

# CLIMATE OF DISTRUST: The 2006 Bonn Climate Change Adaptation Fund Negotiations

by Benito Müller<sup>1</sup>

There are occasions when it is difficult to say whether one is dealing with a tragedy or a farce. The final negotiations at the UNFCCC Subsidiary Body on Implementation meeting on the governance of the Kyoto Protocol's Adaptation Fund on Friday 26 May in Bonn/Germany were a case in point.

The farcical side was a last-minute battle – chiefly between Austria, representing the European Union, and the Philippines, representing the G77+China – on prