Guide Version 2.0 (2011), p. 6,  
[http://www.aiddata.org/weceem\\_uploads/\\_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf](http://www.aiddata.org/weceem_uploads/_ROOT/File/User%20guide/AidData%20User%27s%20Guide%2011-16-11.pdf)

#### **4.2.3 Climate Funds Update**

The Climate Funds Update is a joint initiative of the Heinrich Böll Foundation and the Overseas Development Institute to monitor and report on bilateral and multilateral climate change funds on a bimonthly basis.

The Climate Funds Update provides information on funding patterns and activity for 19 multilateral funds and five bilateral climate change funds. Of the 24 funds tracked, Climate Funds Update reports that only one fund—the Adaptation Fund—is not considered ODA eligible. This means that all funds tracked by Climate Funds Update, except for the Adaptation Fund, should technically also be included in the CRS and AidData databases. However, according to the OECD DAC Secretariat, at this time, “CIFs are not considered multilateral organizations in the CRS, therefore, donors report their contributions to CIFs as ‘bilateral’, and OECD does not seek reporting from the CIFs on their outflows. This may evolve in the future, if CIFs are added on the DAC’s List of ODA-eligible international organizations.”<sup>124</sup>

The Climate Funds Update team collects information from websites, printed documents (e.g., press releases and notes submitted by CSOs) and information from fund secretariats.

#### **Strengths and weaknesses**

The clear strength of the Climate Funds Update is that it is dedicated to monitoring and tracking the climate funds, as intended. The focus on climate funds allows for regular, detailed, standardized updates for a distinct set of funds. The information is presented in a format covering criteria relevant for policy analysis and decision-making. Funding patterns and development of the funds over time is easy to follow.

The weakness of the Climate Funds Update, when considering its relevance as a model for tracking global environmental finance, is that it focuses specifically on climate change. Frequent updates are possible because the parameters are well defined, but press releases and websites can yield a mix of pledges and commitments and expenditures, unlike a statistical database. Similar to AidData, a key risk is that the project could be abandoned in the future due to lack of continued private funding. Also, a privately conducted database lacks the credibility that an inter-governmental agency has, as well as the staffing and authority to validate and verify the information gathered.

#### **4.2.4 UN Financial Tracking Service (UN FTS)**

The UN Financial Tracking Service (UN FTS) is administered by the UN Office for the Coordination of Humanitarian Affairs (OCHA). It was identified by the International Institute for Sustainable Development (IISD) in 2008 as a possible model for tracking global environmental finance—to be administered possibly by UNEP. The parallel with the environmental sector is that humanitarian aid is also of a cross-cutting character (i.e., relates to different sectors). The key benefits of the UN FTS noted by IISD were its ability to provide “real time” data in an easily accessible format, and its ability to match recipient needs with donor funding.<sup>125</sup>

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<sup>124</sup> Personal communication, DAC, 21 February 2012

<sup>125</sup> Najam and Munoz 2008

The UN FTS tracks humanitarian aid as reported to OCHA by donors and recipients. Its focus is on consolidated and flash appeals as well as natural disaster response.<sup>126</sup> Both cash and in-kind contributions are reported. Funding is tracked according to location, appeal, and sector, including: agriculture, coordination and support services, economic recovery and infrastructure, education, food, health, mine action, multi-sector, protection/human rights/rule of law, safety and security of staff and operations, shelter and non-food items, and water sanitation. The FTS is able to provide “real time” data by publishing information submitted via the internet in the “FTS on-line funding report form”, which includes a set of 18 short questions including contact information, funding amount, destination, and purpose.<sup>127</sup> Funding is directed toward specific Consolidated Appeal Process (CAPs), which are coordinated by the Emergency Relief Coordinator in New York. CAPs are launched by the UN Secretary at the end of each calendar year. The CAP aims to coordinate funding for a specific crisis, with core planning conducted via the Common Humanitarian Action Plan. The latter includes a longer-term outlook and framework for monitoring. Flash appeals are created within a few days to address urgent crises. Projects are recorded in the CAP Online project system, which is accessible to UN agencies and NGOs working on CAPs.

Information is submitted to UN FTS by donor government and recipient agencies, and some information is gathered by FTS from donor websites or pledge conferences. FTS staff validates all data, although information is not given on how the data is verified.

### **Strengths and weaknesses**

The strength of the FTS is its ability to help coordinate humanitarian aid and direct funds to areas with acute stress in real time. Information is updated on a daily basis and is easily accessible. Project level data is available. It is considered the best source of humanitarian aid data from non-DAC countries.<sup>128</sup>

The weakness of the FTS, with respect to its usefulness as a model for tracking environmental finances, is its focus on appeals and natural disasters, which have very distinct purposes and parameters. The data are considered limited, especially for domestic humanitarian aid, because there is little incentive for developing countries to report aid for appeals in their own countries.<sup>129</sup> In addition, there is a risk of double-counting, as it is possible for different entities to report the same figure multiple times in the FTS database. There are also problems with names and definitions that make it difficult to analyze the data.<sup>130</sup> Generally, the FTS does not seem to provide a strong model for improvement of the OECD CRS database or other existing environmental tracking tools.

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<sup>126</sup> See the FTS website at <http://fts.unocha.org/pageloader.aspx?page=AboutFTS-ucrlAboutFTS>

<sup>127</sup> See the FTS website at <http://fts.unocha.org/pageloader.aspx?page=submit-submit14pts&type=donor>

<sup>128</sup> Aidinfo (2010). Global Humanitarian Assistance: Use case on humanitarian aid information, p. 5, <http://www.aidinfo.org/wp-content/uploads/2010/11/GHA-report-2010.pdf>

<sup>129</sup> Aidinfo (2010). Global Humanitarian Assistance: Use case on humanitarian aid information, p. 10, <http://www.aidinfo.org/wp-content/uploads/2010/11/GHA-report-2010.pdf>

<sup>130</sup> Aidinfo (2010). Global Humanitarian Assistance: Use case on humanitarian aid information, p. 6, <http://www.aidinfo.org/wp-content/uploads/2010/11/GHA-report-2010.pdf>

## 4.3 Quantitative overview

In this section, we present quantitative estimates of IEG funding, with a focus on the time period 1990-2010 and multilateral funding. As evident from the discussion in the preceding section, there is, however, currently no database offering a full, consistent and reliable set of data on IEG funding. Against this background, we summarize first the existing limitations on data quality (Section 4.3.1). We then provide an overview of multilateral environmental funding between 1990 and 2010, thus essentially the time between the 1992 Rio Earth Summit and this year's Rio+20 summit, based on our own calculations using data from the AidData database (Section 4.3.2). In a third step (Section 4.3.3), we present data and figures on IEG funding from other authors' publications. This serves to illustrate differences and parallels between our data and the data by others, in an attempt to clarify the relative solidity of current data.

In general, however, this exercise is rather a clear illustration on how urgently consistent, comprehensive and reliable data on IEG funding are needed, than an exercise in providing solid evidence on current levels of IEG funding.

### 4.3.1 A cautionary note on current data availability

As described in the section 4.2 above, several systems exist for gathering and coding data on development assistance which allow for drawing some conclusions about trends in funding for environmental protection. However, all existing data suffer from some limitations that need to be highlighted before presenting any conclusions.

The two most relevant data tracking systems are the OECD-Creditor Reporting System (CRS) database and the AidData initiative, both mentioned in the previous section. AidData builds partially on the work of an earlier project, the Project-Level Aid (PLAID) data collection initiative (see the next section for a more in-depth description).<sup>131</sup> The coding schemes employed by AidData and PLAID enable them to take a progressively finer look at the environmental relevance of development assistance: the OECD-CRS' environmental purpose codes are supplemented in the AidData database by more detailed environmental activity codes, allotted based upon an examination of individual project descriptions. The PLAID coding scheme goes a step further and classifies each project in the database according to whether it would likely have a positive, negative or negligible impact on the environment and also whether the project addresses global issues (e.g., climate change) or local environmental problems (e.g., water pollution). Both AidData and PLAID use the data from the OECD-CRS, plus additional data collected independently. AidData is working to apply its activity coding scheme to its full database. Researchers are also working to apply the PLAID coding scheme to data through 2008 and to integrate these codes into AidData's online database portal.

Given the inadequacies of the data available from the OECD-CRS, quantitative research for the current study has used data from the AidData database.<sup>132</sup> Efforts to code the AidData database are, however, still incomplete. There is a subset of the data that has not yet been coded (with neither CRS coding nor AidData coding), allowing us to present only an incomplete picture of

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<sup>131</sup> Launched in 2003 by researchers at the College of William and Mary and Brigham Young University.

<sup>132</sup> Please see the Annex for a discussion of the ways in which AidData is an improvement on the OECD-CRS database.

the current funding landscape. The Annex provides a full description of the methodology used for deriving the figures prepared for this report from the AidData dataset.

Because of the current limitations of the AidData database and data limitations more generally, it is important to note the following about the figures presented below:

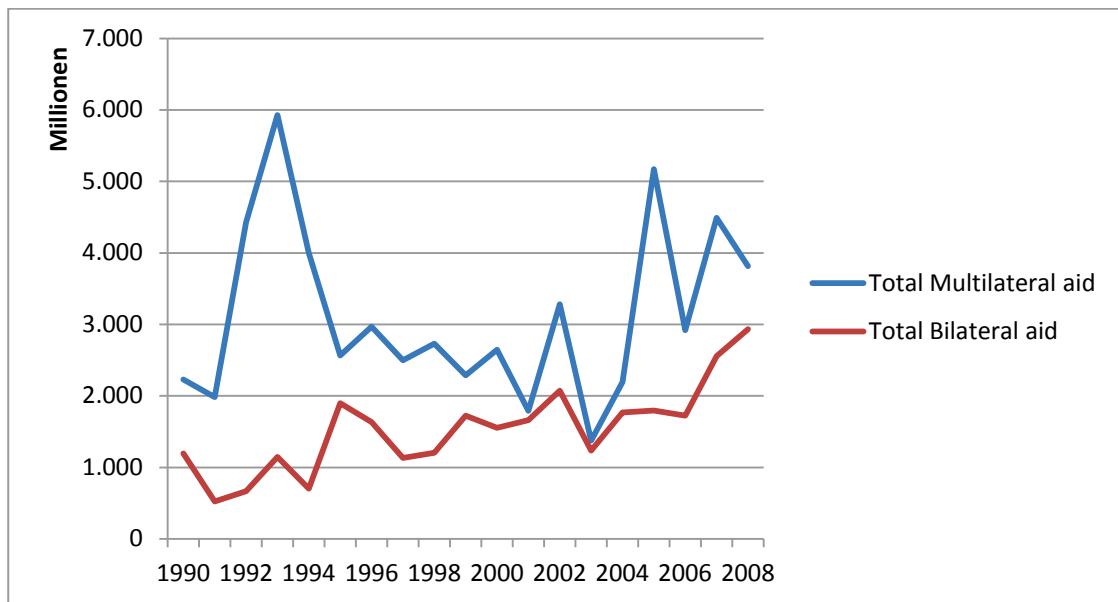
- Due to limitations of the database, it was not possible to associate all projects with specific activities, but only with more general purposes—for example, it is not possible to break down the purposes “renewable energy” or “sustainable land management” further into more specific activities.
- Amounts depicted represent both grants and loans, because incomplete information in the database does not make an accurate division of these two possible. Generally, loans coming from multilateral development banks account for the largest share of funding.
- At present, records that only include disbursements are excluded from the AidData dataset; thus the figures below only represent commitments from donors.

Furthermore, the AidData User’s Guide advises that new donors are being added all the time to the datasets, as they report to CRS and/or directly to AidData, but they often do not provide data covering their activities in the years before they started reporting. This affects long time series, as part of any perceived increase in aid volumes is often due to coverage of more donors and more of their aid. Such analyses should thus be treated with circumspection.

#### **4.3.2 Trends in funding for environment**

Figure 3 below shows the trend in multilateral and bilateral funding dedicated to environmental projects from 1990-2008. It represents the funds tracked in the AidData database that have been dedicated to projects that serve an environmental objective, as far as was discernible by the authors, based on the description of purpose and—where available—activity codes allotted by AidData. The accumulated total amount for multilateral funding identified in this way for 1990-2008 is US\$ 59.3 billion. However, as explained in the Annex, there is a share missing that cannot be quantified with any degree of precision.

Figure 3: ODA dedicated to environmental projects, 1990-2008 (in constant US\$)<sup>133</sup>



Source: AidData

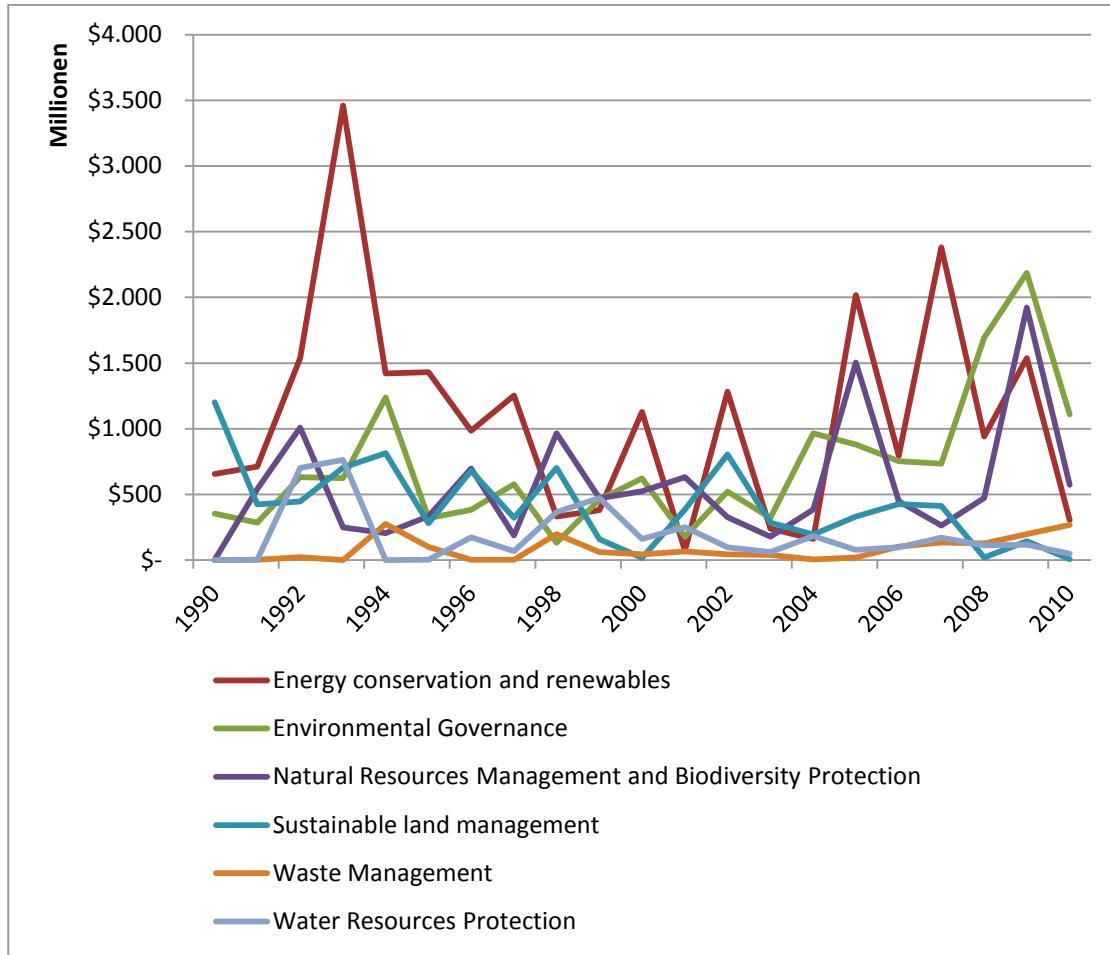
The figure shows that multilateral aid has fluctuated significantly over the years. There was a notable peak in 1993, the year after the Rio Earth Summit. The difference in amounts between bilateral and multilateral aid may be due to the fact that the database does not distinguish between loans and grants, and total loan amounts are usually significantly larger than grant amounts.

Figure 4 below shows the trends in funding across six environmental themes from multilateral donors, from 1991-2010. The division into six environmental themes is based on purpose codes allotted to data in the AidData database<sup>134</sup>. However, again, the figures presented represent only a share of the total, and it is not possible to say with any degree of certainty how much is missing.

<sup>133</sup> To make their records useful for comparison across currencies and time, AidData has employed a systematic method to convert commitment and disbursement amounts to constant 2009 US dollar equivalents, adjusted for inflation and exchange rate changes.

<sup>134</sup> See the Annex for a table depicting our categorization of the AidData purpose codes into these six themes. This categorization of themes was also used in UNEP's "Keeping Track of Our Changing Environment: From Rio to Rio+20 (1992-2012)" Report, in which a similar examination of aid to environmental activities was undertaken.

Figure 4: Trends in funding from multilateral donors across six environmental themes, 1991-2010 (in constant 2009 US\$)



Source: AidData

Thus, according to the (incomplete) data in the AidData base, the area of energy conservation and renewables has in many years received the largest share of multilateral funding. By contrast, waste management and water resources protection have constantly received relatively low shares.

The considerable fluctuations evident in the figure are probably due to the fact that for multilateral mechanisms, contributions are often made at a certain point in time, i.e., when the funds are established and at various intervals thereafter, not consistently every year.

#### 4.3.3 Trends in environmental funding depicted by other research efforts

In the following, we summaries some existing figures on IEG funding from other reports.

##### Greening Aid research using PLAID

The 1992 Rio Earth Summit called for new and additional financial resources for developing countries to meet the additional costs (or in the language of Agenda 21, the “incremental costs”) resulting from fulfilling their obligations under various MEAs and assessed future funding needs for sustainable development. In response, a group of US researchers set out to investigate the actual amount of “green aid”, i.e., ODA for environmental purposes that was

dedicated in the years following the Rio Earth Summit. They launched the Project-Level Aid (PLAID) data collection initiative.<sup>135</sup>

Researchers working on the PLAID initiative classified approximately 427,000 individual development projects<sup>136</sup> according to whether they would likely have a positive (“environmental”), negative (“dirty”) or negligible (“neutral”) impact on the natural environmental. The projects they coded as environmental were further divided into two categories: “green” projects, which are designed to address global environmental problems such as biodiversity loss and trans-boundary air pollution, and “brown” projects, which address local environmental problems such as land erosion, sewer systems, and water pollution. PLAID’s coding scheme enabled researchers to evaluate projects across 61 donors and over the two decades when the data was the most complete and reliable (1980-1999) to draw conclusions about whether foreign aid has been greened—in other words, whether countries have fulfilled their commitments to provide additional financing for environmental protection.<sup>137</sup> The results of the project are summarized in a 2008 book<sup>138</sup> and a 2009 article.<sup>139</sup>

The overall picture that emerged from this research is that foreign aid has partially been greened, but certainly not to the level promised by donors at global summits.<sup>140</sup> Greening in this context is defined as both a reduction of funding going towards environmentally harmful activities and an increase in levels dedicated to environmentally beneficial activities. Researchers found furthermore that, among the issues of water and sanitation, desertification and land degradation, climate change and biodiversity loss (the four major issue areas for which Agenda 21 included specific recommendations about how much funding would be needed), “water and sanitation projects appear to have attracted by far the most environmental funding, with climate change and biodiversity projects increasing substantially (in number and amount) only in the late 1990s... Funding to assist poor countries in combating desertification and other types of land degradation was the most neglected category throughout the 1980s and 1990s.”

In 2009, the AidData initiative was formed, building on PLAID and the Accessible Information on Development Activities (AiDA) program. As mentioned above, researchers are currently working on updating the Greening Aid data to 2008, building on the PLAID database. They are working on integrating these codes into AidData.org’s portal, allowing a more detailed look at environmental assistance.

### **UNEP's “Keeping Track” GEO-5 report**

UNEP's recent report “Keeping Track of Our Changing Environment: From Rio to Rio+20 (1992-2012)”, published as part of the wider Global Environment Outlook-5 (GEO-5) preparations that will lead to the release of the GEO-5 report in May 2012, presents two figures—also based on the

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<sup>135</sup> Launched in 2003 by researchers at the College of William and Mary and Brigham Young University.

<sup>136</sup> Using data from the OECD’s CRS database supplemented by development projects from donor agencies that do not report to the OECD.

<sup>137</sup> Roberts et al. 2009, p. 11

<sup>138</sup> Hicks et al. 2008

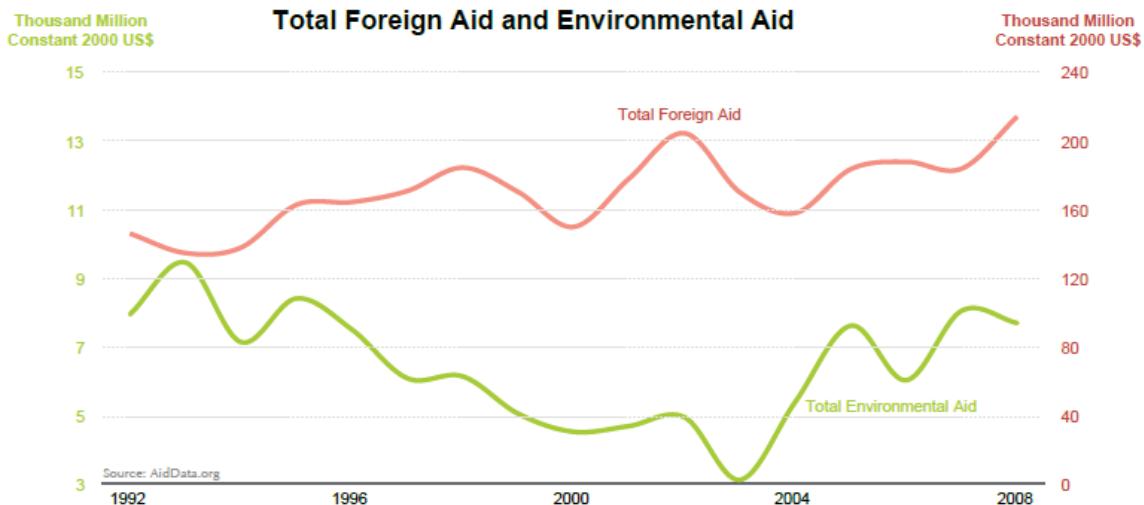
<sup>139</sup> Roberts et al. 2009.

<sup>140</sup> Roberts et al. 2009, p. 16

AidData dataset—on trends in environmental aid: Total Foreign Aid and Environmental Aid from 1992 to 2008, and Aid Allocated to Environmental Activities from 1992 to 2008.<sup>141</sup>

These figures are represented below:

Figure 5: Total foreign and environmental aid according to GEO5 outlook



Source: UNEP GEO-5 2011, p. 58

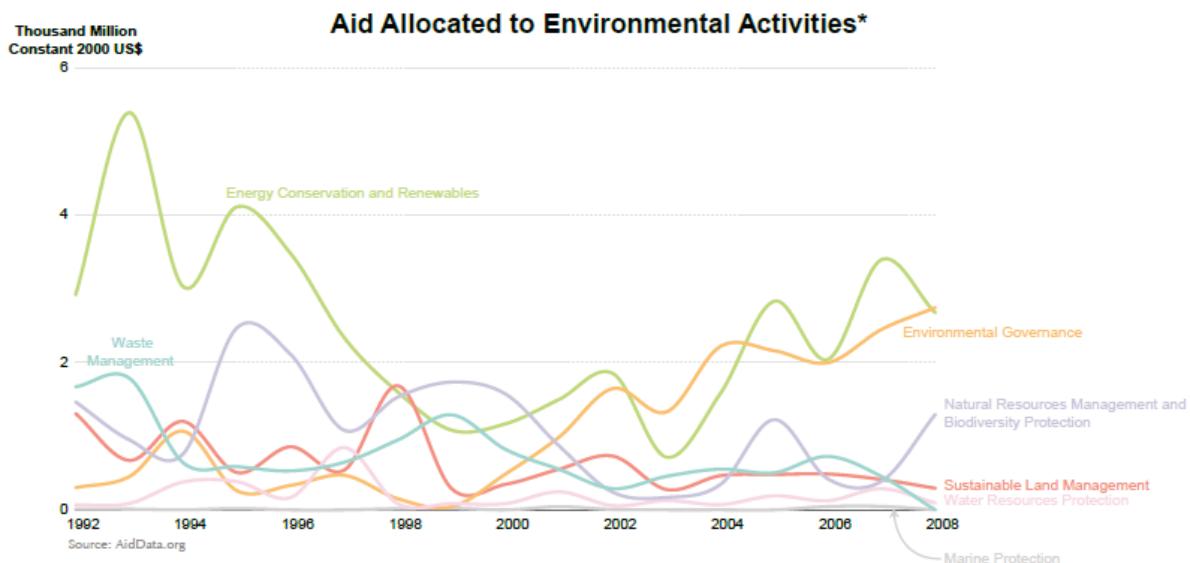
The report concludes, based on this figure, that “[f]unding to support the environment has not kept up with the increase in total foreign aid since 1992.”<sup>142</sup>

The latter figure is an attempt to show how aid has been allocated across 7 environmental subsectors (e.g. Energy Conservation and Renewables, Sustainable Land Management, Marine Protection, Environmental Governance, etc.), for funding channeled through bilateral and multilateral institutions.

<sup>141</sup> In an annex to the report, the authors have listed which AidData activity codes they used to gather data for these subsectors from the AidData dataset. It is not clear, however, how they calculated total environmental aid for the first figure above.

<sup>142</sup> UNEP GEO-5 2011, p. 58

Figure 6: Aid allocated to environmental activities according to GE05 outlook



Two trends evident from this figure, namely that “energy conservation and renewables” have received constantly relatively large shares while water resources protection has received a relatively low share, coincide with what we have found with regard to multilateral funding above (Section 4.3.2.)

### Joint Inspection Unit 2008

The 2008 Joint Inspection Unit’s report of the IEG system at large<sup>143</sup> contains some figures on IEG funding.

For example, the report cites a “rough estimate”<sup>144</sup> on the total annual funding available to United Nations organizations in 2006 at US\$ 1.65 billion, including US\$ 301.0 million for the implementation of global MEAs administered by the UN and UNEP, and US\$ 136.5 million for UNEP.<sup>145</sup> As evident from the report, this estimate is based on core budget and non-core budget figures received from organizations in response to a JIU questionnaire. Moreover, it observes that according to OECD DAC statistics for the 22 DAC Member States and other donors, in 2005, of US\$ 111.2 billion of total bilateral ODA, US\$ 1.85 billion was committed to general environmental protection. The report estimates that “approximately a third of ODA of DAC countries is spent on environmental and environment-related activities in support of sustainable development in such areas as water supply and sanitation.”<sup>146</sup>

<sup>143</sup> Inomata 2008

<sup>144</sup> See JIU Report Annex II: Financial resources for multilateral environmental activities.

<sup>145</sup> Inomata 2008, p. 21, para. 100

<sup>146</sup> Inomata 2008, p. 21, para. 101

#### 4.4 Contributions by the largest donors

The following chapter presents an overview of how the contributions of the 12 most important donors have evolved over the period 1995–2010.<sup>147</sup> This compilation reflects only those funding instruments for which data was available, and for which the contributions can be attributed to individual donors. It therefore does not cover the funding by multilateral development banks, for which environment-related funding forms part of their operating budget, and hence cannot be attributed to specific donor countries. The same is true for some other mechanisms such as UNDP, where individual donors' contributions are not made for a specific purpose but rather contribute to the general budget out of which environmental activities are then funded. Calculations in the figures below are based on amounts deposited, not on amounts pledged.

As a number of the funds covered in this study have only started to operate in recent years, thus the number of funds covered in this analysis increases for each five-year interval, from three funds in 1995 to twelve in 2010, as evident from Table 2, below.

Table 2: Environmental trust funds in five-year increments, 1995–2010

Name of fund	1995	2000	2005	2010
GEF Trust Fund				
Multilateral Fund for the Implementation of the Montreal Protocol				
UN Environment Fund				
GEF Special Climate Fund (SCCF)				
GEF Least Developed Country Fund (LDCF)				
Kyoto Protocol Adaptation Fund				
Climate Technology Fund				
Strategic Climate Fund				
UN REDD+ Fund				
EU Global Climate Change Alliance				
EU Global Energy Efficiency and Renewable Energy Fund				

Table 3 provides an overview of the top 12 donors for each of the four years 1995, 2000, 2005 and 2010 (in US\$ million).

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<sup>147</sup> The data for this compilation was mostly compiled from the different funds' annual reports for the different years, or (in selected instances) from overview sources, such as the website climatefundsupdate.org maintained by the Heinrich Böll Stiftung and the Overseas Development Institute (ODI). This information was compiled for the years 1995, 2000, 2005 and 2010, reporting the annual figures in each of these four years. It is important to note that the following calculations/assumptions were made: Funds for GEF SCCF and GEF LDCF were only available in cumulative amounts, therefore it was not possible to provide annual amounts from 2005; total amounts for GEF SCCF and GEF LDCF are counted in 2010. Funding data for UNEP in 1995 was not found, but is included for 2000, 2005 and 2010 for annual deposited amounts. In addition, all funding for new funds as of 2010, including the Adaptation Fund, Strategic Climate Fund, Clean Technology Fund, Global Energy Efficiency and Renewable Energy Fund and Global Climate Change Alliance are reported by the funds in cumulative figures, and we show total cumulative figure as an 'annual' figure for 2010 because it was not possible to find more accurate data. This results in higher total figures for 2010 as compared to the three earlier years, but the donor countries generally remain the same.

Table 3: Top 10 contributors to multilateral funds 1995-2010 (amounts deposited in US\$ million)

	1995	US\$ million	2000	US\$ million	2005	US\$ million	2010	US\$ million
1	Japan	559,18	Japan	651,94	US	345,92	UK	1455,56
2	US	476,65	US	625,62	Japan	326,00	Japan	1265,19
3	Germany	265,85	Germany	503,24	Germany	319,00	EU	1236,70
4	France	158,73	France	329,24	UK	274,62	Germany	1073,70
5	UK	149,05	UK	279,31	France	203,70	US	1042,14
6	Italy	117,43	Italy	228,76	Canada	138,00	France	294,32
7	Canada	95,87	Netherlands	160,61	Netherlands	122,00	Canada	259,59
8	Netherlands	79,00	Canada	145,27	Sweden	120,99	Norway	191,45
9	Sweden	64,48	Switzerland	123,98	Italy	116,92	Sweden	186,75
10	Russia	0,25	Sweden	103,99	Switzerland	76,61	Spain	169,60

The overview of the main donors contributing to these funds reveals, above all, that the set of donors, and even their ranking per size of contributions, has remained remarkably stable over the period, even if the volume of contributions has changed over time. Acknowledging that this compilation is based on incomplete data, and hence may not present the whole picture, the following observations can be made:

- Six countries can be found in the top ten of donor countries for each of the four years analyzed (1995, 2000, 2005 and 2010): the US, Japan, the United Kingdom, Germany, France, and Sweden. However, as this overview covers multilateral funding only, this does not necessarily say something about the overall contribution that these countries make towards funding for the environment at the international level.
- Japan was the largest donor to the multilateral funds in 1995 and 2000, and the second largest donor in 2005 and 2010. The USA was the largest donor in 2005, and the UK was the largest donor in 2010, mostly due to the UK's significant contribution (585 million US\$) to the World Bank's Strategic Climate Fund.
- Germany, France and the UK were among the third to fifth largest donors in 1995, 2000 and 2005.

However, it should be noted that the above are absolute values, rather than values per capita of the population of the donor countries. Obviously, the ranking of donors would change considerable if per capita values were shown, e.g. putting Japan (even further) and Germany ahead of the US in most of the years.

#### 4.5 An overview of multilateral environmental trust funds

Although there are significant gaps in available data,<sup>148</sup> it is estimated that there are in the range of 132 multilateral environmental trust funds within the World Bank, UNEP, UNDP, and

<sup>148</sup> It should be noted that in particular information on UNEP and UNDP trust funds was difficult to find, while World Bank information was easier to track and the World Bank was responsive to enquiries.

GEF. A few trust funds, such as the Adaptation Fund, have legal personality of their own; however, for most, this is not the case.<sup>149</sup>

Table 4: Number of multilateral environment trust funds<sup>150</sup>

Organization	Number of funds
World Bank <sup>151</sup>	46
UNEP <sup>152</sup>	68
UNDP	8
GEF	5
<b>Total</b>	<b>132</b>

The World Bank and UNEP both have many bilateral funds in addition to these. UNEP had approximately 39 additional bilateral technical trust funds in direct support of UNEP, with a combined volume of US\$ 56.07 million as of 31 December 2009. These funds vary significantly in size and disbursement, and outliers and different periods of reporting may distort averages, but an estimated mean fund balance is US\$ 21.71 million and average annual disbursement is US\$ 16.9 million. A rough median annual balance and disbursement are US\$ 1.81 million and 2.59 million, respectively. UNEP's numerous small funds significantly bring down the numbers.

Table 5: Environmental funds and their disbursements

Environmental funds and their disbursements	
Total Number of Multilateral Funds (WB, UNEP, UNDP, and GEF)	132

<sup>149</sup> See Transitional Committee for the design of the Green Climate Fund, Report on the survey of relevant funds and institutions and lessons learned - A note on the results of surveys and interviews, 31 August 2011, TC-3/INF.2, p.3

<sup>150</sup> Funds included were clearly environmental in purpose; the numbers given here do not necessarily include all "related" funds (e.g., development). Only multilateral funds are included in the list.

<sup>151</sup> This figure is based on the following sources: World Bank 2011 Financial Report, <http://siteresources.worldbank.org/EXTABOUTUS/Resources/29707-1280852909811/FY11SingleAudit.pdf>; Directory of programs supported by trust funds 2001, [http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/1114019\\_Trust\\_Funds\\_Directory.pdf](http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/1114019_Trust_Funds_Directory.pdf); updated list of March 2012 on programs supported trust funds provided via email by the World Bank. UNEP's website reports that in 2010, the total number of active trust funds increased to 84, comprised of 52 trust funds under direct support of the UNEP Programme of Work (including general trust funds, technical cooperation trust funds, and special categories, such as for the Multilateral Fund) and 32 trust funds supporting conventions, protocols, and regional seas. A February 2011 report of the Governing Council Executive Director reports a total of 90 active trust funds as of 30 November 2010 – 51 providing direct support to UNEP, 33 providing support to conventions, regional seas programmes and protocols, and 6 special categories, see Management of trust funds and earmarked contributions," Report of the Executive Director, 18 February 2011. UNEP/GC.26/14/Rev.2. Twenty-sixth session of the Governing Council/Global Ministerial Environment Forum. Nairobi, 21-24 February 2011. Item 6 of the provisional agenda. Budget and programme of work for the biennium 2012-2012 and the Environment Fund and other budgetary measures. However, these numbers include the bilateral funds.

<sup>152</sup> This figure is based on the following sources: UNEP 2009 financial report, <http://www.unep.org/gc/gc25/info-docs.asp> and Status of the Environment Fund and other sources of funding of the United Nations Environment Programme: Note by the Executive Director: UNEP/GC.25/INF/5", [http://www.unep.org/rms/en/Financing\\_of\\_UNEP/Trustfunds/index.asp](http://www.unep.org/rms/en/Financing_of_UNEP/Trustfunds/index.asp)

Mean Annual Balance/Available Funds	36.2 US\$ million
Median Annual Balance/Available Funds	1.81 US\$ million
Range of Balance/Available Funds	0 to 854.1 US\$ million
Mean Annual Disbursements/Expenditures	19.05 US\$ million
Median Annual Disbursements/Expenditures	2.59 US\$ million
Range Disbursements/Expenditures	0 to 678 US\$ million

UNEP seems to have most funds with no or low significant activity (“zombie funds”), as documents showed a number of general trust funds in support of UNEP with extremely low activity. Exact information is difficult to obtain due to the fact that those funds with the least activity also had the least amount of available information, thus making it difficult to establish whether they are still open, what current activity levels they have, and, importantly, which costs arise for maintaining the funds.

Both the February 2009 UNEP Executive Director note and the subsequent December 2008-2009 Financial Report showed a number of general trust funds directly supporting UNEP that had little to no income and little to no expenditures. For example, the General Trust Fund for Implementing National Biodiversity Strategies and Action Plans appears to have been essentially inactive since 1999. The General Trust Fund for Environmental Emergencies had limited expenditures in 2006-2007, none in 2008-2009, and no income from 2008-2009. In 2009, the Joint UNEP/OCHA Environment Unit noted that “(t)he Trust Fund for Environmental Emergencies was established in 1997, and has not been used actively since its inception.”<sup>153</sup> The purpose of the Trust Fund, as per its terms of reference, “is to receive and account for contributions from Governments, intergovernmental and nongovernmental organizations and other sources and to finance or co-finance activities and projects in the field of Environmental Emergencies.” In May 2011, the Joint UNEP/OCHA Environment Unit noted that the Trust Fund had been “revived” and that the unit would continue to promote the Trust Fund’s use.<sup>154</sup> The General Trust Fund for Activities of the Open-ended Group of Ministers on International Environment Governance was noted as depleted back in 2002,<sup>155</sup> marked for closure in 2005, and did not show up in the 2009 UNEP status report, but was listed with a negative balance and no income or expenditure in the subsequent 2009 Financial Report.

For the World Bank, the reported funds all appeared relatively active. Those with the lowest balances or disbursements were usually clustered with a larger fund and thus only financing administrative or other smaller, associated programs. Other non-clustered funds with low activity still demonstrated activity (usually based on the 2011 Program Directory, which details program results) and generally addressed areas that were less well covered by other funds, such as the Global Program on Fisheries (PROFISH). The World Bank fund with the lowest level of

<sup>153</sup> Trust Fund for Environmental Emergencies, Note of the Secretariat. JEU, EU/AG/57, 22 April 2009. Advisory Group on Environmental Emergencies. 8th Meeting co-organized with the Monitoring and Information Centre of the European Commission Brussels, 6-8 May 2009.

<sup>154</sup> The document is available at

[http://ochanet.unocha.org/p/Documents/Agenda%20item%206\\_Proposed%20Workplan\\_EU-AG-66.pdf](http://ochanet.unocha.org/p/Documents/Agenda%20item%206_Proposed%20Workplan_EU-AG-66.pdf)

<sup>155</sup> <http://uncsd.iisd.org/news/meeting-of-the-open-ended-intergovernmental-group-of-ministers-or-their-representatives-on-international-environmental-governance/>

activity, both in terms of volume and disbursement is the Multi Donor Trust Fund for the Clean Air Initiative in Latin America. Apparently, the Clean Air Initiative was started by the WB, which now hosts the Clean Air Initiative website and serves as an electronic operational center around which the partnership communicates.<sup>156</sup> It is unclear why the Latin America program is the only regional program with a recorded trust fund account with the WB. Regardless, the program itself appears sufficiently active, even if the trust fund status is ambiguous.

UNDP's funds, in general, appear active and have qualitative information on activities, but quantitative data is not readily available.

#### 4.6 Share of administrative costs

One criterion when assessing the overall efficiency and effectiveness of the current IEG finance system is the share of funds that go towards covering the administrative costs of the organizations disbursing money for environment-related purposes. While administrative funding for an organization that is dedicated to environmental purposes, such as UNEP, can, provided that the organization works well, be seen as an effective contribution for environmental purposes, this is not the case for contributions to organizations that do not have environmental objectives, such as multilateral banks. Here, it is very important which share of the overall funding actually translates into environment-related activities.

Obviously, no single figure can be provided in this regard, as the percentage of funds spent for internal purposes varies by organization. The Global Environmental Facility (GEF) carried out an interesting comparison on so-called efficiency ratios of different grant-making organizations in its 4<sup>th</sup> Overall Performance Study (OPS4). Efficiency ratio is the ratio of administrative plus program delivery costs to total expenditures. Thus, the lower the efficiency ratio, the more "efficient" the respective organization is. The organizations included in the comparison were the GEF, the IFAD, the Global Alliance for Vaccines and Immunisation (GAVI) and the Global Fund to Fight Aids, Tuberculosis and Malaria (Global Fund or GFATM). The results are reproduced in Table 6.

Table 6: Efficiency ratios of different grant-making organizations

Fund/Facility	Total Budget (million US\$)	Efficiency ratio (%)
GEF (2008)	662.7	12.3
IFAD (2008)	796.6	14.7
GAVI Alliance (2009)	723.0	12.2
Global Fund (2006)	1,902.0	4.0

Reproduced from: OPS4, p. 174.

Additional figures on the share of administrative costs collected from the financial reports of various organizations confirm that the overall shares of administrative costs of lending/grant-making institutions active in the environment sectors range roughly from 3-15% of disbursements.

<sup>156</sup>

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/0,,contentMDK:20276756~pagePK:210058~piPK:210062~theSitePK:244381,00.html>

The OPS4 observes that the following factors influence how much money is actually spent by a grant-making organization for administrative costs:<sup>157</sup>

- Where the overall scale of operation is more extended, average costs per project tend to become smaller.
- Generally, the administrative share is higher for smaller projects. Programmatic approaches are cheaper than individual projects for funding organizations; however, the recipient countries may have to invest more.
- An organization that has a fixed clientele that it must serve is likely to be more expensive than an organization that can choose its clientele.
- Maintaining a presence in many countries and more decentralized decision-making are more expensive than working with a more centralized structure, but likely to produce better results.
- Funds/facilities that receive up-front contributions from donors can be more cost-efficient than those that receive commitments against which they borrow money for disbursement, because they do not have to pay interest for borrowing money on capital markets.

However, when reading such statements and figures, one must keep in mind that the share of expenditure going towards the operation of an organization is influenced by the range of activities that the organization undertakes (e.g., if it has a strong system for monitoring and evaluation) and how intensively it reviews proposals and supervises project implementation. Thus, cheaper is not necessarily better. Moreover, some costs are likely to arise somewhere in the system. For example, programmatic approaches often make it cheaper for the grant-making organization to disburse money, but the recipient countries have to invest more time in planning. Similarly, if donor countries pay their contribution up-front, this makes the operation of the recipient organization cheaper, but could in turn mean that the donor country itself has to borrow more money on financial markets, thus incurring extra costs.

Concerning the costs of implementing entities, after receiving project proposals with large variation in the administrative fees requested by the implementing entities, the Adaptation Fund Board requested its Secretariat to undertake a desk study on administrative and execution costs, including how other funds have defined and have set caps or exact allocations for these costs. The study compared the rules established on agency administrative fees, project management related costs, and project execution costs of the GEF, MLF, GFATM, GAVI and the World Bank's CIFs. Because of the heterogeneity among the various funds in (i) Fund governance structure, (ii) Implementing Entities internal procedures and policies, and (iii) types of projects funded (i.e. whether or not they require a project management unit), the authors were unable to draw comparative conclusions on the rules established on project related fees and costs. One important note they made, however, is that what is most critical with regard to project cycle management fees is a proper framework for monitoring the efficient use of fees to deliver support for project development, implementation, completion and reporting.<sup>158</sup>

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<sup>157</sup> OPS4, p. 171ff.

<sup>158</sup> Administrative and Execution Costs: Analysis of Current Rules and Comparison of Practices with Other Funds. AFB/EFC.4/7/Rev.1

#### 4.7 In-depth analysis of some mechanisms for disbursing funds and their performance

In the following we undertake an in-depth analysis of six specific instruments, the UNEP Environment Fund, the Global Environment Facility (GEF) Trust Fund, the Multilateral Fund for the Implementation of the Montreal Protocol (MLF), the Adaptation Fund (AF), the Clean Investment Funds (CIFs) administered by the World Bank, and, finally, one instrument not dedicated to environmental purposes, the Global Fund to Fight AIDS, Tuberculosis and Malaria. These mechanisms were selected for the following reasons:

- The **UN Environment Fund** has a central role among the UN funding mechanisms for environmental projects and is the oldest multilateral environmental fund.
- The **GEF Trust Fund** is the most important environmental fund in quantitative terms and it is cross-sectoral in character. The GEF also has a complex governance structure with many actors involved; it therefore provides useful lessons on what benefits and problems could be entailed if IEG funding should become more centralized in the future.
- The **MLF** is generally considered to have been exceptionally good at reaching its environmental objectives. It may serve as a best practice example of trust funds administered by UNEP.
- The **Adaptation Fund** has only recently been established under the Kyoto Protocol. However, it is innovative concerning its funding source (essentially global carbon markets), its decision-making structure and the direct access it provides to developing countries. It is also of particular relevance in view of its large and growing role for climate-related finance.
- The **CIFs** are also major and recently-established funds in the field of climate change. They are administered by the World Bank, and thus exemplary of trust funds administered by the World Bank. Moreover, one of the CIFs, the Clean Technology Fund (CTF), has adopted a programmatic approach which could provide interesting lessons for how environmental funds can be used effectively.
- The **Global Fund** to Fight AIDS, Tuberculosis and Malaria (GFATM) is not an environmental fund; however, it stands out due to the prominent role it gives to private-sector funding.

Each of these mechanisms has been assessed, on the basis of existing evaluations in line with several criteria. These criteria are based both on key questions and aspects being discussed in the political discussions on the reform of IEG finance and on criteria typically used for the evaluation of development cooperation projects and programs.<sup>159</sup> The latter are relevant as most international environmental funding channeled through the public sector goes to developing countries and is ODA.

The following criteria were applied:

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<sup>159</sup> See OECD, Development Assistance Committee (DAC): Criteria for evaluating development cooperation, [http://www.oecd.org/document/22/0,2340,en\\_2649\\_34435\\_2086550\\_1\\_1\\_1,1,00.html](http://www.oecd.org/document/22/0,2340,en_2649_34435_2086550_1_1_1,1,00.html)

- **Relevance:** Are the supported interventions in line with the specific (statutory) objectives of the fund, donors' goals, strategies and policies? Is the intervention relevant in relation to the beneficiaries' needs and priorities?<sup>160</sup> Is it relevant in relation to the issue it seeks to address?
- **Coordination:** How well is the mechanism coordinated with other mechanisms, and internally? Is a duplication of structures and confusion about "who does what" avoided to the extent possible?
- **Predictability of funds:** Is the funding secured in such a way that mid/long-term planning is possible for institutions and recipients?
- **Efficiency of procedures:** What share of the money is dedicated to environmental aims, how high is the share of administrative costs, and how quickly is the money disbursed?
- **Monitoring and evaluation:** Which procedures are in place for monitoring and evaluation to ensure that constant improvement takes place?
- **Complaint/conflict management:** Can a decision be challenged if perceived to be unfair and reversed, and if so, how?
- **Impacts** brought about by the funded measures, including the following aspects:
  - Effectiveness: To what extent were the programmatic objectives achieved, or are expected to be achieved?
  - Efficiency: How do the impacts compare to the resources committed?
  - Sustainability of impacts: Will the benefits produced by the intervention be maintained after the cessation of external support?
  - Co-benefits/do no harm: What are the positive and negative long-term impact(s) of the interventions, direct and indirect, intended or unintended?

#### 4.7.1 UNEP Environment Fund

The Environment Fund is distinct from other multilateral funding mechanisms for the environment by virtue of its age, its mandate, and its evolution over time. Created in 1972 through Resolution 2997 (XXVII), which also established the UN Environment Programme, the Environment Fund is the oldest financial mechanism for environmental affairs. The United States led the creation of the Fund providing both the intellectual concept and 40% of the Fund's initial resources. In his address to the US Congress on 8 February 1972, President Richard Nixon proposed the creation of the Fund "with an initial funding goal of US\$ 100 million for the first 5 years ... to help to stimulate international cooperation on environmental problems by supporting a centralized coordination point for United Nations activities in this

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<sup>160</sup> Whether funding is relevant to the priorities of recipient countries is important, *inter alia*, in light of the international community's growing verbal commitment to principles of aid effectiveness as set forth in the 2005 Paris Declaration and subsequent documents. One of the principles of aid effectiveness is the principle of ownership, according to which developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.

field.”<sup>161</sup> Importantly, the original US vision for the Environment Fund emphasized the expectation that its resources would increase as the environmental agenda expanded:

“...we believe that US\$ 100 million is a beginning. However, this amount should be viewed as a minimum, a starting figure. It is not yet clear how much money will be required for adequate environmental action. The Voluntary Fund should be of such size as to guarantee that financing will not be a limiting factor to all necessary action.”<sup>162</sup>

The Environment Fund’s core mandate was thus to facilitate the effective coordination of the international environmental activities of the UN system and other international organizations. It was expected to fulfill the mandate by financing the costs of new environmental initiatives within the UN system and assisting developing countries with their environmental actions. As stated in Resolution 2997, the Environment Fund would finance programs such as “regional and global monitoring, assessment, and data collecting systems, including, as appropriate, costs for national counterparts; the improvement of environmental quality management; environmental research; information exchange and dissemination; public education and training; assistance for national, regional and global environmental institutions; the promotion of environmental research and studies for the development of industrial and other technologies best suited to a policy of economic growth compatible with adequate environmental safeguards.”<sup>163</sup> The Resolution also asserts that “in order to ensure that the development priorities of developing countries shall not be adversely affected, adequate measures shall be taken to provide additional financial resources on terms compatible with the economic situation of the recipient developing country.”

Over time, however, the Environment Fund has become the primary financial mechanism for UNEP’s work. As UNEP’s 2010-2013 Medium Term Strategy document notes, the Environment Fund is “the funding bedrock of UNEP.”<sup>164</sup> The Fund grew from US\$ 60 million per biennium in the 1970s, when the organization gained ground, to close to US\$ 180 million in 2008-2009. This threefold increase in capitalization is only true, however, in nominal (or current) contributions.<sup>165</sup> In real terms (adjusted for inflation), the volume of the Environment Fund decreased in the 1980s and fell precipitously again after a brief spike in the early 1990s in the run up to the Rio Earth Summit. It is only now reaching the levels of funding it had in 1977 and 1992. The four-decade trend thus shows that the original intention to grow the Fund proportional with intensifying environmental problems was never truly realized (see Figure 7).

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<sup>161</sup> It is important to note that US\$100 million in 1972 is equivalent to over US\$515 million in 2010.

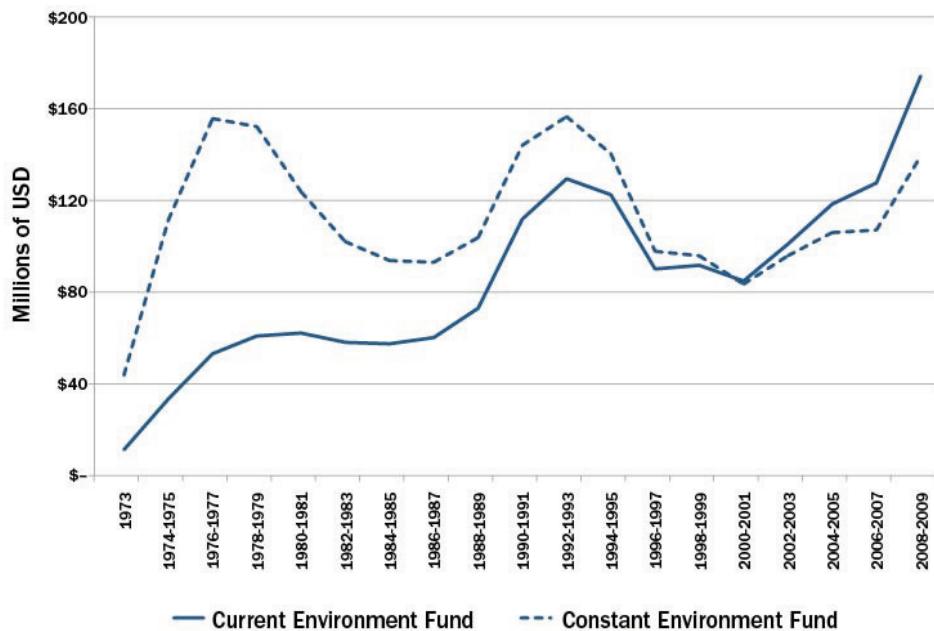
<sup>162</sup> United States. 1972. Stockholm and Beyond: Report. Secretary of State’s Advisory Committee on the 1972 United Nations Conference on the Human Environment. Washington, DC: Government Printing Office.

<sup>163</sup> UNGA Resolution 2997

<sup>164</sup> UNEP Medium-term Strategy 2010–2013, <http://www.unep.org/PDF/FinalMTSGCSS-X-8.pdf>

<sup>165</sup> Current or nominal US\$ represent nominal values in the series from 1973 to 2010, in contrast to constant US\$ (or real values) which have been adjusted to remove effects of price changes over time by considering inflation.

Figure 7: Environment Fund historical overview (in current and constant (2000) US\$)



Source: Ivanova 2011

In addition, since the 1990s, the share of the Environment Fund in UNEP's budget has diminished significantly while the share of earmarked funds has risen. In 2010, earmarked funds comprised 62% of UNEP's budget.<sup>166</sup>

### Relevance

In its 40-year history, the objectives of the Environment Fund have evolved considerably. Created as the mechanism to promote coordination in the UN system, the Fund gradually evolved into a mechanism for financing UNEP's own operations. Originally, the Environment Fund was supposed to provide the necessary resources through which UNEP would influence and coordinate the activities of other UN agencies. In the 1970s, UNEP devoted between 30 and 40% of its Environment Fund budget to interagency cooperation, i.e., financing environmental activities by the specialized agencies. While not sufficient for creating a full-fledged UN-wide environmental program, these funds gave UNEP the power to support and sustain agency staff throughout the United Nations, known as focal points, who could engage their colleagues in more systematic environmental work. Focal point officers were able to use UNEP contributions as a lever in their own bureaucracy. Such developments occurred in FAO, ILO, and in the UN Disaster Relief Organization.<sup>167</sup>

In the 1980s, however, the Environment Fund was redirected toward UNEP's own activities instead and stopped funding work in other UN agencies. As a result, UNEP lost significant influence with the other agencies and has developed more independent activities. The GEF has, in some sense, taken over some of the role originally envisioned for the Environment Fund and has become the primary financing mechanism for global environmental concerns. Though the

<sup>166</sup> MOPAN 2011.

<sup>167</sup> Ivanova 2011

GEF distributes its resources through other agencies (including UNEP, UNDP, and the World Bank and, more recently, about 10 other UN organizations), its resources are deployed at the national level. No one agency is therefore responsible for financial support of the coordination of environmental programs and activities across the UN system.

Donors have recognized the need for increased coherence and coordination in the environmental system and called repeatedly for improved international environmental governance.<sup>168</sup> They have therefore explicitly noted that improved coordination is a core priority, but have been unable to provide the means for delivering on it. The initial vision and mandate of the Environment Fund could provide the blueprint for effective coordination of environmental action in the UN system.

Since the Environment Fund is currently the primary single mechanism for financing UNEP, relevance cannot be measured against the Fund's original mandate and cannot be compared to other financial mechanisms for the environment, which are operational in nature. There has been no separate, independent evaluation of the Environment Fund. Evaluations of UNEP as an organization feature some conclusions about its financing, and insights about the Environment Fund can be gleaned from them.

For example, a 2011 assessment of UNEP's performance evaluated whether UNEP's resource allocations were aligned with its global priorities, if budget allocations were linked to expected results, and whether UNEP reported on the amounts disbursed to achieve these results. The report notes that donors at the headquarters rated UNEP as adequate overall for linking resource management to performance. It also points out that the links between budget allocations and expected results could be strengthened and that there was a potential for improvement in these areas. UNEP's results-based budgeting provides a solid platform for continuous improvement.<sup>169</sup>

### **Alignment and Coordination**

Until 2008, divisions in UNEP were responsible for preparing biennial costed work plans to serve as an overarching framework for their programmatic and administrative activities. The costed work plans also served as a legal basis determining the disbursement of the Environment Fund's resources for:

- Meeting the core operational needs of the divisions, including all relevant indirect costs, i.e., staff cost;
- Financing the direct cost of activities that are implemented internally.

In 2008, UNEP overhauled the architecture of its programming in order to deliver as "One UNEP" and replaced division-specific work with six cross-cutting sub-programs to be implemented across all divisions. By doing so, UNEP sought to improve coordination within the organization, eliminate duplication of work, and remove the "silo mentality". It launched a new, results-based management framework, the Medium-Term Strategy 2010-2013. The Medium Term Strategy is being implemented through a matrix management approach that involves six divisions implementing six sub-programs across the divisions.

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<sup>168</sup> Federal Office for the Environment of Switzerland, and World Trade Institute at the University of Bern 2011

<sup>169</sup> MOPAN 2011

An audit of UNEP's internal management performed by the UN Office of Internal Oversight Services (OIOS) identified two main challenges facing UNEP in the implementation of the matrix approach:

- 1) Need for greater coordination and integration of activities across divisions implementing sub-programs and covering different geographical areas and
- 2) Need for clear definition and assignment of authority, responsibility and accountability of the various divisions and staff members involved in the implementation of sub-programs.

The report recommended that UNEP create appropriate coordination mechanisms among sub-programs, allocate the necessary resources for their implementation, and clarify the mechanisms for allocating resources across divisions implementing a single program. As a result, UNEP has provided resources for the enhancement of coordination including for the creation of dedicated sub-program coordination positions for three of the six sub-programs and a Quality Assurance Section to oversee strategic planning and management policy development, resource and program analysis, and performance monitoring. It has also created an inter-divisional Project Review Committee, a Monitoring Policy and Plan, and a Program Accountability Framework.

The Program Accountability Framework (2010) establishes guiding principles that determine programmatic, financial, and administrative roles and responsibilities of UNEP managers and staff. The Framework complements the UN's accountability architecture and existing administrative and oversight policies and procedures.<sup>170</sup>

The Corporate Services Section was also created to respond to the increased need for coordination. Led by the Deputy Executive Director, it is in charge of coordinating overall management of UNEP's financial, human, and physical resources. The Section is responsible for:

- Formulating and implementing resources management policies, procedures, and reporting mechanisms;
- Providing advice to UNEP managers on financial and administrative management;
- Delegating certifying authority to the Environment Fund Management officers and ensuring that such authority is exercised according to the UN rules and regulations;
- Monitoring the implementation of the resources management sections within the Divisional and Regional offices work plans;
- Ensuring effective communication with UNON's human, financial, ICT, and physical resources management services.

In addition, UNEP has created Coordinating Divisions, whose directors provide leadership and ensure coherence, coordination, program performance and reporting.<sup>171</sup>

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<sup>170</sup> UNEP 2010, Implementation of the Programme of Work 2010-2011: The UNEP Programme Accountability Framework, <http://www.unep.org/QAS/Documents/UNEPProgrammeAccountabilityFramework.pdf>

<sup>171</sup> UNEP, April 2010. Implementation of the Programme of Work 2010-2011: The UNEP Programme Accountability Framework

## Predictability of Funds

Predictability and consistency of funding is a challenge for all UN organizations—regardless of whether they rely on voluntary or assessed contributions. Member states often default on their pledges and obligations due to their own budgetary constraints and national politics. Therefore, many agencies are seeking to broaden their revenue base and attract private funding. The Environment Fund, however, accepts contributions only from governments. Its framework is based on the Governing Council approved biennial budgets and actual expenditures.

At its 25th session in 2009, the Governing Council approved appropriations in the amount of US\$ 180 million for the Environment Fund program and biennial support budget (GC Decision 25/13).<sup>172</sup> In 2010, with 87 countries pledging to contribute to the Environment Fund, the total projected income of US\$ 81.06 million represented a 10% deficit (Table 7). As of 31 December 2010, 86 countries had paid US\$ 80.309 million, thus raising the deficit to 11%. The remaining US\$ 755,000 was expected to be paid in 2011.

Table 7: Contributions to the Environment Fund in 2006-2010 as of 31 December each

Year of analysis	2006	2007	2008	2009	2010
Number of pledges (countries)	113	104	92	98	87
Pledged contributions (*) (US\$ millions)	59.06	67.05	89.08	85.51	81.06
Increase/(decrease) from previous year	0.2%	13.5%	32.9%	-4.0%	-5.2%
Paid contributions	57.72	66.83	88.33	79.76	80.3
Paid as percentage of pledged contributions	97.7%	99.7%	99.2%	93.3%	96.9%
Pledged Contributions by Top 15 Donors	54.06	63.37	82.49	79.13	75.367
Total pledged contributions (**) (US\$ millions)	59.06	67.05	89.08	85.51	81.06
Top 15 Donors as percentage of pledged contributions	92.20%	92.30%	92.60%	92.54%	92.98%

Source: UNEP/GC.26/INF/6. Note: Some countries pledge after the financial year/preparation of the fund report has been closed: (\*) Refers to pledges at the time of preparation of the CPR Fund Report each year (incl. estimates), and (\*\*) Refers to pledges received to date for the whole specific year.

About 70% of the contributing states paid close to or above the Voluntary Indicative Scale of Contributions (VISC). Over 72% of them paid during the first quarter of the biennium. Other member states were encouraged to contribute as early as possible to ensure timely and efficient implementation of UNEP's Program of Work. The highest contributors include the Netherlands (US\$ 12.9 million), followed by Germany, UK, USA, France, Sweden, and Belgium (see Table 8).

While the number of donor countries and the amount of their contributions grew since 1990,<sup>173</sup> the recent global economic turmoil has resulted in a downward trend and significant reduction in the funds contributed by several major donors (see Table 8). Due to worsening economic conditions, some European countries have implemented austerity measures, which in

<sup>172</sup> UNEP/GC.26/INF/6, February 2011. Status of the Environment Fund and other sources of funding of the United Nations Environment Programme: Note by the Executive Director

<sup>173</sup> [http://www.unep.org/rms/en/Financing\\_of\\_UNEP/Environment\\_Fund](http://www.unep.org/rms/en/Financing_of_UNEP/Environment_Fund)

turn further reduced the resource availability to the Environment Fund. To address the reduction in contributions in 2010, UNEP's Executive Director approved allocations of US\$ 79.3 million for 2010:

- Environment Fund Program activities: US\$ 68.20 million
- Environment Fund biennial support budget: US\$ 8.10 million
- Fund Program Reserve: US\$ 3 million

Table 8: Environment Fund - top 20 donor countries contributions in 2008-2010

Country	2008 (US\$)	2009 (US\$)	2010 (US\$)
1 Netherlands	12,532,000	12,731,000	12,901,000
2 Germany	8,473,749	7,884,740	9,819,747
3 United Kingdom	9,008,420	8,452,963	8,572,758
4 United States	5,800,000	5,825,050	6,000,000
5 Italy	11,632,000	4,157,100	-
6 France	5,100,000	5,100,000	5,440,000
7 Finland	4,539,370	4,876,280	4,161,600
8 Sweden	4,123,663	3,900,000	4,928,295
9 Switzerland	3,780,074	3,850,541	4,035,719
10 Spain	5,115,600	4,301,088	1,847,300
11 Belgium	909,586	5,425,506	4,488,538
12 Denmark	3,227,083	3,906,250	3,508,772
13 Japan	2,963,807	2,963,807	2,963,807
14 Norway	2,886,740	3,000,000	3,000,000
15 Canada	2,400,000	2,400,000	2,800,000
16 Luxembourg	906,960	878,800	700,280
17 Australia	686,160	674,974	839,971
18 Russian Federation	500,000	500,000	900,000
19 Austria	584,880	524,000	570,000
20 Ireland	406,394	456,956	422,973
<b>Total</b>	<b>85,576,486</b>	<b>81,809,055</b>	<b>77,900,760</b>

Source: UNEP Environment Fund Contributions 2011<sup>174</sup>

The Environment Fund income for 2011 was projected to be 12% or US\$ 10.8 million lower than planned. This would create a deficit of US\$ 21.6 million for the 2010-2011 biennium. While seeking to ensure full funding of US\$ 180 million for 2010-2011, UNEP was preparing a contingency scenario that integrated a potential Environment Fund income shortage. UNEP has

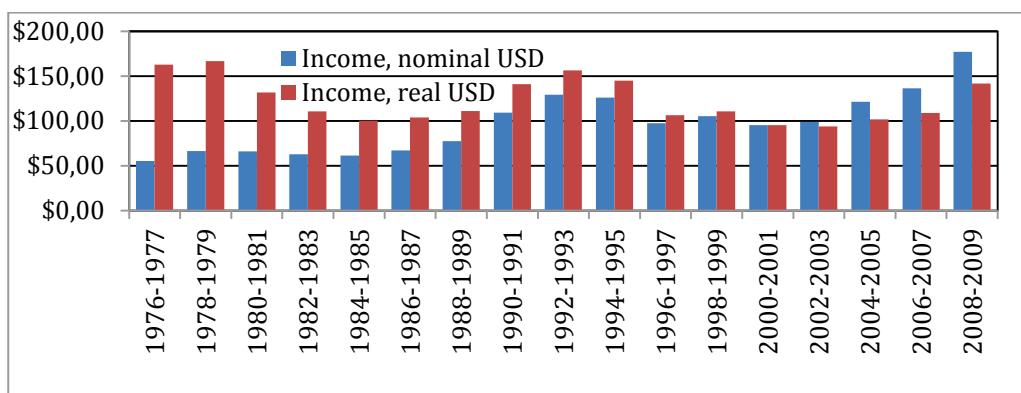
<sup>174</sup> [http://www.unep.org/rms/en/Financing\\_of\\_UNEP/Environment\\_Fund](http://www.unep.org/rms/en/Financing_of_UNEP/Environment_Fund)

been working to broaden its funding base by reaching out to the private sector and foundations, while exploring opportunities to tap into aid funds available at the bilateral level.

Over time, the Environment Fund has exhibited low total volume (see Figure 6), low predictability, and a high degree of volatility. In the context of a global economic downturn, donor countries are likely to further underfund their environment-related priorities. The scarcity and volatility of resources in the Environment Fund limit mid- and long-term planning for UNEP. They also push the organization to seek and accept earmarked contributions that may not align well with its core priorities. While UNEP is actively seeking innovative, unconventional, and sustainable funding sources, it is limited in its ability to accept private funds and remains reliant primarily on government contributions.

The volume and trend in Environment Fund spending, in real terms, is presented in Figure 8.

Figure 8: UNEP Environment Fund Expenditures, 1976-2009 (in current and constant (2000) US\$ millions)



The biennia 1994-1995 and 2008-2009 represented the Environment Fund's highest spending years. Staffing costs represent the major spending item in the Fund. Travel costs were maintained constant, whereas contractual spending, i.e., the hiring of consultants, became more pronounced in the 2000s (Figures 9 and 10). In the 2008-2009 biennium, staff and personnel costs accounted for 61% of Environment Fund spending, contracts at 17%, while travel was at 5%.

Figure 9: Trends in UNEP Environment Fund expenditures, 1976-2009 (in constant (2000) US\$)

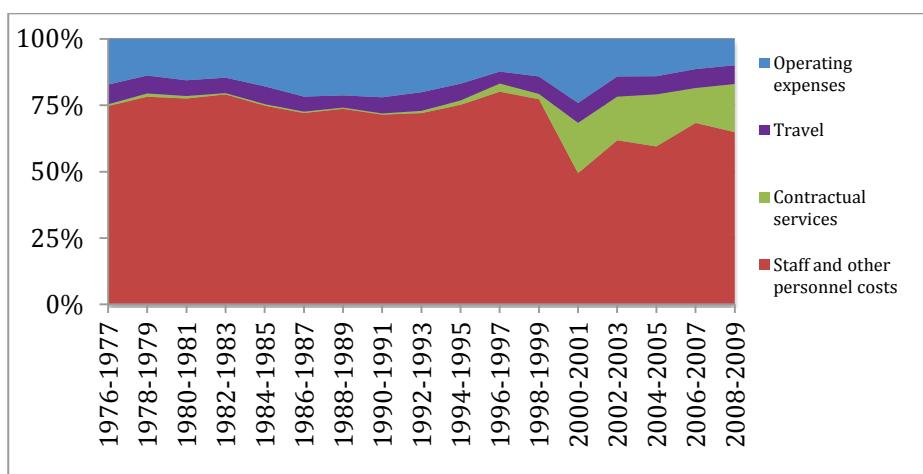


Figure 10: Volume of major UNEP expenditures, 1976-2009 (in constant (2000) US\$ millions)

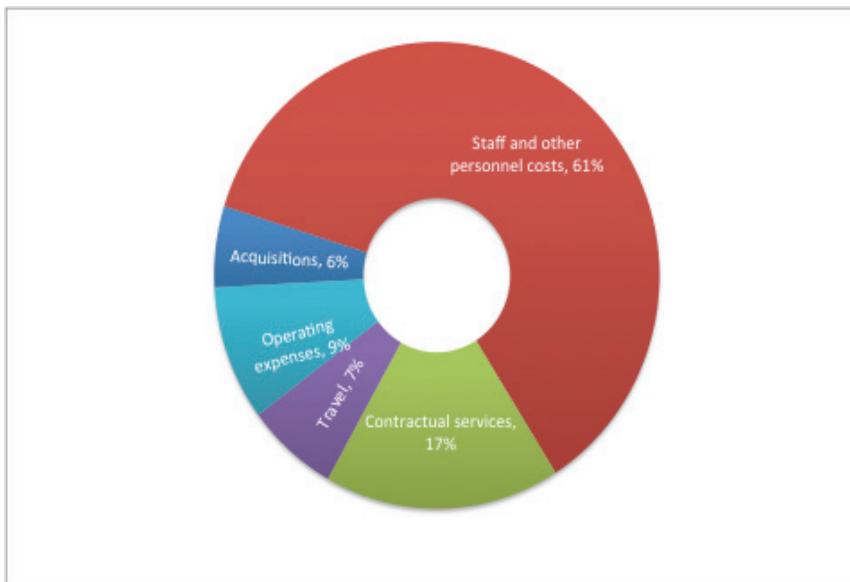
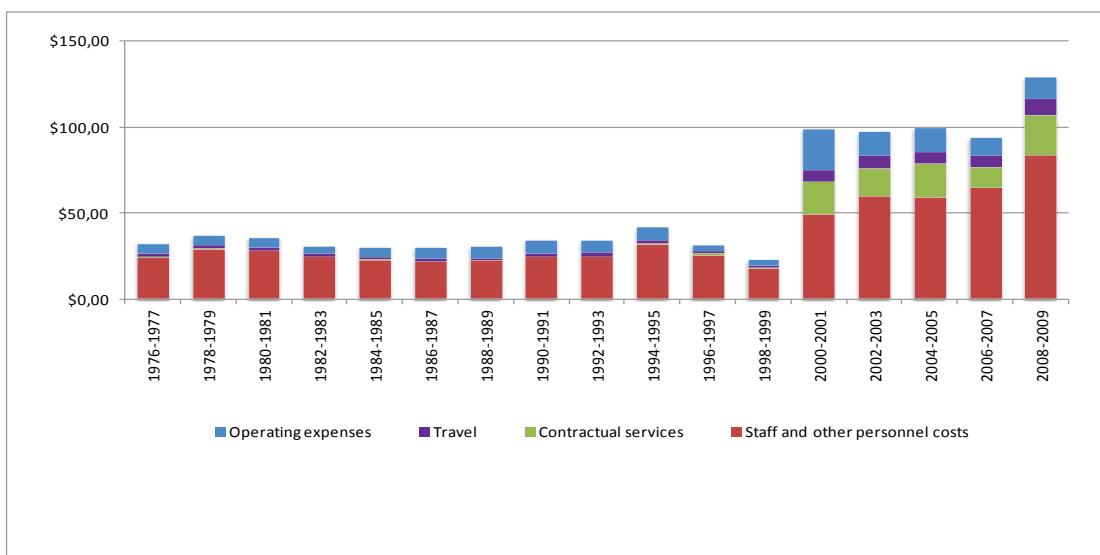


Figure 11: Environment Fund 2008-2009 biennium expenses



However, UNEP still needs to address challenges that reduce the organizational efficiency and effectiveness in the Environment Fund's resources' allocation and utilization. For example, the UN accounting system does not allow for allocating Environment Fund resources to projects in order to cover for personnel costs. This arrangement makes it virtually impossible to quantify the financial or staff resources required for project implementation. Additionally, quantifying the requirements of financial and staff resources for new projects is often considered time consuming, leading to inaccurate estimates and expectations. Coupled with the lack of clarity on resource availability, these circumstances prompted UNEP's Senior Management to override

the initial request by the Quality Assurance Section of UNEP to specify the amount of financial and human resources required from the Environment Fund for new projects.<sup>175</sup>

UNEP's procedures for financial accountability and performance assessment are considered to be among the strongest areas of its organizational performance. UNEP also significantly enhanced its capacity to delegate programmatic decision-making authority by recently developing its Accountability Framework<sup>176</sup>. However, UNEP's criteria for program resource allocation are not sufficiently transparent. Given that the actual allocation of UNEP resources is the result of a negotiating process among governments, UNEP could do better in disclosing its own initial criteria for allocating program resources.

Additionally, UNEP's evaluation report of its Programme of Work for 2010-2011 states that the resource allocation processes of the Environment Fund were not adjusted to accommodate UNEP's new divisional structure. As a result, priorities across sub-programs, expected accomplishments, and Programme of Work outputs are not well defined and "lack any written justification." The report also indicates that currently, the Environment Fund resources associated with each Programme of Work output are not known. There is also room for improvement in UNEP's transparency in the criteria for allocating resources, and in linking disbursements to expected results. UNEP needs to develop and implement organizational policies for financial audit, and anti-corruption measures.

### Efficiency of Procedures

In 2010, the total Environment Fund expenditures were US\$ 76.284 million against the allocated US\$ 79.3 million, which demonstrates a 96% resource utilization rate. Two factors contributed to this outcome: the non-linear nature of programmatic spending, and the freeze on new hires for open positions. Table 9 shows the approved budget, allocations issued by the Executive Director and expenditures by sub-programs as of 31 December 2010.

Table 9: UNEP 2010 program of work approved budget, allotment and expenditures<sup>177</sup>

Subprograms	Approved GC 25 2010-2011 Budget	2010 All- ocation issued	Env Fund Expen- diture	Budget Utilization	Unexpended allocations for 2010
Resource efficiency	24,945	10,125	10,159	100%	-34
Harmful substances and hazardous waste	17,985	8,290	6,622	80%	1,668
Environmental Governance	40,229	18,252	18,268	100%	-16
Ecosystem management	33,987	14,987	14,249	95%	738
Disasters/conflict	10,087	4,067	3,330	82%	737
Climate Change	28,767	12,477	12,686	102%	-209
<b>Total Subprograms</b>	<b>156,000</b>	<b>68,198</b>	<b>65,314</b>	<b>96%</b>	<b>2,884</b>

<sup>175</sup> Implementation of the Programme of Work 2010-2011: Evaluation Plan for the Work Programmes of UNEP Within the 2010-2013 Medium Term Strategy, Draft, 19 January 2010

<sup>176</sup> MOPAN 2011

<sup>177</sup> UNEP/GC.26/INF/6, February 2011. Status of the Environment Fund and other sources of funding of the United Nations Environment Programme: Note by the Executive Director

Fund program reserve	6,000	3,000	3,000	100%	0
<b>Total Fund</b>	<b>162,000</b>	<b>71,198</b>	<b>68,314</b>	<b>96%</b>	<b>2,884</b>
Environment Fund Support Budget	18,000	8,103	7,970	98%	133
<b>Grand Total</b>	<b>180,000</b>	<b>79,301</b>	<b>76,284</b>	<b>96%</b>	<b>3,017</b>

Source: UNEP/GC.26/INF/6

Recent data demonstrate that in comparison to the first year of the 2008-2009 biennium, UNEP significantly increased its expenditures during the first year of the 2010-2011 biennium in two major areas<sup>178</sup>:

- 1) Equipment acquisition—25% or US\$ 0.92 million
- 2) Salaries—20% or US\$ 9.35 million

Travel expenses, operating expenses, and use of consultants were significantly reduced during the same period of analysis. The total fund utilization in 2010 reached 96%, which is an 8% increase compared to 2008. In 2010, UNEP's overall post and non-post cost ratio was 56% for post expenses and 44% for non-post expenses, with the Environment Fund ratio reaching 73:27 (73% for post expenses and 27% for non-post expenses). In 2011, UNEP developed a 12-month plan to adjust this ratio for the Environment Fund to 66:34 by 2012 with an ultimate goal of 64:36 by the end of the biennium 2012-2013.

### Program and Project Monitoring and Evaluation

While most of UNEP's projects and programs formally comply with the requirements outlined in UNEP's evaluation manuals (circa 2005 and 2008), strategic<sup>179</sup> and evaluation<sup>180</sup> plans, the monitoring and reporting systems are often not sufficiently customized to specific socio-economic, geographic and operational circumstances. In such instances monitoring is not considered a practical management tool and is used for formal reporting to higher levels of authority in the UN system. It is also common to combine monitoring, evaluation, and reporting under a single "Monitoring & Evaluation" section of reports. While this practice helps enhance focus on performance management, it camouflages the importance of the difference between monitoring as an internal management function and evaluation as an external assessment intervention. Below are the key standards and guiding principles that govern all project and program monitoring, reporting, and evaluation activities within the UNEP Programme of Work.

UNEP defines monitoring<sup>181</sup> as a continuous process of assessing the status of project implementation in relation to the approved work plan and budget. UNEP's Manual for Project Monitoring and Evaluation encourages program and project managers to employ a systematic project design approach. This approach helps eliminate incorrect and contradictory

<sup>178</sup> UNEP, Programme Performance Report for the 2010-2011 biennium; Report of the Executive Director, no. 2: January – December 2010

<sup>179</sup> UNEP 2010-2013 Medium Term Strategy: Environment for Development

<sup>180</sup> Evaluation Plan for the Work Programmes of UNEP within the 2010-2013 Medium Term Strategy

<sup>181</sup> UNEP Evaluation and Oversight Unit, 2008, UNEP Evaluation Manual

assumptions at a design stage, thus creating a viable theory of change, impact pathways, or a logical framework necessary for achieving desired results. Regular monitoring activities allow the project manager to identify actual or potential challenges and to timely administer necessary project implementation adjustments.

Project managers and coordinators hold primary responsibility for monitoring, which could be carried out and communicated through regular project team meetings or written reports. Project managers and coordinators are required to track intermediary outputs and to measure their contribution to final results, thus determining whether selected strategies were relevant and effective.

Five key criteria determine good monitoring practice:<sup>182</sup>

- *Emphasis on both results and processes:* Project managers or coordinators should regularly assess project implementation progress, concentrating on a broader picture, while paying sufficient attention to details;
- *Regular analysis of progress reports:* Project managers or coordinators should collect and review project-related financial and progress reports, prepared by project collaborators;
- *Regular information dissemination:* Project managers or coordinators should frequently update and circulate project management documentation, reflecting on achievements and challenges as they occur;
- *Participatory monitoring mechanisms:*<sup>183</sup> Project managers or coordinators should facilitate consultative and participatory project monitoring approach in order to ensure stakeholders' commitment, ownership, follow-up, and feedback on project progress;
- *Collectively designed and approved performance measurement system:* Project managers or coordinators should lead the design and implementation of a comprehensive monitoring process based on clear criteria and indicators stated in a project logical framework;
- *Continuous learning:* Project managers or coordinators should actively identify, record, and communicate lessons learned, which would be instrumental in a proactive and strategic adjustment process.

To formally communicate monitoring information to project stakeholders, oversight authorities, and other relevant constituencies, project managers and coordinators are expected to maintain regular and accurate project progress monitoring reports. Respective division directors are responsible for ensuring that project managers or coordinators submit all relevant reports in a timely manner in order to allow projects to be successfully concluded. If a project manager or coordinator is reassigned within the organization, the project management responsibility should be formally transferred to a new project manager or coordinator. Upon the completion of project monitoring reports, a respective division director forwards all relevant documents to the Budget and Financial Management Service (BFMS), the Programme Coordination Unit (PCMU), and the Evaluation Office. Reporting requirements, which are

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<sup>182</sup> UNEP Evaluation Manual (2008 revision); UNEP Mid-Term Strategy 2011-2013

<sup>183</sup> Participatory monitoring mechanisms include outcome groups, stakeholder meetings, steering committees, and focus group interviews

applied to external and internal projects, differ significantly and are presented in Table 10 and Table 11 respectively.

Table 10: UNEP reporting requirements for external projects<sup>184</sup>

Report type	Prepared by	Responsibility	Preparation frequency period	Submission	Format
Activity report	Cooperating agencies/ Supporting organizations	(UNEP) Project manager	Annually for Jan-June/ Due by 31 July (or as per reporting cycle agreed with the donor)	To Project manager cc: BFMS & PCMU	Annex X
Progress report	Project coordinator/ Cooperating agencies/ Supporting organizations	(UNEP) Project coordinator's supervisor/ Project manager	Annually for Jan-Dec/ Due by 31 Jan. (or as per reporting cycle agreed with the donor)	To division director cc: PCMU & BFMS	Annex XI
Final report	Project coordinator/ Cooperating agencies/ Supporting organizations	(UNEP) Project coordinator's supervisor/ Project manager	End of the project/ Due within 60 days of completion	To division director cc: PCMU & BFMS	Annex XII
Self-evaluation fact sheet (EFS)	Project managers	(UNEP) Project manager	Annually on each current or completed project/ by the end of January	To EOU cc: Project manager	<a href="http://www.unon.org/eou">http://www.unon.org/eou</a>
Quarterly financial report and cash advance statement	Cooperating agencies/ Supporting organizations	(UNEP) Project manager	Quarterly report Due by 30 April, 31 July, 31 Oct, and 31 Jan.	To project manager cc: BFMS	Annexes XIII and XV
Audited financial report	Supporting organizations	(UNEP) Project manager	Biannually by 30 June/ Within 180 days of the completion of the project	To project manager cc: BFMS	
Final statement of account	Cooperating agencies	(UNEP) Project manager	Annually by 15 February/ Within 60 days of the completion of the project	To Project manager cc: BFMS	
Inventory of non-expendable equipment	Project coordinator/	(UNEP) Project	Annually by 31 January and within	To project	

<sup>184</sup> UNEP Programme Coordination and Management Unit, 2005. UNEP Project Manual: Formulation, Approval, Monitoring and Evaluation

(items over US\$1,500)	Cooperating agencies/ Supporting organizations	manager	60 days of the completion of the project/ to be attached to the progress report	manager cc: BFMS
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Table 11: Reporting requirements for internal projects and internally implemented activities<sup>185</sup>

Report type	Prepared by	Responsibility	Preparation Frequency	Submission	Format
Progress report	Project coordinator	Project coordinator's supervisor Project manager	Annually for Jan-Dec: Due by 31 Jan	To division director cc: PCMU & BFMS	Annex IX
Final report	Project coordinator	Project coordinator's supervisor/ Project manager	Due within 60 days of the completion	To division director cc: PCMU & BFMS	Annex X
Self-evaluation fact sheet (EFS)	Project managers	Project manager	Annually on each current or completed project by the end of January	To EOU cc: Project manager	<a href="http://www.unon.org/eou">http://www.unon.org/eou</a>

UNEP mandated its Evaluation Office to conduct, coordinate, and oversee the evaluation of all programs and projects of the Environment Fund, as well as other related trust funds, earmarked contributions and projects implemented by UNEP under the Global Environment Facility.<sup>186</sup> The Office reports directly to the Executive Director and is responsible for implementing evaluation work plans at project, expected accomplishment, and sub-program levels. Once a year, the Evaluation Office prepares a synthesis report summarizing all relevant activities for a given year. Given that under the Program of Work 2010-2011 the scope of evaluations at the project level varied, the Evaluation Office decided to contract independent evaluators to conduct the project level evaluations at the completion of projects. To provide accurate reflection on actual and potential results and to ensure their long-term sustainability, the evaluators are required to focus on the theory of change and impact pathways, which were developed at the start up of each project.<sup>187</sup>

An assessment by the UN Office of Internal Oversight Services in 2010 noted that the Unit is not adequately staffed to effectively undertake these responsibilities and to support UNEP in accomplishing its objectives. Three professionals, one volunteer and three administrative staff are responsible for evaluating 60 programs every year. Therefore, consultants carry out most of the evaluations. The Evaluation Office determines evaluation activities based on a) type of

<sup>185</sup> UNEP Programme Coordination and Management Unit, 2005. UNEP Project Manual: Formulation, Approval, Monitoring and Evaluation

<sup>186</sup> UNEP Evaluation and Oversight Unit, 2008, UNEP Evaluation Manual

<sup>187</sup> Evaluation synthesis report 2008-2009

evaluation that needs to be undertaken and b) program or project budget size, and c) frequency of evaluation<sup>188</sup>.

The following different methods are used:

- *Desk evaluation* reviews planning and implementation activities and processes with lighter emphasis on specific results and limited to the analysis of readily available project data.
- *In-depth evaluation* has a participatory and consultative nature and examines a program or a project in its entirety by employing multiple data sources and analytical methodologies including desk evaluations, field visits and interviews.
- *Impact evaluation* examines the entire range of program or project effects. The effects include expected short, medium and longer-term impacts as well as unforeseen consequences of project activities on human and ecologic systems.
- *Self-evaluation* helps determine the rate of success of a project by a respective project manager or coordinator.

All types of evaluations are usually undertaken halfway through project implementation (mid-term) and at the end of a project (terminal). Mid-term evaluations (either in-depth or desk evaluations) analyze whether the project is on track and what should be done to either keep it on track or to address constraints that inhibit the progress. Terminal evaluations (either in-depth or desk evaluations) are undertaken at the end of a project. They determine whether the goals were effectively achieved and, based on major findings, terminal evaluations summarize lessons learned and provide recommendations for continuing, replicating, or expanding any particular program or project.

Based on a request from a program manager or coordinator, the Evaluation Office could conduct a spot check to determine whether a project may face unexpected challenges and fail to achieve stated goals. Spot checks aim at identifying root causes and suggesting plausible alternative scenarios and solutions. Ex-post evaluations (or impact evaluations) are conducted two or more years after the completion of a program or project. This type of evaluation is done to assess longer-term impacts and their sustainability.

The size of the total budget of the project has an impact on determining the evaluation type:

- a) Projects with budgets between US\$ 250,000 and US\$ 500,000 are subject to terminal evaluations conducted either as desk or in-depth evaluations
- b) Projects with a budget of over US\$ 500,000 are required to have terminal in-depth evaluations and the necessary amount for the in-depth evaluation should be included in the project budget
- c) Mid-term evaluations are applicable to projects with long implementation duration, normally 5–6 years, but do not have budgetary criteria per se. Mid-term evaluations are conducted as in-depth or desk evaluations.

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<sup>188</sup> UNEP Programme Coordination and Management Unit, 2005. UNEP Project Manual: Formulation, Approval, Monitoring and Evaluation

Working with independent consultants, the Evaluation Office oversees key stages of the evaluation process.

### **Complaint and Conflict Management**

Recently, the Global Environment Facility established conflict resolution services at the level of the GEF Secretariat. This function is led by the Conflict Resolution Commissioner who works directly with all stakeholders to address complaints and resolve issues pertinent to the programmatic work of GEF. No evidence was found for a similar function within UNEP's programmatic framework.

### **Impacts**

Clearly, the Environment Fund operates in difficult circumstances. Originally created as an evolutionary mechanism, the Fund was expected to grow as the environmental agenda expanded over time, but has experienced significant volatility and an overall decrease in funds. While the Fund was created to support the coordination of environmental activities in the UN system through financing programs and activities in UN agencies, it has instead become UNEP's main financial mechanism and has supported most of the staff employed at the organization.

Scholars and policymakers often argue that the voluntary character of the Environment Fund is a key cause of UNEP's relatively low budget. Indeed, the voluntary contributions have proven challenging to the predictability of resources as countries can reduce or even eliminate their contributions as they see fit. It is not, however, the main reason behind UNEP's low budget. Features such as mandate, size, and location are important determinants of financial resources. The four largest annual budgets in the UN system for 2010, in excess of US\$ 3 billion are those of UN bodies that rely solely on voluntary funding - UNDP, the World Food Programme (WFP), UNICEF, and the UN Refugee Agency (UNHCR).<sup>189</sup> The clear operational mandates of these UN entities, however, require significantly larger budgets than those with normative mandates such as the World Trade Organization and UNEP, for example. Larger staff size and multiple locations also require larger resources. In addition, the ability to generate interest and commitment to an area of work are important factors in the ability of any organization to secure the requisite financial resources.

Importantly, the donor base for the Environment Fund is very narrow - only fifteen countries account for about 90% of the Environment Fund contributions. Fluctuations in government priorities and attention can therefore be particularly influential.<sup>190</sup> Moreover, since UNEP's core mandate is normative, the risk of governments losing interest in UNEP's work is higher. Normative work is more difficult to evaluate in terms of the extent to which the outcomes and objectives have been achieved and the likelihood that such outcomes will be sustained.<sup>191</sup> The expected outcome of UNEP's assessment work is policy change. However, as UNEP's Evaluation Office notes in a 2011 evaluation report, "the intermediary steps and drivers needed to translate assessment results into policy changes are generally absent. Replication of project

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<sup>189</sup> Ivanova 2011

<sup>190</sup> For more details, see Ivanova 2011

<sup>191</sup> UNEP Evaluation Office, July 2011. Formative Evaluation of UNEP's Programme of Work 2010-2011, Final Report, [http://www.unep.org/eou/Portals/52/Formative\\_Evaluation\\_UNEP\\_POW\\_2010.pdf](http://www.unep.org/eou/Portals/52/Formative_Evaluation_UNEP_POW_2010.pdf)

results is most often expected to happen simply through communication and awareness raising (websites, policy briefs, lessons learned papers etc.). Those activities are, in most cases, poorly spelled out and insufficiently resourced for replication to stand a good chance of success.”<sup>192</sup>

The report goes on to note that approved projects often lack sufficient details on the strategies necessary to sustain project outcomes; project document templates often lack a specific section on this topic; and many projects offer no specific information on sustainability. But the single most important deficiency is considered to be the absence of any quantification of Environment Fund financial or staff resources that will be required for project implementation. This deficiency exists because the UN accounting systems cannot handle allocating Environment Fund resources to projects.<sup>193</sup>

#### **4.7.2 Global Environment Facility (GEF)**

The GEF was originally established in 1991 as a pilot program within the World Bank to assist in the protection of the global environment. Following a restructuring in 1994, the GEF was moved out of the World Bank system. The World Bank, however, remains the Trustee of the GEF Fund and provides administrative services. The GEF provides new and additional funding to cover the “incremental” or additional costs of measures to assist in the protection of the global environment and to promote environmental sustainable development. The GEF provides funding in the form of grants in six focal areas: (i) biodiversity; (ii) climate change; (iii) international waters; (iv) land degradation; (v) the ozone layer; and (vi) persistent organic pollutants (POPs).

While GEF is historically rooted in the Bretton Woods institutions and, to some degree, remains logically connected to them, the GEF is also closely linked to various UN bodies with regard to its operations. It thus has established a unique partnership between World Bank and UN organizations. The GEF serves as the financial mechanism for the Convention on Biological Diversity (CBD), the United Nations Framework Convention on Climate Change (UNFCCC), the Stockholm Convention on Persistent Organic Pollutants (POPs), and the UN Convention to Combat Desertification (UNCCD). In addition, the GEF is also associated with several other global and regional MEAs, specifically on international waters or trans-boundary water systems.<sup>194</sup> The core of the GEF is the GEF Trust Fund. In addition, the GEF also manages other funds, most notably the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and most recently, the Nagoya Protocol Implementation Fund.

The GEF governance structure involves a broad range of actors. The GEF Assembly, in which all GEF members are represented, meets every three or four years and is responsible for broad guidelines. The GEF Council meets more regularly and is responsible, *inter alia*, for developing, adopting, approving and evaluating GEF programs (which essentially consist of the project proposals). The GEF Council has 32 members, 16 of which are developed countries, 14 developing countries, and 2 economies in transition. A Scientific and Technical Advisory Panel (STAP) provides independent advice to the GEF on scientific and technical aspects of programs and policies. The members of STAP are appointed by the Executive Director of UNEP, in

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<sup>192</sup> UNEP Evaluation Office, July 2011. Formative Evaluation of UNEP’s Programme of Work 2010-2011, Final Report, [http://www.unep.org/eou/Portals/52/Formative\\_Evaluation\\_UNEP\\_POW\\_2010.pdf](http://www.unep.org/eou/Portals/52/Formative_Evaluation_UNEP_POW_2010.pdf)

<sup>193</sup> UNEP Evaluation Office, July 2011. Formative Evaluation of UNEP’s Programme of Work 2010-2011, Final Report

<sup>194</sup> UNEP Executive Director, “Environment in the UN System”, Information note by the Executive Director, 7 June 2010, p. 24

consultation with the GEF's CEO, the Administrator of UNDP, and the President of the World Bank. The Independent Office of Monitoring and Evaluation is responsible for monitoring and evaluation. GEF Focal Points (Country Representatives) are government officials, designated by member countries that are responsible for GEF activities and to ensure that GEF projects reflect national priorities. Actual project implementation is carried out by the GEF agencies. Currently, the GEF agencies are UNDP, UNEP the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IAD), the International Fund for Agricultural Development (IFAD), the FAO, and the United Nations Industrial Development Organization (UNIDO).<sup>195</sup>

The following evaluation focuses on the GEF Trust Fund, which is the oldest and largest of the trust funds administered by the GEF and the only cross-cutting one.

### **Relevance**

Generally, the relevance of an international fund can be measured against the character and magnitude of the problems it intends to solve, its own stated objectives, the priorities of donor countries and the needs of recipient countries. This section deals with the three latter points.

The “Instrument for the Establishment of the Restructured GEF”<sup>196</sup> (in the following: GEF Instrument), which sets forth the basic rules on the functioning of the GEF, stipulates that the GEF shall operate as a mechanism to provide “additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the following focal areas:

- (a) biological diversity;
- (b) climate change;
- (c) international waters;
- (d) land degradation, primarily desertification and deforestation;
- (e) ozone layer depletion; and
- (f) persistent organic pollutants.”

The GEF Instrument sets forth that the GEF may serve as the financial mechanism for the following MEAs:

- Convention on Biological Diversity (CBD)
- United Nations Framework Convention on Climate Change (UNFCCC)
- Stockholm Convention on Persistent Organic Pollutants (POPs)
- UN Convention to Combat Desertification (UNCCD)

Funds for the implementation of these conventions and projects furthering the attainment of their objectives are disbursed mainly through the GEF Trust Fund, and in the case of the UNFCCC, through specific trust funds. The GEF Trust Fund has seven focal areas, which build

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<sup>195</sup> See the list of agencies at [http://www.thegef.org/gef/gef\\_agencies](http://www.thegef.org/gef/gef_agencies)

<sup>196</sup> The GEF was considerably changed in 1994. The Instrument is updated with each replenishment cycle.

upon the topics mentioned in the GEF Instrument.<sup>197</sup> Evaluating the overall relevance of GEF activities against its stated objectives, the 2010 4th Overall Performance Study (OPS4) concludes that “the GEF brings clear added value to ... solving global environmental problems” and that it “is achieving its mandate and objectives”.<sup>198</sup> However, it also points out that the GEF is significantly underfunded, and that in real terms GEF funding has decreased since GEF2.<sup>199</sup> The OPS4 concludes that this also has led to a situation where, “[i]f funding levels remain the same, the GEF would need to prioritize its support so as to continue to achieve impact. This prioritization could potentially involve reducing the number of focal areas, restricting modalities to certain groups of countries, or reducing support to a limited group of countries.”<sup>200</sup>

Four of the current GEF focal areas are directly related to the objectives of the above MEAs. The GEF has been the primary funding source for implementation of the CBD, the UNCCD, and the POPs convention, with additional sources available for UNFCCC purposes.<sup>201</sup> In this regard, the question of whether the GEF achieves its stated objectives needs to be translated into a question of the extent to which the GEF is responsive to the—very broad—guidance issued by the MEA COPs. Generally, as far as the GEF operates as the financial mechanism for certain MEAs, grants must be in line with the eligibility criteria that the respective COPs decide on.<sup>202</sup> The GEF reports to each of the COPs on progress made in the respective focal areas. At the institutional level, representatives of the GEF Secretariat attend COPs, and representatives of MEAs are involved in GEF strategic planning.<sup>203</sup> There are a host of other joint GEF-MEA activities, for example joint seminars.<sup>204</sup> Nonetheless, the OPS4 notes that conventions have a limited role and voice in GEF governance and observes an “almost total consensus” among the GEF Council members that communication and coordination between the conventions and the GEF need to be enhanced.<sup>205</sup>

While the GEF is responsive to the guidance given by the COPs, according to OPS4, major problems persist. One such problem is that the guidance issued by COPs is often itself a wish-list of issues to tackle without any indication of priorities.<sup>206</sup> This is, of course, an expression of COP decisions often being political compromises. To further complicate matters, the timing and frequency of COP decisions is not synchronized with GEF replenishment cycles, making it difficult for the GEF to quickly react to new guidance given by COPs. In recent years, strategic plans adopted by some of the COPs have, to some extent, remedied this problem.

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<sup>197</sup> The focal areas are biodiversity, climate change, chemicals, international waters, land degradation, sustainable forest management/REDD+, and ozone layer depletion, see [http://www.thegef.org/gef/areas\\_work](http://www.thegef.org/gef/areas_work)

<sup>198</sup> See the overview in OPS4, p. 50

<sup>199</sup> OPS4, p. 10

<sup>200</sup> OPS4, p. 11

<sup>201</sup> OPS4, p. 48

<sup>202</sup> GEF Instrument, para. 9

<sup>203</sup> OPS4, p. 48

<sup>204</sup> See OPS4, p. 50 for an overview

<sup>205</sup> OPS4, p. 187

<sup>206</sup> See OPS4, p. 46

The persistently insufficient level of funding led the observation in OPS4 that MEA COPs have “continued to ask more of the GEF; consequently, the GEF is now only minimally active in many areas”.<sup>207</sup> Thus, there is a mismatch between (increasing) demands and what the GEF can deliver in quantitative terms. The complex structure of the GEF (numerous organizations that have their own mandates and priorities are involved in implementation), also makes translating political guidance into funding decisions difficult.<sup>208</sup> One study also concludes that not all aspects of the Resource Allocation Framework used under GEF4 for the allocation of funds to individual countries in the areas of climate change and biodiversity are legally compatible with guidance given by MEAs.<sup>209</sup>

Finally, there is a general problem with measuring the degree to which GEF projects are in line with the political guidance given by COPs, as most MEAs do not contain measurable obligations<sup>210</sup> and parties often disagree on indicators to measure compliance. Thus, while the GEF evaluates its own performance through different types of evaluations, the indicators used in such evaluations are not agreed among MEA parties.

Concerning the ability of the GEF to respond to donor and recipient countries priorities, it has been observed that “the GEF represents a hard-won bargain between donor and developing countries over priorities, programming strategies and specific project and program choices.”<sup>211</sup>

The GEF Council, which is the main governing body of the GEF, has 32 members – 16 are from developing countries, 14 from developed countries, and 2 from countries with economies in transition. Each of the GEF Council members represents a certain constituency, i.e. a group of countries, rather than his/her home country only. In terms of formal decision-making, the GEF Council decides by consensus; if a consensus cannot be achieved, formal voting is used. Formal voting is based on a double majority, i.e. a 60% majority of GEF members<sup>212</sup> (which cannot be achieved without recipient countries), and a 60% majority of the accumulated financial contributions to GEF (which means that the largest donors have stronger influence). Thus, both groups are formally represented in decision-making, even though major donors have a stronger influence, because their vote counts for both majorities and they are especially influential in the second majority.<sup>213</sup> However, so far, decisions in the GEF Council have always been taken by consensus, so the practical influence of formal voting procedures seems to be relatively weak.

Concerning the influence that donor countries have on GEF priorities, a survey conducted for the OPS4 revealed a wide-spread perception among members of the Council that despite the relatively balanced decision-making rules, decisions on strategic objectives and program priorities were largely influenced by the replenishment process as negotiated by donors, and

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<sup>207</sup> OPS4, p. 10

<sup>208</sup> See Streck (n.d.) , p. 34

<sup>209</sup> Wiser 2007, p. ivff

<sup>210</sup> The Kyoto Protocol with its quantified emissions reductions is an exception here, and some MEA cops have also adopted quantified targets.

<sup>211</sup> Porter et al. 2008, p. 15

<sup>212</sup> As not all GEF members are represented in the Council, those representing a certain constituency would cast the vote for themselves and the other GEF members they represent.

<sup>213</sup> Mace 2005, p. 30

thus reflected the donors' preferences.<sup>214</sup> The attitude of representatives of recipient countries to the dominance of donors is described as "resignation".

Recipient countries can influence what gets funded in their countries through the proposals they develop jointly with the GEF agencies. These proposals, however, must comply with the overall GEF funding criteria, and thus the question is to which extent these criteria correspond to recipient countries' priorities. OPS4 has evaluated this aspect<sup>215</sup> and concludes that one "of the most important roles of the GEF has been to provide seed funding for developing and implementing national priorities." Moreover, the OPS4 finds that "GEF support has been instrumental in building individual and institutional capacities, leading to decreased reliance of recipient countries on international consultants." On a further positive note, representatives of recipient countries have also observed that compared to bilateral funding, GEF funding is less subject to the changing political priorities of new governments.

However, the OPS4 also concludes that ownership of recipient countries varies by project and area. Factors that were found to limit the GEF's responsiveness to recipient countries' priorities was the fact that GEF-funded projects aim to achieve global (rather than local) environmental benefits. Other factors such as the limited amount of funding and an absence of GEF-related strategic frameworks in recipient countries also contributed to shortfalls in meeting country needs. The OPS4 further relates that "that there is a perception among GEF stakeholders that GEF projects are agency-driven, although ... the objectives of all the projects reviewed were considered to be directly linked to national priorities."<sup>216</sup> Importantly, OPS4 also notes a grave dissatisfaction among beneficiaries of GEF-funded projects with the behavior of the agencies involved at the country level. Accordingly, "[c]lose to two-thirds of beneficiaries expressed a high level of frustration by the way they are treated by Agencies. Their perception is that Agencies seem to be more interested in selling their projects than attending to the needs of the recipient countries."<sup>217</sup>

### Alignment and Coordination

Given that the GEF is a complex organism, internal coordination (i.e. between the different actors involved in GEF decision-making and project implementation) is as important as external coordination (i.e. between the GEF and other funding mechanisms). The first dimension of internal coordination concerns the relationship between the GEF, the World Bank and the implementing agencies. Originally, the GEF structure was created with the idea of comparative advantage in mind, i.e. GEF-funded projects would be implemented by the agency that had the capacities and experience to implement them best.<sup>218</sup> However, it is doubtful that this idea has been brought to full fruition.

Institutionally, there is a dedicated GEF Coordination Unit at the World Bank, as well as at UNEP and UNDP, the two major implementing agencies of the GEF.<sup>219</sup> Moreover, there are

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<sup>214</sup> OPS4, p. 182

<sup>215</sup> See for the following OPS4, p. 60ff

<sup>216</sup> OPS4, p. 62

<sup>217</sup> OPS4, p. 190

<sup>218</sup> Broughton 2009, p. 71

<sup>219</sup> OPS4, p. 166f

some procedures for information exchange in place. For example, project proposals submitted by one GEF agency have to be sent to all other agencies and the relevant Convention Secretariat. While efforts at coordination are thus being made, in a system as complex as the GEF, there are some inevitable frictions between various actors involved. Tensions have been noted over a variety of issues, in particular, between implementing agencies and the Secretariat, and between (recipient countries') focal points and implementing agencies.<sup>220</sup> According to the OPS4, the tensions among different actors in the GEF system have a negative impact on GEF's performance and operations.<sup>221</sup> Generally, the GEF Secretariat has gradually received more tasks and this also seems to have caused some concern among other actors in the GEF system.

External coordination concerns the relationship between GEF and the MEAs, for which it serves as the financial mechanism, as well as the relationship between GEF and other funding mechanisms. GEF's relationship with the MEAs is described above. With regard to the relationship between the GEF and other funding mechanisms, the need for avoiding overlap and improving coordination seems to be most acute in the area of climate change, where numerous funds have been newly created over the past few years. While we could not find detailed evidence on the GEF's efforts in this regard, it should be noted that the broad nature of GEF partnership "has been a mechanism that catalyzes the coordination between bilateral and multilateral agencies with regard to sharing knowledge of project pipelines in each country and focal area, as well as at the strategic level of policy and programming. ... The GEF also offers the framework for broader consultation and cooperation among multilateral agencies on strategic approaches to programming in or across focal areas."<sup>222</sup>

In terms of coordination at the level of recipient countries, OPS4 observes that "several recipient countries do not sufficiently coordinate activities undertaken on environmental issues by various agencies and donors".<sup>223</sup>

### **Predictability of Funds**

Thus far, the GEF Trust Fund has been replenished through a political process every four years, meaning that, in principle, planning is possible for a period of four years. The overall pledges have been as follows:<sup>224</sup>

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<sup>220</sup> See OPS4, p. 187ff

<sup>221</sup> OPS, p. 189

<sup>222</sup> Porter et al. 2008, p. 15

<sup>223</sup> OPS4, p. 14

<sup>224</sup> Figures taken from GEF/FAO, Introduction to the GEF Introduction to the GEF Structure, SCCF and LDCF, online at <http://neareast.fao.org/FCKupload/File/Introduction%20to%20the%20GEF%20Structure.pdf>. An overview, including contributions from individual donors, is also contained in the Instrument for the Establishment of the Restructured Global Environment Facility, October 2011,

[http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF\\_Instrument\\_Oct2011\\_final\\_0.pdf](http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF_Instrument_Oct2011_final_0.pdf). It does, however, only provide totals calculated in special drawing rights.

**Box 2: Pledges for GEF cycles<sup>225</sup>**

Pilot phase: 1991-1993: US\$ 0.8 billion  
GEF1: 1994-1998: US\$ 2.0 billion  
GEF2: 1998-2002: US\$ 2.8 billion  
GEF3: 2002-2006: US\$ 3.8 billion  
GEF4: 2006-2010: US\$ 3.1 billion  
GEF 5: 2010-2014: US\$ 4.3 billion

Commitments have nominally increased for each multi-annual cycle; however, they have decreased in real terms by about 10% since 1994.<sup>226</sup> Once the replenishment has been decided on, the GEF allocates specific amounts of funding to objectives in the individual focal areas.<sup>227</sup> Planning takes place at two levels: focal areas and their strategic objectives, and the country level.<sup>228</sup>

Historically, GEF has used different approaches in the allocation of resources. In order to abolish the previous “first-come first-serve” approach, a new approach entitled the “Resources Allocation Framework” (RAF) was introduced in 2005. The RAF was used to allocate resources to individual countries for biodiversity and climate change related activities during GEF4, i.e. 2006-2010. Under the RAF, the allocation of resources to individual countries was based on a set of performance indicators which described a country’s perceived ability to generate global environmental benefits and its capacity to implement GEF-funded projects.<sup>229</sup> Based on these indicators, allocations to different countries were calculated using a complex scheme. The countries with the largest allocations received individual allocations; these translated into upper limits of what funding could be provided to specific countries. For the remaining countries, a group allocation was undertaken for each of the focal areas. At the same time, a mechanism was put in place to ensure that the money was spent equitably throughout the duration the GEF cycle. Thus, while recipient countries still depended on the funding decisions for individual projects, the RAF made the allocations somewhat more predictable at least for countries receiving larger, individual allocations. However, it is important to note that this did not apply, to the same extent, to countries with smaller allocations, many of them least-developed countries.<sup>230</sup> One study notes that the RAF was “implemented almost exclusively as a response to American interests” and, was perceived as “an imposition on countries, and it created resentment at all levels”, particularly among developing countries.<sup>231</sup>

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<sup>225</sup> Figures are taken from GEF/FAO, Introduction to the GEF Structure, SCCF and LDCF - Presentation, <http://neareast.fao.org/FCKupload/File/Introduction%20to%20the%20GEF%20Structure.pdf>

<sup>226</sup> Broughton 2009, p. 60

<sup>227</sup> See GEF Programming Document, GEF Replenishment: Third Meeting, October 14-15, 2009, Paris, France, [http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.5.Programming.Document.Oct\\_.09.pdf](http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.5.Programming.Document.Oct_.09.pdf)

<sup>228</sup> OPS4, p. 65

<sup>229</sup> See GEF, The GEF Resources Allocation Framework, GEF/C.27/Inf.8/Rev.1, 17 October 2005, [http://www.thegef.org/gef/sites/thegef.org/files/documents/C.27.Inf\\_.8.Rev\\_.1%20RAF.pdf](http://www.thegef.org/gef/sites/thegef.org/files/documents/C.27.Inf_.8.Rev_.1%20RAF.pdf)

<sup>230</sup> Ballesteros et al. 2010, p. 15

<sup>231</sup> Broughton 2009, p. 64

For GEF5, a revised framework for resource allocation was adopted, entitled “System for Transparent Allocation of Resources” (STAR). In comparison to RAF, the most important change is that it covers one additional focal area of the GEF: land degradation. STAR also gives more weight to the socio-economic status of a country to better address the concerns of poorer countries that need more resources to build capacity to carry out GEF project development and implementation and to successfully deliver global environmental benefits.<sup>232</sup> Moreover, the system was made more flexible in terms of when and how funds can be used, given that the OPS4 had concluded that the RAF was “too complicated for a partnership and network organization such as the GEF”<sup>233</sup>.

### **Efficiency of Procedures**

Given that the GEF was established with the explicit purpose of providing environmental funding, all its money is dedicated to environmental purposes, including a share for administrative costs. The GEF Secretariat currently has 50 employees and the Evaluation Office another 10. The GEF Secretariat and Evaluation Office are hosted by the World Bank, which provides certain types of administrative resources to the GEF. The OPS4 notes that this is more cost-efficient than if the GEF had created an infrastructure of its own; similarly, the Geneva-based UN agencies also share some services.<sup>234</sup>

According to the OPS4, 12.3% of total GEF expenditures were used to cover internal expenses under GEF4. However, only 3% of the overall budget of GEF4 seems to have been allocated to the corporate budget of the GEF itself.<sup>235</sup> For the OPS4, a comparison of the share of internal costs of different international funding mechanisms was undertaken (see section 4.6). GEF’s expenditure for internal purposes was not excessively high as compared to that of organizations with a similar overall budget.

However, OPS4 also cautions that a variety of factors need to be taken into account when undertaking such a comparison. It points out that programmatic approaches are generally less expensive for the funding institution than project-based approaches, because more planning is done at the recipient’s end. Large-scale funding normally causes a lower proportion of administrative costs. Another observed factor is decentralized decision-making: where funding organizations have a strong country presence and they may be able to produce overall more effective results, but decentralization also incurs higher costs.<sup>236</sup>

Implementing agencies currently receive a fee of 10% per project. This is lower than the project fee budget of other environmental organizations, including international agencies and NGOs; however, these differences in project fees can be attributed, in part, to what is and is not covered by these fees (e.g. evaluation).<sup>237</sup> Nonetheless, OPS4 concludes that the GEF fee is not,

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<sup>232</sup> See <http://www.thegef.org/gef/STAR>; for further differences between RAF and STAR see the brochure GEF, System for Transparent Allocation of Resources (STAR), 2010,

[http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF\\_STAR\\_A4\\_april11\\_CRA.pdf](http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF_STAR_A4_april11_CRA.pdf)

<sup>233</sup> OPS4, p. 67

<sup>234</sup> OPS4, p. 165

<sup>235</sup> GEF-5 Programming Document, GEF/R.5/31, 3 May 2010, p. 77,  
<http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.R.5.31.pdf>

<sup>236</sup> OPS4, p. 173ff

<sup>237</sup> See for an overview of the fees of different organizations OPS4, p. 169

*prima facie*, excessive.<sup>238</sup> The fee has been described as quite adequate in the cases of the World Bank's other IFIs. In the case of the UNDP, this fee seems to cover actual costs incurred by the organization for the planning, implementation and supervision of projects, which is not the case for UNEP and UN specialized agencies.<sup>239</sup> However, discussions are still ongoing with regard to the appropriate amount of such fees and changes have recently been suggested to the GEF Council.<sup>240</sup>

Generally, the GEF project cycle is complex. It varies slightly according to the size of a project. For full-sized projects, the cycle starts with (1) an elaboration of the so called project identification form, i.e. an initial proposal, developed by a GEF agency in collaboration with a recipient country, followed by the submission of the proposal to the GEF Secretariat. The Secretariat then (2) reviews the initial proposal and recommends it to the GEF CEO for inclusion in the GEF work program (or rejects it). Subsequently, (3) the GEF Council approves the work program; it may also remove specific project proposals from the program. Then (4) the implementing agency prepares a full-fledged proposal, which requires (5) endorsement by the GEF CEO. Finally (6), the GEF agency also approves the projects in line with its own procedures and starts implementing the project.

Under GEF-4, the average time between the approval of the project identification form (step 2) and CEO endorsement for a certain project (step 5), was 21 months for about 75% of all projects, with data missing on the length of time required for the remaining quarter.<sup>241</sup> This is considerably shorter than in former GEF periods and was achieved after a reform of the GEF project cycle. However, the overall time for project approval is much longer, because extra time is needed to identify projects and the period that the GEF agencies require to approve and start project must be added to these 21 months. OPS4 notes, in particular, delays in the phase before initial project proposals are approved, as they tend to be sent back and forth between agencies and the GEF Secretariat before they are submitted for Council approval, with several inefficiencies in communication.<sup>242</sup> Of course these delays are not attributable only to the GEF, but also the implementing agencies. Moreover, OPS4 also notes that under "GEF-3, the average duration of project approval reached the unacceptable time of more than four years. Provided quality standards were met, approval was granted on a first-come, first-serve basis. However, if there was no money available for projects, the proposals had to wait, and often, a very long time. Changing to a resource allocation system, which occurred in GEF-4, did not fundamentally address this problem. Rather, it now means that project proposals have to wait until they can even enter into the pipeline".<sup>243</sup>

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<sup>238</sup> OPS4, p. 170

<sup>239</sup> OPS4, p. 171

<sup>240</sup> See GEF Administrative Expenses – Fees and Project Management Costs - External Review, GEF/C.41/07, 7 October 2011, <http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.R.5.31.pdf>

<sup>241</sup> OPS4, p. 142

<sup>242</sup> OPS, p. 143

<sup>243</sup> OPS4, p. 2

## Program and Project Monitoring and Evaluation

Monitoring and evaluation are an integral part of GEF operation, and are part of its so called “Results Based Management Framework”.<sup>244</sup>

The GEF Instrument requires the GEF Council, to “ensure that GEF policies, programs, operational strategies and projects are monitored and evaluated on a regular basis”.<sup>245</sup> The GEF has a dedicated unit for this purpose, the GEF Evaluation Office. It is accountable directly to the GEF Council and is thus independent of the GEF management, whose performance it is tasked to monitor and evaluate.

Since 2006, the GEF has an explicit monitoring<sup>246</sup> and evaluation (M&E) policy.<sup>247</sup> M&E is carried out at different levels, including projects, programs and countries. The overall performance of the GEF is evaluated through annual performance studies, and regular impact assessments and thematic evaluations are carried out.<sup>248</sup> The central study, into which all the other evaluations feed, is the overall performance study for each multi-annual GEF cycle. Generally, evaluations are aimed at assessing the relevance, efficiency, effectiveness, impact, and sustainability of the interventions and contributions.<sup>249</sup> The GEF has developed some standard tracking tools for the different areas it covers, to be used by all actors in the GEF network.<sup>250</sup>

The GEF M&E Policy requires a systematic follow up for M&E evaluation reports, including a response from the GEF management, recommendations for actions to be taken by the GEF Council and a subsequent annual report to the GEF Council on the follow-up action taken. Still, the OPS4 indicates that some problems have persisted during the GEF3 and GEF4 cycles, casting some doubt on the extent to which lessons from evaluations are effectively integrated into the GEF procedures. OPS4 also specifically notes that further efforts are needed to systematically integrate lessons learned into GEF decision-making at all levels. The international water area is cited as a best-practice example.<sup>251</sup>

All in all, however, the GEF undertakes considerable efforts at M&E, and in some instances appears to be the pioneer among international agencies, e.g., in developing certain methodologies or seeking to measure certain aspects of its performance. For example, the GEF

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<sup>244</sup> See GEF (2007), Results-Based Management Framework, GEF/C.31/11:

<http://www.thegef.org/gef/sites/thegef.org/files/documents/C.31.11%20Results%20Based%20Management%20Framework.pdf>

<sup>245</sup> Instrument for the Establishment of the Restructured, October 2011, Global Environment Facility para. 20 a), [http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF\\_Instrument\\_Oct2011\\_final\\_0.pdf](http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF_Instrument_Oct2011_final_0.pdf)

<sup>246</sup> In the GEF’s understanding „monitoring“ relates to “whether the organization, country, portfolio, or project is on track to achieving its intended objectives”. Evaluation, in turn, “provides information on whether the project or portfolio is on the right track”, *ibid.*, para. 3.

<sup>247</sup> The current version is the following: GEF Evaluation Office (2011): The GEF Monitoring and Evaluation Policy 2010, Washington D.C., [http://www.thegef.org/gef/sites/thegef.org/files/documents/ME\\_Policy\\_2010.pdf](http://www.thegef.org/gef/sites/thegef.org/files/documents/ME_Policy_2010.pdf)

<sup>248</sup> See the overview of different types of evaluations at [http://www.thegef.org/gef/evaluation\\_studies](http://www.thegef.org/gef/evaluation_studies)

<sup>249</sup> *Ibid.*, para. 15

<sup>250</sup> See [http://www.thegef.org/gef/tracking\\_tools](http://www.thegef.org/gef/tracking_tools)

<sup>251</sup> OPS4, p. 156ff

claims to be the only agency that measures its contribution to impact in a systematic manner for its entire portfolio.<sup>252</sup>

### **Complaint and Conflict Management**

The GEF has a Conflict Resolution Commissioner who reports directly to the GEF CEO, and to whom requests for conflict resolution may be submitted. The OPS4 notes that disputes between recipient countries and agencies can often be resolved by the Conflict Resolution Commissioner. The same is not the case for conflicts between the agencies and the GEF Secretariat, as the Commissioner is perceived as not being sufficiently independent of the GEF CEO.<sup>253</sup>

Conflicts and complaints can also be solved by the implementing agencies through their respective procedures.

### **Impacts**

The GEF has a very central place in the IEG finance system. Since 1991, the GEF has allocated US\$ 8.8 billion and leveraged more than US\$ 387 billion in co-financing for more than 2,400 projects in more than 165 countries.<sup>254</sup>

In terms of overall impact, OPS4 concludes that “the GEF portfolio shows solid progress toward impact in 40 percent of its finished projects. Thirty percent of its finished projects show progress but will need additional action to ensure progress towards impact. The remaining 30 percent of projects show no progress... In terms of funding amounts, larger projects achieve better progress toward impact, and smaller projects do not score that well.”<sup>255</sup> Nevertheless, it is also clear that in light of the environmental issues that need to be tackled, the GEF is seriously underfunded.<sup>256</sup> As one study notes, “the funding provided by donor countries was never at the level required to produce significant progress in reversing the threats to climate stability and biodiversity conservation.”<sup>257</sup> Moreover, it has been noted that the project approach of the GEF has made it difficult to attain any large-scale improvements regarding climate change and biodiversity.<sup>258</sup>

In order to improve the long-term sustainability of impacts, the GEF has adopted an approach whereby the activities it funds have to be foundational activities, demonstration or investment projects. Foundational activities focus on policy and regulatory frameworks as well as national priority setting and capacity. Demonstration projects are smaller projects that focus on demonstration, capacity development, innovation, and market barrier removal. Investment projects are full-size projects with high rates of co-funding, catalyzing investments or implementing a new strategic approach at the national level. According to the OPS4, this

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<sup>252</sup> OPS4, p. 76

<sup>253</sup> OPS4, p. 178

<sup>254</sup> GEF/FAO, Introduction to the GEF Introduction to the GEF Structure, SCCF and LDCF, online at <http://neareast.fao.org/FCKupload/File/Introduction%20to%20the%20GEF%20Structure.pdf>

<sup>255</sup> OPS4, p. 70

<sup>256</sup> OPS4, p. 10

<sup>257</sup> Porter et al. 2008, p. 16

<sup>258</sup> Lattanzio (2010), p. 11

approach is taken because “[e]valuations in the bilateral and multilateral aid community have shown ... that activities at the micro level of skills transfer - piloting new technologies and demonstrating new approaches - will fail if these are not supported at the institutional or market level as well. Evaluations have also consistently shown that institutional capacity development or market interventions on a larger scale will fail if ... laws, regulatory frameworks, and policies are not in place to support and sustain these improvements. And they show that demonstration, innovation, and market barrier removal do not work if there is no follow-up through investment or scaling up of financial means.”<sup>259</sup>

The degree to which GEF-funded projects have a long-term sustainable impact varies by area.<sup>260</sup> Generally, the GEF notes that progress toward global long-term environmental benefits also depends on ongoing and long-term support from governments, the private sector, and local communities, particularly after a project has terminated. Local ownership is also found to improve results.

Concerning co-benefits, the OPS4 notes that social and gender issues are not systematically addressed in projects.<sup>261</sup>

Despite this overall impressive record, the GEF is far from being uncontroversial. Developing countries, in particular, are not keen on giving the GEF a more central role in the current system. In the debates on climate finance and notably the Adaptation Fund, they have insisted on creating structures outside the GEF, where they have direct access to funds. This has been attributed to a perception that the GEF is “skewed” in favor of developed countries’ interests. However, it is worth noting that this perception has become weaker over the years.<sup>262</sup> The same study also notes a certain level of frustration with the GEF among its users.<sup>263</sup>

The OPS4 also points out that there is no support among GEF Council for upgrading GEF to a UN agency.<sup>264</sup>

#### **4.7.3 Multilateral Fund (Montreal Protocol)**

The Multilateral Fund (MLF) was established by a decision of the Second Meeting of the Parties to the Montreal Protocol (London, June 1990) and began its operation in 1991 first as a pilot project.<sup>265</sup>

The Fund’s main objective is to assist qualifying developing country parties<sup>266</sup> to implement the Montreal Protocol. Currently, 147 of the 196 Parties to the Montreal Protocol meet these criteria and are referred to as Article 5 countries.<sup>267</sup>

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<sup>259</sup> OPS4, p. 52f

<sup>260</sup> See OPS4, p. 76ff for the review of the GEF impact in different areas

<sup>261</sup> OPS4, p. 142

<sup>262</sup> Broughton 2009, p. 72

<sup>263</sup> Broughton 2009, p. 55 writes that out of the “ total number of interviewees, just under half expressed frustration about their work with the GEF, over a third expressed concerns about the GEF’s ability to perform in the future, and three members from three GEF Agencies expressed the will or the decision, by their respective institutions, to reduce their interactions with the GEF.”

<sup>264</sup> OPS4, p. 190

<sup>265</sup> UNEP 2011a, p. 61

The Fund is managed by an Executive Committee (ExCom), assisted by the Fund Secretariat.<sup>268</sup> Projects and activities supported by the Fund are implemented by four implementing agencies (IAs): the World Bank, UNDP, UNIDO, and UNEP.<sup>269</sup> In practice, the implementing agencies all play similar roles in the phase-out of ozone depleting substances (ODS), though each have developed specific areas of strength.<sup>270</sup> UNEP, which helps to establish the infrastructure within which projects can proceed,<sup>271</sup> receives the smallest portion of the Fund's budget, at 5%. UNDP receives 30% of the Fund's budget, UNIDO 20%, and the World Bank 45%.

Contributions to the MLF are made by developed countries (i.e. non-Article 5 Parties) on the basis of the UN scale of assessment. These contributions may be made either in cash, through the use of promissory notes,<sup>272</sup> or in-kind and bilateral contributions,<sup>273</sup> according to an annual scale of contributions agreed by the Parties.<sup>274</sup>

The figure below illustrates the operation of the MLF.

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<sup>266</sup> To qualify, a developing country's annual per capita consumption and production of ozone depleting substances controlled under Annex A must be less than 0.3 kg

<sup>267</sup> UNEP 2011a, p. 61

<sup>268</sup> The Fund Secretariat is based on Montreal, Canada, while the Ozone Secretariat (Secretariat for the Vienna Convention and for the Montreal Protocol) is based at UNEP headquarters in Nairobi, Kenya.

<sup>269</sup> Case Studies for Selected Global Programs, Multilateral Fund for the Implementation of the Montreal Protocol (MLF), [http://www.worldbank.org/oed/gppp/case\\_studies/agriculture\\_environment/mlf.html](http://www.worldbank.org/oed/gppp/case_studies/agriculture_environment/mlf.html)

<sup>270</sup> Implementing Agencies, <http://www.multilateralfund.org/aboutMLF/Implementingagencies/default.aspx>

<sup>271</sup> UNEP 2011a, p. 61

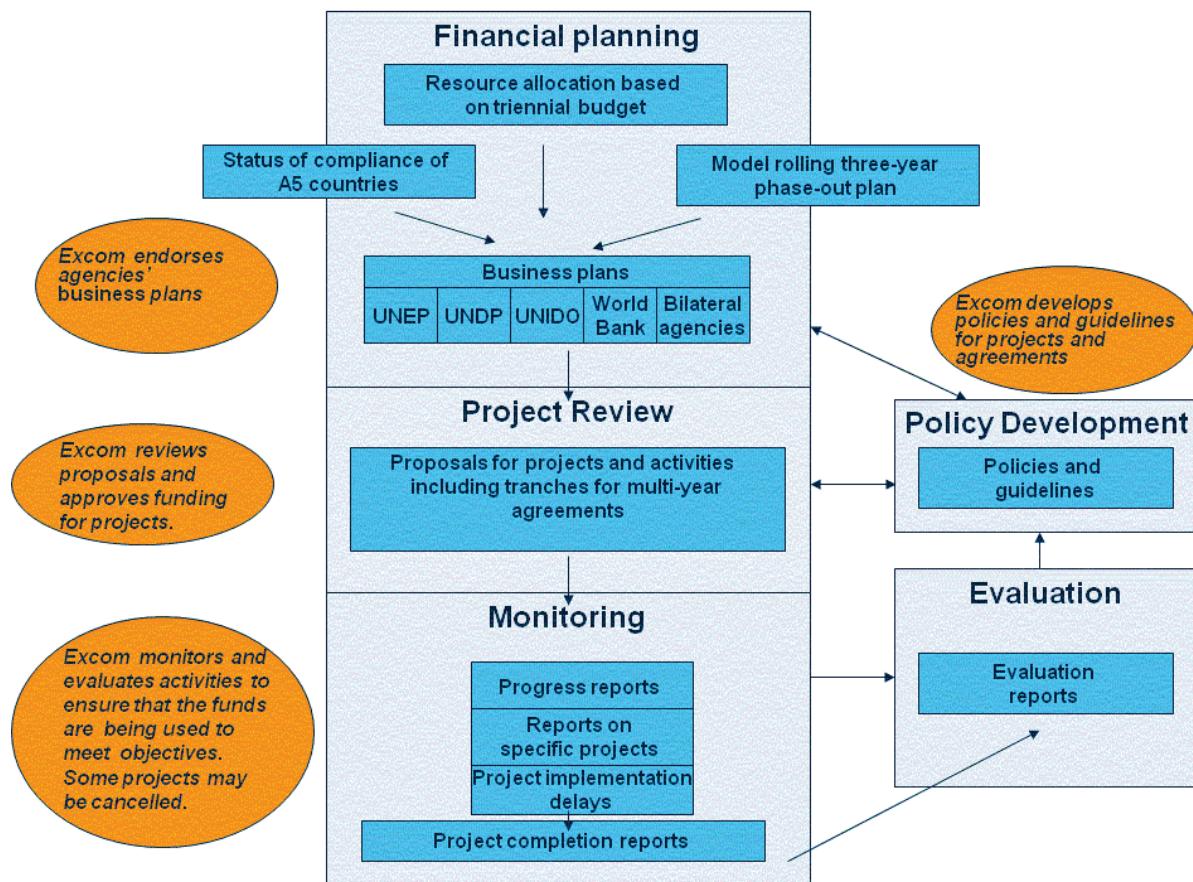
<sup>272</sup> Promissory notes allow IAs to make commitments on their projects against future cash flows by use of the notes.

<sup>273</sup> The Parties to the Montreal Protocol decided that contributing Parties to the Fund could use up to 20 percent of their annual contribution to carry out activities with developing countries on a bilateral basis. As of January 2009, 13 contributing Parties engage in a range of bilateral activities such as training, technical assistance and the introduction of ozone-friendlier technologies,

<http://www.multilateralfund.org/aboutMLF/Implementingagencies/default.aspx>

<sup>274</sup> Secretariat of the MLF (2011). Executive Committee Primer. Appendix 2, p. 11

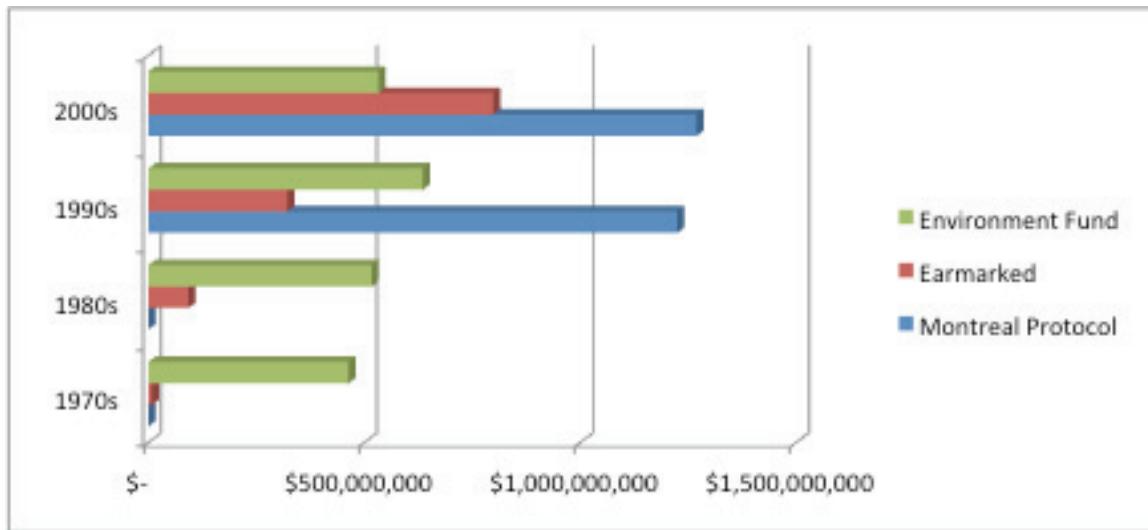
Figure 12: How the MLF operates



Source: Secretariat of the MLF (2011). Executive Committee Primer—2011. Appendix 2, p. 10

The Montreal Protocol is considered one of the most successful international environmental treaties and has the largest trust fund within UNEP. The significant financial resources devoted to the treaty can be seen both as a reason for and an indication of the treaty's effectiveness. From 1988 to 2009, governments have invested US\$ 2.5 billion in the Montreal Protocol—an amount equivalent to the combined total of the Environment Fund and earmarked contributions during that period. Such large, sustained investment could be the main reason for the success of the Montreal Protocol. The magnitude and consistency of investment, however, can also be interpreted to indicate that governments are willing to contribute because the Montreal Protocol has delivered results. In reality, these two dynamics reinforce each other. Significant initial investment was critical to the fund's success, which stimulated sustained investment. Figure 13 illustrates the priority governments have accorded Montreal Protocol activities in comparison with the Environment Fund and other earmarked funding.

Figure 13: UNEP Environment Fund, earmarked contributions, and Montreal Protocol 1973-2009



Source: "Figure 6: Total contributions to UNEP, in millions of constant USD", Ivanova 2011

The following analysis is largely based on an external evaluation and review of the financial mechanism of the Montreal Protocol conducted in 2004 by ICF Consulting, at the request of the Parties to the Montreal Protocol.<sup>275</sup> In the meantime, the Executive Committee has taken action on several recommendations of the external evaluation. A subsequent external evaluation is scheduled to be submitted to the 24th Meeting of the Parties in September 2012.

### Relevance

One of the distinguishing features of the MLF is the structure of its Executive Committee, which is characterized by equal representation of developed and developing countries and consensus based decision-making.<sup>276</sup> This helps to ensure that interventions financed by the MLF are in line with the goals, needs, and priorities of both donor and recipient countries. The Fund is directly accountable to the Meeting of the Parties to the Montreal Protocol (MOP), which considers the MLF to be an essential instrument for inducing compliance with the Montreal Protocol by Article 5 Parties and therefore a key component of the success of the regime for protection of the ozone layer.<sup>277</sup> Financial support provided by the Fund has been explicitly tied to compliance, and the successful reduction of ozone depleting substances targeted by the Montreal Protocol "has resulted in praise for the MLF from both donor and recipient countries."<sup>278</sup>

<sup>275</sup> This evaluation has also formed the basis for further analysis, within the Consultative Process on Financing Options for Chemicals and Wastes, of the possible financing track "New Trust Fund Similar to the Multilateral Fund" for the sound management of chemicals and wastes, UNEP 2011b, p. 1

<sup>276</sup> UNEP 2011a, p. 62-63

<sup>277</sup> Decision XVI/36: Evaluation and review of the financial mechanism of the Montreal Protocol,

[http://ozone.unep.org/new\\_site/en/Treaties/decisions\\_text.php?dec\\_id=376](http://ozone.unep.org/new_site/en/Treaties/decisions_text.php?dec_id=376)

<sup>278</sup> UNEP 2011b, p. 2

Financial support from the Fund is contingent on the demonstrated relevance of funded activities to the specific Montreal Protocol control measures.<sup>279</sup> The MLF has increasingly disbursed funds on the basis of independent verification of ODS reduction targets having been achieved by Parties.<sup>280</sup> The 2004 external evaluation of the Fund reported that “after much experience in the early years of the Fund, the ExCom and Secretariat are adept at identifying and rejecting projects that are ineligible to receive funding. The Secretariat ensures that projects only contain those incremental costs that are eligible under the ExCom’s rules and policies”.<sup>281</sup> Countries that are not in compliance with the Montreal Protocol cannot receive funding from the Multilateral Fund until the noncompliance has been dealt with by the Implementation Committee.<sup>282</sup>

The 2004 external evaluation found that implementing agencies have sufficient and appropriate information available to them to undertake targeted, compliance-focused project identification and planning.<sup>283</sup>

According to Andersen et al., the success of both the MLF and the GEF<sup>284</sup> in the Montreal Protocol is largely a result of the freedom and flexibility granted to them by the Protocol’s Parties. The indicated list of incremental costs agreed by the Parties has given good guidance to the MLF, but the MLF maintains the right of interpreting each entry in the list to suit effective achievement of its goals. The Executive Committee has also had the freedom to experiment with new techniques (such as gradually progressing from projects to National Terminal Phase-out Plans). These have to be to the satisfaction of both the Article 5 and non-Article 5 Parties, who are equally represented on the Executive Committee and among whom there are many opposing interests. There were extensive discussions in the Executive Committee, but these were resolved by arriving at compromises that allowed projects to proceed.

### **Alignment and Coordination**

The 2004 external evaluation conducted by ICF concluded that the Secretariat’s diligence in eliminating project overlap supports the most cost effective achievement of compliance.<sup>285</sup> “Significant overlap in recently approved and/or implemented projects has been largely prevented, indicating that the Fund does not incur significant additional costs associated with overlap activities.”<sup>286</sup> The ExCom review of ODS phase-out and compliance in Article 5 Parties provides implementing agencies (IAs) with clear direction on areas where to focus activity

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<sup>279</sup> ExCom decision 35/56 – in: UNEP/OzL.Pro/ExCom/35/67

<sup>280</sup> UNEP (2011). A proposal for an Integrated Approach to Financing the Sound Management of Chemicals and Wastes: Annex V: The Multilateral Fund (MLF), [http://www.unep.org/dec/Chemical\\_Financing/index.asp](http://www.unep.org/dec/Chemical_Financing/index.asp)

<sup>281</sup> ICF 2004, p. 37

<sup>282</sup> Secretariat of the MLF (2011). Executive Committee Primer - 2011, p. 13

<sup>283</sup> ICF 2004, p. ES-5

<sup>284</sup> Complementing the work of the Multilateral Fund, the GEF provides financial support to countries with economies in transition that are not eligible for funding under the Multilateral Fund, to address ozone-depleting substance (ODS) phase-out targets and timelines, <http://www.thegef.org/gef/node/1346>; [http://ec.europa.eu/environment/integration/research/newsalert/research\\_repository/airPollution/OzoneLayerImpacts.html](http://ec.europa.eu/environment/integration/research/newsalert/research_repository/airPollution/OzoneLayerImpacts.html)

<sup>285</sup> ICF 2004, p. ES-5

<sup>286</sup> ICF 2004, p. ES-5

planning.<sup>287</sup> Furthermore, the ExCom's business plan review helps prevent activity overlaps that may not have been identified during the Secretariat's initial review.<sup>288</sup>

However, the evaluation reported, because some bilateral IAs do not have well defined roles and sometimes have less experience than multilateral IAs implementing projects under the Fund, the roles of bilateral IAs can be less predictable. "This can lead to potential incidences of project overlap—particularly because they have not been actively involved in inter-agency coordination meetings."<sup>289</sup>

In light of these findings, the 2004 evaluation recommended that the ExCom continue to collaborate with the Secretariat and IAs to effectively deal with project overlap and encourage and support stronger collaboration and communication between the IAs, thereby, reducing project overlap at all stages, including the project planning stage.<sup>290</sup>

### Predictability of Funds

According to a July 2011 presentation by the Fund Secretariat, over 97% of pledges have been received. This has enabled a consistently accurate prediction of resources and has facilitated business planning in three-year cycles, which in turn has instilled confidence between contributors and recipients.<sup>291</sup> In 2004, the ICF external evaluation unit concluded that resources are typically adequate to fund new projects, although problems did exist in earlier years. It also reported that interest earned by the Fund on contributions has largely compensated for late or unpaid contributions and that a sufficient amount of up-front cash is generally available.<sup>292</sup>

Every three years, the Meeting of the Parties agrees on a replenishment of the Fund with annual contributions from the developed countries, according to the UN scale of assessments.<sup>293</sup> The Technology and Economic Assessment Panel (TEAP) is tasked with estimating the funding required for each replenishment period,<sup>294</sup> taking into account the obligations of the developing countries, the projects already approved and the lead time for completion of projects. The TEAP report is reviewed and decided upon by the Meeting of the Parties. Parties generally approve a replenishment figure very near the one recommended by the TEAP; on several occasions Parties even approved funding for developing countries that would reduce their consumption of ODSs by more than required by the Protocol. This has had the added bonus of allowing developing countries to plan country programs and other implementation projects with a high degree of confidence that the necessary funding will be available to execute their plans.<sup>295</sup>

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<sup>287</sup> ICF 2004, p. ES-4

<sup>288</sup> ICF 2004, p. ES-4

<sup>289</sup> ICF 2004, p. ES-5

<sup>290</sup> ICF 2004, p. ES-7

<sup>291</sup> Reed 2011, slide 11

<sup>292</sup> ICF 2004, p. 214

<sup>293</sup> Kelly 2004; Reed 2011

<sup>294</sup> Including the funding requirement for non-investment activities, project preparation and administrative costs of the IAs, as well as the operating costs of the Secretariat and the ExCom (ICF 2004, p. 193).

<sup>295</sup> Andersen, 2007, p. 312

The Fund has been replenished six times since its initial capitalization of US\$ 200 million for the period 1991-1993. The replenishments were as indicated below (amount of carry-over from the previous period appears in brackets):<sup>296</sup>

- 1994-1996 US\$ 455 million (US\$ 510 million);
- 1997-1999 US\$ 466 million (US\$ 540 million);
- 2000-2002 US\$ 440 million (US\$ 475.7 million);
- 2003-2005 US\$ 474 million (US\$ 573 million);
- 2006-2008 US\$ 400.4 million (US\$ 470 million);
- 2009-2011 US\$ 400 million (US\$ 490 million).

The replenishment for the period 2012-2014 is scheduled to be US\$ 400 million. As of November 2011, the contributions made to the Multilateral Fund by some 45 countries (including countries with economies in transition) totaled over US\$ 2.89 billion.<sup>297</sup>

In 1990, at their second meeting, the Parties to the Montreal Protocol decided that contributing Parties to the Fund could use up to 20% of their annual contribution to carry out activities with developing countries on a bilateral basis.<sup>298</sup> As of January 2009, 13 contributing Parties engage in a range of bilateral activities such as training, technical assistance and the introduction of ozone-friendlier technologies. The TEAP Replenishment Task Force found that “bilateral programs add value to the activities of the Implementing Agencies and contribute to the real phase-out, especially for providing assistance and supporting activities to ensure the successful implementation process and better understanding of the needs of the countries.”<sup>299</sup> The decision to accept bilateral projects as a part of the donor contributions also gives Parties the flexibility needed to allocate sufficient money in their national financing systems.<sup>300</sup>

The 2004 external evaluation found that bilateral cooperation and promissory notes provide flexibility for donors, resulting in slightly more timely payments, and payments being made in full.<sup>301</sup> Promissory notes allow IAs to make commitments on their projects against future cash flows by use of the notes. However, allowing the use of promissory notes reduces resources available to the Fund, since it earns no interest on promissory notes. There is also a risk that by the time notes are encashed, exchange rates will have deteriorated.<sup>302</sup> To address this, the evaluation recommended taking action to encourage timely payment by the donor countries.<sup>303</sup>

A Fixed Exchange Rate Mechanism (FERM), first introduced for the 2000-2002 replenishment of the Fund allows donor countries to pledge at an earlier date without having to worry about

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<sup>296</sup> UNEP 2011, p. 29

<sup>297</sup> <http://www.multilateralfund.org/default.aspx>

<sup>298</sup> MOP decision II/8, para. 7 – in: UNEP/OzL.Pro.2/3

<sup>299</sup> May 2005 TEAP Replenishment Task Force Report, p. 66

<sup>300</sup> UNEP 2011, p. 108

<sup>301</sup> ICF 2004, p. ES-6

<sup>302</sup> ICF, p. ES-5

<sup>303</sup> ICF, p. ES-8

subsequent fluctuations in exchange rates. The 2004 external evaluation found that the FERM had produced mixed results, but that donor countries reported that the FERM has made it easier to plan resources and slightly easier to pay their contributions on time. At the 42nd Meeting of the Executive Committee, FERM was recognized by ExCom members as a positive contribution to the Fund. In the long-term, it appears that FERM's direct effect on the value of the Fund will vary, exactly inverse to the activity of the US dollar.<sup>304</sup> It continues to be a mechanism used for replenishing the Fund.

**Box 3: Business planning of the MLF<sup>305</sup>**

Business planning is the tool that the Executive Committee uses for allocating resources to assist Article 5 countries to comply with the targets of the Montreal Protocol. A three-year plan is designed to provide a long term perspective on the compliance requirements of each Article 5 country in terms of reductions in ODS to be achieved and the proposed strategies and allocation of resources needed to meet those compliance requirements. The three-year plan is updated on an annual basis to include the requirements of the upcoming year, thus making it a rolling three-year plan. It is presented to the Executive Committee at the final meeting of the calendar year and is used as a reference for developing and assessing the annual business plans of the agencies for the following year.

The second tier of planning is the annual business planning of the implementing agencies. Since the contributions to the Multilateral Fund are paid annually by contributing Parties, the activities of the Multilateral Fund are organized mainly on the basis of an annual cycle. At the beginning of each year the cycle starts with the preparation of Business plans by the bilateral and implementing agencies. These plans propose target levels of ODS to be phased-out, the level of funds to be disbursed, and performance indicators which provide the basis for the evaluation of the agencies' performance. The Business plans of the agencies reflect the activities outlined in the three-year plan that need to be financed and implemented during the year so that Article 5 countries can comply with the ODS reduction schedules of the Montreal Protocol.

The Fund Secretariat consolidates the business plans of the individual agencies into the consolidated business plan of the Multilateral Fund. The three-year consolidated business plan of the Multilateral Fund together with the business plans of the agencies are presented during the Committee's first meeting of the calendar year for review and endorsement.

### **Efficiency of Procedures**

All money channeled through the Multilateral Fund is ultimately dedicated to the phase-out of ODS. Financial assistance covers the incremental costs of investment projects and also covers the costs of other activities such as country program preparation, demonstration projects, institutional strengthening projects, project preparation, technical assistance or training, as

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<sup>304</sup> ICF, p. 213

<sup>305</sup> Excerpted from: Secretariat of the MLF (2011). Executive Committee Primer - 2011, p. 10-11

well as a Compliance Assistance Programme targeting low-volume-consuming countries, funded through UNEP.

According to a July 2011 presentation by the Fund Secretariat, administrative costs are 11% of the volume of approved projects (US\$ 263 million from 1991 to 2010).<sup>306</sup> At the time of the 2004 external evaluation, implementing agencies received different fee rates for different sizes and types of projects. Core costs for UNDP, UNIDO, and the World Bank were at appropriate consistent levels.<sup>307</sup>

The efficiency of use of funds is ensured by the ExCom via project review. There is a standard set of compliance-related criteria and precedents used for project review that are consistently applied in the ExCom's review of project implementation delays. Consistent cancellation procedures are initiated for projects with implementation delays.<sup>308</sup> Furthermore, the ExCom's successful identification of inflated costs is apparent from the overall cost of projects, which has decreased significantly over time—despite the increasing complexity and difficulty of projects.<sup>309</sup>

In general, resources necessary for ExCom meetings decreased significantly during the 2001–2008 period, as efforts to assist countries to comply with CFC control measures moved towards sectoral and national phase-out plans and the number of individual projects requiring approval by the ExCom decreased.<sup>310</sup> This also served to get money into the field faster.<sup>311</sup> The project review workload of the ExCom has been increasing again, however, since 2009, due to more complex and lengthy discussions on activities to address the HCFC freeze in 2013 and the 10% reduction by 2015, which was set forth by the ExCom after the Parties decided in September 2007 to accelerate the phase-out of HCFCs.<sup>312</sup>

The 2004 evaluation noted that effective policies of the implementing agencies on fund management and disbursement are critical to the efficient and timely implementation of ODS phase-out projects. It concluded that, “typically, actual disbursement by IAs has been roughly equal to targeted disbursement” and “the speed of first disbursement appropriately reflects the implementation modalities of the IAs.” The evaluation found that IAs have not always met disbursement goals set by the ExCom, but some disbursement delay may be justifiable.<sup>313</sup>

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<sup>306</sup> Reed 2011, slide 7

<sup>307</sup> ICF, p. ES-5; For details on the core unit and operating costs for the MLF (including the implementing agencies, the ExCom and Secretariat, and the Treasurer), see pages 75 and 76 of the 2011 TEAP replenishment task force report.

<sup>308</sup> UNEP 2011b, p. 3

<sup>309</sup> ICF, p. 37

<sup>310</sup> Secretariat of the MLF (2011). Executive Committee Primer – 2011: An Introduction to the Executive Committee of the MLF for the Implementation of the Montreal Protocol, p. 12

<sup>311</sup> Fedorowicz 2005, p. 19

<sup>312</sup> MOP decision XIX/6 – found in: UNEP/OzL.Pro.19/7

<sup>313</sup> ICF 2004, p. ES-5

## Program and Project Monitoring and Evaluation

Accountability for program effectiveness is enhanced through independent evaluations and ongoing monitoring of implementation. The status of projects is monitored closely by the ExCom.

In 1999 the Fund Secretariat appointed a Senior Monitoring and Evaluation Officer to monitor and evaluate on a continuous basis the projects that were being implemented. Monitoring and evaluation is carried out on three levels:<sup>314</sup>

- a) **Project level:** Implementing agencies (UNDP, UNEP, UNIDO, World Bank, and bilateral agencies) are responsible for monitoring their activities and outputs/results, based on a standard format for progress reporting. Annual progress reports and project completion reports are entered into a database and summarized in a consolidated project completion report presented to the Executive Committee at the end of each year.<sup>315</sup> Implementing agencies are also required to report on certain performance indicators in the annual business plans they present to the Fund Secretariat (forwarded to the ExCom), which provide the basis for assessing the outcome of their implementation efforts.
- b) **Sectoral Level:** Sectoral evaluations are undertaken by the MLF Secretariat based on studies submitted by consultants. These reports evaluate, by ODS-using sector (aerosols, foam, refrigeration, etc.), the entire project cycle from project preparation to implementation to completion and assess whether results were achieved in terms of phase-out and cost.
- c) **Fund level/ Evaluation of the Financial Mechanism of the Montreal Protocol:** Periodic external evaluations of the Financial Mechanism are conducted by independent external consultants. External evaluations have been conducted in 1995 and 2004 and a further evaluation is scheduled to be submitted in 2012.

The 2004 external evaluation found that the Secretariat has an effective, standard monitoring process. The ExCom's extensive updating of the planning process has led to effective decisions regarding strategic planning and a country-driven, compliance-oriented focus. Moreover, the ExCom's review of planning and implementation often results in constructive suggestions for future improvements.<sup>316</sup>

## Complaint and Conflict Management

There are no specific mechanisms or special bodies dedicated to complaint and conflict management. Generally, issues that arise in connection to the activities of the Fund are resolved by the ExCom, which takes decisions on a consensus basis. Should any larger issues arise that cannot be resolved within the ExCom, they are forwarded on to the Meeting of the Parties of the Montreal Protocol.<sup>317</sup>

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<sup>314</sup> Transitional Committee for the Design of the Green Climate Fund. Workstream IV: Monitoring and Evaluation - Background note: Overview of evaluation mechanisms in selected funds. TC-2/WSIV/2. 29 June 2011

<sup>315</sup> Monitoring and evaluation, <http://www.multilateralfund.org/Evaluation/default.aspx>

<sup>316</sup> ICF 2004, p. 19

<sup>317</sup> Interview with Julia Anne Dearing, Information Management Officer for the MLF Secretariat. 24 January, 2012

## Impacts

The ExCom has held 62 meetings since the establishment of the MLF in 1990. During these meetings, the ExCom has approved expenditures to support over 6,200 project and activities in 148 countries implemented by the four implementing agencies and by bilateral agencies.<sup>318</sup>

Of the 457,455 Ozone Depletion Potential (ODP) tones to be eliminated once all these project have been implemented, a total of 446,173 ODP tones had already been phased out by the end of December 2009 (249,494 ODP tones that otherwise would have been consumed and 196,679 ODP tones that would have been produced).<sup>319</sup> There has been 99% compliance with control measures and in a number of cases Article 5 parties are well ahead of the requirements of the Montreal Protocol.<sup>320</sup>

To facilitate the phase-out by Article 5 countries, the ExCom has approved 143 country programs, and has funded the establishment and the operating costs of ozone offices in 143 Article 5 countries. The MLF has also funded capacity support to countries, including a global network of national ozone units and regional ozone networks. These networks have been credited with significantly facilitating implementation of and reporting under the Protocol.<sup>321</sup>

The TEAP states that the Multilateral Fund has played a major role in securing developing countries' participation in the Montreal Protocol and aiding their success. The Montreal Protocol has witnessed unparalleled participation as evidenced by the fact that all UN member states are parties to it, and to several of its amendments. Both developed and developing countries have actively participated to realize the Fund's objectives.<sup>322</sup>

A case study produced by the World Bank asserts that,

"By forging a close partnership between developing and industrialized nations, the Fund has fostered partnerships based on equality, not dependence. The unique composition and decision-making structure of the Fund, which features balanced representation of developed and developing countries and consensus-style decision making, has fostered an unprecedented model of international cooperation and has influenced the formulation and operations of the GEF as well as other Rio Convention agreements."<sup>323</sup>

The US National Academy of Sciences estimated the climate impact of the Montreal Protocol from 1991-2010 at 8 giga-tonnes of CO<sub>2</sub> equivalents (10% resulting from developing countries),<sup>324</sup> which is about five times greater than the emissions reductions that the Kyoto Protocol will achieve—assuming full compliance—from 2008 to 2012.<sup>325</sup> Andersen et al. point to a scientific

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<sup>318</sup> Gorman and Barton 2011, p. 20

<sup>319</sup> Gorman and Barton 2011, p. 20

<sup>320</sup> Reed 2011, slide 15

<sup>321</sup> Gorman and Barton 2011, p. 20

<sup>322</sup> UNEP 2011, p. 29

<sup>323</sup> Kelly 2004, p. xiii

<sup>324</sup> Reed 2011, slide 15

<sup>325</sup> Andersen et al. 2007, p. 41

study published in the Proceedings of the National Academy of Sciences, which shows that the discovery that ODS were destroying the ozone layer in 1974 provided an ‘early warning’ that altered what otherwise would have been a steady annual increase in ODS production and use. They say that early warning delayed climate change by 35 to 41 years (CFC emissions were growing at 7% annually). Furthermore, the Montreal Protocol provided up to a 12-year delay by eliminating the uses that persisted after the early warning.<sup>326</sup>

In an analysis published in 2005, Ralph Luken reviewed 50 MLF projects implemented over a 13 year period and concluded that in addition to the Montreal Protocol being widely seen as a global environmental accord that has produced tangible results in terms of reductions in ozone-depleting substances, there have also been other side effects, largely unrecognized and undocumented:

“All investment projects have reduced ozone depleting potential and global warming potential. Some projects have reduced atmospheric emissions and contamination of groundwater. Other projects have increased the competitiveness of enterprises in domestic and international markets and have sustained and in a few cases created employment opportunities. Others, fewer in numbers, have potentially contributed to environmental problems, have initially created difficulties in maintaining productivity and quality standards and have decreased the number of employment opportunities because of the need to rationalize manufacturing processes.”<sup>327</sup>

Andersen et al. write that fewer problems were encountered in implementing the Montreal Protocol than were predicted in theory, which is perhaps evidence of the effectiveness of technology transfer support provided by the MLF, the GEF and UNEP. The MLF has been exemplary in effectively overcoming the financial barriers, which are—along with lack of skills and capacity, and lack of information—key barriers to technology transfer.<sup>328</sup>

The 2008 JIU report recognized the capacity-building assistance provided by the Multilateral Fund for the Implementation of the Montreal Protocol (MLF) as “an exceptional but tangible example of a model of a financial mechanism to fully meet incremental costs for normative activities as distinct from developmental funding while successfully mainstreaming environmental activities in the broader framework for sustainable development in the field.”<sup>329</sup>

The Multilateral Fund is looked to by many as an example for how to effectively foster compliance. The chemicals and waste cluster, for example, is currently considering options for an integrated approach to securing adequate financing for the chemicals and waste agenda and has identified the following as characteristics of the MLF that could be modeled in a potential new fund:

- Governance with equal representation of developed and developing countries/economies in transition and decision-making on the basis of consensus.

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<sup>326</sup> Andersen et al. 2007, p. 41

<sup>327</sup> Luken and Grof 2005, p. 241

<sup>328</sup> Anderson et al. 2007, p. 266

<sup>329</sup> Inomata 2008, p. 6, para. 28

- Performance-based targets to provide the basis for funding tied to achievement of targets.
- Direct accountability of fund operations to the “Parties”—if the fund is implementing an international agreement—or all of the donors and recipient governments.
- A secretariat that can set in place processes to monitor, measure, assess and evaluate progress and results.
- Science and technical expertise and advice to the governing body and Secretariat on which to base decisions and monitoring and evaluation.<sup>330</sup>

#### **4.7.4 Adaptation Fund**

The Adaptation Fund (AF) was established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) to finance concrete adaptation projects and programs in developing country Parties that are particularly vulnerable to the adverse effects of climate change.<sup>331</sup> The Adaptation Fund has two particularly innovative features: it is financed through a market-based mechanism and has a specific balance of power in the decision-making of the Adaptation Fund Board. A key concept of the Fund is its “direct access” modality, intended as an alternative to the perceived shortcomings of the existing funding structures and procedures of other funds and mechanisms.<sup>332</sup>

The establishment of the Fund was agreed at COP-7 in Marrakesh in 2001, an agreement that was subsequently confirmed in decisions of the CMP under the KP, when it entered into force.<sup>333</sup> The Fund is financed with a share of proceeds from the project activities of the Kyoto Protocol’s Clean Development Mechanism (CDM) as well as through voluntary pledges of donor governments and earned investment income from the Fund itself. The share of proceeds to the AF from the CDM amounts to 2% of the certified emission reductions (CERs) that are issued for a CDM project activity.<sup>334</sup> The Trustee (World Bank) has generated revenues of US\$ eq. 138.16 million through CER sales since the start of the CER monetization program in May 2009.<sup>335</sup> As of January 2012, the total amount pledged to the Adaptation Fund, including bilateral donations, CER sales, and investment income was US\$ 273.87 million and the total amount deposited, including bilateral donations, CER sales, and investment income, was US\$ 258.25 million.<sup>336</sup>

The Adaptation Fund Board (AFB) was established as the governing body of the Adaptation Fund with the mandate to supervise and manage the Adaptation Fund under the authority and

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<sup>330</sup> Gorman and Barton 2011, p. 21, [http://www.unep.org/dec/Chemical\\_Financing/index.asp](http://www.unep.org/dec/Chemical_Financing/index.asp)

<sup>331</sup> Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Adaptation Fund Decision 28/CMP.1, para 1, contained in document FCCC/KP/CMP/2005/8/Add.4

<sup>332</sup> Czarnecki 2009, p. 81

<sup>333</sup> See Czarnecki 2009, p. 80, footnote 6

<sup>334</sup> <http://www.climatefundsupdate.org/listing/adaptation-fund>

<sup>335</sup> <http://www.climatefundsupdate.org/listing/adaptation-fund>

<sup>336</sup> <http://www.climatefundsupdate.org/listing/adaptation-fund>

guidance of the COP/MOP.<sup>337</sup> The AFB is composed of 16 members (with 16 alternate members) with the following distribution of representation:

- two from each of the five UN regional groups,
- one from the least-developed country (LDC) Parties,
- one from the smalls islands developing states,
- two from Annex I Parties<sup>338</sup> and
- two from Non-Annex I Parties.

This equitable and balanced representation of Kyoto Protocol Parties in the AFB is intended to ensure that leadership is shared between Annex I and non-Annex I Parties. Operating under a principle of decision by consensus lends a sense of ownership to both the Annex I and non-Annex I Parties for the process and the decisions of the AF.

Upon invitation from the Parties, the GEF provides secretariat services to the AFB and the World Bank serves as trustee of the Adaptation Fund, both on an interim basis.<sup>339</sup> The World Bank performs two core functions: 1) sales of CERs, and 2) management of the Adaptation Fund trust fund (including management of donor contributions and transfers to partner implementing entities).<sup>340</sup> Following the sixth meeting of the Parties to the Kyoto Protocol (CMP6) in December 2010, the World Bank's role as interim trustee was extended for a further 3 years (to now terminate 3 months after CMP9)<sup>341</sup>. Also during CMP6, the CMP expressed its appreciation to the Government of Germany for conferring legal capacity on the Adaptation Fund Board, which facilitates the implementation of the direct access modality to resources from the Adaptation Fund.<sup>342</sup>

Figure 14 below depicts the similarity between the governance structures of the AF and the MLF.

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<sup>337</sup> Document FCCC/KP/CMP/2007/9/Add.1

<sup>338</sup> Annex I Parties under the UNFCCC are developed countries and Eastern European parties, see the list at [http://unfccc.int/parties\\_and\\_observers/parties/annex\\_i/items/2774.php](http://unfccc.int/parties_and_observers/parties/annex_i/items/2774.php)

<sup>339</sup> Decision 1/CMP.3, para.19 and 23

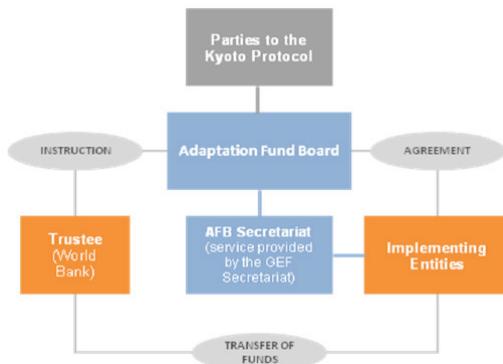
<sup>340</sup> The Trustee, <http://www.adaptation-fund.org/about/trustee>

<sup>341</sup> AFB/EFC.4/11, p. 2

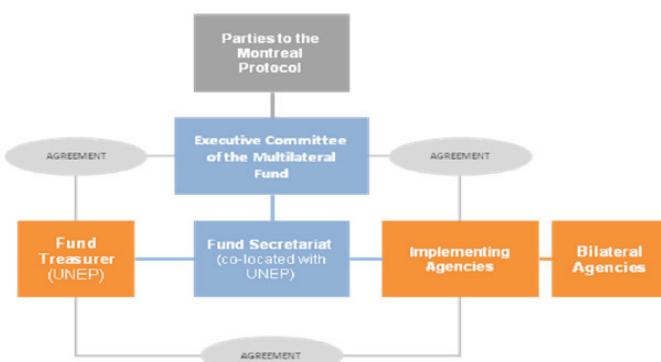
<sup>342</sup> Decision 5/CMP.6, para. 3

Figure 14: Governance structures of the AF and the MLF compared

### Adaptation Fund



### Multilateral Fund



Source: Administrative and Execution Costs: Analysis of Current Rules and Comparison of Practices with Other Funds. AFB/EFC.4/7/Rev.1, p. 10

An independent review of the effectiveness and adequacy of the interim trustee (World Bank) and the interim secretariat (GEF) servicing the Adaptation Fund Board was conducted by an external consultant in 2011.<sup>343</sup> The review covered Adaptation Fund operations as at 30 June 2011 and focused on providing recommendations for improving governance and procedural structures as the Fund moves out of its inception stage. In particular, the review notes that as the Fund continues to grow it may be more appropriate for the Adaptation Fund Secretariat to have an independent role with managerial capacity,<sup>344</sup> where dedicated full time Adaptation Fund staff assume the management role currently resting with GEF senior management, as well as for the AFB to devolve some of its managerial responsibilities<sup>345</sup> to the AF Secretariat.

<sup>343</sup> FCCC/KP/CMP/2011/6/Add.1, p. 4

<sup>344</sup> FCCC/KP/CMP/2011/6/Add.1, p. 5-6

<sup>345</sup> The lack of an independent executive management for the Adaptation Fund has caused the Adaptation Fund's Board of Directors to become the executive body of the organization and embody the role of executive management. Whilst this may have been the initial interim objective, such a role is incompatible with the directors'

## Relevance

The Adaptation Fund has only very recently become operational, having disbursed the first tranche for a Senegal program in November 2010, which was launched and began implementation in January 2011. As of June 2011, 10 countries had received funding: Mongolia, Maldives, Turkmenistan, Ecuador, Eritrea, Solomon Islands, Nicaragua, Pakistan, Senegal, and Honduras.<sup>346</sup> The relevance of these initial interventions at such an early stage cannot be fully assessed.

However, the principle and explicit aim of the Fund is to adapt and increase climate resilience<sup>347</sup> and the Fund has developed criteria in order to ensure that activities supported by the Fund are relevant to the issue it seeks to address, as well as to the needs and interests of recipient countries. Decisions on the allocation of resources of the Fund must take into account the criteria outlined in the Strategic Priorities, Policies and Guidelines of the Adaptation Fund document, specifically:

- (a) Level of vulnerability;
- (b) Level of urgency and risks arising from delay;
- (c) Ensuring access to the fund in a balanced and equitable manner;
- (d) Lessons learned in project and program design and implementation to be captured;
- (e) Securing regional co-benefits to the extent possible, where applicable;
- (f) Maximizing multi-sectoral or cross-sectoral benefits;
- (g) Adaptive capacity to the adverse effects of climate change.

Furthermore, it was decided at the 12th AF Board meeting, that LDCs which cannot access the Least Developed Countries Fund (LDCF) will be given priority over those that can.<sup>348</sup>

The Adaptation Fund Board is established to supervise and manage the Adaptation Fund, under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and is fully accountable to the Conference of the Parties, which decides its overall policies in line with relevant decisions.

A particularly important feature of the AF is the composition of its Board, with a structurally guaranteed majority of non-Annex I parties, i.e. developing countries, which allows those countries most affected by climate change impacts to exercise oversight of the effectiveness and transparency of fund disbursement.<sup>349</sup> Furthermore, the Operational Policies and Guidelines of the AF state that the strategic priorities of the AF, as agreed by the Parties to the Kyoto Protocol are first of all to “assist developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of

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existing full time country-specific ministerial duties and with their responsibilities as Board members of the Adaptation Fund. (FCCC/KP/CMP/2011/6/Add.1, p. 27)

<sup>346</sup> UNEP 2011a, p. 68

<sup>347</sup> UNEP 2011a, p. 69

<sup>348</sup> Adaptation Fund, <http://www.climatefundsupdate.org/listing/adaptation-fund>

<sup>349</sup> IIED (2009). The Adaptation Fund: a model for the future? Available at: <http://pubs.iied.org/17068IIED.html>

adaptation” and secondly, to “finance concrete adaptation projects and programs that are country driven and are based on the needs, views and priorities of eligible Parties.”<sup>350</sup>

The recent independent review of the Adaptation Fund’s interim arrangements identified a potential future risk in relation to the AF’s ability to fully meet its own objectives. As a result, it strongly recommended that the AF become an independent organization (i.e. independent secretariat, retaining the services of the Trustee), not reliant on the secretariat services of the GEF, particularly because if operations of the AF continue to grow within another entity, it may lead to overlap and competition over resources, leading to the AF’s own objectives not being fully met.<sup>351</sup> However, the review was heavily criticized by donor countries and, for example, not supported by most EU countries.

### **Alignment and Coordination**

Given that the Adaptation Fund is still so young, there is little experience off of which to base an assessment of whether duplication of structures and confusion about who does what is avoided or about mechanisms for coordination.

The recent independent review of the AF notes that one critical area of coordination is between the AF secretariat and the UNFCCC’s Clean Development Mechanism (CDM). It suggests that the secretariat establish an increasing working relationship with the CDM. Since the CDM is the main source of income for the Adaptation Fund, ensuring the completeness and accuracy of the Share of Proceeds Account is of paramount importance.

One positive aspect to note with regard to coordination with other mechanisms is the decision mentioned above that LDCs which cannot access the Least Developed Countries Fund will be given priority over those that can.<sup>352</sup>

### **Predictability of Funds**

The Adaptation Fund is special in that its main source of funding is a market-based instrument: the CDM and the share of proceeds from it. The Adaptation Fund therefore depends on 1) the existence of the CDM—which is tied to the existence of the Kyoto Protocol, 2) demand for CDM projects—which depends on demand for the CERs that the CDM generates, and 3) a functioning carbon market with demand for CERs—as otherwise, if prices fall, monetization will not raise substantial amounts of money. This represents a unique vulnerability—although the Adaptation Fund is not mainly reliant on voluntary contributions from donor countries as many other funds are, its funding is not necessarily more predictable.

As of January 2012, US\$ 167.92 million had been deposited to the Fund based on the sale of 9.92 million CERs generated, plus US\$ 1.15 million from investment income.<sup>353</sup>

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<sup>350</sup> AFB (not dated). Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, p. 15.

<sup>351</sup> UNFCCC (2011). Report of the Adaptation Fund Board: Annex: Review of the Interim Arrangements of the Adaptation Fund. FCCC/KP/CMP/2011/6/Add.1, p. 7, [http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/adaptation\\_fund/items/3659.php](http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php)

<sup>352</sup> <http://www.climatefundsupdate.org/listing/adaptation-fund>

<sup>353</sup> <http://www.climatefundsupdate.org/listing/adaptation-fund>

As of June 2011, funds held in trust for the AF totaled US\$ 228.4 million and funding availability was US\$ 171.6 million. The World Bank estimates that the Adaptation Fund is likely to total US\$ 100–500 million by 2012.<sup>354</sup> Estimated funds available by the end of 2012 are US\$ 334 million (medium estimate), US\$ 286 million (low estimate) and US\$ 389 million (high estimate).<sup>355</sup>

In 2007, the UNFCCC estimated that by 2030 developing countries would require US\$ 28-67 billion in funds to enable adaptation to climate change.<sup>356</sup> According to a news article published in September 2010, the shortage of funds was still a central concern regarding the AF, shortly before the first AF funds were disbursed. The manager of the Adaptation Fund's Board secretariat, told the press that the Fund had about US\$ 150 million—"far short of the sum required, according to various estimates."<sup>357</sup> The article quoted a representative of the International Institute for Environment and Development (IIED), as noting that while "money is available in the short term for initial projects", there could be bottlenecks "as more countries get their national implementing entities approved and submit project proposals".<sup>358</sup>

### **Efficiency of Procedures**

Although it is still young, the Adaptation Fund plays a large and growing role for climate-related finance. It is remarkable that the Fund was essentially set up and running within two years. The Adaptation Fund has reviewed over 30 projects submitted since its first call for projects dated April 2010 (or 49 if re-submissions are considered). As of June 2011, it had approved and/or disbursed on 10 projects and programs across the following countries: Mongolia, Maldives, Turkmenistan, Ecuador, Eritrea, Solomon Islands, Nicaragua, Pakistan, Senegal, and Honduras.<sup>359</sup>

All money granted by the Adaptation Fund is dedicated to assisting developing country Parties to the Kyoto Protocol to adapt to the adverse effects of climate change. To date, the share of administrative costs has been relatively high—perhaps due to a high share of costs in starting up the Fund. According to Climate Funds Update, as of January 2012, the total amount approved for disbursement was US\$ 123.94 million. Of this, US\$ 14.72 million was approved for administrative fees, which represents 12% of the total approved budget, with the remainder allocated to project implementation. The total amount disbursed to date in January 2012 was US\$ 30.13 million. Of this, US\$ 13.21 million was disbursed for administrative fees, which represents 44% of the total amount disbursed.<sup>360</sup>

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<sup>354</sup> UNFCCC, 2007, p. 38

<sup>355</sup> UNEP 2011a, p. 68

<sup>356</sup> UNFCCC, 2007, p. 5

<sup>357</sup> IRIN Global (2011). Climate Change: Adaptation Fund starts delivering. 24 September 2010, <http://irinnews.org/Report.aspx?ReportID=90571>

<sup>358</sup> IRIN Global (2011). Climate Change: Adaptation Fund starts delivering. 24 September 2010, <http://irinnews.org/Report.aspx?ReportID=90571>

<sup>359</sup> UNFCCC (2011). Report of the Adaptation Fund Board: Annex: Review of the Interim Arrangements of the Adaptation Fund. FCCC/KP/CMP/2011/6/Add.1, p. 10, [http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/adaptation\\_fund/items/3659.php](http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php)

<sup>360</sup> <http://www.climatefundsupdate.org/listing/adaptation-fund>

The AF Board made a decision at its 11th meeting, however, to adopt a cap of 8.5% on the administrative fees requested by the Multilateral Implementing Entities (MIEs).<sup>361</sup> The decision was based on the various proposals by Board members, taking into account that implementing entities had to recover their costs, but that the countries themselves could also contribute to the work of preparing and designing projects. It was also suggested that execution costs should have a cap of 10%.<sup>362</sup>

In its assessment of the trustee, the recent independent review of the AF reported positively that the AF's trustee "has generally delivered on its specifically tailored mandate in the area of monetization of CERs in an efficient and cost effective manner since its inception. Costs are made up of Staff, Exchange as well as Trading costs and are transparent and verifiable to source documentation."<sup>363</sup>

Ease and speed of disbursement was one of the reasons for creating the Adaptation Fund. The Strategic Policies and Guidelines for the AF laid out by the Parties to the Kyoto Protocol explicitly state that short and efficient project development and approval cycles and expedited processing of eligible activities should be developed.<sup>364</sup>

One of the distinguishing features of the Adaptation Fund is its direct access modality, which enables national organizations, following accreditation, to propose adaptation projects in its country directly to the Adaptation Fund Board (AFB), and to receive funds directly from it. This direct access modality is a new feature in international development finance to provide countries with a simplified and accelerated way to access and manage funds.<sup>365</sup> After a stringent analysis of the fiduciary standards of the organization in question, carried out by an expert panel, the AFB decides to accredit a National Implementing Entity. In addition to National Implementing Entities, Multilateral Implementing Entities provide an alternative path for developing countries to access finance from the Adaptation Fund.<sup>366</sup> To date, these include UNDP, UNEP and WFP.

The independent review of the Adaptation Fund's interim institutional arrangements made some specific recommendations for how some adjustments to its one-step or two-step project approval process could accelerate the AF's approval process as proposals for projects and programs increase.

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<sup>361</sup> Adaptation Fund Board Decision B.11/16

<sup>362</sup> Administrative and execution costs: analysis of current rules and comparison of practices with other funds, AF Board meeting, March 2011, p. 1.

<sup>363</sup> UNFCCC (2011). Report of the Adaptation Fund Board: Annex: Review of the Interim Arrangements of the Adaptation Fund. FCCC/KP/CMP/2011/6/Add.1, p. 32,  
[http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/adaptation\\_fund/items/3659.php](http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php)

<sup>364</sup> AFB (not dated). Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, p. 16

<sup>365</sup> Press release: The Adaptation Fund Operationalizes Direct Access and Issues Call for Proposals by the Parties, 26 March 2010, <http://www.adaptation-fund.org/content/281-adaptation-fund-operationalizes-direct-access-and-issues-call-proposals-parties>

<sup>366</sup> Press release: The Adaptation Fund Operationalizes Direct Access and Issues Call for Proposals by the Parties, 26 March 2010, <http://www.adaptation-fund.org/content/281-adaptation-fund-operationalizes-direct-access-and-issues-call-proposals-parties>

## **Program and Project Monitoring and Evaluation**

Paragraphs 55 through 60 of the Adaptation Fund's *Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund* state the following regarding monitoring, evaluation and review:

“55. The Board is responsible for strategic oversight of projects and programmes implemented with resources from the Fund, in accordance with its overarching strategic results framework, a *Strategic Results Framework for the Adaptation Fund* and the *Adaptation Fund Level Effectiveness and Efficiency Results Framework*, to support the *Strategic Priorities, Policies, and Guidelines of the Adaptation Fund*. The Ethics and Finance Committee (EFC), with support of the Secretariat, will monitor the Fund portfolio of projects and programmes.

56. The Board will oversee results at the fund-level. Implementing entities shall ensure that capacity exists to measure and monitor results of the executing entities at the country-level. The Board requires that projects and programmes under implementation submit annual status reports to the EFC. The EFC with the support of the Secretariat shall provide an annual report to the Board on the overall status of the portfolio and progress towards results.

57. All regular projects and programmes that complete implementation will be subject to terminal evaluation by an independent evaluator selected by the implementing entity. All small projects and programmes shall be subject to terminal evaluation if deemed appropriate by the Board. Terminal evaluation reports will be submitted to the Board after a reasonable time after project termination, as stipulated in the project agreement.

58. The Board requires that all projects and programmes, objectives and indicators align with the Fund's Strategic Results Framework. Each project/programme will embed relevant indicators from the strategic framework into its own results framework. Not all indicators will be applicable to all projects/programmes but at least one of the core outcome indicators should be embedded.

59. The Board reserves the right to carry out independent reviews, evaluations or investigations of the projects and programmes as and when deemed necessary. The costs for such activities will be covered by the Fund. Lessons from evaluations will be considered by the PPRC when reviewing project/programme proposals.

60. The Board has approved *Guidelines for project/programme final evaluations*. These guidelines describe how final evaluations should be conducted for all projects/programmes funded by the Adaptation Fund, as a minimum, to ensure sufficient accountability and learning in the Fund. They should be complementary to the implementing entities own guidelines on final evaluation.”<sup>367</sup>

In June 2009, Adaptation Fund Board Decision B.6/3 established the Project and Programme Review Committee (PPRC) and the Ethics and Finance Committee (EFC). The PPRC is responsible for assisting the Board in tasks related to project/programme review. In this regard, it considers and reviews projects and programs submitted to the Board. It also reviews the project and

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<sup>367</sup> AFB (2011). Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund. Revised 9.15.11

program reports submitted by National Implementing Entities (NIEs) and Multilateral Implementing Entities (MIEs) and it reports and makes recommendations to the Board on project and program approval, cancellation, termination, and suspension.<sup>368</sup> The EFC is responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit. Among its responsibilities in this regard is the review of the performance of the Fund and NIEs and MIEs making use of both internal and external evaluations and reports from NIEs, MIEs and other sources.<sup>369</sup>

The GEF Evaluation Office has been recently mandated on an interim basis to perform evaluations of the Adaptation Fund Projects within 9 months of their full implementation.<sup>370</sup>

The independent review of the AF noted that as the Fund grows, more staff will be needed for project technical reviews as well as on-site project reviews, which represent a critical element of program and project monitoring and evaluation.<sup>371</sup>

### **Complaint and Conflict Management**

Decisions of the Adaptation Fund Board are taken by consensus. If all efforts at reaching a consensus have been exhausted, and no agreement has been reached, decisions are then taken by a two-thirds majority of the members present at the meeting on the basis of one member, one vote. As mentioned above, the AF Board is supported by an Ethics and Finance Committee, which is responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit.

In case of a dispute as to the interpretation, application, or implementation of a project/program, implementing entities must first approach the Secretariat with a written request seeking clarification. In case the issue is not resolved to the satisfaction of the implementing entity, the case may be put before the AF Board at its next meeting, to which a representative of the implementing entity may also be invited.<sup>372</sup>

### **Impacts**

Because the Adaptation Fund has only so recently begun to disburse funds, there is not yet much that can be said about its impacts. However, the Fund's strengths in efficiency of procedures as mentioned above (i.e. quick setup of the Fund and ease and speed of disbursements) bode well for its future impacts and could inspire similar practices in other funds.

From inception to January 2011, the Trustee had disbursed, based on Adaptation Fund Board decisions, a total of US\$ 12.63 million (approx. 17% of total volume). These approved

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<sup>368</sup> Project and Programme Review Committee Terms of Reference. Annex VI: AFB/B.6/14

<sup>369</sup> Ethics and Finance Committee Terms of Reference. Annex VI: AFB/B.6/14

<sup>370</sup> UNFCCC (2011). Report of the Adaptation Fund Board: Annex: Review of the Interim Arrangements of the Adaptation Fund. FCCC/KP/CMP/2011/6/Add.1, p. 12,

[http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/adaptation\\_fund/items/3659.php](http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php)

<sup>371</sup> UNFCCC (2011). Report of the Adaptation Fund Board: Annex: Review of the Interim Arrangements of the Adaptation Fund. FCCC/KP/CMP/2011/6/Add.1, p. 16,

[http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/adaptation\\_fund/items/3659.php](http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php)

<sup>372</sup> AFB (no date). Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, p. 14

disbursements included the first ever transfer of funds for a project to an Adaptation Fund National Implementing Entity.<sup>373</sup>

The future of the AF, however, is currently intertwined with the future of the Kyoto Protocol and the Clean Development Mechanism, which is uncertain. It is also unclear what the establishment of the new Green Climate Fund (under the UNFCCC rather than the Kyoto Protocol) will mean for the AF.

#### 4.7.5 Climate Investment Funds

The Climate Investment Funds (CIFs) were established by the World Bank in 2008 based on guidance from the UNFCCC COP and associated Bali Action Plan<sup>374</sup>; lessons learned from the World Bank's Clean Energy Investment Framework (CEIF); and the initial commitment from Japan, the United States and the United Kingdom just prior to the July 2008 G8 Summit in Japan.<sup>375</sup> As of September 2010, 13 donor countries have pledged more than US\$ 6.9 billion to the CIFs.<sup>376</sup> The donors include, from highest to lowest *pledge* amount (see Figure 15): United States, United Kingdom, Japan, Germany, France, Norway, Australia, Spain, Sweden, Canada, the Netherlands, Denmark and Switzerland. The CIFs are administered by the World Bank and funds are disbursed through five MDBs: African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD) and Inter-American Development Bank (IDB) and World Bank Group.

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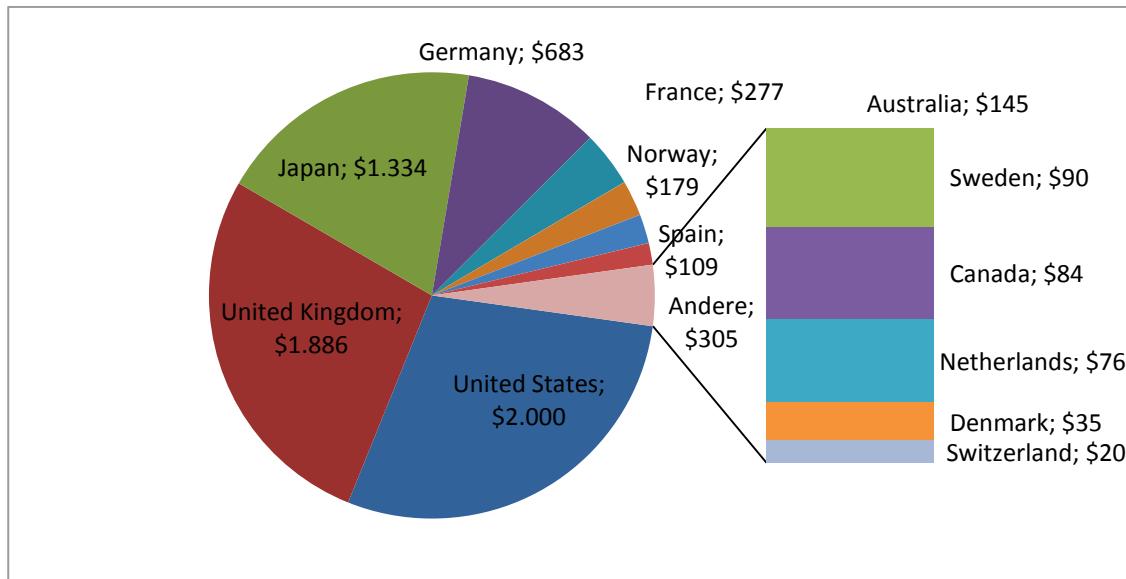
<sup>373</sup> Financial Status of the Adaptation Fund Trust Fund, March 2011, p. 4

<sup>374</sup> Decision 3/CP.13 (2008), contained in document FCCC/CP/2007/6/Add.1, <http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf>, p. 12

<sup>375</sup> The Clean Energy Investment Framework was established by the World Bank following the Gleneagles G-8 Summit in July 2005. Initiatives and pilot projects conducted through the framework identified the need to scale-up support for: "financing clean technology for climate change, promoting investments for sustainable forest management, and piloting the integration of climate resilience into development plans and budgets." See, Consultation Note on the Climate Investment Funds, CIF/DM.1/2/Rev.1, March 2008.

<sup>376</sup> Climate Investment Funds 2010 Annual Report, (2010), <http://www.climateinvestmentfunds.org/cif/node/3338>, p. 2

Figure 15: Donor pledges to the Climate Investment Funds as of 30 September 2010 (in millions)



Authors' compilation, based on Climate Investment Funds 2010 Annual Report, (2010), p.2

The CIFs include two separate funds: the larger Clean Technology Fund (CTF) with US\$ 4.4 billion pledged, which aims to support the shift to clean, low-carbon technology and the smaller Strategic Climate Fund (SCF) with US\$ 1.8 billion pledged, which includes three separate programs aimed to scale-up pilot activities to: (1) prevent deforestation and forest degradation (The Forest Investment Program—FIP); (2) improve development and planning by including climate risk and resilience (Pilot Program for Climate Resilience—PPCR) and (3) increase renewable energy in low income countries (Program for Scaling-Up Renewable Energy in Low Income Countries—SREP).

The CIFs are intended to be temporary: “the CIF will be an interim measure designed for the MDBs to assist in filling immediate financing gaps. The funds, therefore, will include specific sunset clauses linked to the agreement on the future of the climate change regime.”<sup>377</sup> In addition, the CIFs are intended to leverage significant co-financing from multilateral development banks (MDBs) governments, the private sector, and other partners. The World Bank expects the CTF to leverage US\$ 8 for every US\$ 1 invested; figures are not provided for the SCF.<sup>378</sup>

### Relevance

While there seems to be very little political guidance for the CIFs, overall, the two funds are relevant to global efforts to reduce greenhouse gas emissions, as they are designed as an interim financing mechanism to support the principles and provisions of the UNFCCC. It is important to recognize that there is major criticism from NGOs about the World Bank and MDBs playing such a large role in decision-making for climate financing since ongoing and

<sup>377</sup> The Clean Technology Fund (2008), <http://www.climateinvestmentfunds.org/cif/node/78>, p. 5 and Strategic Climate Fund (2008), <http://www.climateinvestmentfunds.org/cif/node/112>, p. 8

<sup>378</sup> Climate Investment Funds 2010 Annual Report, (2010) <http://www.climateinvestmentfunds.org/cif/node/3338>, p. 2

prior activities have been in conflict with environmental protection.<sup>379</sup> However, if pledged funds are effectively contributed and applied according to principles of the UNFCCC, they represent a significant source of funding for climate change mitigation and adaptation.<sup>380</sup>

Efforts are underway to improve the CIFs.<sup>381</sup> Key focal areas identified by the United Kingdom and supported by the CIF Administrative Unit include, *inter alia*, increased transparency and accountability; increased integration of gender issues into the design and planning process; improved dialogue with stakeholders, local and national governments; and increased work with MDBs to ensure consultation with civil society and private sector involvement.<sup>382</sup> In addition, the process for selecting observers from civil society and the private sector was reopened in October 2011 with strengthened selection criteria following criticism from observers.<sup>383</sup> A more detailed assessment of each fund, drawing largely from the World Resources Institute (US observer to the CTF), Greenpeace (US observer to SCF, FIP), ActionAid (US observer to PPCR) and Transparency International (German observer to SREP) as compiled in the Bretton Woods Project climate investment monitoring reports, can be found below.

#### *Clean Technology Fund (CTF)*

As of September 2010, the CTF had endorsed 13 investment plans with funding at 39% for Africa including MENA, 28% for Asia, 18% for Europe and Central Asia, and 15% for Latin America.<sup>384</sup> In November 2010, the investment plan for Nigeria was endorsed subject to new funding.<sup>385</sup> The CIF is expected to “help reduce approximately 1.5 billion tons of CO<sub>2</sub>, roughly comparable to a third of the annual emissions of the European Union, or all of the annual emissions of Sub-Saharan Africa.”<sup>386</sup> An example is Turkey’s investment plan of US\$ 250 million for renewable energy and energy efficiency expected to leverage US\$ 2 billion from the EBRD, the International Finance Corporation (World Bank Group), the International Bank for Reconstruction and Development (World Bank Group), private sector, the Turkish Kalkınma Bankası and the Industrial Development Bank Turkey.

The CTF is mostly relevant to its statutory objectives; most of the funding endorsed is for energy efficiency, low-carbon urban transport systems, wind power, solar water heating and concentrated solar power.<sup>387</sup> However, the criteria allow for supercritical coal plants (although

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<sup>379</sup> Lattanzio 2011, p.1

<sup>380</sup> Werksman, J. (2008) Testimony before the House Committee on Financial Services, U.S. House of Representatives June 5, 2008, World Resources Institute

<sup>381</sup> Bretton Woods Project (2011), <http://www.brettonwoodsproject.org/art-569180>

<sup>382</sup> Bretton Woods Project (2011), <http://www.brettonwoodsproject.org/art-569180>

<sup>383</sup> Bretton Woods Project (2011), <http://www.brettonwoodsproject.org/art-569180>

<sup>384</sup> Climate Investment Funds 2010 Annual Report, (2010) <http://www.climateinvestmentfunds.org/cif/node/3338> p. 32-33

<sup>385</sup> Trustee Report on the Financial Status of the Clean Technology Fund (2011) <http://fiftrustee.worldbank.org/index.php?type=fund&ft=ctf>, p. 3

<sup>386</sup> Climate Investment Funds 2010 Annual Report, (2010) <http://www.climateinvestmentfunds.org/cif/node/3338>, p. 2

<sup>387</sup> Bretton Woods Project (2010), Climate Investment Funds Monitor 1 <http://www.brettonwoodsproject.org/art-566053>

none have so far been endorsed).<sup>388</sup> From the donor country perspective, the CTF is relevant, however, the US failure so far to commit pledged funding is causing problems. Also, because MDBs are responsible for meeting criteria once projects have begun, there is a need for increased monitoring of the MDBs.<sup>389</sup> From the perspective of beneficiaries, the CTF loans—instead of grants—go against the polluter-pays principle, which has been widely criticized by civil society groups.<sup>390</sup>

#### *Strategic Climate Fund (SCF)*

As of September 2010, the SCF has launched three programs: (1) The Forest Investment Program (FIP) has eight pilot countries, and investment plans from Burkina Faso and the Democratic Republic of Congo have been endorsed; (2) The Pilot Program for Climate Resilience (PPCR) has 18 participating countries and all but four have submitted Strategic Program for Climate Resilience (SPCR) plans, which will be funded in a second phase through a combination of grants and loans; and (3) The Scaling up Renewable Energy Program in Low Income Countries (SREP) has identified six countries for pilot programs: Ethiopia, Honduras, Kenya, the Maldives, Mali and Nepal.<sup>391</sup> The SCF programs are still in the early stages of development; however, there are already significant concerns about whether the three programs will meet their objectives. Continued efforts to improve the programs are necessary to ensure they remain relevant.

The FIP faces major challenges in balancing improved governance with large-scale private investment, which if not achieved, could result in further deforestation.<sup>392</sup> Some donor countries, e.g., Norway, have questioned the rate of fund disbursement, and warned that some countries or MDBs could use funds to support already planned projects that do not meet the goals of FIP.<sup>393</sup> Beneficiaries' needs and priorities are not adequately incorporated into the planning process, in part due to delays in the implementation of the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities, which would provide funding to support indigenous and local participation, but is still in the design phase as of November 2011.<sup>394,395</sup>

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<sup>388</sup> Bretton Woods Project (2010), Climate Investment Funds Monitor 1

<http://www.brettonwoodsproject.org/art-566053>

<sup>389</sup> Bretton Woods Project (2011), Climate Investment Funds Monitor 3

<http://www.brettonwoodsproject.org/art-567400>

<sup>390</sup> Bretton Woods Project (2010), Climate Investment Funds Monitor 1

<http://www.brettonwoodsproject.org/art-566053>

<sup>391</sup> Bretton Woods Project (2011), Climate Investment Funds Monitor 4

<http://www.brettonwoodsproject.org/art-569180>

<sup>392</sup> Bretton Woods Project (2010), Climate Investment Funds Monitor 1

<http://www.brettonwoodsproject.org/art-566053>

<sup>393</sup> Bretton Woods Project (2011), Climate Investment Funds Monitor 3, <http://www.brettonwoodsproject.org/art-567400>

<sup>394</sup> Bretton Woods Project (2010), Climate Investment Funds Monitor 1, <http://www.brettonwoodsproject.org/art-566530>

The Pilot Program for Climate Resilience faces major criticism for its combined grant and loan funding package as well as poor track-record of MDBs in developing plans in line with beneficiary needs and priorities.<sup>396</sup> Lack of stakeholder participation and incorporation of gender issues have been criticized, especially in the national plans for Bangladesh and Tajikistan.<sup>397</sup>

The Scaling up Renewable Energy Program in Low Income Countries criticism from donors has focused on the selection criteria for participating countries, since some originally proposed countries are lower middle income rather than low-income countries as stated in the program title and objectives (e.g., Honduras and the Maldives). Also, donor countries are looking closely at investment plans (e.g., Norway questioned potential poverty reduction benefits from solar-water heating in the Kenyan investment plan). Civil society groups urge for prioritization of beneficiaries' needs and priorities over foreign investment, and the need for a large-scale shift to a renewables market rather than focus on individual projects.<sup>398</sup>

### **Alignment and Coordination**

Both CIF trust funds are organized in a similar structure, which appears to have clear responsibilities; however, there is outside criticism that the World Bank's role as Trustee and Administrative Unit and implementing MDB could lead to a conflict of interest. In April 2011, based on the experience from the CIFs, Nicaragua, the Philippines and India called for reduced power of the World Bank in the new Green Climate Fund due to conflict of interest. In response, the United States, Germany disagreed that there is a conflict of interest; Sweden agreed there is a potential for conflict of interest, and this should seriously be considered for the Technical Support Unit of the new Green Climate Fund.<sup>399</sup>

The CTF and SCF are each comprised of a Trust Fund Committee and they share an Administrative Unit, MDB Committee, and a Trustee. The SCF also has separate Sub-Committees for each of the three programs.<sup>400</sup> Pilot country meetings are held once a year for countries participating in the CTF and twice per year for the SCF; results of these meetings are reported at the annual Partnership Forum.<sup>401</sup> Stakeholder participants include MDBs, the UN, UNFCCC, NGOs, indigenous peoples, private companies and scientific and technical experts.

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<sup>395</sup> FIP (2011) Design for the dedicated grant mechanism for indigenous peoples and local communities to be established under the Forest Investment Program:

[http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP\\_Design\\_Proposal\\_DGM\\_for\\_IPs\\_and\\_%20LC\\_FINAL\\_November2011\\_0.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Design_Proposal_DGM_for_IPs_and_%20LC_FINAL_November2011_0.pdf)

<sup>396</sup> Bretton Woods Project (2011), <http://www.brettonwoodsproject.org/art-569180>

<sup>397</sup> Bretton Woods Project (2011), Climate Investment Funds Monitor 3, <http://www.brettonwoodsproject.org/art-567400>

<sup>398</sup> Bretton Woods Project (2010), Climate Investment Funds Monitor 1, <http://www.brettonwoodsproject.org/art-566530>

<sup>399</sup> Third World Network (2011) World Bank's conflict of interest in Green Fund design?,  
<http://www.twinside.org.sg/title2/climate/info.service/2011/climate20110501.htm>

<sup>400</sup> Pilot Country Meetings,

<http://www.climateinvestmentfunds.org/cif/content/pilot-country-meetings>

<sup>401</sup> CIF Partnership Forum Proceedings (2011),

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CIF%20Partnership%20Proceedings%202010-5-11.pdf>, p.7

The Trust Fund Committees and Sub-Committees are comprised of an equal number of representatives from the donor and recipient countries, and decisions are made by consensus. Observers are invited to meetings of the Trust Fund Committee and Sub-Committee; observers come from civil society organizations, the private sector, the GEF, UNFCCC, UNDP, contributor countries that are not members and recipient countries with a project or plan under consideration.

The selection process to identify observers was revised in October 2011 following criticism from observers.<sup>402</sup> The new process to identify observers from civil society organizations is managed by RESOLVE, a non-profit institute based in Washington DC, and the process to identify observers from the private sector is managed by the World Business Council for Sustainable Development, with offices in Geneva and Washington DC. Observers are able to (1) request the floor to speak during committee discussions; (2) request that the co-chairs add items to the provisional agenda; and (3) recommend external experts to speak on a specific agenda item.<sup>403</sup>

The MDB Committee is responsible for coordinating information among the five MDBs and advising the Administrative Unit. It reviews recommendations proposed by the Administrative Unit and monitors progress in implementing programs. It is responsible for liaising with other development partners to promote co-financing of CIF projects and activities.<sup>404</sup>

The Administrative Unit is located in the World Bank Group's office in Washington DC. It supports the Trust Fund Committees, makes recommendations and consults with the MDB Committee and manages data about the CIFs, including providing information to the Trustee.<sup>405</sup>

The Trustee for the CIFs is the International Bank of Reconstruction and Development (IBRD). The IBRD is responsible for transferring funds to MDBs; each MDB is responsible to use of these funds according to its own rules and decisions of the Trust Fund Committees. The MDBs provide financial data to the Trustee; the Trustee reports back to the Trust Fund Committees.

### **Predictability of Funds**

It is too soon to report on whether funding is secured in a way that makes planning easily possible for institutions and recipients. Funding for the CIFs is secured through donor country pledges, and is expected to leverage significant funding from the private sector. MDBs are expected to coordinate the private sector investment. As of November 2011, only 67% of pledged funding had been deposited to both the CTF and SCF trust funds, respectively.<sup>406</sup> All approved projects in the 2010 CIF Annual Report note an 'expected co-financing' amount along

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<sup>402</sup> Meeting of the joint CTF and SCF Trust Fund Committees (2010) Review of the Self-Selection Process of Observers to CIF Committees and Effectiveness of Participation,

[http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%207%20Review%20of%20Observer%20Selection%20Process%20and%20Engagement%20nov2010\\_0.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%207%20Review%20of%20Observer%20Selection%20Process%20and%20Engagement%20nov2010_0.pdf)

<sup>403</sup> CTF Observers, [http://www.climateinvestmentfunds.org/cif/CTF\\_Observers](http://www.climateinvestmentfunds.org/cif/CTF_Observers)

<sup>404</sup> MDB Committee,

[http://www.climateinvestmentfunds.org/cif/MDB\\_Committee](http://www.climateinvestmentfunds.org/cif/MDB_Committee)

<sup>405</sup> Administrative Unit, [http://www.climateinvestmentfunds.org/cif/Administrative\\_Unit](http://www.climateinvestmentfunds.org/cif/Administrative_Unit)

<sup>406</sup> Trustee Reports (2011), [http://www.climatefundsupdate.org/listing/clean-technology-fund\\_and\\_http://www.climatefundsupdate.org/listing/strategic-climate-fund](http://www.climatefundsupdate.org/listing/clean-technology-fund_and_http://www.climatefundsupdate.org/listing/strategic-climate-fund)

with co-financing sources, but it is too early to report actual figures. Planning may be affected by delays in disbursement of funds.

Funding is disbursed according to investment plans, therefore, once investment plans have been endorsed, institutions and recipients should have a clear idea of what activities will be funded. However, some plans, or parts of plans may not meet all beneficiary needs. As discussed above, there has been criticism for lack of stakeholder participation, especially at the local level in preparing these plans. There are challenges to an inclusive process, e.g., in many countries civil society organizations may disagree with priorities of national governments.<sup>407</sup>

### **Efficiency of Procedures**

The objective of the CIFs is to support mitigation and adaptation to global climate change, but so far, a large part of the funding that has been disbursed covers administrative costs. Of the total funds disbursed, Climate Funds Update reports the following statistics as of November 2011: 6% of CTF funds disbursed are for administrative costs; 40% of the funds disbursed for the Pilot Program for Climate Resilience are for administrative costs; 79% of FIP funds disbursed are for administrative costs; and 38% of the funds disbursed for the Program for Scaling-Up Renewable Energy in Low Income Countries are for administrative costs. The explanation for high administrative costs disbursed to date for SCF programs are unclear; the June 2011 CIF Administrative Unit/MDB Committee report implies that the figures reported by Climate Funds Update are approximately the sum total of the projected administrative costs for each program.<sup>408</sup>

The CIF Administrative Unit is growing as the trust funds increase the number of investment plans and approved projects. The administrative costs in FY10 were approximately US\$ 17.35 million, and increased by approximately 25% in FY11 to US\$ 21.73 million. Estimated expenses for FY12 are US\$ 21.5 million. Approximately 70% of the administrative costs are for staff salary and consultants. Staff and consultant costs are determined by the IBRD according to market rates. Travel costs are reimbursed according to policies of the individual MDBs; policies for the IBRD are applicable to the Administrative Unit staff and consultants. The MDBs recover a flat fee of 5% for administering and supervising CTF preparation grants; up to 5% on a case-by-case basis for implementation of associated project grants. MDBs provide two options for fee payment for CTF loan guarantees: 1) 0.18% of the undisbursed balance of the loan, which accrues semi-annually or 2) a fee equivalent to 0.45% of the total loan amount, payable in a single lump sum amount, which may be paid from the borrower's own resources or from the

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<sup>407</sup> CIF Partnership Forum Proceedings (2011)

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CIF%20Partnership%20Proceedings%2010-5-11.pdf>, p. 9

<sup>408</sup> Meeting of the SCF Trust Fund Committee (2011) MDB Project Implementation Services under SCF's Targeted Programs – Sources of Funding and Implementation Arrangements,

[http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF%206%20MDB%20project%20implementation%20services%20under%20SCF\\_0.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF%206%20MDB%20project%20implementation%20services%20under%20SCF_0.pdf), p.6

loan proceeds following the effectiveness of the loan.<sup>409</sup> The MDBs recover costs on a case-by-case basis for the SCF programs as approved by the Sub-Committee.<sup>410,411</sup>

Figure 16 through Figure 19 provide an overview of the finances for each of the funds. As of November 2011, the percent funds disbursed of the total deposited amounts, as well as figures for project and administrative costs are as follows:

- Clean Technology Fund: 13% of deposited funds have been disbursed (Total disbursed: US\$ 384 million, including US\$ 22 million for administrative costs)<sup>412</sup>
- Forest Investment Program: 4% of deposited funds have been disbursed (Total disbursed: US\$ 14 million, including US\$ 11 million in administrative costs)<sup>413</sup>
- Pilot Program for Climate Resilience: 8% of deposited funds have been disbursed (Total disbursed: US\$ 55 million, including US\$ 22 million for administrative costs)<sup>414</sup>
- Scaling Up Renewable Energy in Low Income Countries Program: 6% of deposited funds have been disbursed (Total disbursed: US\$ 13 million, including US\$ 5 million for administrative costs)<sup>415</sup>

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<sup>409</sup> Clean Technology Fund Financing Products, Terms and Review Procedures for Public Sector Operations (2011), [http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF\\_Financing\\_Products\\_Terms\\_re\\_v\\_final.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_Financing_Products_Terms_re_v_final.pdf), p. 5

<sup>410</sup> Joint Meeting of the CTF and SCF Trust Fund Committees (2011) CIF Administrative costs: A Review of the Use of Budget Resources and Work Program Growth FY09-12, <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%206%20CIF%20admin%20costs%20review.pdf>

<sup>411</sup> Joint Meeting of the CTF and SCF Trust Fund Committees (2011) CIF Administrative costs: A Review of the Use of Budget Resources and Work Program Growth FY09-12, <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%206%20CIF%20admin%20costs%20review.pdf>, p.18

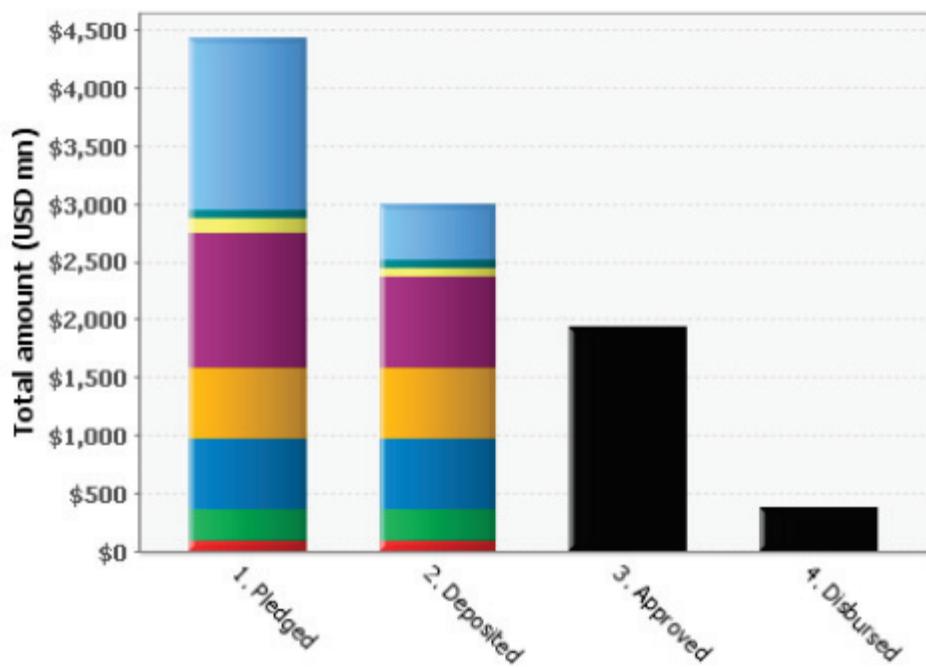
<sup>412</sup> Climate Funds Update (2011) Clean Technology Fund, <http://www.climatefundsupdate.org/listing/clean-technology-fund>

<sup>413</sup> Climate Funds Update (2011) Forest Investment Program, <http://www.climatefundsupdate.org/listing/forest-investment-program>

<sup>414</sup> Climate Funds Update (2011) Pilot Program for Climate Resilience, <http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience>

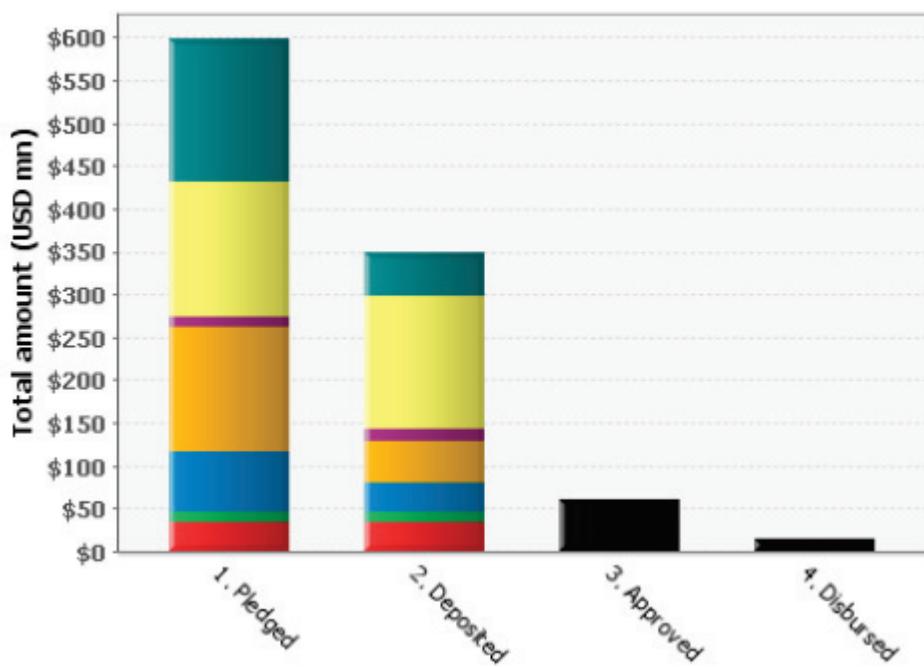
<sup>415</sup> Climate Funds Update (2011) Scaling up Renewable Energy Program, <http://www.climatefundsupdate.org/listing/scaling-up-renewable-energy-program>

Figure 16: Overview of CTF finances as of November 2011



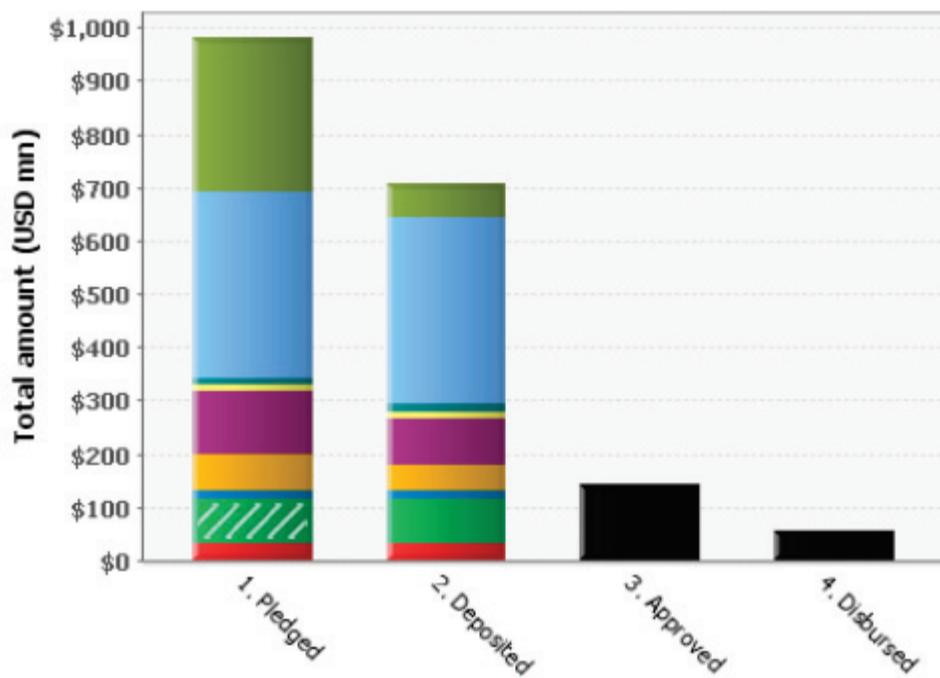
Source: Figure compiled by Climate Funds Update, <http://www.climatefundsupdate.org/listing/clean-technology-fund#TOC-Basic-Description>

Figure 17: Overview of FIP finances as of November 2011



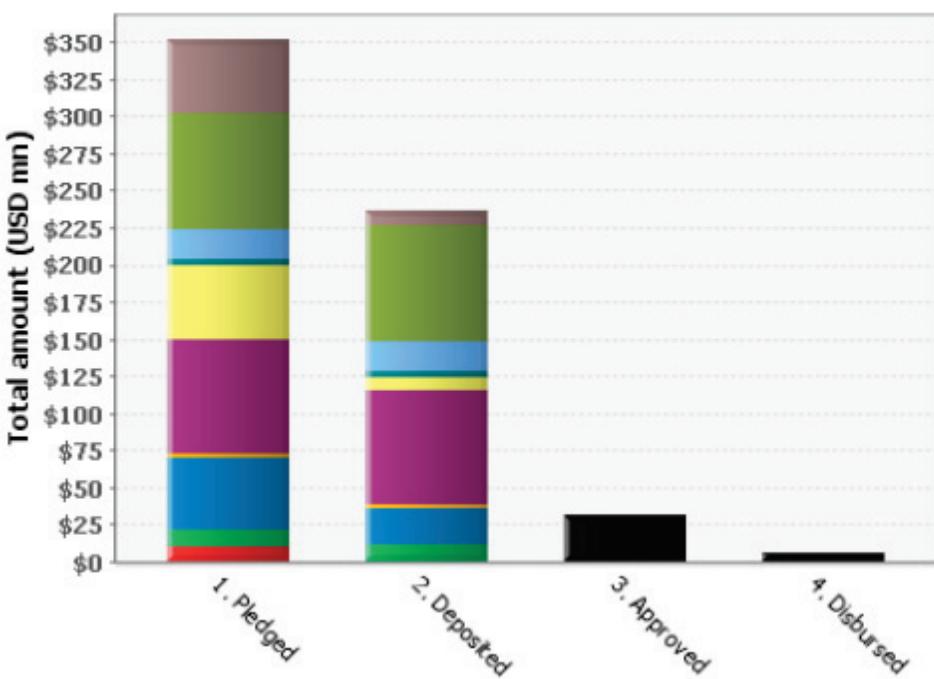
Source: Figure compiled by Climate Funds Update, <http://www.climatefundsupdate.org/listing/forest-investment-program>

Figure 18: Overview of PPCR finances as of November 2011



Source: Figure compiled by Climate Funds Update, <http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience>

Figure 19: Overview of SREP finances as of November 2011



Source: Figure compiled by Climate Funds Update, <http://www.climatefundsupdate.org/listing/scaling-up-renewable-energy-program>

## Program and Project Monitoring and Evaluation

Monitoring and evaluation are core activities of the CIF Administrative Unit, the Trust Fund Committees, Sub-Committees and MDBs. The procedures are outlined in “Results Framework” documents, which have been developed for the CTF and the three SCF programs, namely, the PPCR, FIP and SREP. These individual results frameworks are being streamlined into an overarching framework, as coordinated by the Working Group on Harmonization of CIF Results Frameworks. It is too early to evaluate the effectiveness of the monitoring and evaluation. However, there has been significant effort to develop individual program processes and streamline these processes for the CIFs overall.

Results frameworks have been approved for all programs; the CTF, PPCR and SREP Results Frameworks were approved in March 2010 and the FIP Results Framework was approved in June 2011.<sup>416</sup> The process to develop each of these frameworks included initial drafting by technical working groups led by the MDBs followed by stakeholder consultations and then final approval by the Trust Fund Committees. Extensive comments provided by donor countries and observers for the FIP Results Framework are still available on the CIF website; these comments focus on specific details related to the indicators, as well as on the definition of FIP goals.

Each of the Results Frameworks involves a three-step approach: 1) agreement on the results, 2) agreement on the indicators, and 3) agreement on a performance management strategy and each document includes two main sections: 1) the logic model and 2) the performance measurement framework. The logic model is a diagram intended to illustrate a cause and effect framework from inputs and activities to outputs and impacts.<sup>417</sup> The logic model does not detail the indicators used to measure progress; it is intended to show the overall flow of steps necessary to achieve a final result. The performance measurement framework describes indicators that should be used to measure progress toward individual goals, with information about data and methodology.<sup>418</sup> The overarching ‘CIF final outcome’, to which all Results Frameworks are aligned, is: ‘improved low carbon, climate resilient development’. The methods of achieving this final outcome are similarly structured across programs; however, there are differences in interim results and associated indicators to measure these results. The aim is to provide flexibility for monitoring and reporting within and among programs within an agreed structure.<sup>419</sup>

The Results Frameworks are intended to be adaptive, ‘living documents’, and there is recognition that indicators may change over time. The initial phase, which aims to ensure that

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<sup>416</sup> FIP Monitoring and Evaluation: Preliminary Guidance Note for FIP Country Teams, [http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP\\_MONITORING\\_AND\\_EVALUATION\\_Guidelines\\_for\\_MDB\\_country\\_teams%20\\_FINAL.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_MONITORING_AND_EVALUATION_Guidelines_for_MDB_country_teams%20_FINAL.pdf)

<sup>417</sup> Joint Meeting of the CTF and SCF Trust Fund Committees (2010) Harmonization of CIF Results Frameworks, <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%203Harmonization%20of%20CIF%20Results%20Frameworks%20march%202010.pdf>, p. 6

<sup>418</sup> Meeting of the CTF Trust Fund Committee (2010) Clean Technology Fund Results Framework, <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF%206%20Results%20Framework%20nov2010.pdf>, p.5

<sup>419</sup> Note on workplan for Harmonization of CIF Results Frameworks Status Report (2010), <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FINAL%20Trust%20Fund%20Note%20-%20Work%20Plan%202010%20-%20Harmonization%20of%20Results%20Frameworks%20-%20STATUS%20Report%20September.pdf>

the indicators and performance management strategy are effective, includes field testing, ongoing stakeholder consultations, improvement of performance management strategies, securing funding early in the process for project monitoring and evaluation. It is acknowledged that significant time and resources are needed to ensure an effective monitoring and evaluation mechanism.<sup>420</sup>

### **Complaint and Conflict Management**

The CIF does not have a complaint or conflict management mechanism. However, the World Bank has two independent complaint mechanisms for citizens and their representatives: the Inspection Panel for public sector projects covered by the IBRD and International Development Association, and the Compliance Advisor/Ombudsman for private sector projects covered by the International Finance Corporation and the Multilateral Investment Guarantee Agency. The instructions for filing a complaint are simple and clearly explained on the respective websites. The process following receipt of complaint is also clearly explained with reasonable timelines for action.

In June 2011, the NGO observers recommended that the CIF Administrative Unit develop a 'handbook' for CIF meetings, which should focus, *inter alia*, on "bringing the complaints and concerns of other civil society organizations to the attention of the fund".<sup>421</sup> The CIF Administrative Unit and CIF-associated bodies seem open to comments from countries and observers, as evident from the annual Partnership Forum and other stakeholder participatory processes.

### **Impacts**

The CIFs were established in 2008 as a temporary funding mechanism to help mitigate and adapt to global climate change according to the principles and goals of the UNFCCC. It is too early to determine the effectiveness of the CIFs; however, ongoing efforts to improve processes and involve stakeholders, e.g., through the annual Partnership Forum, show a concerted effort by the World Bank, donor and beneficiary countries to achieve objectives of each of the funds and associated programs. Examples of major challenges to overcome, as identified by beneficiary countries and reported at the 2011 Partnership Forum include building institutional capacity to implement and monitor programs, coordinating priority-setting across sectors, and increasing participation from the private sector.<sup>422</sup>

Achievements to date are largely related to preparing investment plans for selected countries under the different trust funds and programs. Impacts are expected to help solve a wide range of social and environmental issues. Although most projects do not have reported impacts yet, resources committed so far show some tangible results. For example, the TransMilenio Bus Rapid Transit system in the City of Bogota, Columbia has improved air quality in the first 12

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<sup>420</sup> Joint Meeting of the CTF and SCF Trust Fund Committees (2010) Harmonization of CIF Results Frameworks, <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%203Harmonization%20of%20CIF%20Results%20Frameworks%20march%202010.pdf>

<sup>421</sup> Joint Meeting of the CTF and SCF Trust Fund Committees (2011) NGO Consultations: submitted by NGO Observers, <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%20CRP%204.pdf>, p.5

<sup>422</sup> CIF Partnership Forum Proceedings, <http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CIF%20Partnership%20Proceedings%2010-5-11.pdf>, p. 8-9

months, with 43% decline in SO<sub>2</sub>, 18% decline in NOx and 12% decline in particulate matter and major reduction in the number of traffic fatalities and injuries in Bogota by 92% and 79% respectively.<sup>423</sup> Results frameworks based on a Strategic Environmental Assessment for each trust fund, which clearly define indicators and methods to evaluate and monitor projects, have been approved for the CTF, PPCR, SREP, and FIP.<sup>424</sup> These plans are considered living documents, which will be tested in the field during the next few years.<sup>425</sup>

Benefits produced by the CIF projects are intended to be maintained after CTF or SCF core funding is spent. A key objective is to scale up effective pilot programs to help shift to a low-carbon economy. This implies the importance of early and continued stakeholder participation, especially from national governments and the private sector. It also underscores the importance of coordination with the UNFCCC principles and process, so that benefits realized through the CIF trust funds are supported in the next iteration of global financial support to help developing countries mitigate and adapt to global climate change.

Potential failure of CIF projects or programs could result from poor management and administration of the funds, lack of stakeholder engagement, inability to leverage significant funding from the private sector, or inappropriate favoritism to the private sector. These potential pit-falls have all been recognized, and there is a concerted effort being made to ensure that the funds are run effectively and efficiently.

The hope is that the CIFs support a gradual global shift to a low-carbon economy. Stakeholder engagement, large-scale private investment and donor and beneficiary country support under the framework of the UNFCCC negotiation process could positively impact local communities as well as lead to a new global energy portfolio for the World Bank and MDBs.<sup>426</sup> Positive impacts as identified by the draft Strategic Environmental Assessment for CIF-funded activities outline benefits according to local environmental effects, social effects and gender effects. Impacts are wide-ranging for each of these issue areas, highlighting the need to link these benefits with individual technologies and share lessons learned to allow for efficient scale-up of effective programs.

#### 4.7.6 Global Fund to Fight AIDS, Tuberculosis and Malaria

The Global Fund to Fight AIDS, Tuberculosis (TB) and Malaria (“Global Fund” or “GFATM”) is an international financing organization and public-private partnership that collects, manages and disburses resources to prevent and treat HIV/AIDS, tuberculosis and malaria.<sup>427</sup> The Global Fund is a major source of global health finance generally and for interventions against these three diseases. The Fund’s efforts also support health system strengthening to help overcome health systems-based constraints to the achievement of improved outcomes for the diseases and contribute to poverty reduction as part of the Millennium MDGs.

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<sup>423</sup> Strategic Environmental Assessment of Climate Investment Funds DRAFT (2010),  
[http://www.climateinvestmentfunds.org/cif/monitoring\\_and\\_evaluation](http://www.climateinvestmentfunds.org/cif/monitoring_and_evaluation)

<sup>424</sup> Note: according to the CIF website, the Strategic Environmental Assessment (SEA) is still under review, however, the results framework documents are all approved,  
[http://www.climateinvestmentfunds.org/cif/monitoring\\_and\\_evaluation](http://www.climateinvestmentfunds.org/cif/monitoring_and_evaluation)

<sup>425</sup> See: [http://www.climateinvestmentfunds.org/cif/results\\_frameworks](http://www.climateinvestmentfunds.org/cif/results_frameworks)

<sup>426</sup> Werksman, J. (2008) Testimony before the House Committee on Financial Services, U.S. House of Representatives June 5, 2008, World Resources Institute

<sup>427</sup> The Global Fund, <http://www.theglobalfund.org/en/about/secretariat/>

The Global Fund's foundational principles, as described in its *Framework Document*, are to:<sup>428</sup>

- Operate as a financial instrument, not an implementing entity.
- Make available and leverage additional financial resources.
- Support programs that evolve from national plans and priorities.
- Operate in a balanced manner in terms of different regions, diseases and interventions.
- Pursue an integrated and balanced approach to prevention and treatment.
- Evaluate proposals through independent review processes.
- Operate with transparency and accountability.

The Global Fund distinguishes itself not only by its focus on the three diseases, but also through its performance-based funding. Grant funded projects must demonstrate results and are subject to pre-defined targets and indicators. Initial grant disbursements follow an independent review process and are first approved for a phase of two years, after which, depending on performance during that period, they can be renewed for a second phase of up to three additional years.

The Global Fund is further noted for its innovative public-private partnerships between governments, the private sector, civil society and affected communities. The Global Fund serves as a funding agency, but does not cover implementation. Instead, partnerships are relied upon to execute and operate programs and projects. This model of public-private partnerships sought to avoid bureaucratic inefficiencies by limiting its role to serving as a finance mechanism and to draw on private sector money and ideas.

The Fund's core actors are: Country Coordinating Mechanisms, Principle Recipients, Local Fund Agents, the Technical Review Panel, the Board of Directors, the Trustee and the Secretariat.<sup>429</sup> Implementation of grant funds is managed by Country Coordinating Mechanisms (CCMs), national level organizations made up of a country's key public and private stakeholders for AIDS, TB and malaria. In line with the Framework objective of supporting programs based on national plans and priorities, CCMs help local actors design, write and submit proposals and assist in overseeing their implementation. Each recipient country must have a CCM, preferably an existing organization; however in some cases a new entity may be created to fill this role. CCMs are responsible for selecting a country's Principle Recipients (PRs), entities that receive money and administer grant-funded projects and programs or sub-contract with other organizations to do so. The Global Fund contracts with Local Fund Agents for the monitoring, evaluation and verification of grant-funded projects.

Applications for funding are evaluated by the Global Fund using an independent Technical Review Panel a group of international experts on HIV/AIDS, TB, malaria, HSS and development. The panel reviews proposals based on technical criteria and provides grant-funding recommendations to the Board.

The Global Fund Board of Directors is comprised of members from both donor and recipient countries, representing governments, civil society, the private sector, private foundations,

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<sup>428</sup> The Framework Document of the Global Fund to Fight Aids, Tuberculosis and Malaria, section III; The Global Fund, <http://www.theglobalfund.org/en/about/principles/>

<sup>429</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures>

partner organizations and communities affected by the diseases.<sup>430</sup> The Board's duties cover governance, establishing strategies and policies, funding decisions, budgetary matters, and resource mobilization.

The World Bank serves as the Fund's Trustee and is responsible for management and disbursement of funds, at the instruction of the Secretariat.<sup>431</sup> The Secretariat's duties include management of the grant portfolio, screening proposals, instructions for disbursement and implementation, executing Board policies, overseeing monitoring and evaluation, and providing strategic, policy, financial, legal and administrative support.<sup>432</sup>

#### Box 4: History of the Global Fund

Creation of the Global Fund followed a period of increasing concern and awareness over TB, malaria and particularly HIV/AIDS in the late 1990s. While this period witnessed an influx of new AIDS treatment discoveries, costs severely prohibited widespread access. At the same time, global epidemics of TB and malaria began to resurge.<sup>433</sup> World leaders and organizations began calling for an increase in financing for the diseases. In April 2001, former UN Secretary-General Kofi Annan proposed the creation of a Global Fund dedicated to battling "HIV/AIDS and other infectious diseases" that would "be structured in such a way as to ensure that it responds to the needs of the affected countries and people." Annan cited the urgent need for additional public and private funding of seven-to-ten billion dollars a year for HIV/AIDS.<sup>434</sup> The following June, a UN General Assembly Special Session on AIDS endorsed the idea and in July, the G8 Summit in Genoa committed to creating the fund.<sup>435</sup> A Transitional Working Group was established, made up of nearly 40 representatives of developing countries, donor countries, NGOs, the private sector and the UN, and was tasked with developing a framework for the fund.<sup>436</sup> In January 2002, the Global Fund's Board held its first meeting and began operations, approving the first round of grants for 36 countries only three months later.<sup>437</sup>

#### Relevance

The Global Fund was founded to address a deficiency in funding for fight against AIDS, TB and malaria. The Fund's stated purpose is to "attract, manage and disburse additional resources through a new public-private partnership that will make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development Goals."<sup>438</sup>

<sup>430</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures>

<sup>431</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures>

<sup>432</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures>

<sup>433</sup> Weber 2011

<sup>434</sup> Secretary-General Proposes Global Fund for Fight Against HIV/AIDS and Other Infectious Diseases, United Nations Press Release SG/SM/7779/Rev.1, <http://www.un.org/News/Press/docs/2001/SGSM7779R1.doc.htm>

<sup>435</sup> The Global Fund, <http://www.theglobalfund.org/en/about/secretariat/history> 2012

<sup>436</sup> The Global Fund, <http://www.theglobalfund.org/en/board/twg>

<sup>437</sup> The Global Fund, <http://www.theglobalfund.org/en/board/twg>; AVERT, <http://www.avert.org/global-fund.htm>

<sup>438</sup> The Framework Document of the Global Fund to Fight Aids, Tuberculosis and Malaria, section II.

The Global Fund has succeeded in defining itself as the major financier for efforts against these three diseases, channeling approximately two-thirds of international financing provided for TB and malaria efforts and one-fifth of international financing committed to AIDS interventions.<sup>439</sup> This targeted approach is an appealing trait for donors who seek focused financing and measurable results.

Grant funding is based upon national plans, goals, and strategies, seeking to ensure that funded programs are tailored to local priorities. The performance-based funding structure requires demonstration of results and aims to ensure that, once implemented, grant-funded programs are successful and remain relevant to the Global Fund's objectives.

While the Global Fund's role as a provider for AIDS, TB and malaria interventions is clear, its purpose in the area of health system strengthening is less so. Health system strengthening is a function of the Fund, but one that has been vaguely defined and the subject of internal dissent.<sup>440</sup> Most parties agree that health system strengthening is vital to enabling improved outcomes, however there is disagreement as to whether the Global Fund should undertake these efforts itself, and to what extent, or whether it should instead stick to an agenda focusing on direct measures against AIDS, TB and malaria.

**Box 5: The global health finance landscape**

Global health funding and resources have increased significantly in the past few decades, as has the number of global health actors and initiatives. Much of the increase in funds has been directed towards HIV/AIDS and infectious diseases efforts. Within this growth, new trends have arisen: the proportion of development assistance for health channeled through UN agencies and development banks decreased between 1990 and 2007, whereas the proportion given to the Global Fund, the Global Alliance for Vaccines and Immunizations (GAVI) and NGOs rose and these initiatives began to take a more prominent role in resource mobilization and distribution.<sup>441</sup>

Multilateral funds such as the Global Fund and GAVI receive the majority of financing from government donors, although significant funding is also received from foundations, individuals and private sector in-kind contributions. UN agencies, led by the World Health Organization (WHO), are key recipients of health finance.

The number of global health organizations has skyrocketed, including additional bodies within the UN framework. Some experts feel this is "testing the WHO's leadership role" in the global health field and that finance has become "fragmented, complicated and inadequately monitored and tracked."<sup>442</sup> The growing number of entities in the global health field has lead to concerns over coordination, competition, corruption and inefficiencies.

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<sup>439</sup> The Global Fund, <http://www.theglobalfund.org/en/about/diseases>

<sup>440</sup> Weber 2011

<sup>441</sup> Ravishankar et al. 2009

<sup>442</sup> Johnson 2011; McCoy et al. 2009, p. 413

## Alignment and Coordination

The Global Fund's design reflects its intent to reduce bureaucracy by operating solely as a financing mechanism. Through the public-private partnership model, tasks such as monitoring are delegated to external actors.

This model may provide gains in efficiency, but nonetheless requires improvements in coordination. A Five-Year Evaluation of the Global Fund found that areas of responsibility of the Board, Secretariat and collaborating institutions were insufficiently differentiated and delegated, resulting in a lack of organizational direction as the Fund grew.<sup>443</sup> As the Global Fund evolved, expectations for roles, responsibilities and partnership arrangements required greater clarity.<sup>444</sup> Better management practices, staff planning, internal communication, country partnership coordination and streamlined grant management could help address poor management and ad-hoc systems and processes that are often duplicative and decrease efficiency.<sup>445</sup>

A 2011 High Level Panel (HLP)<sup>446</sup> found that coordination between donors and donor-funded activities and between internal governing bodies was weak.<sup>447</sup> The HLP suggested that the Fund's various Committees, "whose mandates overlap, membership is inconsistent, and capacity is weak," could be improved. These recommendations were taken up by the Global Fund in its 2011 reforms,<sup>448</sup> which also established a Coordinating Group to provide a mechanism for collaboration between the Board and its Committees.<sup>449</sup> Also, in 2011, the Board adopted revised bylaws, created a new document describing Board and Committee roles, and responsibilities, updated operating procedures for the Board and Committees and appointed a General Manager to work with the Executive Director to improve internal organization and administration.<sup>450</sup>

## Predictability of Funds

The majority of financing for the Global Fund is from public sector pledges, which, as of January 2011, totaled US\$ 28.3 billion and made up 95% of total pledges throughout the Fund's history.<sup>451</sup> The bulk of this, 97.5% in 2009, is received from just 19 OECD DAC members.<sup>452</sup>

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<sup>443</sup> Technical Evaluation Reference Group, Technical Evaluation Reference Group Summary Paper: Synthesis Report of the Five-Year Evaluation of the Global Fund. April 2009, p. 14

<sup>444</sup> Ryan et al. 2007, p. 3

<sup>445</sup> Ryan 2007, pp. viii, xxiv – xxviii

<sup>446</sup> In March 2011, a High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanism was appointed to investigate reports and make recommendations regarding financial practices, controls and oversight.

<sup>447</sup> Turning the Page from Emergency to Sustainability: The Final Report of the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund to Fight AIDS, Tuberculosis and Malaria. [HLP] September 19, 2011, pp. 56, 89.

<sup>448</sup> HLP 2011, p. 28

<sup>449</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/board/>

<sup>450</sup> Global Fund Press Release, "The Global Fund adopts new strategy to save 10 million lives by 2016." 23 November 2011, [http://www.theglobalfund.org/en/mediacenter/pressreleases/2011-11-23\\_The\\_Global\\_Fund\\_adopts\\_new\\_strategy\\_to\\_save\\_10\\_million\\_lives\\_by\\_2016/](http://www.theglobalfund.org/en/mediacenter/pressreleases/2011-11-23_The_Global_Fund_adopts_new_strategy_to_save_10_million_lives_by_2016/)

<sup>451</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/public>

<sup>452</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/public>

Private sector donors and innovative financing initiatives constituted the additional 5%.<sup>453</sup> Private funding remains proportionally small, not necessarily what was anticipated at the fund's outset, but has received significant support from the Bill and Melinda Gates Foundation.<sup>454</sup> The top two donors to the Fund are the United States and France, followed by the European Commission, Japan, Germany, and the Gates Foundation.<sup>455</sup>

The Global Fund uses a periodic replenishment model with three-year cycles.<sup>456</sup> Funds pledged at replenishment conferences form the basis of the Fund's finances. Innovative financing mechanisms are intended to diversify funding and provide additional means of support.<sup>457</sup> These include the Debt2Health debt swap initiative, whereby creditors agree to excuse interest payments on national debt on the condition that the countries invest freed-up funds, and the Dow Jones Global Fund 50 Index, an index series that measures the performance of the largest companies supporting the Global Fund, providing a portion of revenues generated through the licensing of the index and seeking to boost private appeal for private donors. The (PRODUCT)RED initiative, which sells specially branded products to raise both funds and public awareness, has generated over US\$ 170 million for the Fund.<sup>458</sup>

Recent events have helped expose weaknesses in the Fund's finance strategy and triggered reforms. The Third Replenishment Pledging Conference in October 2010 announced donor funding of US\$ 11.7 billion for the years 2011-2013, a 20% increase from the Second Replenishment in 2007.<sup>459</sup> However later, in May 2011, the Fund announced that it expected to face a US\$ 13 -20 billion shortfall between these pledges and the Fund's minimum estimated needs for 2011-2013.<sup>460</sup>[2] The HLP noted "deep concern" over the Fund's "high degree of vulnerability" in an era of tightening financial constraints, and recommended that the Board re-evaluate its strategies and whether to proceed with the upcoming round of funding.<sup>461</sup> The Panel determined that systems of fiduciary control that may have worked in the Fund's early years are now plagued by inadequate accountability mechanisms, standards and expectations.<sup>462</sup> Risk assessment was thought to play an insufficient role in decision-making and the system operated under a false sense of financial security.

External reasons for the deficiency in funding include the global economic downturn, weakened currencies, and political decisions. Donors were also turned off by reports of fraud and abuse.

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<sup>453</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/public>

<sup>454</sup> McCoy et al. 2009, p. 211

<sup>455</sup> The Global Fund, <http://www.theglobalfund.org/en/pledges>

<sup>456</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/replenishment>

<sup>457</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/innovativefinancing>

<sup>458</sup> The Global Fund, <http://www.theglobalfund.org/en/privatesector/red>

<sup>459</sup> The Global Fund, <http://www.theglobalfund.org/en/about/donors/public>

<sup>460</sup> Howe, Marlene (2012). "Global Fund faces billion-dollar gap." Agence France Presse. 19 May 2011, <http://www.google.com/hostednews/afp/article/ALeqM5h6lh8CYz1SqAKYjiLSiowJgu8BSA?docId=CNG.07d4a47a8ce76f0e07e322726bdf65a2.6f1>

<sup>461</sup> HLP 2011, p. 4

<sup>462</sup> HLP 2011, p. 4

In November 2011, the Fund decided to cancel all new grants until 2014 due to resource estimations anticipating sufficient funds only for existing grants (which are given priority over new grants).<sup>463</sup> At the same time, the Board announced a new strategy for 2012-2016 and adopted a Consolidated Transformation Plan to operationalize the recommendations of the HLP and set out a framework for reforms covering risk management, fiduciary controls, resource mobilization, governance, and a more interactive grant process.

The new 2012-2016 Strategy seeks to “invest for impact” by (1) investing more strategically in areas with high potential for impact and value for money; (2) evolving the funding model to be more proactive, flexible, predictable and effective; (3) supporting implementation through more active grant management; (4) protecting human rights in the context of the three diseases; and (5) increasing sustainability of supported programs and attracting additional funding from current and new sources.<sup>464</sup> The strategy was the result of a consultation process that took place throughout 2011, following emerging questions on how to increase impact, value for money, aid effectiveness, better manage risk, reduce bureaucracy and delay, and how to evolve operations for an environment of external funding constraints.<sup>465</sup>

Also beginning in 2011, a new counterpart financing policy requires that countries seeking funding ensure minimum government contributions based on national income level.<sup>466</sup> Applicants below the threshold contribution level must develop a plan for increasing contributions.

In January 2012, Executive Director Michel Kazatchkine stepped down at the urging of the Board, in the hopes that a new head might draw fresh funding from donors.<sup>467</sup>

### **Efficiency of Procedures**

The Global Fund’s administrative costs, including staff salaries, expenses for the Secretariat, trustee fees, and fees paid to LFAs, constitute approximately 5 to 7% of total annual expenditures.<sup>468</sup> To date, investment income from the World Bank trustee accounts has been sufficient to cover all administrative costs, thereby freeing up donor funds to exclusively support program work.<sup>469</sup> However, the World Bank expressed concern that given market projections for bond yields, the Global Fund’s portfolio could post low or even negative

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<sup>463</sup> African Council of AIDS Service Organizations, Analysis: Why the Global Fund Cancelled Round 11, [http://www.africaso.net/index.php?option=com\\_content&view=article&id=1079:analysis-why-the-global-fund-cancelled-round-11&catid=47:lastest-news](http://www.africaso.net/index.php?option=com_content&view=article&id=1079:analysis-why-the-global-fund-cancelled-round-11&catid=47:lastest-news)

<sup>464</sup> The Global Fund, <http://www.theglobalfund.org/en/about/strategy/>

<sup>465</sup> The Global Fund Strategy 2012-2016: Investing for Impact, p. 3.

<sup>466</sup> The Global Fund, <http://www.theglobalfund.org/en/application/process/counterpartfinancing/>

<sup>467</sup> Jack, Andrew. The Financial Times. Global Diseases Agency Forces Chief to Quit, [www.ft.com/intl/cms/s/0/5978206c-46af-11e1-bc5f-00144feabdc0.html](http://www.ft.com/intl/cms/s/0/5978206c-46af-11e1-bc5f-00144feabdc0.html). 24 January 2012

<sup>468</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/secretariat/>; Independent Evaluation Group, Global Program Review, World Bank Group. The Global Fund to Fight Aids, Tuberculosis and Malaria, and the World Bank’s Engagement with the Global Fund. Vol. 1: Main Report. 8 February 2011, p.15

<sup>469</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/secretariat/>; Independent Evaluation Group (2011), p. xxxi, 65

investment returns in the future. Returns subsequently dropped 2.6% in the first three quarters of 2011.<sup>470</sup>

Operating expenses have grown along with the Fund, from US\$ 17.9 million in 2003 to US\$ 324.7 million for 2011.<sup>471</sup> The Fund's internal staff has grown from 25 employees in 2002 to now approximately 568 today. Until a sudden rise in 2011, the ratio of administrative to project disbursements remained relatively consistent.<sup>472</sup>

The Fund's structural design is intended to reduce bureaucratic inefficiencies and administrative costs. Rather than monitor implementation and performance, the Fund operates solely out of its Geneva-based headquarters and hires locally-based LFAs that are selected through a competitive bidding process.<sup>473</sup> The HLP found that funds spent on LFAs were proportional to what other donors spend on external accountability mechanisms, but should be reduced to improve operations in an environment of restricted funding.<sup>474</sup>

Funding is disbursed incrementally every three to six months throughout a grant's lifespan.<sup>475</sup> Initial disbursement can be significantly delayed during negotiations, so that the length of time between the Board approval of a proposal and its implementation can be two years or more.<sup>476</sup> In the 2012-2016 Strategy, a new two-staged application process was adopted to improve disbursement processes and lower transaction costs through more dialogue, earlier preparation for implementation, more efficient disbursement, greater flexibility, and better integration into national strategies.<sup>477</sup>

### **Program and Project Monitoring and Evaluation**

The Global Fund's performance-based funding structure allows for continued review and evaluation of grant-funded projects, forming the basis for decisions to renew funding. Prior to disbursement, the PR and Fund agree on a legally-binding performance framework that monitors grant performance by using time-bound impact and outcome indicators, targets and quarterly or bi-annual reporting requirements.

Monitoring and evaluation for the organization as a whole takes place as well. The Global Fund has a 4-tiered performance implementation framework that builds from operational performance (portfolio efficiency, transparency, management, administrative effectiveness, operating expenditures, resource mobilization), to measuring portfolio and grant performance (against country targets and looking at programmatic achievements), to assessing investment effectiveness in results and HSS, to, lastly, measuring overall success and impact in combating the three diseases and working towards MDGs.<sup>478</sup>

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<sup>470</sup> World Bank, Trustee Report, March 2011, p. 2; World Bank, Trustee Report, September 2011, p. 2

<sup>471</sup> Weber 2011, p. 12

<sup>472</sup> World Bank, Trustee Report, September 2011, p. 7

<sup>473</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/lfa>

<sup>474</sup> HLP 2011, p. 42

<sup>475</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/>

<sup>476</sup> HLP 2011, p. 25

<sup>477</sup> The Global Fund Strategy 2012-2016: Investing for Impact, p. 12

<sup>478</sup> The Global Fund, <http://www.theglobalfund.org/en/about/resultsandperformance>

Figure 20: Monitoring and evaluation at the Global Fund



Source: The Global Fund, <http://www.theglobalfund.org/en/performance/>

The Technical Evaluation Reference Group (TERG) is an independent advisory group that is responsible for overseeing evaluations of the Board and Committees, advising the Secretariat and identifying areas needing independent evaluations.<sup>479</sup> Members of the TERG are appointed by the Board and include practitioners, researchers, academics, and NGOs from both donor and recipient countries.<sup>480</sup> In March 2009, the TERG released a major Five-Year Evaluation, commissioned by the Board to assess the organization's overall operations, strengths and weaknesses.

The Office of the Inspector General (OIG) performs audits and investigations to manage key risks to Fund programs, operations, systems and activities.<sup>481</sup> Like the TERG, the OIG is an independent unit and reports to the Board.

Three Committees were created under the 2011 reforms, to improve oversight and guidance within the Fund. These are the Strategy, Investment and Impact Committee, governing strategic direction and investment impact and performance; the Finance and Operational Performance Committee, providing oversight on financial management and operations; and the Audit and Ethics Committee, overseeing the Fund's internal and external audit, investigation functions, and ethical behavior.<sup>482</sup>

The Global Fund's Partnership Forum, a stakeholder platform and consultation process, reviews and provides feedback on Global Fund progress, strategies and policies.

<sup>479</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/terg>

<sup>480</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/terg>

<sup>481</sup> The Global Fund, <http://www.theglobalfund.org/en/about/structures/oig>

<sup>482</sup> The Global Fund, <http://www.theglobalfund.org/en/board/committees>

The Global Fund's website promotes transparency and allows users to view detailed information on grant and funding agreements, proposals, disbursement data, performance ratings, and more.<sup>483</sup>

### **Complaint and Conflict Management**

Global Fund decisions may be challenged if perceived to be unfair and can be reversed.

The Global Fund allows reporting of fraud, mismanagement, bribery, abuse of power, or other unethical conduct involving the Global Fund staff, and the other entities involved in the Fund's framework, suppliers or other partners, either via telephone or internet using a reporting service company which passes on information to the Office of the Inspector General (OIG).<sup>484</sup> The service is available in 21 different languages. Anonymous complaints are permissible and confidentiality is protected. The Office of the Inspector General reviews the complaints, and where appropriate, makes an assessment of appropriate actions, which may include an investigation by the Office or by national authorities.

In a highly publicized example, in 2011, the Office of the Inspector General investigated reports of fraud and missing funds in four African countries. In March 2011, the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanism was created to further investigate the reports and make recommendations regarding the Fund's current financial practices, controls and oversight.<sup>485</sup>

Since its inception, the Global Fund has cancelled and suspended grant funding in several countries, even demanding that it be returned in certain cases, due to misspent funds, externally-imposed program restrictions, changed income status, and, as noted, budget deficits.<sup>486</sup>

### **Impact**

The Global Fund quickly rose to the center of global health finance and has had a major impact in achieving its stated objectives. The Fund reports financing US\$ 22.6 billion in 150 countries that has contributed to saving 7.7 million lives, providing AIDS treatment for 3.3 million people, providing anti-tuberculosis treatment for 8.6 million people and providing 230 million insecticide-treated nets for malaria prevention.<sup>487</sup> As of December 2011, the Fund estimated that its programs were saving an estimated 100,000 lives per month.<sup>488</sup>

The HLP concluded that its deep examination of the Fund "reinforced for us a belief and appreciation of the noble purpose of the Global Fund, and of the importance of ensuring its success."<sup>489</sup> Despite its problems, the Panel felt that reforms were capable of making the necessary improvements to keep the Fund effective and continue to meet its goals. The HLP

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<sup>483</sup> The Global Fund, <http://portfolio.theglobalfund.org/en/Home/Index>

<sup>484</sup> The Global Fund, <http://www.theglobalfund.org/en/oig/contact>

<sup>485</sup> The Global Fund, <http://www.theglobalfund.org/en/highlevelpanel>

<sup>486</sup> AVERT, The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). <http://www.avert.org/global-fund.htm>

<sup>487</sup> The Global Fund, <http://www.theglobalfund.org/en/about/secretariat>

<sup>488</sup> The Global Fund, <http://www.theglobalfund.org/en/about/diseases>

<sup>489</sup> HLP 2011, p. 3

found that the Fund's efforts have: improved cost-effectiveness of disease interventions; shown significant reductions in disease prevalence among young people in 16 of the 21 countries most affected by HIV; saved millions of lives through purchase and distribution of anti-retroviral therapy from Fund grants; paid for the training of hundreds of thousands of health workers; distributed nearly 200 million insecticide-treated bed nets for malaria prevention; reduced TB death rates; paid for HIV counseling and testing for millions; strengthened health community- and home-based care; helped increase domestic health budgets; provided hospitals and clinics with access to test kits, equipment, diagnostics and drugs; pushed disease research forward; and positively changed models of health coverage in the developing world.<sup>490</sup>

At the same time, the HLP concluded that the Global Fund model could not continue to work in its current form and required structural changes in order to reduce vulnerability and allow for long-term sustainability.<sup>491</sup>

The 2009 TERG Five-Year Evaluation similarly found that the Global Fund filled an important role in global health and that its past performance merited continued support.<sup>492</sup> The Global Fund, together with major partners, had mobilized impressive resources to support the fight against the three diseases, resulting in increases in service availability, better coverage, and reduction of disease burden. However, the TERG Evaluation also found that health systems in most developing countries needed strengthening to expand services and that despite rapid progress in its early years, the Fund needed an enhanced long-term strategy, better management of its grant portfolio and more effective financial oversight as the organization grew larger and operations more complex.

The World Bank concluded that the long-term sustainability of the benefits from Global Fund-supported activities will depend on enhancing coordination and activities with donor partners and strengthening capacity of recipient countries, maintaining benefits by increasing efficiency and yields from scarce resources.<sup>493</sup>

Detractors criticize management of the Global Fund's finances and an "unwieldy and politicized board which jointly have made only modest progress."<sup>494</sup> Supporters believe that the Global Fund is evolving and continuing to make noteworthy contributions, as evidenced by a recent US\$ 750 million Gates Foundation donation intended as a show of faith in the wake of the Fund's budget crisis and the resignation of its Executive Director's.<sup>495</sup>

Despite a period of turbulence that has revealed weaknesses within the Global Fund's operations and structures, it remains a vital and significant source of global health finance and a unique model for public-private partnerships and resource mobilization.

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<sup>490</sup> HLP 2011, p. 3f

<sup>491</sup> HLP 2011, p. 8

<sup>492</sup> Technical Evaluation Reference Group 2008, p. vii

<sup>493</sup> Independent Evaluation Group (2011), p. 116

<sup>494</sup> Jack (2012)

<sup>495</sup> McNeil, Donald G. "Bill Gates Donates US\$750 Million to Shore Up Disease-Fighting Fund," The New York Times. 26 January, 2012. Available at: [http://www.nytimes.com/2012/01/27/health/gates-donates-750-million-to-global-fund.html?\\_r=1&nl=todaysheadlines&emc=tha22](http://www.nytimes.com/2012/01/27/health/gates-donates-750-million-to-global-fund.html?_r=1&nl=todaysheadlines&emc=tha22)

## 4.8 Other mechanisms

### 4.8.1 UNDP

Environment and energy in various formulations have featured as one of the key thematic areas of UNDP's work since the 1980s.<sup>496</sup> Environment and sustainable development is now one of UNDP's four key areas of work, together with poverty reduction, improved governance, and crisis prevention and recovery.<sup>497</sup> In financial terms, UNDP is one of the largest brokers of environmental grants in the developing world, having disbursed US\$ 1.58 billion directly and leveraged over US\$ 3 billion in co-financing from public and private sources to support sustainable development in the 2004-2007 time period.<sup>498</sup>

Environment related activities make up an average of 11% of UNDP's expenditures, averaging US\$312 million a year between 2004 and 2007; with GEF providing the majority of funding.<sup>499</sup> With GEF funding averaging US\$241 million a year (or 5% of UNDP's income during the period), it is estimated that GEF finances over 75% of UNDP's expenditures for the environment.<sup>500</sup> According to the UNDP Annual Report 2010/2011, UNDP spent US\$ 508.4 million in the area of managing energy and the environment for sustainable development in 2010. This represents 11% of total expenditures.

The UNDP Environment and Energy Group's environmental finance services assist developing countries to access, combine and sequence resources from a wide range of funds and financial instruments and mechanisms. These include:<sup>501</sup>

- Global environment trust funds which have their own governance bodies, and programming strategies - such as the GEF and the MLF.
- UNDP established environment facilities which assist countries in accessing new sources of environment market finance—such as the Green Commodities Facility, and the MDG Carbon Facility;
- UN/UNDP Multi donor trust funds managed by the UN—such as UN-REDD and the UNDP Environment and Energy Thematic Trust Fund.

UNDP is an implementing agency for the MLF and the GEF.

The UNDP Multi Donor Trust Fund (MDTF) Office, which was established to support coordinated action across the UN system to respond rapidly to needs on the ground, enables the UN and government entities to quickly deploy technical, operational and administrative capacities and the expeditious approval and implementation of projects and programs. For example, the

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<sup>496</sup> <http://www.undp.org/evaluation/thematic/ee.html>

<sup>497</sup> UNDP Environment & Energy Group (2009), Environmental Finance Services, 2009, [http://www.undp.org/content/dam/aplaws/publication/en/publications/environment-energy/www-ee-library/climate-change/efs-brochure/Environmental\\_Finance\\_Services\\_brochure.pdf](http://www.undp.org/content/dam/aplaws/publication/en/publications/environment-energy/www-ee-library/climate-change/efs-brochure/Environmental_Finance_Services_brochure.pdf), p. 2

<sup>498</sup> UNDP Environment & Energy Group (2009), Environmental Finance Services, 2009, [http://www.undp.org/content/dam/aplaws/publication/en/publications/environment-energy/www-ee-library/climate-change/efs-brochure/Environmental\\_Finance\\_Services\\_brochure.pdf](http://www.undp.org/content/dam/aplaws/publication/en/publications/environment-energy/www-ee-library/climate-change/efs-brochure/Environmental_Finance_Services_brochure.pdf), p. 3

<sup>499</sup> Steckhan 2009

<sup>500</sup> Steckhan 2009

<sup>501</sup> Environment and Energy, [http://www.undp.org/environment/environmental\\_finance.shtml](http://www.undp.org/environment/environmental_finance.shtml)

MDTF-UNREDD Programme assists to prepare and implement national REDD+ strategies, building on the power/expertise of FAO, UNDP and UNEP. Activities supported include programs, projects, and others.

In 2010, the MDTF Office officially launched the MDTF Office GATEWAY, a knowledge platform providing real-time data, with a maximum two-hour delay, on financial information from the MDTF Office accounting system on donor contributions, program budgets, and transfers to the Participating UN Organizations.<sup>502</sup> Narrative progress reports and updates on the results being achieved are also captured. The MDTF Office GATEWAY is already being recognized as a 'standard setter' by peers and partners.<sup>503</sup>

#### 4.8.2 World Bank

There are two main ways in which the World Bank<sup>504</sup> is involved in environmental funding: as part of its general lending policies and through some of the environmental trust funds for which it is trustees, of which the CIFs described above (Section 4.7.5) are two.

As part of its general lending policies, the World Bank provides loans for Environment and Natural Resources Management. The funds for this come from the World Bank's general budget; the general budget is predominantly raised on financial markets in the case of the IBRD, and is financed through regular replenishments from donor countries in the case of the IDA.

Besides its funding for Environment and Natural Resources Management, the World Bank is also the Trustee for a larger number of environmental and other funds.<sup>505</sup> The budget of these funds is not part of the general World Bank budget; each fund has its own financial rules. The World Bank makes a distinction between different types of trust funds:<sup>506</sup>

- Recipient executed trust funds are passed on by the World Bank to a third party; the WB normally appraises and supervises activities financed by these funds. Environmental funds usually do not fall in this category.
- Bank executed trust funds allow for a stronger role of the World Bank. Here, the WB has spending authority and these Trust Funds support the World Bank's work program. Some smaller environmental funds are BETFs.

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<sup>502</sup> It can be found at <http://mdtf.undp.org>.

<sup>503</sup> Progress Report on Activities Implemented Under the UN-REDD Programme Fund, May 2011, [mptf.undp.org/document/download/6504](http://mptf.undp.org/document/download/6504), p. ix

<sup>504</sup> This section relates to International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) lending only, and does not deal with the International Finance Corporation (IFC), which, alongside IBRD and IDA, is one of the five members of the wider World Bank Group. It also does not cover the activities of the Carbon Finance Unit (CFU), through which the World Bank purchases project-based greenhouse gas emission reduction credits in the framework of the Kyoto Protocol's Clean Development Mechanism (CDM) or Joint Implementation (JI), as the CFU does not provide any loans or grants of its own, but acts as a central agency for the purchase of credits on behalf of different contributors.

<sup>505</sup> For a full list of these funds, see Directory of Programs Supported by Trust Funds, 31 March 2011, [http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/1114019\\_Trust\\_Funds\\_Directory.pdf](http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/1114019_Trust_Funds_Directory.pdf)

<sup>506</sup> See World Bank, 2010 Trust Fund Annual Report, [http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/7075182-1300896534818/TrustFundsAR2010\\_Complete.pdf](http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/7075182-1300896534818/TrustFundsAR2010_Complete.pdf), pp. 16ff

- Financial intermediary funds are trust funds, for which the Bank as trustee, administrator, or treasury manager provides an agreed set of financial and administrative services. The Bank manages donor contributions and transfers them to partner implementing entities. A partner entity, governing board, or the WB secretariat acting on behalf of the donors oversees the use of funds. Large environmental financial intermediary funds are the Adaptation Fund, the CIFs and the Global Environment Facility Trust Fund.

#### 4.8.3 Regional Development Banks

Multilateral and regional development and financial institutions provide capital and lending for environmental operations and investments. Environmental financing has been made an investment priority for regional banks such as the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB). These banks have spent increasing amounts of environment, climate, and energy funding, and plan to further increase their lending in these areas in the future. One example of banks' contributions is the renewable energy sector, in which banks are a significant source of finance. Regional development banks are also major participants in carbon markets.<sup>507</sup>

#### European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) assists countries in central Europe and central Asia to develop and promote market-oriented economies. EBRD provides loan and equity finance, guarantees, leasing facilities, and trade finance. Established in 1990, EBRD has shareholders from 61 countries, the EU, and the EIB. EBRD issues bonds and debt instruments on international markets. EBRD's largest donor contributor in 2010 was the European Union.<sup>508</sup>

EBRD seeks to promote sustainable development and environmentally sound projects. Environmental funding tends to focus on energy efficiency, renewable energy, carbon market support, and infrastructure. EBRD's Sustainable Energy Initiative was started in 2006 to address energy efficiency and climate change and covers projects in industrial energy efficiency, sustainable energy financing, power sector energy efficiency, renewable energy municipal infrastructure energy efficiency, including district heating and public transport network rehabilitation, and carbon market support. Since 2006, the Sustainable Energy Initiative has invested € 6.1 billion in 353 projects, covering 29 countries, resulting in an estimated 37.2 million tons of CO<sub>2</sub> reductions. In 2010, the Sustainable Energy Initiative made up 24% of EBRD financing.<sup>509</sup> Since 2004, EBRD has been a GEF executing agency.<sup>510</sup>

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<sup>507</sup> Bloomberg report, Weathering the Storm, Nov. 2010, p.12.

<sup>508</sup> The EBRD and donors, 2011, <http://www.ebrd.com/downloads/research/factsheets/donors.pdf>

<sup>509</sup> SEI fact sheet: <http://www.ebrd.com/downloads/research/factsheets/sei.pdf>

<sup>510</sup> The EBRD and the Global Environmental Facility, 2011, <http://www.ebrd.com/downloads/research/factsheets/gef.pdf>

### **Inter-American Development Bank**

The IDB is the largest source of development financing in Latin America and the Caribbean, where it supports poverty reduction and promotes sustainable development. The 48 IDB member countries include 26 regional borrowing members, 2 regional non-borrowing members, and 20 non-regional non-borrowing member countries. IDB's funding comes from member countries' subscriptions and contributions, borrowing from capital markets, equity, and co-financing ventures.

Addressing climate change, renewable energy and environmental sustainability constitutes one of IDB's main action areas.<sup>511</sup> Since its inception, the bank has lent US\$ 5,442.6 million for the environment and natural disasters, and US\$ 26,929 million for energy. In 2010, IDB approved US\$ 958.4 million in loans related to the environment and natural disasters and US\$ 1,020 million for energy. The IDB plans to increase annual lending for climate change, renewable energy, and environmental sustainability, with an annual target of 25% to be met at the end of the 2012–15 period.<sup>512</sup>

### **Asian Development Bank**

The ADB finances development in Asia and the Pacific with the goal of poverty reduction. ADB has 67 shareholder members, including 48 from the Asia-Pacific region. Funds are raised through capital market bond issues, members' contributions, retained earnings from lending operations, and loan repayment.

Environment and climate change make up one of ADB's five core areas of operation and ADB support for environmental funding has been growing. In 2010, ADB lent a record US\$ 5 billion for environmental projects, increasing 55% from 2009.<sup>513</sup> This amount, representing 37% of lending, exceeded ADB's own target. ADB allocated US\$ 1.76 billion to clean energy investments in 2010 and has set a target of US\$ 2 billion by 2013.<sup>514</sup>

### **African Development Bank**

The African Development Bank (AfDB) seeks to reduce poverty, improve living conditions, and promote economic and social development in Africa. AfDB is owned and funded by member governments, and capital is subscribed to by 77 member countries made up of 53 independent African countries (regional members) and 24 non-African countries (non-regional members). The institution's resources come from subscribed shares, loan repayment, borrowings on international capital markets, income derived from loans, and other investments.

Environmental priorities for AfDB include providing access to environmental resources for the poor, helping member countries to build environmental management capacity, and partnering with international, regional, and sub-regional institutions and organizations to support

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<sup>511</sup> Our priorities and areas of action, <http://www.iadb.org/en/about-us/our-priorities-and-areas-of-action,6007.html>

<sup>512</sup> Xing Fu-Bertaux, Financing the Sustainable Energy Transition: Rising Support from Multilateral Development Banks, 2011, <http://www.greenconduct.com/news/2011/05/02/financing-the-sustainable-energy-transition-rising-support-from-multilateral-development-banks/>

<sup>513</sup> Asian Development Bank, Annual Report 2010, Vol. 1. p. 33

<sup>514</sup> <http://beta.adb.org/news/new-adb-policy-targets-secure-clean-energy-asia>

environmentally sustainable development.<sup>515</sup> Energy is a current focus area and projects fund grid access and push for development of renewable energy sources including hydro, geothermal, wind, and solar, although nuclear energy and coal-fired power may also be funded within AfDB's energy portfolio. AfDB is currently developing an Energy Strategy. Other environmental activity is related to infrastructure, energy, and agricultural funding.

AfDB partners with GEF and has been a GEF executing agency since November 2003. In 2010, AfDB helped regional member countries secure UA 16.2 million (US\$ 25.0 million) in project funding with GEF grant resources.

### **European Investment Bank**

The European Investment Bank (EIB) is not a Regional Development Bank in the narrow sense, but belongs to the broader set of multilateral financial institutions. It serves as the EU's financing institution, seeking to help implement EU policy objectives by providing long-term finance for investment projects both inside and outside of Europe. EU Member States serve as shareholders. The EIB raises resources on the financial and capital markets, primarily through bond issues or other specialized capital market operations.

Of the seven areas of internal EU policy objectives supported by EIB, three concern the environment.<sup>516</sup> These are climate change mitigation and adaptation, investment in environmental protection and sustainable communities, and sustainable energy. Outside of the EU, the EIB similarly seeks to fund projects promoting environmental protection and sustainability. In 2010, direct environmental lending represented approximately 40% of total EIB lending.

In 2011, EIB signed loan agreements for EUR 28.9 billion, of which the vast majority, 26.2 billion, went to EU countries.<sup>517</sup> Major thematic areas of environmental investment include climate change and renewable action. Climate action represented 20% of overall lending and included targets for progressive increases in future years.<sup>518</sup> This figure, however, relates to the overall lending activities, i.e. it does not differentiate between loans to EU countries and those to non-EU countries.

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<sup>515</sup> AfDB Group's Policy on the Environment, 2004, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/10000027-EN-BANK-GROUP-POLICY-ON-THE-ENVIRONMENT.PDF>

<sup>516</sup> About the EIB, <http://www.eib.org/about/index.htm>

<sup>517</sup> Promoting environmental sustainability, <http://www.eib.org/projects/topics/environment/index.htm>

<sup>518</sup> Climate Action, <http://www.eib.org/projects/topics/environment/climate-action/index.htm>

## 5 Shortcomings of the existing system and reform needs

In the following, we summarize insights on the shortcomings and reform needs of the existing system, based both on the analysis in the preceding section and existing studies. We discuss the lack of coherent and consistent data on environmental flows (5.1), the fragmentation of the IEG funding landscape (5.2), the fact that funding is currently neither sufficient, nor stable, balanced or predictable (5.3) and the disconnection between policy and funding (5.4).

While this section focuses on short-comings, we will revisit in Section 7 the analyzed shortcomings in a broader perspective, and discuss whether the same phenomena described here as shortcomings may be the flip side of certain advantages. This will inform the discussion of reform options in Section 9 which will deal with the shortcomings identified in the present section.

### 5.1 Lack of consistent and comprehensive data

In the current system, there is a lack of reliable, consistent and comprehensive data on environmental funding flows. There are two dimensions to this problem. The system suffers a) from the lack of a common understanding of what constitutes environmental funding and from the absence of common inter- or trans-organizational data quality and reporting standards and b) from the absence of a central, comprehensive and consistent database on environmental funding.

Different institutions have different ways of defining “environmental” finance in general, and also have different methods of creating sub-categories of environmental financing. For instance, some institutions do not distinguish clearly between loans and grants, but instead report the sum of the two. There are also a few minor discrepancies that could be easily addressed, notably different reporting frequency and different currencies. The fact that the funds flow through various intermediate channels specifically increases the risk of double-counting of funds. Moreover, there is some evidence that donors sometimes report their figures in a distorted way. For example, authors of a 2009 article say that “without independent categorization and evaluation of donor commitments at the project level, it is extremely difficult to monitor what donors are doing in the environmental sector... Influential political groups in many donor countries exert pressure on their governments to reduce aid for environmentally damaging projects and increase aid for environmental cleanup. Such pressure can create incentives for policymakers to over-represent the amount of environmental aid they give so as to look and sound as green as possible.”<sup>519</sup>

Against this background, greater transparency on environmental funding would serve several goals:

- More transparency on financial flows is a precondition for the improved coordination of these flows—whichever form this coordination eventually takes, and whoever assumes the coordinating function, better information on the funding landscape will be indispensable.
- Authoritative information on financial flows also serves to inform negotiations and political bargaining about the distribution of future financial resources. This relates both

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<sup>519</sup> Roberts et al. 2009

to official inter-state negotiations e.g., on MEAs, but also to enabling NGOs to perform a “watch-dog” function.

- Better and objective information, reported according to a common standard, is also needed when it comes to checking whether countries comply with their funding commitments. In practice, “naming and shaming” non-compliant parties has often proved to be one of the most important informal mechanisms for inducing compliance with multilateral environmental agreements, beyond the formal compliance mechanisms that exist in such agreements. As most MEAs contain provisions on a financial mechanism, better tracking is a pre-requisite for ascertaining compliance and putting pressures on parties that not fulfilling their financial commitments or voluntary pledges.

The OECD CRS contains data going back in time, but does not include data from all donors or multilateral organizations; moreover, classification of funding as environmental is not necessarily reliable. Notably, donors may be tempted to overstate the amount of environmental funding they provide. For example, an independent review of the way that the UK development agency DFID classified its funding concluded that while DFID claimed that environmental projects accounted for 25% of its bilateral aid in the 1990s, the actual number may be closer to 10%.<sup>520</sup> The AidData database seeks to fill some of these gaps and may actually do so once fully built. However, as a privately run system it may lack some of the credibility of a system operated by an international organization and the authority to challenge data provided by governments.

## 5.2 Fragmentation of the funding landscape

The current funding landscape for international environmental governance is fragmented and lacks sufficient coordination—a characteristic it shares with other policy domains at the international level.<sup>521</sup> The fragmentation of the funding landscape, in turn, mirrors the diversity and fragmentation of international environmental governance overall. Many funds and mechanisms are associated with particular MEAs, and some MEAs have several associated funding instruments. Hence the number of funds is related to the number of relevant agreements—and currently there are more than 1,000 MEAs in force.<sup>522</sup> Moreover, the current funding system is largely organized around sectoral funding mechanisms, with specific funds and their governance structures focusing on particular, defined environmental problems.

Presently, a limited amount of resources is channeled through many small and a few larger funds. Different scholars have concluded that the current fragmentation of the IEG landscape has resulted in a lack of policy coherence<sup>523</sup>, and the same can also be said with regard to funding. Each of the existing funds requires at least some administrative structure of its own and thus produces some administrative overhead. Moreover, the proliferation of funds leads to high transaction costs—especially for recipients, who often need to apply to different funds for securing the necessary means for their environmental activities and must adapt to an ever-

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<sup>520</sup> Roberts et al. 2009

<sup>521</sup> Biermann et al. 2009, p. 16

<sup>522</sup> This figure is provided by the International Environmental Agreements Database Project, <http://iea.uoregon.edu/page.php?file=home.htm&query=static>

<sup>523</sup> Bernstein and Brunée n.d.; Inomata 2008

changing funding landscape. In particular, it may be difficult to secure funding for large-scale, cross-cutting activities of a more programmatic character, which are favored by some developing countries as part of their wider sustainable development efforts, but which do not fit well into the compartmentalized structure of IEG funding. In addition, the higher the number of funds active in environmental funding, the less likely it is that an effective mechanism for self-coordination will emerge among the different funds. Moreover, the fact that the available resources are distributed through a plethora of different funds, instruments and mechanisms, means that the individual funds are often too small to achieve the necessary impact on the ground. The lack of coordination, and absence of an effective division of work among the different funds and instruments, exacerbates this situation further.

The same driving forces that have given rise to the fragmented structure of IEG also apply to funds: On the one hand, there is a lack of trust in the capacity of existing institutions to handle IEG finance in an efficient, effective and equitable way. On the other hand, there are unresolved issues concerning the political control of the various funding instruments. Certain key actors such as the GEF and the different World Bank funds play a central role in IEG funding and handle the bulk of multilateral funding. At the same time, the World Bank, for example, is often perceived as dominated by developed countries and as lacking transparency and equitable representation of developing countries.<sup>524</sup> The same is true, albeit to a lesser extent for the GEF.<sup>525</sup> Furthermore, UN institutions, and to some extent also the GEF, are often considered as too slow and too bureaucratic. This dissatisfaction with the existing institutions, and the lack of agreement on how to reform them, has added to the tendency of establishing new instruments and mechanisms instead, with a more equitable representation of industrialized and developing countries. Recently, this is visible notably in the area of climate change. While the climate funding landscape has recently been very dynamic, UNEP and the Environment Fund, originally foreseen to have a central role in international environmental funding, are now confined to a much smaller role, addressing issues that are not covered by other regimes, or providing legal and administrative support to a variety of MEAs. In the climate finance sector, UNEP has no significant role, with the major funds being hosted by GEF or the World Bank.

However, these statements on the fragmentation of the IEG funding landscape must be put into perspective. While there are indeed more than 130 multilateral environmental trust funds, and on top of this dozens more mechanisms that occasionally fund environment-related activities, these funds and mechanisms are administered mostly by a small number of institutions, namely the World Bank, GEF, UNEP, and UNDP. Thus, while there is fragmentation, there is also convergence around a smaller number of “gravity centers”.

Moreover, in some instances funds are making efforts to arrive at a sensible division of work. An example is the Adaptation Fund’s decisions to focus its activities on those LDCs that do not receive money from the LDCF. Also, the Governing Instrument for the Green Climate Fund, adopted by the UNFCCC COP in December 2011, provides explicitly that the Fund shall operate in the context of appropriate arrangements between itself and other existing funds and the Board of the Fund is entrusted with the task of developing “methods to enhance complementarity between the activities of the Fund and the activities of other relevant

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<sup>524</sup> Schalatek 2011, p. 74

<sup>525</sup> See above Section 2.3.4

bilateral, regional and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacities.”<sup>526</sup>

### **5.3 Lack of sufficient, stable, balanced and predictable funding**

A general insight is that most environmental mechanisms and institutions lack a stable and predictable source of income that is sufficient to address the environmental challenges at hand and attain stated political objectives. Moreover, there is significant imbalance between different environmental sectors, with climate change currently attracting by far most funding.

Generally, none of the environmental grant-making institutions seems to be in a position to know what resources it will have at hand in a mid-term future, e.g., eight or ten years. This makes mid-term planning difficult for these institutions and for recipient countries. In the shorter term, some mechanisms, such as the GEF and the MLF, have managed relatively well to mobilize funding at defined intervals and thus have been able to plan ahead. For others this has not been the case. The Adaptation Fund, whose financial well-being is largely tied to the prospering of carbon markets, is a case in point.

Moreover, environmental funding is also not necessarily balanced across sectors. The volume of funding that is available in a certain environmental field, as well as the development of funding over time, can serve as indications of the political priority attached to any particular field. Thus, it has been noted, for example, that bilateral aid has, in the past, largely neglected the issues of desertification and soil erosion.<sup>527</sup> Among the different funding mechanisms—both existing and emerging ones—the area of climate finance stands out because of its size and the dynamics of the processes. The on-going discussion on climate finance is exemplary in several respects, insofar as many issues at the heart of the climate finance discussion are also of relevance for the discussion on environmental funding more broadly.

Thus, the discussion on the future funding for international environmental governance cannot be viewed in isolation from the issue of climate-related finance. At the same time, the financial architecture for climate finance is only partly in place, whereas other elements are still being negotiated. The increasing attention given to climate finance is mirrored in a number of designated funds that have been set up in recent years by all major financial institutions as well as UN and EU bodies. While progress has generally been slow in the international climate negotiations under the UNFCCC, some progress on funding for adaptation and mitigation has been achieved in recent years.

As part of the 2009 Copenhagen Accord, developed countries committed to provide “new and additional resources” approaching US\$ 30 billion for the period 2010-2012 (“fast-start finance”), with the goal to mobilize up to US\$ 100 billion annually in climate finance by the year 2020. These funds should be balanced between mitigation and adaptation finance, and should come from a variety of sources, including public and private, bilateral as well as multilateral sources. At this stage, it remains unclear how much of the envisaged US\$ 100 billion will be public funds channeled through multilateral bodies, and how much will be transferred as bilateral assistance, and how much will come from private sources. What is clear, though, is that the envisaged amounts—even if only a small share were to be disbursed through multilateral

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<sup>526</sup> Governing instrument for the Green Climate Fund, Decision 3/CP.17, Doc. FCCC/CP/2011/9/Add.1, paras. 33,34, <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>

<sup>527</sup> Roberts et al. 2009. Their statement relates to 1980-1999.

channels—would be enough to multiply the volume of multilateral environmental funding, and dwarf several other existing funding instruments.

For example, the GEF-5, currently the biggest environmental grant-making instrument, has a volume of US\$ 4.3 billion for a four-year period. If even only 10% of the envisaged US\$ 100 billion in climate finance from 2020 were to take the form of multilateral aid, that would be nine times the current GEF annual volume. For this reason, any decision taken on the institutional structure and the governance of these flows will significantly influence the landscape of international environmental funding in the years ahead. In coordinating this pledged flow of US\$ 100 billion, the Green Climate Fund is to take on a key role. It was officially launched during the UNFCCC COP in Durban 2011 and a Governing Instrument was adopted.<sup>528</sup> The World Bank will act as interim trustee for the fund. The Governing Instrument also contains a quite detailed set of rules on decision-making structures, access, and what shall be funded. The hard question of how much each donor contributes to the fund has not been settled, however.

This relates back to the general difficulty of mobilizing donors to commit to sufficient and predictable funding. In a general perspective, it has been noted that the most important funding source for global environmental politics is ODA.<sup>529</sup> Overall ODA by OECD DAC members has more than doubled from about US\$ 42 billion in 1960 to about US\$ 100 billion in 2009. However, in terms of GNI it has decreased from 0.45% to a mere 0.21%.<sup>530</sup>

Moreover, a number of factors have been identified as decisive for influencing levels of (bilateral) environmental aid—and all of them are arguably rooted at the national level and unlikely to be influenced by what happens at the international level: the economic situation of a donor country, its general willingness to spend on social and environmental issues (e.g., a “social-democratic” orientation of a country), the strengths of pro and anti-environmental constituencies within a country and environmental norms within a country.<sup>531</sup>

While factors influencing multilateral aid are not necessarily identical with those influencing bilateral aid, there is a certain likelihood that when policy preferences and governments in donor countries change, the mix between bilateral and multilateral aid in a given country may vary, but overall aid levels will not necessarily change substantively.<sup>532</sup> In addition, at least some countries have some long-standing political or formal constraints on funding in place, e.g., Japan seems to have a policy of never being the biggest contributor to any single

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<sup>528</sup> UNFCCC Decision 3/CP.17: Launching the Green Climate Fund

<sup>529</sup> Müller 2000, p. 190. Roberts et al. 2009 note that some of these factors explain better why certain countries have decreased their levels of “dirty” bilateral ODA, but not necessarily increases in bilateral funding.

<sup>530</sup> OECD 2012, p. 227

<sup>531</sup> Müller 2009, pp.194ff. In terms of where bilateral aid is directed, Roberts et al. 2009 conclude that “more traditional determinants of foreign aid allocation, such as a recipient country’s existing bilateral commercial relationship with a donor country and previous colonial ties to the donor country” are more important than questions of where environmental aid may have the best chance of actually addressing serious environmental problems. For example, Egypt or Turkey that did not face any major environmental crises or have globally relevant biological resources – received a considerable amount of bilateral environmental assistance during the 1990ies. Both are important partner countries of major donors, notably the EU.

<sup>532</sup> Müller 2009, pp.194ff notes that, e.g., green parties tend to have a preference for multilateral, instead of bilateral aid.

multilateral fund<sup>533</sup> and Germany has a limit in place on how much of German ODA can be disbursed through multilateral channels. Arguably, such factors will not be influenced by institutional reforms at the international level, which in turn would limit the influence of such reforms.

To put things into perspective, it should also be noted that while more funding for the environment (and less funding for environmentally harmful purposes) is in general desirable, the absorptive capacity of recipient countries is not necessarily unlimited. In the context of “scaling up” ODA in general, there is a long-standing debate on the absorptive capacities of recipient countries and their limits. Behind this debate is the insight that aid’s impact depends on the quality of a recipient country’s institutions and policies. Where these are not sufficiently developed, simply “pumping” more money into a country will often not produce the desired impacts.<sup>534</sup>

Finally, which uses the available funding is put to, is as least as important as the question of how much is available in first place.

#### **5.4 Disconnect between policy priorities and funding**

There is a disconnection between policy priorities and funding: while the level of ambition has increased in many fields of international environmental policy making, there are insufficient financial resources available to support the implementation of policies and capacity building.<sup>535</sup> This disconnection is becoming more pronounced as environmental policies have evolved from relatively isolated technological fixes (as in phasing out particular substances or technologies) towards more fundamental approaches aimed at transformative change of an entire economy (most evident for climate change, but also biodiversity, sustainable consumption and production, or resource efficiency).

The 1992 Agenda 21 included specific recommendations about how much funding would be needed from the international community to address the major issues of the planet’s health annually between 1993 and 2000. These amounted to US\$ 175 million for combating desertification and drought, US\$ 1.75 billion for biodiversity conservation or 4.5 US\$ 4.5 billion for water and sanitation in urban areas.<sup>536</sup>

While, for the reasons explained at length above, reliable and comprehensive figures simply do not exist, the figures given in Sections 4.3.2 and 4.3.3 indicate that the resource available currently and in the past were/are nowhere near meeting the estimated needs.

Another aspect of the disconnection is that funding mechanisms, notably the GEF, are criticized for a failure to act in line with political guidance given to them, in particular by COP decisions. However, to put this into perspective, it should also be noted that political guidance is often itself not very clear or specific, and is a political compromise rather than a list with clear priorities. Moreover, it should also be noted that some examples show that there is also a point

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<sup>533</sup> This is reported in Müller 2009, p. 193

<sup>534</sup> See for an overview ODI 2005.

<sup>535</sup> Ivanova 2011

<sup>536</sup> These figures are taken from the respective chapters of Agenda 21, Section II Conservation & Management of Resources for Development,

[http://www.un.org/esa/dsd/agenda21/res\\_agenda21\\_00.shtml](http://www.un.org/esa/dsd/agenda21/res_agenda21_00.shtml). The section also contains estimated needs for other areas of environmental policy-making.

to be made for granting financial mechanisms a certain degree of autonomy from the political realm. For example, according to Andersen et al. 2007, the success of both the MLF and the GEF in the Montreal Protocol is largely a result of the freedom and flexibility granted to them by the Protocol's Parties.

## 6 Existing reform proposals

In the following we provide an overview of the political debate on reform of IEG finance (6.1) and of academic contributions on the matter (6.2).

### 6.1 Political reform debate

While serious reform efforts and initiatives to address perceived shortcomings, gaps, fragmentation and/or incoherence in the institutional framework for international environmental governance have probed far into complex questions about the structural, legal and financial implications of various options for reform, they have largely left the question of *how* to secure sufficient, predictable, and coherent funding unanswered.

Notable among the efforts of the last decade have been discussions at and initiatives of the UNEP Governing Council and Global Ministerial Environmental Forum and proposals from the Bali Strategic Plan for Technology Support and Capacity Building (UNEP 2005), the High Level Panel on System Wide Coherence (UN 2006), and the Joint Inspection Unit Management Review of Environmental Governance within the United Nations System.<sup>537</sup> While all of these discussions have clearly identified funding as a critical issue, they have done little to move toward possible solutions.

The Nairobi-Helsinki Outcome document (2010), which reflects the conclusions of a two-year political process for IEG reform launched and facilitated by UNEP, presents potential system-wide responses to the challenges in the current system of IEG, including a potential response to the issue of financing. The potential response to financing identified in these consultations, however, remains very broad:

“...To create a stronger link between global environmental policy making and financing aimed at widening and deepening the funding base for environment with the goal of securing sufficient, predictable and coherent funding and increasing accessibility, cooperation and coherence among financing mechanisms and funds for the environment, with the aim of helping to meet the need for new and additional funding to bridge the policy-implementation gap through new revenue streams for implementation. Enhanced linkage between policy and financing is needed along with stronger and more predictable contributions and partnerships with major donors and the pooling of public and supplementary private revenue streams. To consider the development of financial tracking systems, including their costs and benefits, based on existing systems to track financial flows and volumes comprehensively at the international and regional levels, as well as a strategy for greater involvement of private sector financing.”<sup>538</sup>

This and the other potential responses identified in the Nairobi-Helsinki Outcome represent a consultative process that has been focused on the international IEG system, which is embedded within a larger institutional framework for sustainable development (IFSD) and is now one of the key topics on the agenda for the UNCSD to be held in Rio in June 2012 (Rio+20). The Nairobi-Helsinki Outcome feeds into the larger debate on IFSD ahead of Rio+20 with views on

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<sup>537</sup> Bernstein and Brunnée, p.1

<sup>538</sup> Consultative Group of Ministers or High-level Representatives (2010). Nairobi-Helsinki Outcome. Second meeting of the Consultative Group of Ministers or High-level Representatives on International Environmental Governance: Espoo, Finland, 21–23 November 2010.

the environmental component of the system for governance of sustainable development. Within the context of this larger debate, the question of how to deal with financing for IEG has not received focused attention.

Contributions to the zero-draft of the outcome document<sup>539</sup> for the Rio+20 conference, when addressing the issue of financing, mostly focus on the broader issue of financing the green economy (i.e. assisting developing countries with the costs and risks of transitioning to a green economy) and of greening the financial industry, leaving the question of how to improve the system for financing IEG (i.e. implementation of MEAs) unanswered. In the Rio+20 zero-draft, heads of State and Government call for reinforced coherence among the agencies, funds, and programs of the UN system, including the International Financial and Trade Institutions; they call for a UNEP with a significantly expanded financial base or a new agency that is supported by stable, adequate, and predictable financial contributions; and for a strengthened GEF with regularity in funding flows and reform of governance processes towards more transparent and democratic systems. The discussion does not otherwise address the issue of financing for IEG.

More specifically, sections of the zero-draft that deal with finance (but not necessarily IEG finance in particular), are the following:

- Paragraph 33 of the zero-draft expresses the support of heads of State and Government for the creation of an international knowledge-sharing platform to facilitate countries' green economy policy design and implementation, including, a directory of technical services, technology, and financing that could assist developing countries.
- Paragraph 42 realizes that "to make significant progress towards building green economies will require new investments, new skills formation, technology development, transfer and access, and capacity building in all countries". Heads of State and Government acknowledge the particular need to provide support to developing countries in this regard and agree, among other things, to provide new, additional and scaled up sources of financing to developing countries;
- Paragraph 44 recognizes that strong governance at local, national, regional, and global levels is critical for advancing sustainable development. The strengthening and reform of the institutional framework should, among other things reinforce coherence among the agencies, funds, and programs of the United Nations system, including the International Financial and Trade Institutions.

Two alternatives for paragraph 51 on reforming UNEP are as follows:

- "51. We agree to strengthen the capacity of UNEP to fulfill its mandate by establishing universal membership in its Governing Council and call for significantly increasing its

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<sup>539</sup> Obviously, the negotiations on the document were ongoing at the time of writing. The version of the zero-draft used for the following is "The Future We Want" January 10, 2012. Submitted by the co-Chairs on behalf of the Bureau, <http://www.uncsd2012.org/rio20/futurewewant.html>. The zero draft is based on a compilation document of all of the inputs and contributions from all member States, relevant United Nations system organizations, and relevant stakeholders, which were submitted to the Secretariat in writing by 1 November 2011. These inputs are available at <http://www.uncsd2012.org/rio20/compdocument.html>

financial base to deepen policy coordination and enhance means of implementation.”—  
OR –

- “51 alt. We resolve to establish a UN specialized agency for the environment with universal membership of its Governing Council, based on UNEP, with a revised and strengthened mandate, supported by stable, adequate and predictable financial contributions and operating on an equal footing with other UN specialized agencies. This agency, based in Nairobi, would cooperate closely with other specialized agencies”.
- Paragraph 54 recognizes that sustainable development must be given due consideration by the International Financial Institutions, especially the World Bank and the International Monetary Fund, the regional development banks, UNCTAD, and the World Trade Organization in regulating global trade. In that regard, heads of State and Government request the international financial institutions to review their programmatic strategies to ensure the provision of better support to developing countries for the implementation of sustainable development.
- Paragraph 70 proposes to build on the Sustainable Energy for All initiative launched by the Secretary-General, with the goals of providing universal access to a basic minimum level of modern energy services for both consumption and production uses by 2030; improving energy efficiency at all levels with a view to doubling the rate of improvement by 2030; and doubling the share of renewable energy in the global energy mix by 2030 through promoting the development and use of renewable energy sources and technologies in all countries. Heads of State and Government call for the provision of adequate financial resources, of sufficient quality and delivered in a timely manner, to developing countries for providing efficient and wider use of energy sources.

Under section C. “Means of implementation”, four paragraphs deal specifically with finance:

- Paragraph 113 calls for the prioritization of sustainable development in the allocation of resources in line with the priorities and needs of developing countries and for substantial increases in the provision of financing to developing countries for sustainable development.
- Paragraph 114 calls for increased aid effectiveness, taking into account the Paris Declaration, the Accra Action Agenda, and the Busan Partnership for Effective Development Cooperation in ensuring that aid is effective, accountable, and responsive to the needs and priorities of developing countries. There is a need for greater coherence at both the international and national levels, including effective oversight of resources to ensure that developing countries have steady and predictable access to adequate financing, including by the private sector, to promote sustainable development.
- Paragraph 116 reaffirms the key role of the private sector in promoting sustainable development including through multi-stakeholder partnerships. Public policy should create a stable investment climate and regulatory framework conducive to long-term investment and socially and environmentally responsible behavior by business and industry.
- And paragraph 117 calls for the Global Environment Facility to be strengthened, with regularity in funding flows and reform of governance processes towards more

transparent and democratic systems. Heads of State and Government urge simplification of procedures and assistance to the least developed countries and SIDS in accessing resources from the GEF.

A survey of the submissions of different institutions<sup>540</sup> to the zero-draft yields similarly little in suggested options for how financing for IEG could be strengthened, either in terms of how to leverage more resources or reform institutional architecture to improve efficiency. In its submission, the GEF proposed that to address the fragmentation of the international financial landscape and its insufficient funding, the Rio+20 Outcome Document should call for the Paris Declaration on Aid Effectiveness, together with its related processes, to be made operational by the donor community with the full support and engagement of recipient countries. GEF's argument that existing funds need strengthening, regularity in funding flows, and reform of their governance processes towards more transparent and democratic systems, was integrated into the zero-draft.

UNEP's submission for the zero-draft suggests generally strengthening IEG, bearing in mind the Nairobi-Helsinki outcome, and considering which new or modified entities, including a strengthened UNEP, could better enable environmental management. However, it does not address funding in this context.<sup>541</sup> UNEP's submission also proposes the creation of a new funding mechanism, comprised of sovereign funds, reoriented public expenditure, multilateral and bilateral contributions, international and regional financial institutions, and private financing, for a global Program of Action on the green economy.

Zero-draft submissions by the World Bank and Asian Development Bank discussed innovative financing measures and the necessary mobilization of both public and private funding, while highlighting their own respective current and projected funding programs and partnerships in the areas of environment, green growth, and sustainable development.

Discussions to date have not dealt systematically with responses to the goal of "securing sufficient, predictable and coherent funding" for IEG. A recent consultant's report examining the current options for broader reform of IFSD, produced in preparation for the Rio+20 Conference, takes particular note of the lack of integration of proposals to address "adequate, secure and stable financing" with particular institutional reform options that are on the table.<sup>542</sup>

Insofar as the report itself treats issues of finance, it looks at the financing of IEG institutions, but not of implementation. By analyzing the "financial implications" of reforms, it identifies the resulting increase or decrease in running costs of a reformed IEG system—for example, there could be a potential financial advantage to being able to negotiate treaties under the custody of a UN specialized agency as opposed to continuing the practice of establishing independent secretariats.<sup>543</sup>

Both the authors of the report and UNEP, in a written response to the report, recognize as a major gap in the analysis the fact that it does not treat the issue of financing for capacity

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<sup>540</sup> Available at:

<http://www.uncsd2012.org/rio20/index.php?page=view&nr=50&type=510&menu=20&template=529&str=Finance>

<sup>541</sup> Available at: [http://www.uncsd2012.org/rio20/content/documents/217UNEP\\_secretariat\\_rev.pdf](http://www.uncsd2012.org/rio20/content/documents/217UNEP_secretariat_rev.pdf)

<sup>542</sup> Bernstein and Brunnée, p. 20

<sup>543</sup> The 2008 JIU report found that the unit costs of MEAs has grown significantly.

building and country responsiveness. Financing for capacity building and country responsiveness can be affected by any change or reform of the financing architecture and any such proposals are not directly linked to any of the five options discussed in the report.<sup>544</sup> They say, however, that any such reform of the financing architecture should be considered in conjunction with the direction taken on IFSD reform.

The authors also reported that where feedback had been sought on specific proposals for institutional reform that address financing, they elicited strong reactions, including from the GEF, and very little consensus.<sup>545</sup> The report thus suggested that a future study on financing for sustainable development might be warranted that looks beyond the current five options identified in the Nairobi-Helsinki process for reform to the broader structures and processes of sustainable development financing.

While the conversation remains vague on a system-wide level, concrete steps have begun to be taken at a sectoral level to coordinate and increase financing, for example, within the chemicals cluster. UNEP is leading the “Consultative Process on Financing Options on Chemicals and Wastes” in which four possible elements (or tracks) have been identified that could contribute to an integrated approach on financing options for chemicals and wastes. A comparative analysis<sup>546</sup> of the four possible tracks concluded that taking advantage of all four financial options will be necessary and useful to securing adequate financing. These four tracks include 1) mainstreaming of sound management of chemicals and hazardous wastes (i.e. elevating it on the wider political agenda), 2) industry involvement, including public-private partnerships and the use of economic instruments at national and international levels, 3) a new trust fund similar to the Multilateral Fund, and 4) introducing safe chemicals and wastes management as a new focal area, expanding the existing POPs focal area under GEF or establishing a new trust fund under GEF. This process is working off of lessons learned from other existing funding mechanisms, and the conclusions it draws could possibly be transferred to other environmental sectors or even scaled up to the system-wide level.

## 6.2 Academic debate

Although it is widely acknowledged that the current system for financing international environmental governance requires reform, at all levels there remains little discourse specifically focusing on finance. Discussions have historically addressed governance reform broadly, often touching only upon the financial implications of institutional

Proposals for establishing a global environmental agency were introduced in 1970 by George Kennan.<sup>547</sup> Variations on proposals exist, but from a finance perspective, the idea of a global agency has been promoted to reduce overlapping responsibilities and enable better resource management and prioritization. In one iteration, Frank Biermann suggests maintaining issue specific international environmental regimes while upgrading UNEP from a UN program to a full-fledged international organization with increased financial and administrative resources. A UN agency could provide steady funding through the receipt of a fixed portion of the UN

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<sup>544</sup> Bernstein 2011, p. 20

<sup>545</sup> Bernstein and Brunnée, p. 47

<sup>546</sup> Gorman and Barton 2011

<sup>547</sup> Kennan 1970, Biermann 2007

budget.<sup>548</sup> Upgrading UNEP would also require less financial and diplomatic investment than creating a new organization from scratch.<sup>549</sup> On the other hand, it has been cautioned that funding based on voluntary contributions, versus a budget based on mandatory contributions, does not necessarily correlate with fewer resources. Factors such as mandate, size, reliability of resources, earmarked funding, and donor base may be just as important determinants of financing as institutional form.<sup>550</sup> A new agency risks creating another large but underfunded bureaucracy, if no additional funding is made available.<sup>551</sup>

A proliferation of actors, funds and initiatives in the 2000s that, in particular, target climate finance brought new concerns regarding a lack of coherence and coordination.<sup>552</sup> Reform proposals during this period were largely polarized between seeking radical overhauls of the system and resistance to adding new bureaucracies.<sup>553</sup> In 2001, Konrad von Moltke introduced the idea of clustering environmental agreements – that is, grouping related international environmental regimes together so as to make them more efficient and effective.<sup>554</sup> Von Moltke proposed that clustering could increase combined budgets for all of the regimes in a cluster, improve tracking and coordination of funding, and promote more efficient and effective use of resources. Clustering of MEAs has been taken forward as a means for addressing systematic fragmentation that can potentially result in economization of resources, administrative cost savings and efficiency gains.<sup>555</sup>

The 2000s also brought a growing recognition of the need for new funding sources and an active search for innovative funding mechanisms to complement development assistance.<sup>556</sup> Beyond traditional multilateral environmental donor agencies, more decentralized approaches to financing taken at the local level and between the private sector, government authorities and NGOs were offered to fill gaps left by large environmental funds. Kate Miles, in 2005, discussed the new wave of development of both traditional and innovative financing mechanisms, including tourism-based mechanisms, entry or user fees and concessions, debt-for-nature swaps, payments for eco-system services, access fees, development approval and conservation finance conditions on the provision of loans, and a development tax for global environmental damage.<sup>557</sup>

By 2006, authors Adil Najam, Mihaela Papa and Nadaa Taiyab felt that the international environmental governance system had outgrown its original design and intent, noting that calls for reform coming from the UN, national governments, academics, and civil society had consistently grown in intensity over the past decade, especially as the system expanded. Criticisms of the financial aspects primarily pertained to either deficient quantity of funds or to

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<sup>548</sup> Halle 2011, Simon 2011

<sup>549</sup> Najam 2006

<sup>550</sup> Ivanova 2011

<sup>551</sup> Najam 2011

<sup>552</sup> Porter 2008, Broughton 2009

<sup>553</sup> Simon 2011

<sup>554</sup> von Moltke 2001, 2001(a))

<sup>555</sup> Oberthür 2002, Matz 2002

<sup>556</sup> Najam 2006

<sup>557</sup> Miles 2005

inefficient management of existing resources.<sup>558</sup> Outlining an agenda for reform, the authors identified the primary needs of the system as attracting new resources, better coordination of existing resources, and cultivating confidence in the ability to efficiently and effectively use resources. While funding levels are and were in fact inadequate, the authors point out that there may be more money available than is recognized, due to failed management and a general lack of information. Moreover, inefficiency acts as a disincentive for donors, diminishes the credibility of institutions, and fails to provide benefits in full. The authors propose that determining the value of existing resources can be a first step towards better application, and improving coherence and coordination can help promote efficient use of resources. Existing trends pointed towards enhanced efforts to track bilateral funding, such as with the OECD Credit Reporting System, and better funding coordination and stability through the GEF.<sup>559</sup> To improve access of information and management, a proposal was put forth for a new tracking mechanism: a web-based register on multilateral environmental financial flows that would provide transparent data on the type, amount, and direction of financial flows.<sup>560</sup> The system would enable a voluntary mechanism for private donors, government bodies, NGOs, and others to report flows earmarked for environmental purposes, using reporting from recipients for verification. Increased visibility would provide recipients with an added incentive to report and they would in turn benefit by receiving more information on donor preferences and priorities.

In recent years, reform discussions have entered a new phase of deliberation and there are hopes that the Rio+20 Conference will provide an opportunity for functional reforms to be realized.<sup>561</sup> Mark Halle puts forth that it may be easier to tear down the current governance system, including funding mechanisms, and start again from scratch, given how broken and overloaded the current system is.<sup>562</sup> Maria Ivanova proposes focusing on other aspects, such as better articulating the roles of institutions and creating more coherent divisions of labor, improving assessment and tracking of resources and improving reliability of funding.<sup>563</sup> Ivanova suggests that UNEP's Environment Fund merits new attention and that program work could be financed through contributions calculated on the basis of countries' energy consumption and scheme of voluntary contributions with a specific minimum. Other common proposals for increasing resources include innovative financial mechanisms such as taxes on aviation, shipping, and financial transactions, global emissions markets, and further mainstreaming green growth into development aid.<sup>564</sup>

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<sup>558</sup> Najam 2011

<sup>559</sup> Najam 2006

<sup>560</sup> Najam 2008

<sup>561</sup> Simon 2011

<sup>562</sup> Halle 2011

<sup>563</sup> Ivanova 2011

<sup>564</sup> Biermann 2011

## 7 Design choices and trade-offs

Above we have discussed some of the shortcomings and reform needs of the current system. However, the overview of the different mechanisms above also shows that each of the existing mechanisms have some strengths and weaknesses. Hence, this section looks at four central trade-offs involved in institutional design choices for the IEG funding system at large: ecosystem vs. sectoral approaches, mainstreaming environmental funding vs. dedicated institutions, building new institutions vs. reforming existing ones and coordination vs. centralization.

### 7.1 Ecosystem vs. sectoral approaches

The current funding system is largely organized around sectoral funding mechanisms, with specific funds and their governance structures focusing on particular, defined environmental problems. Among the funding mechanisms reviewed above, the GEF is the only cross-cutting one, and even the GEF has several focal areas. Other funds, such as the MLF or the Global Fund address very specific, limited issues.

This structure follows the way environmental problems are addressed at the political level—i.e. issue by issue, convention by convention. One strength of this approach is that it reflects the political priorities of the participating countries. Moreover, focusing on one specific issue also allows funding mechanisms to build up expertise in their respective area. For example, actors within the MLF apparently have learned how to identify and implement sound projects for ODS phase out, bringing down the costs for such projects over time (see above Section 4.7.3). This structure, however, also has a drawback: as funding follows political boom and bust cycles, the result may be that ample funding for the issues of the day is available (e.g., climate mitigation)—but insufficient funding for those issues that are nobody's darlings, but are nevertheless important.

Apart from leading to funding for different issues in an imbalanced way, and inconstantly over time, such compartmentalization of the environment into different issues may also limit the impact of funding, where the different efforts are not well-integrated. For instance, marine ecosystems are suffering from different threats such as overfishing, climate change, invasive species, marine pollution and litter. Thus, a project or program to effectively protect the marine environment in a given area may have to address all these issues; however, existing funds may only fund some of the relevant activities. A similar example is land degradation, which is caused or exacerbated by a number of factors, such as deforestation, climate change, and poor agricultural practices. Such factors are currently addressed under separate agreements and treaties or—in the case of agricultural practices—not at all.

In such cases, an integrated, ecosystem-based approach that deals with the different threats is appropriate. However, mobilizing funding at a large scale for such approaches may be difficult under the current system.

### 7.2 Mainstreaming environmental funding vs. separate environmental funding institutions

The discussion about the pros and cons of an integrative approach—“mainstreaming” the environment into the activities of existing institutions—is not a new one. The basic reason why environmental mainstreaming<sup>565</sup> is important is that economic and social development and

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<sup>565</sup> Environmental mainstreaming can be understood as the process(es) by which environmental considerations are brought to the attention of organizations and individuals involved in decision-making on non-environmental (e.g.,

environmental issues are fundamentally interdependent. Despite efforts by environmental organizations, lasting environmental improvements can frequently not be achieved to the extent or at the pace needed, if non-environmental “mainstream” institutions continue their programs and practices without (enough) regard for the environment.<sup>566</sup> Environmental issues are often not “environment only” issues, but closely interconnected to other issues, such as development. The very close links between climate change adaptation and development are one current example. Thus, there are strong arguments in favor of making the protection of the environment a responsibility of all types of organizations.

Overall, mainstreaming broadens the field of actors who think about and deal with environmental problems; ideally this would lead to a situation where societies at large become more environmentally friendly. The promise of an integrative approach is building on the strengths and the experiences of existing institutions, using the considerable expertise of such institutions as well as their financial resources, and making them work for the environment, not against it. However, if more institutions are to deal with environmental issues, funding for environmental purposes will have to be channeled through even more institutions, thus adding to the proliferation of actors and funding instruments.

The downsides of an integrative approach are equally well-known: Compromises are inevitable in mainstreaming; there are concerns whether environmental issues are in “good hands” in the mainstream organizations. Adequate capacities, knowledge on environmental issues and experience with environmental programs do not always exist in mainstream organizations and environment can be integrated so successfully that it is no longer recognizable as an issue.

Moreover, the integration of environmental and other issues may make tracking environmental funding more difficult, as it become less clear whether a project is, for example, primarily a development project or an environmental project.

### **7.3 Build new institutions or reform existing ones?**

Another question is whether building new institutions or reforming existing institutions is the better option for reforming the system of IEG finance.

Building new institutions is often politically attractive as it creates a visible output. It is often, also expedient, since changes and innovations may be easier to introduce in newly established institutions, rather than through existing institutions that may be resistant towards reform efforts. For example, the innovations that the Adaptation Fund entails, notably direct access for recipient countries, were obviously easier to implement in a separate and new fund, than by, e.g. increasing GEF funding for adaptation. Generally, so far, the IEG finance system has seen only few major institutional reforms (e.g. the decision to re-structure the GEF in 1994), but a creation of many new funds and mechanisms. Additionally, creating an overarching new international or global institution would be a lengthy process and likely many years would pass before it would function efficiently and effectively.

While these arguments speak in favor of an “incrementalist” or gradual approach, one obvious problem with this approach is that while creating new institutions may be relatively easy, old institutions tend to never die. For example, as discussed in Section 4.5 UNEP, has a number of

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economic decisions) and the process(es) by which environment is considered in those decisions, see definition of environmental mainstreaming at [http://www.gefcountrysupport.org/report\\_detail.cfm?projectId=175](http://www.gefcountrysupport.org/report_detail.cfm?projectId=175)

<sup>566</sup> One example, the case of environmentally harmful subsidies is discussed below in Section 0

trust funds that do not seem active anymore, but still have not been abolished. Since existing institutions are hardly ever closed, even if they have lost their *raison d'être*, any new institutions will add to the fragmentation and complexity of the system.

#### 7.4 Centralize, coordinate, or... ?

In general, the involvement of a large number of institutions in funding environmental activities is not necessarily bad. Quite to the contrary, it also indicates that environmental issues have successfully been mainstreamed into the funding activities of a range of donors active outside of a narrowly defined environmental field (e.g., UNDP or UNIDO). It is true that the proliferation of funds makes the funding landscape complicated—but it also has the effect that donors can choose the channel that they deem most effective or most appropriate for their specific interests and priorities.<sup>567</sup> This is indeed a very important factor motivating donors to provide funding in the first place.

In addition, a system with many actors may also be more resilient to abrupt changes, e.g., with a greater number of funding sources, it is unlikely that all sources “dry up” at the same time. These are important reasons why the centralization of all environmental funding in the hands of *one* institution or a very limited number of institutions is likely to involve trade-offs that do not make it seem the best option to pursue, apart from being politically unrealistic.<sup>568</sup>

Moreover, it should also be noted that centralization does not, as such, automatically lead to greater efficiency. Coordination will just have to take place *within* the central organization, rather than between organizations. Coordination within an organization is not necessarily easy either; the experience of the GEF, where frictions between different actors within the GEF partnerships are a common phenomenon, is a case in point.

If greater centralization of IEG funding is unlikely to come about and it is, at best, ambiguous whether such centralization would be desirable, the alternative is to work towards better coordination of existing funding mechanisms and institutions. Coordination—involving, for example, existing actors communicating better, aligning their funding decisions, sharing certain governance structures, agreeing on a division of work—is a “weaker” alternative to centralization. It avoids some of the above difficulties. Better coordination could have several benefits:

Stronger coordination could help to avoid situations where certain issues, countries or groups of beneficiaries are overlooked or neglected. For example, more than 70% of the funds raised through the CDM have gone to just four countries, while a large number of countries have not benefitted from the instrument at all.<sup>569</sup> Obviously, in this case, as in many cases, such concentration follows certain logic: funds flow to those areas and sectors where environmental problems (in the case of the CDM greenhouse gas emissions) are most pressing, and where abatement options are most abundant (and therefore cheapest). Improved coordination will obviously not automatically or fully

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<sup>567</sup> Similarly, it has been observed that specialised environmental regimes, while contributing to fragmentation, may also be desirable, because they may serve specific interests of governments and thus have higher compliance rates, Hafner 2004, p. 859f.

<sup>568</sup> For example, Biermann et al. 2009, p. 17 observe that “all global governance architectures are fragmented to some degree.”

<sup>569</sup> See CDM projects by host region, <http://www.cdmpipeline.org/cdm-projects-region.htm>

eliminate these imbalances, and in many cases should not eliminate them. However, better coordination may facilitate remedial action in cases where countries and environmental issues are effectively neglected by multilateral funding.

Stronger coordination could avoid scarce funds being spread too thinly. Efficiency losses are likely to result where too little money is spread through too many different channels. Coordination could also mean that existing funds each concentrate on certain core activities or pool their resources for better results.

Stronger coordination could make it easier to implement integrated, ecosystem-based approaches that cut across the different MEAs and environmental fields around which IEG finance is currently organized.

## 8 Scenarios for the system of IEG funding

The following presents three scenarios on how the IEG system could evolve following the Rio+20 summit or in a longer-term future. They are based on different proposals for IEG reform, as summarized in the recent “Consultants’ report” on options for the reform of institutional framework for sustainable development, which is published on the Rio+20 website.<sup>570</sup> Our scenarios, while based on proposals that have been made in the past, are neither predictions of what *will* happen in the real world nor recommendations on what *should* happen with regard to IEG reform. They are not based on considerations of political feasibility, i.e. the level of support they would stand to receive from the international community. It is helpful to remember here the definition of scenarios as “plausible, challenging and relevant stories about how the future might unfold”<sup>571</sup>—the future might unfold in any of the ways described, but it may also take a different turn.

The function of these scenarios is to show implications of different options of IEG reform, if any, for improving the system of IEG funding. Thus, through this exercise, we seek to clarify the extent to which the wider reform of IEG and the reform of IEG funding are connected. The funding aspect is an aspect often neglected when IEG reform is discussed.

### 8.1 Scenarios

In the following we present three scenarios of how the IEG system could evolve, which have been developed on the basis of the five options presented in the report cited above. The authors of the report, Bernstein and Brunnée, identify five different options currently under discussion:

- 1) Enhancing UNEP
- 2) Establishing a new umbrella organization for sustainable development
- 3) Establishing a specialized agency such as a world environment organization
- 4) Reforming the United Nations Economic and Social Council (ECOSOC) and the United Nations Commission on Sustainable Development (CSD)
- 5) Enhancing institutional reforms and streamlining existing structures

Among these, Options 1 and 3 are, according to the report, rather similar. Bernstein and Brunnée note that the differences between them are arguably formal ones, which may, however, still have effects in practice. However, for our purposes, such formal differences regarding the legal structure are of less relevance. In order to make our scenarios as different as possible from each other, we will treat Option 1 and 3 as one scenario in which UNEP is upgraded to a UN specialized agency. Option 2 is not described at great length in the report, because it was a proposal made by Brazil at some stage, but not spelled out in great detail. Therefore this option is not discussed here any further. Our other two scenarios thus build on option 4 and option 5. Option 5 is essentially a business as usual scenario, with minor reforms.

Our scenarios, in addition to building on these options, also contain certain assumptions on what could happen with regard to some of the aspects relevant to IEG funding (e.g., tracking).

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<sup>570</sup> Bernstein and Brunnée (n.d.)

<sup>571</sup> Raskin et al. 2005, p. 36

These additional aspects are not contained in the original proposals as summarized in the report by Bernstein and Brunnée; we have added them to make clearer what different options are and how they are interlinked with each other. In practice, elements of the different scenarios could and are likely to be combined.

**Scenario A: Business as usual with minor reforms.** In this scenario minor institutional reforms happen, but the overall picture does not change. For example, a UN system-wide policy orientation for environmental protection is prepared for each biennium, as suggested by Inomata.<sup>572</sup> This orientation is prepared by a high-level working group in which actors such as the GEF or the World Bank participate. Otherwise, the different areas of IEG funding continue to show very different dynamics, with more developments in some fields (e.g., climate finance), but less in others. New funding needs are addressed by newly established funds and mechanisms, each with their own rules for decision-making and allocation of funds. UNEP may see some reforms related to its institutional set-up, e.g., clustering of MEAs or upgrading specific functions within UNEP. Funding for UNEP and the Environment Fund remains based on voluntary contributions. There is no significant increase in funding; UNEP and the Environment Fund's position in the overall IEG system are not significantly changed. To improve transparency of financial flows, a comprehensive tracking system for environmental finance is maintained by the OECD as the institution that arguably holds the most complete data set and has most experience with tracking aid flows. Building on the DAC's Creditor Reporting System, steps are undertaken to improve the tracking system.

**Scenario B: A UN specialized agency for the environment is created.**<sup>573</sup> The new agency has universal membership and a similar status to that of organizations such as the ILO. Its mandate is similar to the original mandate of UNEP,<sup>574</sup> but it has an enhanced mandate on implementation and capacity-building. Among its core tasks are providing policy advice and guidance on environmental matters, conducting environmental assessments, disseminating scientific information on the environment and thus improving the science-policy interface, engaging in capacity-building and technical assistance to support the implementation of MEAs and environmental policies more generally, and enhancing cooperation and synergies between MEAs and other treaties. The new agency has authority for UN system-wide planning for the environment. Existing MEAs remain legally independent, but the Agency could support negotiations on new MEAs and provide a secretariat for them. The World Bank and GEF

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<sup>572</sup> Inomata 2008, p. 9

<sup>573</sup> A weaker alternative to creating a specialised agency for the environment is, according to Bernstein and Brunnée, p. 30, to upgrade UNEP from a programme to a permanent UN organ under the auspices of the UN General Assembly. This option has not been integrated as a separate scenario, because for purposes the precise legal status of a future UN environment organization is unlikely to matter. However, in a funding respect it should be noted that a UN organ could continue to receive funding out of the general UN budget.

<sup>574</sup> UNEP's Governing Council is tasked "to provide general policy guidance for the direction and co-ordination of environmental programmes within the United Nations system (article I 2 b)), and the UNEP Secretariat "to co-ordinate, under the guidance of the governing council, environmental programmes within the United Nations System" (article II 2 b). Specifically for the Environment Fund, the UNEP mandate foresees that "in order to enable the [UNEP] Governing Council ... to fulfil its policy-guidance role for the direction and co-ordination of environmental activities, the Environment Fund shall finance wholly or partly the costs of the new environmental initiatives undertaken within the United Nations system" (General Assembly resolution 2997 (XXVII) of 15 December 1972).

are still strong actors, and GEF continues to serve as the financial mechanism of the Rio Conventions and other MEAs. The role of the new agency includes work towards better coordination of the efforts of the different actors (i.e. WB, GEF, multilateral banks), but existing responsibilities and funds are not shifted to the new agency. The new agency is present in important fora (e.g., MEA COPs) and also hosts coordinating bodies of its own, where MEAs and international financial mechanisms and institutions are represented. Due to its upgraded legal status, the Agency also has stronger political standing and enhanced capacities for agenda-setting.

As a specialized agency, assessed contributions are one of its funding sources. By contrast, it does not receive funding from the general UN budget, as specialized agencies are financially independent from the UN system. In a longer term perspective, market-based instruments related to the use of the global commons (e.g., aviation ticket charges, or charges on shipping) could create a dedicated funding stream independent of individual donors' decisions, which would either flow directly to the general budget of the new agency, or would benefit a dedicated trust fund. Developments in the funding landscape continue to be driven by the dynamics of the different environmental regimes, e.g., the climate regime. In some cases, newly established financial instruments are administered by the new agency (e.g., in order to achieve a clustering with existing funds), but other funds continue to be established under the auspices of GEF, the World Bank or other actors. To effectively fulfill its coordination function, the new agency assumes the role of an information hub on all IEG-related funding activities. To this end, it sets up and maintains a tracking system for environment-related financial flows, based on the existing work and experiences of the OECD DAC and in cooperation with the OECD.

**Scenario C: Sustainable Development Council with a mandate for monitoring.** This scenario is similar to scenario B in that a body with a mandate to coordinate and initiate policy processes is created within the UN system. However, unlike scenario B, this body is not an environmental organization, but has a wider sustainable development mandate and it has a different legal status. Its tasks are mainly to monitor/review progress towards sustainable development in different countries and at the international level; it can also take political initiatives itself. It has a mainly normative role in the implementation of projects, by issuing guidance, which is incorporated into funding guidelines of relevant multilateral institutions and at country level.<sup>575</sup> The Council has an overview of the overall funding for sustainable development issues (including the environment); it can identify gaps and overlaps and develop proposals on how to close them. It has been suggested that such a Council could be a subsidiary body to the UN General Assembly and thus have a similar status as the UN Human Rights Council. The Council meets regularly, and involves representatives from e.g., ministries of finance or the economy. The Council has a budget for carrying out its work, out of the general budget of the UN; it is not otherwise involved in the provision or administration of environmental funding. As the Council does not specifically deal with environmental issues, the tracking of environmental flows is carried out by existing institutions or as a

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<sup>575</sup> It should be noted that the UN Development Group is to perform a similar function for development activities, see <http://www.undg.org/index.cfm?P=2>. However, it does not seem to have been very successful with regard to environmental issues, which has been attributed to a lack of political will, see Bernstein and Brunnée, p. 34.

collaborative effort between UNEP and the OECD. However, the Council advises on how to improve the existing systems and politically supports such efforts.

## 8.2 Implications of the different scenarios

In the following, we discuss if and to what extent the scenarios are/are not likely to bring about certain desired impacts with regard to funding. Obviously, the devil is in the details—and the scenarios do not have many details. However, the following exercise can help to bring some more clarity to the debate on what effects can be reached through making “big” institutional choices and what other issues would still have to be decided if and once those big choices are made, whether in Rio or elsewhere.

### 8.2.1 Better coordination and greater transparency?

*Prima facie*, Scenario B involving a new specialized UN agency for the environment would be most helpful in improving coordination and increasing transparency on IEG funding. While the creation of a specialized agency does not automatically lead to better coordination and much depends on how the coordination is made operational, it may be expected that the stronger the actor who undertakes coordination, the better the chances for success.

However, Scenario B is primarily focused on better coordination among environmental mechanisms, and not on inter-linkages with wider sustainable development goals. Here Scenario C would have advantages. However, the extent to which an SD Council with a limited mandate could actually achieve better coordination among various actors is a rather open question. Similarly, the chances of better coordination of funding mechanisms are not particularly good in Scenario A. In general, and for all three scenarios, there is a real risk that the efforts to improve coordination merely add another layer of complexity to an already complex decision-making process. In the worst case, this could even result in less, rather than more transparency and efficiency.

As regards the transparency of financial flows, the establishment of a tracking system for environmental funding is an essential element of the future system of IEG funding under any scenario. Thus, the question is not if such a system should be implemented, but rather how and where this is done. As described more in depth below, much is to be said in favor of building on the existing OECD system, but possibly with another organization getting involved. This seems a natural task for a specialized agency with a mandate for improving the science-policy interface. Irrespective of who operates such a system, the creation of an institution with a stronger capacity for coordination is likely to make tracking easier, as such an organization could help ensure that funding is recorded more consistently and by uniform standards. If it has enough weight, it might be able to influence other organizations to adopt its standards for monitoring and reporting.

### 8.2.2 Sufficient and more predictable funding?

Essentially, the level or predictability of funding does not depend on a specific institutional or legal set-up, but on priorities of donors. As the example of the MLF has shown, there are two mutually reinforcing dynamics at play in a successfully funded institution: Significant initial investment was critical to the MLF’s success and the initial success stimulated sustained

investment, i.e. sustained investment is necessary for success, but delivery of results is necessary for governments to provide that sustained investment.<sup>576</sup>

The status of a specialized agency means that the agency would receive assessed contributions. However, this says nothing about the scale of funding. By itself, the move to assessed contributions would therefore not be a guarantee for sufficient funding and the scale of assessments is likely to be controversial. For example, UNEP uses the VISC, which is quite different from the general UN scale of assessment. Assessed contributions would create some more predictability than a budget that relies entirely on voluntary contributions, provided that the contributions are paid in time and fully. However, as the experience of other UN agencies and programs has shown, those institutions that are most successful in raising funds typically rely on voluntary contributions for most of their budget, with assessed contributions accounting only for a small share.<sup>577</sup>

The likelihood of raising sufficient funds would increase if new and innovative financing mechanisms could be established, including e.g., charges for the use of global commons or revenues from trading mechanisms or taxes on the use of global commons. They would also provide a source of funding which is less dependent on individual countries' decisions. To implement such solutions, the existence of a central UN agency for the environment is by no means a precondition. However, such an agency—but also an enhanced UNEP—could provide the framework for administering revenues generated from such mechanisms or could even play a role in establishing and promoting participation in such mechanisms. Moreover, as recent experience with the global carbon market illustrates, while innovative finance mechanisms are less influenced by individual countries' policies, they are nonetheless subject to other uncertainties, notably market dynamics. This can currently be observed with the Adaptation Fund, funding for which partly depends on the value of transactions on the CDM market, which has been fairly stagnant and trading at low prices since 2010.

In sum, the sufficiency and predictability of funding is largely independent of institutional choices made.

### 8.2.3 More efficient funding procedures?

In terms of lowering the administrative burden for donors and recipients, and shortening the time from application to implementation of a supported project, the following picture emerges: In the absence of far-reaching structural change (as in Scenario A), one would not expect to see many gains in the efficiency of funding procedures as these will be largely unchanged. Scenario B offers some more potential for efficiency gains, depending on the role of the new specialized agency: its mandate could include the sharing of best practice, reviews of funding procedures, facilitating a better division of work (allowing different funding institutions to focus on their strengths, etc., all of which would enhance efficiency). Moreover, if new MEAs were gradually brought under its roof and it was to provide the secretariat for several such MEAs, this could bring down costs per unit and result in efficiency gains.

However, the scenario does still include a larger number of actors, which all maintain their own administrative functions and the associated overhead. Also, while the specialized agency would aim at better coordination between different funding mechanisms, this very

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<sup>576</sup> Ivanova 2011

<sup>577</sup> Ivanova 2011

coordination effort would add to the administrative burden. Option C would not bring visible improvements for the efficiency of environmental funding as existing funding structures (as in Scenario A) would be largely left untouched.

Regarding easy access to finance—avoiding protracted application procedures and bureaucracy—Scenarios A and C do not promise significant improvements, beyond the progress that can be achieved through a gradual reform of different organizations’ internal procedures. Scenario B may improve access to finance to some extent, if more funds and funding mechanisms are gradually brought under the authority of the specialized agency.

#### **8.2.4 Improved link between policies and finance?**

If a new specialized agency were given a coordinating function (as in B), one could expect that the link between policy targets and funding decisions would be improved. As one of its core functions, this agency should be in a position to provide the much-needed overview of the need and demand for funding in different policy areas. Through a tracking system, it should be able to assess the availability of funds for different purposes—the MLF’s process of determining the needs of various developing countries in the area of ODS reduction and allocating resources accordingly represents a good example of this on a smaller scale. The assessment of funding could include both the distance-to-target, i.e., how far different countries are from their political targets, and the cost of achieving these targets.

One additional function that an agency could fulfill would be improving the communication with MEA COPs and secretariats, thus helping the COPs to formulate more specific guidance for funding decisions which can actually be implemented. Yet, while it may be hoped and expected that a new agency could fulfill this role, it is uncertain how effective the coordination could be, given the competing priorities and interests of the other institutions involved. The more control a new agency would exercise over a large part of the funding volume, the better the chances for a stronger link between policies and funding.

In Scenario C, there is also a reasonable likelihood of improved links between policies and funding. Through the review and screening processes that are part of this option, regular assessment could be conducted on how much funding has been provided and what is missing towards achieving certain goals. In Scenario A, the policy/funding link could be improved at least within the UN system, if system-wide environment planning is realized as part of programming and budgeting efforts.

## 9 Reform options

In the following we discuss reform options for the system of IEG finance, independently of the Rio+20 debate, focusing on four aspects that the Nairobi-Helsinki outcome mentions as priorities for the reform of IEG financing:

- consider the development of financial tracking systems, including their costs and benefits, based on existing systems to track financial flows and volumes comprehensively at the international and regional levels (see section 9.1)
- increasing accessibility, cooperation and coherence among financing mechanisms and funds for the environment (see section 9.2)
- deepening the funding base for environment with the goal of securing sufficient, predictable and coherent funding and consideration of a strategy for greater involvement of private sector financing and the and the pooling of public and supplementary private revenue streams (see section 9.3)
- Create a stronger link between global environmental policy making and financing (see section 9.4).

We will then turn our attention to the Rio+20 summit in Section 10.

### 9.1 A unified system to track environmental funding

The proliferation of environmental funds and the resulting fragmentation of the funding landscape as well as the absence of unified reporting standards make tracking overall flows difficult and the overall system in-transparent. The current lack of transparency has two distinct, but interrelated dimensions: First, there is currently no central actor tracking all environment-related international flows from public sources. Second, even where funds are tracked in a decentralized way, there are no uniform standards for what precisely counts as environmental funding; even where they exist in principle, there is evidence that they are not uniformly applied. Greater transparency on environmental funding is a pre-condition for improved coordination of these flows, may support political negotiations by providing a common information basis, and allows monitoring compliance with existing commitments.

The conclusion is hence that a unified tracking system would bring considerable benefits for the system of IEG funding as a whole, despite the efforts and resources that will be needed to build it and to continuously feed it with accurate and reliable figures. This insight leads to two follow-up questions: (1) Who should implement and administer such a system, i.e., who is best-positioned for the tasks, and how can synergies with existing tracking mechanisms be realized and (2) what steps can be taken to ensure that data are reported consistently and accurately?

With regard to the first question, installing such a tracking system at UNEP (or a potential successor organization) would be in line with one of the original core purposes of UNEP, as laid out in its original mandate, “to be the leading global environmental authority that sets the global environmental agenda, that promotes the coherent implementation of the environmental dimensions of sustainable development within the United Nations system and that serves as an authoritative advocate for the global environment”. It would also be in line with recent proposals to give UNEP a stronger role at the science-policy interface.<sup>578</sup>

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<sup>578</sup> One these see Bernstein and Brunée, p.13f.

At the same time, there are concerns about whether UNEP has the capacities and the expertise to assume this function effectively and also whether installing such a system at UNEP would duplicate reporting structures and create a high administrative burden on all parties involved (donors, recipients and UNEP itself). More importantly, the OECD, with its CRS, already operates a tracking system for global aid flows – arguably the most comprehensive and most accepted such system that exists today. The expertise of the OECD in this area is undisputed—by OECD members and non-members alike—and the CRS is widely accepted. Establishing a separate tracking system for environmental flows that operates independently of the CRS would risk adding considerable administrative efforts and bureaucracy, since donors and implementing agencies would need to report both to the OECD CRS and to the new environmental funding tracking system. Therefore, rather than trying to duplicate the OECD's efforts—and risk failing in the process, or at least creating much additional bureaucracy—a solution could be to envisage an OECD-UNEP cooperation to establish and operate the tracking system as a joint effort. Given that the OECD and UNEP are two rather different organizations that do not have a very strong track record of cooperation, such cooperation may not be easy. Nonetheless, it would combine the (scientific) authority of UNEP on environmental matters, as well as UNEP's global mandate, with the expertise of the OECD for tracking. In this context, it is worth noting that each of the Rio Conventions asked the OECD to take on the monitoring of their funding, rather than setting up separate systems.

With regard to concrete steps toward improving the comprehensiveness and consistency of data, it should first be noted that while there are benefits to centralizing the information flows on multilateral funding within a single tracking system—thus avoiding a duplication of reporting structures—there are also downsides. Where there is only one, central and authoritative repository of information, it becomes much easier to gain an overview, but much harder to challenge the figures reported as they cannot be cross-checked against others. Moreover, there are not necessarily strong incentives to present figures in a user-friendly manner. Therefore, to complement the OECD figures, private and non-governmental initiatives such as AidData.org or climatefundsupdate.net should be maintained and strengthened (e.g., through additional funding) in the future, in order to continue to offer independent and impartial views on the funding landscape.

Further measures to improve the quality of data should build on efforts of the International Aid Transparency Initiative (IATI) to develop a common standard. It represents the strongest international effort to improve standards for reporting aid information. The focus of IATI is on individual organizations providing timely information on activity funding and results, with supporting documentation. The initiative continues to attract new members; in February 2012, UNICEF became the fifth UN agency to join the IATI. Notable is the absence of UNEP as a partner in the IATI, which should change. As the IATI moves forward, it is critical that the standard be developed to ensure accessibility, in part through clear, simple and timely publishing structures and easy access to the published information. IATI accepts information from NGOs, and has a mechanism for avoiding double-counting.

Furthermore, the UN Financial Tracking Service is able to provide 'real time' information, including commitments and disbursements. Its ability to at least show unverified information is a step toward transparency and accountability. IATI offers the possibility for the publication of such more timely data, as a useful complement to the OECD CRS' main role of providing definitive statistics on all aid flows.

However, realistically, problems of data consistency and accuracy are likely to always persist to some degree in a global system.

Concerning the costs of a more comprehensive tracking system, IATI recently concluded that “donors themselves are in a much stronger position than external consultants to estimate the one-off and ongoing costs of implementing IATI. They have information which is not publicly available about the costs of their existing systems, and the additional costs of IATI will depend on whether and how it can be integrated into existing plans for information systems upgrades.” Generally, they estimate that the cost for each donor to implement IATI is less than US\$ 0.5 million, and the total cost is estimated at less than \$8 million.<sup>579</sup> Costs incurred by AidData in its efforts to improve the current system for tracking aid data, including retroactively recoding all projects, have been approximately US\$ 2 million. Maintaining the online AidData database costs approximately US\$ 0.5 million per year, including technical maintenance as well as coding and data gathering.<sup>580</sup> The OECD was unable to provide cost figures for this report.<sup>581</sup>

## 9.2 Improving cooperation and coherence among financing mechanisms and funds

One conclusion from the above analysis is that the often-heard complaint about the fragmented IEG funding landscape while true, only applies with some qualifications: Describing the IEG funding system as a system with a few “gravity centers”, notably GEF, the World Bank and UNEP is a more adequate picture, than that of a totally shattered landscape. Moreover, recently created funding mechanisms such as the Adaptation Fund or the Green Climate Fund are undertaking efforts to avoid a duplication of funding efforts and rather fund what so far is not being funded.

In confronting the task of improving coherence, the question of whether more centralization could overcome the observed deficiencies of the current system requires a differentiated answer, which picks apart exactly *what* should be centralized:

- The centralization of *data on funding flows* through a central tracking system would be beneficial, and is recommendable, even if extra resources will be needed for it.
- A high degree of centralization of the *funding decisions* is, by contrast, not a promising option: Apart from the fact that any initiative to re-channel funding would be highly controversial and meet with strong opposition from existing funding institutions, it would also run counter to the objective of mainstreaming environmental issues into other funding mechanisms. Moreover, some of the advantages of the current system – notably that donors can choose the mechanisms they consider to work best (see section 7.4) – would be lost.

Finally, as for the centralization of the *administration of funds*, i.e. the administrative handling of multilateral environmental flows, these are already largely handled by a limited number of institutions. Thus, with the exception of monitoring and tracking, stronger coordination seems to be a better option than concentrating funds at one central body. The more difficult question is how stronger coordination can effectively be achieved. This question leads straight to the core questions of IEG reform—how the IEG system as a whole can be made more effective and

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<sup>579</sup> Personal communication, Brian Hammond, 13 March 2012 and paragraph 17 of <http://www.aidtransparency.net/wp-content/uploads/2010/06/1140-100407-Framework-for-Costs-and-Benefits-of-transparency-with-Annexes.pdf>

<sup>580</sup> Personal communication, Robert Mosolgo and Riccardo de Marchi Trevisan, 12 March 2012

<sup>581</sup> Personal communication, DAC, 29 February 2012

efficient, and how the cooperation among different multilateral institutions can be enhanced. Broad design choices regarding IEG governance do not automatically translate in specific effects on funding. However, as the discussion of the scenarios in the preceding section shows, it is safe to assume that larger institutional reforms would indeed impact the field of environmental funding. For example, if effective mechanisms and fora for coordination on broader IEG matters are created, this is likely to also make coordination on financial issues easier.

This study does not intend to contribute to or analyze the larger debate on IEG reform. Nonetheless, it seems fair to conclude that better coordination within the IEG system is at least as much an issue of political will and power, as it is a question of institutional mandates and designs.<sup>582</sup> Thus, while the establishment of a UN specialized agency may give that agency a stronger standing vis-à-vis other organizations in general and would thus enable it to more effectively coordinate funding decisions of different actors, this is by no means an automatic result. Equally, giving an organization a mandate for coordination does not necessarily result in effective coordination. The existing mandate for UNEP foresees a coordinating function that UNEP has not managed to fulfill effectively.<sup>583</sup> Generally, while “big-picture” reform proposals have been made, much less attention seems to have been dedicated to the “micro-mechanisms” of such coordination, i.e. how existing decision-making structures would actually change, who would gain in power, who would have to consult whom on what issues etc. Obviously, such issues will, in practice, be most controversial and at the same time determine, to a large extent, how effective coordination would be.

Moreover, it must also be noted that even if there was better coordination, this would not automatically answer the question what and who should be funded, i.e. which are the “right” uses to which funding should be allocated. Paradigmatically, two major readings of what is the “right” use for funding can be distinguished—in practice, evaluations on how funding is used tend to reflect all of these, but assign them different weight.

From one perspective, funding is used in the “right” way where its use closely mirrors political objectives and preferences. This leads to a logical second question, namely whose political objectives and preferences count. Should it be those of donors (and if the preferences of donors change, so should the funding) or should it be those of recipient countries (in line with international commitments towards improving the ownership of recipient countries over development cooperation activities)? Political preferences expressed in internationally agreed documents, notably decisions by COPs, provide a middle-ground between these two extremes; however, they are often themselves political compromises which are open to (and often in need) of further interpretation and prioritization, in order to become the basis for actual funding decisions.

From a second perspective, funding is used in the “right” way if the impact, i.e. environmental benefits, are maximized. This would mean channeling available funds to countries regions and environmental issues where they create the largest environmental benefits, and through those institutions that are able to achieve most impact per unit spent. Both these perspectives have

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<sup>582</sup> See on this the contributions in Park/Conca/Finger 2008.

<sup>583</sup> For example, the High-level Panel on UN System-wide Coherence in the Areas of Development, Humanitarian Assistance, and the Environment concluded in its “Delivering as One” Report 2005 that “the UN Environment Programme, the UN’s principal environment organization—with its normative, scientific, analytical and coordinating mandate—is considered weak, under-funded and ineffective in its core functions.” para.37.

their internal logic and justification—but enhanced coordination does not mean that different views on which of the above perspectives should prevail will *eo ipso* cease to exist.

In light of these issues, a slightly more realistic avenue for enhancing coordination might be to gradually strengthen the existing “gravity centers”, around which the current IEG finance system is already organized now, while at the same time gradually reducing structures outside of them. Under such a gradual approach, donors would commit to giving priority to contributing to existing funds, rather than creating new ones. Funds serving the implementation of MEAs would systematically be entrusted to GEF, without any pre-judgment on decision-making structures. The administration of multilateral trust funds not directly serving the implementation of MEAs would be a task for either UNEP or the World Bank, the two institutions today administering the largest numbers of environmental trust funds. The World Bank could be responsible for funds providing loans, while UNEP could handle grant-money. In parallel, a slow process of reducing the number of existing funds could be initiated, through which funds below a critical quantitative threshold would be either closed and remaining resources transferred to another fund, or several small funds would be merged. In this respect, it may be useful to study private sector approaches to under-capitalized funds.

Generally, any type of successful coordination requires actors that have sufficient staff and financial resources for undertaking meaningful coordination activities and which also have the legitimacy and standing to undertake such a role.<sup>584</sup>

### 9.3 Increasing IEG funding and making it more predictable and stable

A central shortcoming of the current system is that overall funding levels are insufficient and funding tends to be unpredictable and unstable, hindering consistent long-term planning. Although the overall volume of funding for environmental activities has increased over the last few decades, it remains far short of estimates of what is necessary to achieve agreed environmental targets e.g., in the field of climate change mitigation, adaptation or biodiversity protection.

Beyond increasing the scale of financing needed, another aspect is to achieve greater diversity of contributions, in order to make funding more independent of the decisions of a limited number of donors. Ideally, this would include financing mechanisms that operate largely independently of budgetary decisions in the donor countries. Several such options have been put forward as “new and innovative” financing mechanisms (as distinct from traditional financing, i.e. pledges from donor countries’ national budgets), and some of these have been discussed for years or even decades. Tapping into such new and innovative sources of funding and mobilizing funding from private actors is seen as a promising opportunity for different reasons: to begin with, public budgets are currently in poor shape in many developed countries, including the US and many EU countries. And they will remain so for the foreseeable future, limiting the scope for significant new initiatives. With public budgets under strain in many developed countries, mobilizing funding from private sources becomes more important to fill part of the funding gap. Some of the most promising candidates are briefly discussed in the following.

#### Reforming donor contributions to IEG funding

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<sup>584</sup> For example, Bernstein and Brunnée note that the UNEP Environment Management Group has potential to be very influential within the UN system, but “on account of its limited staff (three) and funding and competition from other high-level fora with overlapping memberships, its influence and project-focus has been limited”, p. 15.

Reforming donor contributions is not an example of a “new and innovative” financing mechanism, but rather about making “traditional” multilateral funding more predictable and stable.

In terms of increasing the predictability of funding, one option that may seem tempting at first sight is to make rules on contributions from governments legally binding. In practice, however, this option is not only unlikely to materialize for political reasons, but it is also highly questionable whether it would yield the desired result of enhancing predictability and overall funding levels.

There are—at most—very few examples of binding and specific rules for financial contributions to multilateral institutions. The example of the UN general budget, where a scale of assessment is used, but only a small number of countries pay their contributions fully and on time, is an illustration in this context. There are very limited (realistic) options to actually enforce contributions from sovereign governments where they default on their commitments. For instance, one option is to temporarily suspend a government’s voting rights in a particular MEA, where this government is in delay with its payments. Another option would be to limit other benefits, notably access to resources under the MEA. However, this is not a convincing option either, since the distinction between donors and recipients is usually clear-cut: those who pay usually do not receive money or other benefits from the MEA, hence limited access to such benefits is no deterrent. Finally, a measure already taken in most settings is publishing the status of contributions from different governments, and to publicly denounce laggards that lack behind their commitments (either in an annual report, or, more prominently, in a COP decision). This can be an effective deterrent, but tends to impress some donors much more than others.

Arguably, the factors that lead countries to contribute are not related in first line to the binding nature of rules on funding. The MLF, for example, has enjoyed predictable and consistent funding from developed countries, using a UN scale of assessment. Factors behind that were that the MLF has clearly defined and communicated objectives and targets, which it actually reaches. The ability of its donor countries to make contributions through the use of promissory notes, or in-kind and bilateral contributions<sup>585</sup>, as well as the Fund’s use of a Fixed Exchange Rate Mechanism (FERM) has also been reported as beneficial to the predictability and consistency of funding.

In terms of political and legal feasibility, making payments compulsory would require changes to the treaties in each single regime, which obviously implies a (prohibitively) large negotiation effort. Also, it is most unlikely that all parties would readily agree to the proposal to make payments compulsory. Considering all these aspects, it seems that formal legal arrangements to make contributions more binding appear to be unwieldy and ill-suited, and that political agreements may be much more flexible and effective.

While making rules on contributions legally binding does, hence, not seem a very promising avenue, one further idea might be whether the practice of working with a scale for specific contributions for more mechanisms and funds could be a way forward. Such scales are used,

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<sup>585</sup> The Parties to the Montreal Protocol decided that contributing Parties to the Fund could use up to 20 percent of their annual contribution to carry out activities with developing countries on a bilateral basis. As of January 2009, 13 contributing Parties engage in a range of bilateral activities such as training, technical assistance and the introduction of ozone-friendlier technologies,

<http://www.multilateralfund.org/aboutMLF/Implementingagencies/default.aspx>

for example, in GEF replenishment processes and the UNEP is now undertaking a similar effort by using its VISC. Both the GEF and the MLF have managed better than others to mobilize funds—and both are using a system of specific, pre-defined contributions. This is an indication that such a system could indeed help in mobilizing public funding.

The current UN system of assessed contributions is essentially based on countries' GDP, complemented with some additional rules on minimum and maximum contributions. However, another option is to link the payment to an indicator that reflects not only the economic situation and ability to pay, but also a country's environmental record. For instance, for contributions to UNEP, it was originally foreseen to link countries' expected contributions to their energy consumption, as a measure that reflects both countries' levels of economic development and the resource-intensity of their economic model.<sup>586</sup> On the side of funding organizations, GEF has experimented with allocating resources on the basis of where most global environmental benefits could be expected through its (now modified) RAF. Other proposals have been put forward in different contexts to base contributions on some measure of countries' environmentally damaging behavior in the past. For instance, contributions to climate finance could be based on countries' cumulative CO<sub>2</sub> emissions.<sup>587</sup> In principle, these alternatives offer a number of advantages: they are in line with the polluter-pays-principle, as they reflect the historical responsibilities for environmental problems. And they would enable a real differentiation, in line with the principle of common but differentiated responsibilities, that goes beyond the current dichotomy of developed and developing countries. Moreover, such ideas would seem very much in line with current debates on a greener economy and calls to think "beyond GDP", about a world where GDP is not longer the ultimate yardstick for the well-being of societies.

But while the use of other metrics for assessing contributions is an elegant idea in principle, there are a number of conceptual, legal and economic questions that arise from this call. Above all, which indicators would be used to determine the size of contributions? In the area of climate finance, historic CO<sub>2</sub> emissions can serve as a universal and widely accepted indicator—but what could be such a common indicator for issues like mercury phase-out, biodiversity or desertification? Would contributions be based on per-capita or absolute emission figures? On the basis of which (or whose) data are contributions decided? GDP—despite all its problems and shortcomings—has the advantage that it is measured world-wide according to unified standards and data are readily available.

Even if an indicator can be agreed (as in the case of climate change), there is still the challenge of agreeing on the data to be used, and on a base year. Historical emission data has the drawback of being much less accurate and more contested than current data. Nonetheless, in the context of discussions on ways of measuring the well-being of societies "beyond GDP", this avenue should be further explored.

However, the example of the UN general budget also shows that formulating more specifically how much countries should contribute will by itself not be sufficient. Donors will also need to be convinced that the funds are used efficiently, effectively and for appropriate purposes.

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<sup>586</sup> Ivanova 2011

<sup>587</sup> Schalatek 2011, p. 61

### 9.3.2 Mobilizing private funding

Beyond these different options to reform the system of public contributions to IEG finance, and making contributions more predictable, much of the debate currently centers on mobilizing contributions from the private sector. It is widely acknowledged that financing from private sources will be necessary to complement public funding, if the ambitious funding targets are to be met for areas like climate (mitigation and adaptation), biodiversity protection, or water and sanitation. The current focus on private finance is, in part, due to the fact that a number of important donor countries, such as the US, UK or Spain, are in the middle of public budget crises, and therefore unlikely to ramp up funding for IEG. According to a recent estimate by the Climate Policy Initiative, private investment already accounts for the majority of climate funding: the CPI study finds that 55 out of a total of US\$ 97 billion annually are in the form of private investment, compared to only US\$ 21 billion from public sources.<sup>588</sup> However, the study also clearly illustrates some of the problems of identifying and quantifying private contributions to funding for environmental measures, above all the challenge of delineating policy-induced funding (which is nonetheless profit-seeking) from “normal”, profit-seeking investments (which are not driven by policies, but may nonetheless contribute to policy targets).

#### Philanthropic donations

Where money from private actors is involved, this can be in the form of philanthropic donations, where individuals or businesses donate according to their own interests and preferences. In the field of multilateral environmental funding, the most prominent example studies here is the Global Fund to Fight AIDS, Tuberculosis and Malaria, which receives significant funding from few large-scale donors such as the Bill and Melinda Gates Foundation. But despite the sizeable contributions from a few key donors, the overall volume of private donations merely comes to 5%, lagging behind expectations.<sup>589</sup>

The scale of private, philanthropic donations could possibly be enhanced by building more stable, long-term partnerships between donors and funding institutions, rather than one-off donations, also by including such donations from corporate actors as part of their corporate social responsibility (CSR) efforts. It has to be noted, though, that philanthropic donations are not equally available to all sorts of funding institutions. The experience is that, generally, institutions like UNICEF, endowed with a clear operational mandate, and ideally with visible and immediate impacts, find it easier to raise private voluntary contributions than institutions with a normative mandate.

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<sup>588</sup> Buchner et al. 2011

<sup>589</sup> In the area of climate finance, a particular type of voluntary private contributions are voluntary offsets for carbon emissions, through which individuals can support emission reduction projects in developing countries, to voluntarily offset their own emissions. Such mechanisms are well-established for air transport, but have also been applied – by private consumers and corporate actors alike – for “CO<sub>2</sub>-neutral” sports events, car rentals or even movie productions. However, in comparison to the overall carbon markets, the voluntary market is minuscule. More importantly, transactions are purely project-based and are conducted between private actors, but there is no link between such voluntary offsets and multilateral environmental funding.

## Supported investments

Another, more sizeable form of private contributions is in the form of investments (e.g., into renewable energy generation capacity). As with any investment, investors will seek some return on their investment: This also holds in such instances where investments are carried out as a public-private partnership (PPP), or where investments receive public support in one form or another (e.g., direct support of investment, or subsidized credits at concessional rates). The profit orientation is generally compatible with the notion of a “green economy”: in whichever way this concept is defined, one premise is that investments into environmental protection and green technologies can be a profitable business opportunity—at least if the framework conditions are right, and if external costs are accounted for. In those instances where investments into a “green economy” are economically less attractive than investments into conventional technologies and products, public funding can play a role to offset this discrepancy, by covering the incremental cost of green technologies over conventional alternatives.

However, while mobilization of private funding is crucial to bridge the funding gap for international environmental policies, it adds a whole new set of challenges for tracking, documenting and analyzing policy-induced financial flows. Moreover, it raises issues about the transparency and accountability of such flows. In a simplified model, limited public support (e.g., covering the incremental costs of “green” investments over conventional alternatives) would trigger flows of private investment, thus using the public funds to leverage private funds. However, the higher this leverage effect is, the smaller the relative weight of the supporting public contribution to the investment, and hence the public share and influence over the investment. At the extreme, it becomes increasingly difficult to make a clear distinction between publicly supported investments and “normal”, unsupported investment—which may still be environmentally beneficial, even if it was undertaken for purely economic reasons. Also, due to the geographically dispersed ownership of most private enterprises, it may be difficult—or even meaningless—to attribute any particular flow of money to any particular country. To use a hypothetical illustration: if the US subsidiary of a UK-based company, which is primarily owned by a sovereign wealth fund from the UAE and a number of shareholders across the world, uses a subsidized loan from a German development bank to invest in a hydropower project in Latin America, it is effectively impossible to attribute this money to any particular country.

But apart from such technical accounting difficulties, there are also more fundamental questions on the role of private funding. Some fields of environmental policy are inherently more amenable to profit-seeking investments than others. For instance, it is easily conceivable (and common practice) that an investment into a renewable energy project is financed from private sources, particularly if the incremental costs of this investment vis-à-vis an investment into conventional energy technologies are covered by public support: such projects rely on well-established business models, and they deliver an output that is of immediate commercial relevance (in this case electricity), and can be readily marketed. Some mitigation efforts are even part of the business-as-usual economic activity, and are pursued for reasons beyond climate change.<sup>590</sup> But for environmental projects that are less likely to deliver a commercially relevant benefit—e.g., projects to combat desertification, to adapt to climate change or to protect and enhance biodiversity—it can be much more difficult to construct a business case for

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<sup>590</sup> Buchner et al. 2011

private investments, even if the investment receives public support, and even if the project as such delivers a net benefit to society as a whole.<sup>591</sup>

Finally, there are sectors where the involvement of private funding creates regulatory and political challenges and may not be an appropriate solution. This applies above all to cases where services of general interest are concerned, such as in the water supply sector. While private funding can be instrumental to mobilize the necessary funding for investments in these sectors, it only works to the benefit of all, if there is a strong regulatory framework and effective market oversight. This is due to the specific nature of services of general interest: they provide basic goods (water, electricity, heating), which cannot easily be substituted through other goods, and they are typically natural monopolies. In the absence of strong regulation, the risk is that privatization of such services leads to monopolistic rents, to the disadvantage of rate payers, who can neither change to another supplier, nor reduce their consumption. While this risk exists in developed and developing countries alike, developing countries are more vulnerable due to their weak regulatory frameworks for such markets and their limited capacities for market oversight.

### **Market-based instruments**

One particular form of raising private finance is to employ market-based instruments as an environmental policy instrument. In line with the polluter-pays-principle, such instruments achieve their environmental objectives by increasing the cost of polluting activities, and rewarding environmentally beneficial behavior. In addition, they generate revenue that can be used to promote environmental or other objectives—although the revenue raised does not necessarily have to pass through a national budget, depending on the concrete implementation. Such mechanisms can be entirely voluntary, or they can be established through some type of national or international regulation.

Market mechanisms have been discussed and applied above all to protect nature and biodiversity, and to reduce greenhouse gas emissions. The most prominent examples include emissions trading for greenhouse gas emissions—which is implemented as emissions trading among polluters (compliance trading) in Europe and a few other industrialized countries—and offset mechanisms such as the Clean Development Mechanism (CDM) and Joint Implementation (JI), that link to the emissions trading schemes in industrialized countries by generating offset credits. Other examples include Payment for Ecosystem Services (PES) schemes, which are used for watershed management or the protection of nature and biodiversity. A specific type of such PES schemes are REDD+ schemes, a financing mechanism that would finance the conservation of tropical forests to avoid the greenhouse gas emissions of land use change, but combine the payment for abatement services with a premium for biodiversity protection.

The attraction of some of these schemes is that they also channel private-sector funding from industrialized countries to specific projects in developing countries. The scope for these activities is mainly defined by the demand of private businesses in developed countries, e.g., the firms covered by an emissions trading scheme, and by the capacity of the implementing country to initiate such schemes and monitor their functioning. Yet, except for the CDM, most

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<sup>591</sup> This becomes evident e.g. from the CPI study on the climate finance landscape (Buchner et al. 2011), which finds that more than 95% of climate finance flows to mitigation, and less than 5% to adaptation. And while mitigation finance is dominated by private investment, adaptation relies almost exclusively on public funds – except for some philanthropic contributions, and the private funds that form part of the adaptation fund.

of these schemes have remained at the conceptual level, or have only been implemented as voluntary initiatives with a limited scope. And even the CDM, though it has been hugely (and surprisingly) successful in mobilizing private funding as such, has in practice been concentrated heavily on a few countries (with China, India, Brazil and Mexico accounting for more than 70% of all CDM projects registered to date).

The future outlook for these schemes and mechanisms is very open: the international carbon market has long depended on the EU ETS, which accounts for the vast majority of all carbon market transactions, and which also represented the main source of demand for offset projects like the CDM. It is increasingly clear that this model has come to an end: with the current EU climate target (and the associated EU ETS cap), there will not be much demand for additional offset credits in Europe, beyond those projects already in the pipeline. It is also increasingly likely that, at least for some countries, the CDM will be followed by a “new market-based mechanism” of some type. But the details of this mechanism are yet to be defined, and it can take another few years before the mechanism would become operational. On the positive side, the recent move of countries such as Australia or New Zealand towards domestic emissions trading will create some additional demand for CDM credits. Also, if the EU should decide upon a more ambitious reduction target (and an associated reduction of the ETS cap), demand for CDM credits would increase in Europe. In any case, it should be noted that the actual contribution of the carbon market to climate finance represents only a small share of the total, contrary to the large attention that these instruments receive in the discussion. According to an estimate by the Climate Policy Initiative, carbon markets currently contribute some USD 2 billion per year, about 2% of the total climate finance they calculated.<sup>592</sup>

From the perspective of mobilizing additional financial resources, one key advantage of market-based schemes is that they open up a new, dedicated revenue stream which, depending on the implementation, is largely independent of day-to-day politics and does not have to be renegotiated annually, thus increasing the predictability of funding. The downside, however, is that the revenue depends on the dynamics of the market through which it is generated: any fluctuations that occur in the market will affect the revenue, as witnessed by the collapsing price of CDM credits in 2010-11, or the dwindling volume of auctioning revenue under the EU ETS in the same period. This volatility has also affected the UN Adaptation Fund, which relies on a surcharge on CDM credits for part of its funding, and which is possibly the most prominent example of a funding mechanism that draws upon the international carbon market for part of its revenues, through the 2% levy that is raised on all CER credits generated through the CDM.<sup>593</sup>

So far our discussion has focused on market-based instruments that are designed to channel private finance to environmental projects and activities in developing countries. However, another option is also conceivable: where developed countries implement market-based instruments domestically, as part of their environmental policy mix. The revenue raised through such instruments (or parts of it) can then be earmarked to support environmental

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<sup>592</sup> Buchner et al. 2011

<sup>593</sup> While the Adaptation Fund partly draws on the carbon market for funding, this is done through a levy, which is added onto transactions in the carbon market. This funding channel may grow as the carbon market matures and more CDM credits (CERs) are issued. But it is more difficult to increase funding by raising the levy, which is currently at 2%: a significantly higher levy could affect the dynamics of the CDM as a process, and in the worst case stifle the very market that has been set up to reduce emissions.

projects in other countries. This is the case for instance in Germany, where a proportion of the auctioning revenue generated in the emissions trading scheme are used to fund Germany's international climate protection initiative with some 120 million Euro annually. Yet, some caveats apply: first, this type of mechanism so far is mostly used to fund bilateral activities, rather than contributions to multilateral funds. And secondly, the pledge to channel revenues from domestic market-based instruments is essentially a declaration of intent: from a budgetary perspective, these revenues are not different from any other tax revenues that are part of the public budget. Therefore, contributions that stem from revenue generated through domestic market-based instruments are not substantially different from other voluntary contributions.

### **Charges on the use of global commons**

A specific type of market-based instruments is user charges for the use of global commons. These have been discussed in different forms: as ticket charge on airline tickets, through emission trading, or a levy on emissions from international shipping—or even a Financial Transaction Tax (also known as the Tobin Tax). All of these proposals are based on the idea that those who use global open-access public goods (global commons), like the international air space or the high seas, pay a user charge for their use.<sup>594</sup> The common feature of such open-access goods is that it is practically impossible to define property rights and assign them to particular countries.<sup>595</sup> As global commons, they are therefore essentially unregulated in the current situation, and can be used free of charge. A system of user charges would instead place them under the stewardship of the international community. User charges are distinct from a classical tax: by paying a charge, the user obtains a temporary right to use the common resource. The level of this charge should be oriented at the cost of providing the public good. In this sense, user charges follow a different logic from classical environmental taxes that internalize external costs, but they nonetheless provide an economic incentive to use the resource in question more efficiently. Such user charges can be applied to different types of global public goods - natural global public goods, such as the global atmosphere, but also to global public goods that are the result of political regulation (such as the stability of the international financial markets).<sup>596</sup>

Apart from the abstract argument that such global public goods are a common resource, and should therefore be placed under the stewardship of the global community, there is also a concrete and practical argument for global action: any country that tries to regulate access to these commons unilaterally, and for its own domestic enterprises or within its own jurisdiction, would risk to jeopardize the competitiveness of its own domestic businesses vis-à-vis their competitors abroad.

While these are compelling arguments for a charge on the use of global public goods, there are considerable political, legal and practical difficulties to be overcome. One practical difficulty—which will likely also be a key to the political acceptability—concerns the use of the revenue generated in this way. In principle, it would be an elegant solution to channel the revenue from such user charges into funding IEG, particularly in the case of natural global public goods: these goods are a common global heritage, and thus revenue should flow into a

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<sup>594</sup> WBGU 2002

<sup>595</sup> It is also for this reason that emissions from international aviation or international shipping are not covered by the global climate regime under the UNFCCC.

<sup>596</sup> Kaul et al. 1999

common pool to benefit all nations. The problems start with the detailed design of such a scheme: who would actually collect such charges—an international agency, or national governments on behalf of the international institution? Who would oversee this process, and penalize fraudulent behavior? Who would determine the level of the charge, and who would decide on the use of revenues?

If such a scheme was to be implemented as a truly international regime, with charges collected and revenues disbursed only by international actors, it would enter new ground in lots of ways. In the process, it would not only necessitate additional administrative capacities, but it would also raise a number of legal issues: to begin with, a number of countries (most notably the US) are categorically opposed to anything that amounts to a global tax, based on the premise that decisions on taxation are in the exclusive competence of national parliaments.

Despite these concerns, the prospects to see some progress on the different proposals may actually be better in the current situation than they have been for some time. In the field of aviation, the EU's move to include all EU-bound and EU-departing flights into the EU ETS (as of January 2012) has sparked much debate and some protest internationally. But it has also increased the pressure on the International Civil Aviation Organization (ICAO), and those parties blocking progress in the ICAO in the past, to deliver an alternative proposal for an ICAO-wide regulation. Thus, after years of deadlock, an optimistic scenario could see a new window for action by the ICAO. In the field of maritime transport, the situation is less clear. But also here, the EU's announcement to consider the inclusion of international shipping to and from EU ports into the EU ETS has created some urgency to deliver a concrete proposal for global regulation. Still, it remains to be seen if these options materialize in the first place, if they take the form of user charges, and if so, if the revenue from those charges will be used to finance IEG.

Taken together, these considerations would lead us to consider charges on bunker fuels (aviation and maritime) as the currently most promising option to establish an independent revenue stream for IEG funding. Depending on how the political controversy around the inclusion of aviation into the EU ETS unfolds, there may be a window in the coming years to work towards an international charge on aviation. But: even if a global agreement on charges for aviation and / or shipping should be in reach (which is, admittedly, a big "if"), it is by no means guaranteed that the revenue will go towards funding of IEG. As noted, this would offer itself as an elegant and intuitively logical use of the revenue; but this alone does not ensure that the plan succeeds.

### **Removing environmentally harmful subsidies**

Rather than taxing pollution, and thus providing an economic incentive to use natural resources more efficiently, many countries around the world do the exact opposite and continue to subsidies the consumption of natural resources. Such environmentally harmful subsidies are one driver of environmental degradation, both in developed and developing countries. The amounts involved dwarf the money that is available for environmental purposes: The IEA has estimated that, for the consumption of fossil fuels alone, worldwide subsidies amounted to USD 409 billion in 2010, half of this for the consumption of oil products.<sup>597</sup> Most of this is found in developing countries: developed countries tend to subsidies the production

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<sup>597</sup> IEA 2011

of fossil fuel resources rather than their consumption. While there is no comparable international data set for production subsidies, the total volume of such subsidies has been estimated at USD 100 billion in 2009—for the OECD countries alone. This compares to some USD 57 billion annually for the support of renewable energy sources.<sup>598</sup> In total, global fossil fuel subsidies thus amount to about half a trillion USD each year. And while subsidies to fossil fuels are possibly best documented, and comparatively easy to differentiate and define, they are by no means the only type of environmentally harmful subsidies. Environmentally harmful subsidies can also be found in sectors such as fisheries and agriculture, where annual subsidy volumes in the OECD countries run into the hundreds of billions of US Dollars.<sup>599</sup> In this case, though, it is more challenging to define which proportion of the total volume has to be considered as environmentally harmful, especially since efforts have been ongoing to strengthen environmental conditionality in subsidy practices.

Alas, removing such subsidies can be extremely difficult politically, and attempts at reform of such subsidies have often lead to strong opposition, including protests and even outbreaks of violence. Still, it is also clear that environmentally harmful subsidies constitute a considerable strain on public resources, and provide a massive disincentive to use resources more efficiently, and thus an obstacle to the low-carbon transformation. There are different estimates of the environmental impacts of fossil fuel subsidies, using different models. For instance, the IEA estimates that, if all fossil fuel subsidies were phased out by 2020, global energy-related CO<sub>2</sub> emissions could be 4.7% lower than in the business-as-usual case. Using a different model, the OECD comes to a 6% reduction of emissions by 2050 for a complete phase-out of fossil fuel subsidies, again compared to the business as usual case.<sup>600</sup> Also, as they encourage the use of fossil fuels, fossil fuel subsidies also drive up the costs of any climate policy: carbon pricing, or support to renewable energy, needs to compensate for the perverse incentives created by the subsidy.

Recognizing that environmentally harmful subsidies create a major obstacle to sustainable development, the G20 heads of state at the Pittsburgh G20 summit in September 2009 put forward the most recent and so far the most prominent commitment to reduce, and eventually phase out, inefficient subsidies to fossil energies. Unfortunately, this hopeful commitment did not lead to an equally ambitious follow-up process: two years on, the political process for subsidy removal has ground to a halt over discussions on the definition of “inefficient subsidies”.<sup>601</sup> Lacking momentum at the intergovernmental level, the process has now effectively been reduced to countries’ unilateral efforts at the national level.

For the discussion on funding for IEG, the process is of interest due to the sheer sums of money involved: even 2-3% of the fossil fuel subsidies paid by OECD countries would be enough to cover the entire current volume of IEG funding; the total volume of fossil fuel subsidies in the OECD countries would be enough to cover the developed-country commitments for climate finance. But while it is instructive to put these numbers into perspective, there are several reasons why it would be simplistic and misguiding to pin too many hopes on subsidy removal as a source of funds, or even consider subsidy removal as a panacea for IEG financing:

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<sup>598</sup> Belschner and Westphal 2011

<sup>599</sup> See e.g., Lehmann et al. 2011

<sup>600</sup> IEA, OPEC, OECD, World Bank 2011

<sup>601</sup> Belschner and Westphal 2011

- To begin with, as pointed out, reducing subsidies can be extremely delicate politically, incurring the risk of massive resistance and even social unrest. In some instances, governments might be legally bound to continue payment of subsidies, at least in the short to medium term, limiting the scope for radical steps.
- Secondly, even where it should prove possible to initiate subsidy reductions, much of the freed-up resource would be needed to pay for flanking measures or some kind of ‘safety net’ to protect low-income households and other vulnerable groups, in order to limit social imbalances and the resulting opposition to subsidy cuts. This could include, for instance, subsidies or grants for home insulation schemes to compensate home owners for higher heating fuel prices, but also direct support to poorest households.
- Third, even if the subsidies are ultimately reduced and financial resources are freed up, this money would remain in the national budgets.<sup>602</sup> As part of the national budget, the saved spending on fossil fuel subsidies would be available for a number of competing uses, such as healthcare or education. This also includes environmental uses, but not necessarily. It is conceivable that the respective governments reach a political agreement to dedicate the equivalent of the reduced subsidies, or some proportion of this amount, to IEG funding. But this would not be more than a political declaration of intent, and thus differ substantially from the already-existing voluntary contributions. In this sense, the link between subsidy reduction and increased IEG funding is merely a political one, but there is no inherent or independent mechanism that links the two.

### 9.3.3 Conclusions

While there are several, relatively well-defined options on how to increase funding and making it more predictable, none of them is, realistically speaking, likely to present an easy way forward: Existing political priorities of donor countries and other actors, aid preferences entrenched at the national level and dwindling public budgets are factors that drastically lower expectations on what is likely to be politically agreeable at the international level currently. Keeping in mind these limiting factors, the following conclusions can be drawn:

- Concerning environmental issues where there is no case for business actors to get involved (e.g. combating desertification or institutional funding for environmental organizations such as UNEP) or where there are good reasons for the public sector to be in charge (e.g. basic infrastructure services such as water), the focus should be on options to increase and make more stable contributions from the public sector. Our research indicates that the most important single incentive that can be put to work at the international level to this end, is creating funding mechanisms and institutions at the international level that donors trust to be accountable, transparent and spending the manner in an environmentally effective as well as efficient way. Moreover, an international agreement through which governments commit to the removal of environmentally harmful subsidies and to re-channeling the money saved to

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<sup>602</sup> This point is obvious for on-budget subsidies, i.e. direct payments that appear in the public budget. It also applies to the – more widespread – off-budget subsidies, i.e. all other measures that artificially keep the price of energy services below market rates, including tax exemptions, price controls, local-content requirements and other measures (UNEP-DTIE 2008). These measures will not only reduce the cost of using energy for consumers, but they will also reduce government revenues, including as reduced income from state-owned energy companies.

environmental purposes would be a big step in the right direction – which is, however, unfortunately politically unlikely to be taken.

- Efforts to mobilize private sector contributions and develop payment schemes may be a way to increase IEG funding and making it more predictable in the following situations:
  - where business actors are likely to get involved, because they expect a profit in return (e.g. energy efficiency)
  - where market mechanisms could work, because markets for eco-system services exist or can be created (e.g. climate change mitigation in combination with caps on greenhouse gas emissions)
  - where charges for the use of global commons are feasible, because global environmental commons are being used by identifiable actors.

Currently, charges on bunker fuels (aviation and maritime) seem to be the most promising option for establishing a revenue stream for IEG funding that is independent of donor contributions.

#### 9.4 Improving the policy/funding link

One frequent criticism is that funding decisions are insufficiently linked to political decisions. This has two main dimensions, namely that the scale of funding does not live up to the size of the problems, and that political priorities on how, where and which problems should be tackled do not always translate into funding decisions. The latter has notably come up in the context of how/if COP decisions translate into funding by the GEF in its capacity as the financial mechanism for several MEAs.

The first aspect, how to deal with the mismatch between the size of the problem, political ambitions and the resources available, has already been discussed in the preceding section on mechanisms to increase IEG funding (Section 9.3).

Reflecting on the second aspect, how to better translate political priorities into funding decisions, leads to the insight that improvements will be needed on both the policy and funding ends, but likely more on the policy end. The guidance given by MEA COPs on funding is of varying quality. MEA COP decisions relating to funding are often political compromises which contain a wish-list of the desirable, but are characterized by an absence of clearly defined priorities, time frames and indicators. Moreover, such wish-lists are not necessarily adopted with a view to available funds, but rather with a view to political objectives, and hence with a view to mobilizing funds in the future. MEA COPs also typically adopt conclusions on objectives relating to one specific MEA, without regard being given to resources needed for the implementation of other MEAs. Thus, there is—at least in some cases—an inherent gap between what is said in such documents and the resources available.

The gap between agreed policy objectives and available resources is also not something that could be solved primarily by individual financial mechanisms and funding organizations, but must be tackled by donor countries involved in political negotiations on internationally agreed policy objectives. Often, agreement on financial burden-sharing is not reached at the same time as agreement on substantive obligations, leading to a situation where later funding commitment do not necessarily live up to what would be needed for obtaining the agreed objectives. Potentially, something could be learned in this regard from legislative processes at the national level. In the EU, but also in a number of countries, legislative proposals are normally preceded by an impact assessment which looks, among other things, at the costs of a

certain policy, or such proposals are accompanied by an estimate on the costs of implementation. Similarly, if decisions on substantive goals and financial resources needed to attain them were aligned more closely at the international level, and an agreement on substantive rules was preceded or accompanied by an estimate of the costs of implementation, the gap between both might become smaller.<sup>603</sup> Of course, this could cut both ways—not only raising the funding to the amount required, but potentially also lowering the level of ambition for policy objectives to a level commensurate with the available funds.

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<sup>603</sup> In the context of the present study, it is primarily the costs of a measure that are of interest, and hence we suggest that an agreement on substantive rules be preceded or accompanied by an estimate of the costs of implementation. However, in order to have a better idea of the substantive impact of international agreement before it is concluded, such an estimate could also be extended to a broader regulatory impact assessment, which is “a systemic approach to critically assessing the positive and negative effects of proposed and existing regulations and non-regulatory alternatives”, [http://www.oecd.org/document/39/0,3746,en\\_2649\\_34141\\_35258801\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/39/0,3746,en_2649_34141_35258801_1_1_1_1,00.html). The cost estimate would then be part of such a broader assessment.

## 10 Looking towards Rio+20

This study has been written in the context of the upcoming Rio+20 summit. While much has been written and said about the need for institutional reform and better coordination in this context and recent years, the implications for the governance of IEG finance are rarely addressed in any detail. Where financial implications of IEG reform are discussed, this extends mainly to the funding needs of the institutions themselves (rather than the implementation of environmental policies), and how these needs can be covered.<sup>604</sup> By contrast, in Section 8.2 we have discussed how various scenarios on broader IEG reform discussed in recent years and the run-up to the Rio+20 summit might influence the system of IEG funding at large. In this section, we focus on other strands of the pre-Rio+20 debate that are relevant to IEG funding: the green economy debate and the discussion on sustainable development goals (SDGs).

The transformation to a green economy will be one of the central topics of the Rio+20 summit, and therefore also takes centre stage in the debates preceding the conference. While there is not yet a clear and widely accepted definition of the “green economy in the context of poverty eradication and sustainable development”, as the concept is referred officially, one thing is clear: a fundamental economic transformation of the envisaged scale will require substantial investments funded from private and public sources.<sup>605</sup> This funding need for the green economy creates an obvious link to the funding discussion on funding for IEG, since the funding for a green economy will be part of the wider IEG funding.

But while there is much overlap between the two discussions, they are not entirely congruent: in the context of the green economy, private funding is expected to play an even more significant role than for IEG funding as such.<sup>606</sup> Arguably, the point of working towards a green economy is to change economic framework conditions in such a way that private profits are fully aligned with societal and environmental benefits of investment, and that ultimately all investments into sectors like energy, buildings and transport become green-economy investments, gradually eliminating the need for policy interventions or public investment support.

And yet, while there are many areas where win-win-situations are possible, and where private profits would also generate public goods, there are also many other cases these win-win-situations do not exist, as private profit expectations are unlikely to be sufficient to mobilize private investment. Thus, private sector finance is unlikely to be applicable to and relevant for all environmental problems in the same way, and to the same extent. For this reason, the transformation to a green economy will also not advance all environmental issues to an equal degree, and may even be irrelevant for some.

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<sup>604</sup> For example, this is the aspect that Bernstein and Brunnée discuss in their options report.

<sup>605</sup> Since there is not yet a clear definition of a green economy, there also is no price tag for the transformation. As an indication, UNEP's 2011 report “Towards a green economy” has estimated the potential investment needs of meeting a range of specific policy targets, and for a number of affected sectors. Their estimate comes to 2% of global GDP or US\$ 1.3 trillion of investment each year, with most funding needed in the building, transport and energy sectors. Compiling a number of estimates that have been put forward for different sectors – such as IEA estimates on the investment needs of a global energy transformation, and many others – leads to a range of US\$ 1 - 2.6 trillion of annual, investment needed worldwide. See UNEP 2011c, ch. 15

<sup>606</sup> UNEP 2011c, ch. 15 mentions the estimate that 80% of the funding for the low-carbon transformation could come from private investors. While this number is given for the (narrower) concept of a low-carbon economy, it is also indicative for the (wider) notion of a green economy.

Thus, for instance, the linkage between green economy investments and private funding is straightforward for investments in renewable energies: such investments already involve both a high share and a large absolute amount of private funds, and in some cases even take place without any public support for the simple reason that the investments are commercially viable, and profitable. Likewise, investments into renewable energy generation (as well as comparable fields like energy efficiency or transport) feature prominently in publications on the funding for a green economy transformation, e.g. the 2011 UNEP study “Towards a Green Economy”.<sup>607</sup> Correspondingly, the estimated investment needs quoted in this study are dominated by the investment needs for a transformation of the energy system, but provide much less detail on other environmental challenges.

While these synergies and overlaps are agreeable and should be exploited, it is also clear that the notion of a “green economy” is not a panacea for all environmental funding needs. For instance, it remains unclear what (if any) relation the “green economy” concept has to problems like desertification, or adaptation to climate change, which do not involve the production of some marketable commodity or service, and where private sector involvement is hence unlikely.

Moreover, the two discourses on green economy and on funding for IEG have very different levels of detail—the “green economy” is being discussed at a very general level and remains a somewhat cloudy concept. The debate on IEG finance is, by contrast, full of technical details. Since it is uncertain what a green economy will ultimately look like, it is all the more difficult to assess what investments could be required to bring about the transformation to a green economy. It remains to be seen in what way the Rio+20 summit will further define the concept of a green economy and the ways of achieving it, which would eventually enable a more substantive discussion of the funding needs for a green economy, and the mechanisms to meet these needs.

A further potential connection between improving IEG funding and the Rio+20 debate are the Sustainable Development Goals (SDGs) that have been originally proposed by the Governments of Colombia and Guatemala, and have since received broad and growing support from a number of governments and non-state actors.<sup>608</sup> The SDGs are, to some extent, inspired by the Millennium Development Goals (MDGs), and could either complement the MDGs or succeed them.

Arguably, one effect of the MDGs was to focus political attention and efforts, and another one to mobilize and coordinate funding for the achievement of these goals. In a similar fashion, SDGs could play a role both to mobilize additional funding, and to help coordinate the use of funds. In terms of coordination, SDGs can provide a yardstick to inform the decisions about which purposes funds should be spent on. The distance to target, i.e. the measure of how far any country is from the achievement of the different SDGs, provides a simple and yet comparable indicator across funding needs. It can both help to identify SDGs that are in particular need of funding (e.g. which of the different SDGs is not likely to be reached at the current rate of progress, and with the current funds available), but also across countries (which countries or regions are lagging behind on the achievement of respective SDGs). In this way, the SDGs can offer a relatively uncontroversial yardstick to coordinate funding flows among

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<sup>607</sup> UNEP 2011c, see ch. 15 on financing

<sup>608</sup> Original proposal from Governments of Colombia and Guatemala 2011, see also UNCSD 2012

donors and funding institutions. While this, in and of itself, does not answer the question of *how* such coordination should be achieved, and by *whom*, it could at least provide some reference point and common metric for coordination of funding across countries and environmental issues.

To conclude, a common observation is that the linkages between the different discourses and debates in the run-up to the Rio+20 conference—green economy, institutional IEG reform, Sustainable Development Goals and IEG funding—have not been explored in sufficient detail yet. Depending on the outcomes of the Rio+20 conference, much conceptual and negotiation work remains in order to align the debate on financing for IEG with the different Rio+20 follow-up processes and vice versa.

## 11 Conclusions and recommendations

The following conclusions and recommendations on the IEG funding system result from the study:

### 11.1 De-mystifying and better linking debates

One general insight from this study is that current debate on IEG reform and IEG funding tend to be led in rather general terms and without being linked sufficiently. Equally, the discussions on climate finance—the largest and most dynamic field of funding for environmental activities—are not necessarily well-connected to the overall debate on IEG finance. Also, sometimes, there is a tendency to make bold calls for increasing IEG funding, without properly reflecting on the causes for the inadequacy of IEG finance, such as current economic conditions and budget crises in a number of donor countries, but also other factors that may limit donor countries' willingness to dedicate to environmental purposes at the international level. For example, donors often want to retain a degree of control of the funds they give, and would thus want to give part of their money in a bilateral form. Equally, some donors have a preference for certain mechanisms (e.g. the GEF). The overall debate would certainly benefit from acknowledging these existing and entrenched constraints and a better linkage of the different strands of the discussion on IEG finance, and also from acknowledging the structural limitations under which it takes place.

### 11.2 Improving tracking of IEG funding

The IEG funding system lacks a unified tracking system that provides comprehensive and consistent data on levels, sources and the use of funding. Greater transparency on environmental funding is, however, a pre-condition for improved coordination of these flows; it provides a common basis that may ease political negotiations and allows for monitoring compliance with existing commitments. The OECD DAC's CRS system, while being the most comprehensive tracking system today, has limitations in terms of the data covered and the quality of data on environmental funding. While some of this may be attributable to the general difficulty of defining what is "environmental funding", steps to improve the comprehensiveness and quality of data can and must be taken. Thus initiatives such as IATI should be continued and strengthened. The UN FTS is an excellent example of how a UN institution can provide 'real time' data.

Taking a mid-term perspective, cooperation between UNEP and the OECD to maintain and improve the system for tracking funding for IEG could be envisaged; such an effort would be fully in line with UNEP's role in scientific assessment, coordination and working at the science-policy interface, in particular if it was upgraded to a specialized agency and/or took on a stronger coordination role in the future. An improved system should capitalize on lessons from the existing structure, aiming for transparency in financing to support improvements in where and how funding is spent to solve environmental problems.

Given that donors do not always report data accurately, other systems run by private actors are essential to allowing for the cross-checking of data, and to provide an outside perspective on the data collected by the OECD. The AidData portal is an excellent example of such an initiative.

### 11.3 Improving coordination and coherence

- A widely shared observation is that the current system of IEG funding is fragmented and poorly coordinated. This has negative effects such as inefficiencies, imbalanced

distribution of funding across countries and issues, a difficulty to mobilize funding for large cross-cutting and integrated projects and extra burdens on recipient countries that need to deal with an overwhelming number of mechanisms and associated reporting obligations.

- At the same time, rather than dismissing the existing system as totally fragmented, it can be better described as a system clustered around a number of gravity centers that host most trust funds and/or provide most of the multilateral grant money available: GEF, the World Bank and UNEP. Also, funding mechanisms have recognized the problems associated with a proliferation of funds, and are making some efforts to avoid overlap in the areas and projects they fund.
- While better coordination and improved coherence are desirable, stronger centralization of funds and funding decisions, possibly even in the hands of a single, central organization is highly unlikely to garner the necessary political support. More importantly, a centralized solution would have important drawbacks. For example, donors could no longer channel their funding through those mechanisms they consider most effective and efficient or relevant, which could lead to a situation where donors provide less rather than more money or create new funds and mechanisms that they like better. Also, necessary improvements are often easier to achieve through creating new institutions than through reforming existing ones, and this flexibility would be lost in a centralized system. Last but not least, centralization does not eliminate the need for coordination – it merely shifts the site of the coordination challenge from external coordination among several organizations to internal coordination within one large, central institution. Experience has shown that such internal coordination can be just as difficult to achieve.

Improved coordination is preferable to a stronger centralization of funding flows in one institution. However, none of the major options on wider IEG reform currently on the table seems to guarantee better coordination. An important insight from the wider IEG debate is that effective coordination is a matter of strong political standing of the coordinating body, and cooperation of the other organizations involved, as much as it is an issue of clear mandates. As a minimum, the existing tendency to cluster funds and financial mechanisms around the existing “gravity centers” of the IEG system, i.e. GEF, UNEP and the World Bank, should be systematically continued when new funds are created. In this process, a better division of labor between these institutions could be explored: For instance, funds serving the implementation of MEAs could systematically be entrusted to GEF, without any pre-judgment on decision-making structures. The administration of multilateral trust funds not directly serving the implementation of MEAs could be a task for either UNEP or the World Bank, the two institutions today administering the largest numbers of environmental trust funds. The World Bank could be responsible for funds providing loans, while UNEP could handle grant-money. At the same time, efforts could be undertaken to gradually reduce the number of existing instruments, e.g. by merging smaller funds. Lessons could be learned in this regard from the private sector’s practices for dealing with under-capitalized funds.

## 11.4 Increasing public funding and making it more predictable and stable

- There is evidence that those multilateral institutions that mobilize funding most effectively are the ones that have a clear task, well-defined targets that are communicated to donors and are trusted to use the funds they administer in an efficient and effective way.
- There are no easy solutions for scaling up IEG funding, and at the same time making funding more predictable, as increased funding is chiefly a matter of political will and subject to domestic constraints in donor countries. While a system of assessed contributions could, for example, facilitate more regular and predictable contributions for certain mechanisms, there is no guarantee that countries will follow through on their payments. Currently, for most UN organizations, assessed contributions represent only a smaller share of their overall funding. If assessed contributions are used, it should be considered to use environment-related parameters (such as energy use or cumulative historic emissions) as the calculation base, where objective, reliable and comparable data exists for these parameters. Making rules on financial commitments legally binding is, unlikely to be agreed, difficult to implement, and unlikely to substantially improve the current situation, since there is no practical way of enforcing contributions to the IEG system.

## 11.5 Improving private sector involvement and use of innovative financing mechanisms

- Mobilizing private funding will be a key to improving funding for IEG, not least due to the current state of public budgets in many donor countries. The main options for increasing levels of IEG funding from the private sector are subsidized investments (public-private partnerships), philanthropic contributions and market-based instruments. Other potential sources are charges on the use of global commons (in particular bunker fuels used in international aviation and shipping) and the phasing out of environmentally harmful subsidies. However, none of these sources provides an easy or automatic way of improving overall IEG funding levels, or to make such funding more predictable. Some of these options, including charges on bunker fuels and phase-out of environmentally harmful subsidies, have been under discussion for years, without significant progress.
- Concerning private sector finance, supported investments (public-private partnerships) are a rather successful model in some areas (e.g. renewable energy), but are not promising models for many other environmental areas (e.g. desertification) that are of little commercial relevance, and do not promise high returns. Finally, private sector involvement may not be the most appropriate model for services of general interest (e.g. the water sector) from a social and development point of view.
- One key advantage of market-based schemes is that they open up a new, dedicated revenue stream, which, depending on the method of implementation, is largely independent of day-to-day politics and does not have to be re-negotiated annually, thus increasing the predictability of funding. The downside, however, is that the revenue depends on the dynamics of the market through which it is generated. Philanthropic contributions so far have only played a marginal role in IEG finance. Experience shows that, generally, institutions like UNICEF that are endowed with a clear operational

mandate and ideally with visible and immediate impacts find it easier to raise private voluntary contributions than institutions with a normative mandate.

- There are good arguments for charges on the use of global public goods. But while the arguments are well-known and established, the politics involved mean that an agreement will be very difficult to reach. For bunker fuels, there may be some renewed momentum to reach a global agreement, since the inclusion of aviation in the EU emissions trading scheme has increased pressure to reach an agreement in the International Civil Aviation Organization (ICAO). However, a global system for such charges faces considerable political, legal, and practical difficulties. And even if a global agreement on charges for aviation and/or shipping should be reached, it is by no means guaranteed that the revenue will go towards funding for IEG.

Environmentally harmful subsidies are one driver of environmental degradation, both in developed and developing countries. The amounts of these subsidies dwarf the resources available for environmental purposes. An international agreement on removing these subsidies and dedicating the money saved in this way to environmental purposes would therefore be a big step in the right direction. However, there are several reasons why it would be simplistic and misguided to pin too many hopes on subsidy removal as a source of funds or even consider subsidy removal as a panacea for IEG financing. Any removal of subsidies would be politically very controversial in many countries and much of the money freed might be needed at least initially for flanking and compensation measures. Moreover, even if the subsidies are ultimately reduced and financial resources are freed, this money would become part of general national budgets, with no guarantees that it would be used for IEG purposes.

## **11.6 Improving the link between policy and funding**

Improving the link between policy and funding requires at least as much effort on the policy-side as on the funding side. The decisions of MEA COPs are often not very specific in relation to funding priorities. Often, agreement on financial burden-sharing is not reached at the same time as agreement on substantive obligations, leading to a situation where later funding commitments do not necessarily match what would be needed for achieving the agreed objectives. Something could potentially be learned in this regard from the national level. For example, in Germany or the EU, legislative proposals are either accompanied by an estimate on the costs of implementation or preceded by an impact assessment, which also looks at costs.

## 12 Annex: Methodological note on data used in Section 4.3.2

When looking for data on IEG funding, there were two obvious choices: the OECD DAC system or the AidData databases (both described at some length in Section 4.2. Among the two, we used the AidData for this report, and explain in the following the reasons for this choice and the way we retrieved data from this database.

The OECD-CRS tracking system allows environmental tracking of all funding in its database by means of several environmental data “markers”. These include a sector purpose code for “general environmental protection”, an “environment” policy objective marker for assistance in tracking the policy objectives necessary to achieve the MDGs, as well as the Rio Markers to track progress toward the three Rio Conventions on biodiversity, desertification and climate change. However, the OECD CRS system suffers from several shortcomings:

- Researchers have found reporting flaws and inconsistencies in what is reported by donors in certain environmental categories.<sup>609</sup>
- The OECD CRS system does not include data from all donors, but only from DAC members. For example, China is neither a DAC member nor included in the list of donors reporting voluntarily.<sup>610</sup>
- The CRS online system includes commitment data only from 1995 and expenditure data only from 2002.<sup>611</sup>

While the OECD CRS aims to track global aid flows, so far, the environmental focus is on tracking funding for the Rio Conventions. The tracking of multilateral environmental flows seems to have some gaps (see Section 4.2).

The PLAID initiative sought to remedy these shortcomings in several regards. It filled existing gaps by adding development projects from donor agencies that do not report to the OECD. To improve data quality, projects were classified by their actual environmental impact, rather than merely by environmental sectors. Each project in the PLAID database was categorized according to its likely environmental impact by two PLAID researchers using a scale of five values, from the most environmentally beneficial to the least: Environmental Strictly Defined, Environmental Broadly Defined, Neutral, Dirty Broadly Defined, and Dirty Strictly Defined<sup>612</sup>

AidData which builds on the PLAID data and OECD data has several advantages over the OECD database. It provides a very broad overview of development financing activities for a period of 64 years (from 1947-2011) and for a wide range of purposes. It covers 23 grant-making/lending institutions, including smaller regional funding institutions for which data is otherwise not easily available. With over one million entries in its dataset, AidData covers both bilateral and multilateral development assistance.<sup>613</sup> The primary variables tracked in the database are compiled from a range of sources, including the OECD Creditor Reporting System (CRS) database, donor annual reports, project documents from both bilateral and multilateral aid

<sup>609</sup> Roberts et al. 2009, p. 11; Michaelowa and Michaelowa 2011

<sup>610</sup> A list of countries reporting voluntarily is available at [http://www.oecd.org/document/2/0,3746,en\\_2649\\_34447\\_41513218\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/2/0,3746,en_2649_34447_41513218_1_1_1_1,00.html)

<sup>611</sup> AidData User Guide, p. 10

<sup>612</sup> Roberts et al. 2009, p. 11

<sup>613</sup> See AidData User's Guide Version 2.0, p. 10

agencies, data gathered directly from donor agency sources, and agency websites and databases.

The AidData coding scheme is an extension of the widely used OECD CRS purpose codes. However, the two diverge in non-trivial ways: Where the OECD system seeks to capture a single overall purpose of any given aid project, AidData attempts to capture the overall purpose and each individual activity. Each project in the AidData coding system is coded for an overall purpose and at least one more detailed activity code, creating a more granular picture of development assistance.<sup>614</sup> However, at the time of writing of this report the coding of the data by activity code has not yet been completed.

Accordingly, data on projects cannot be aggregated only according to their activity codes, because one project may have an environmental activity code, but in addition, also many other non-environmental activity codes (in other words, have an environmental activity code but belong to a non-environmental purpose code. This happens when only an element of the project is environmental, while the main purpose of the project is NOT environmental). Moreover, not all projects have activity codes yet. Thus, for obtaining the data we needed, we took the following steps:

First, we exported projects according to all relevant activity codes. For this purpose we used the same activity codes as listed in the annex to the UNEP GEO-5 report.<sup>615</sup>

Second, we filtered the selected projects according to their purpose codes. In order to determine which purpose codes to filter for, we identified those AidData purpose codes from the AidData User Guide which had mostly environmental-related activity codes. This left us with 14 certain purpose codes, and one "partially" environmental purpose code:

Table Annex 1: AidData purpose codes

Purpose code	Environmental?	AidData purpose code title
14015	Yes	Water resources protection
14050	Yes	Waste management/disposal
23030	Yes	Power generation/renewable sources
31130	Yes	Agricultural land resources
31220	Partially	Forestry development
410	Yes	General Environmental Protection, unspecified coding <sup>616</sup>
41000	Yes	General environmental protection, combinations of purposes
41005	Yes	General environmental protection, purpose unspecified
41010	Yes	Environmental policy and administrative management

<sup>614</sup> AidData User Guide, p. 14.

<sup>615</sup> UNEP GEO-5 2011, p. 98

<sup>616</sup> Purpose code 410 includes projects with a coding which starts with 410, but have not received a specific coding yet (among the nine options below).

41020	Yes	Biosphere protection
41030	Yes	Biodiversity
41040	Yes	Site preservation
41050	Yes	Flood prevention/control
41081	Yes	Environmental education/training
41082	Yes	Environmental research

In a third step, because the above quantity does not include projects which have not yet received activity codes, we exported all projects with the purpose code: General Env. Protection (i.e. beginning with 410). In this way, we were able to retrieve all projects with this purpose code, regardless of whether they have been assigned an activity code. This also includes all CRS projects with the purpose code General Environmental Protection

However, it should be noted that our methodology has several limitations, which could distort the picture we have portrayed earlier. These include:

- Our methodology is based on purpose coding, which may *include* projects (with an environmental purpose code) which are primarily non-environmental in their impact, and *excludes* projects (with a non-environmental purpose code) which are essentially environmental in their impact. For example, according to data retrieved from authors of Greening Aid<sup>617</sup> (which looks at project descriptions to verify their positive, negative, or neutral environmental impact), a relatively large share of environmental projects fall under the purpose code: Water and Sanitation—Large Systems (e.g. wastewater treatment plants), which would not count as environmental according to our methodology. However, to date a comprehensive assessment of projects' descriptions is not available, and this remains a subject of future assessments.
- There is a subset of data that has not yet been coded at all. As the database currently stands (AidData 2.0), there is nothing that can be said about this data. Interim work on updating the Greening Aid coding scheme to 2008 shows that there is at least 6.3 billion USD in environmental assistance among the data that has not yet been coded (and is therefore not searchable in the AidData dataset). This is a significant sum, equivalent to ~7% of the sum arrived at by research within the context of this study.

Table Annex 2: Aggregation of AidData purpose codes by six environmental themes

Aggregated themes	AidData purpose codes
Sustainable land management	Flood prevention/control
	Agricultural land resources
	Forestry development
Environmental Governance	General environmental protection, combinations of purposes

<sup>617</sup> Hicks et al. 2008

	General environmental protection, purpose unspecified (includes miscellaneous conservation and protection measures not mentioned below or not fitting under any other applicable codes)
	Environmental policy and administrative management
	Environmental education/training
	Environmental research
Natural Resources Management and Biodiversity Protection	Biosphere protection (including, e.g., marine pollution control)
	Biodiversity
	Site preservation
Energy conservation and renewable	Power generation/renewable sources
Water Resources Protection	Water resources protection
Waste Management	Waste management/disposal

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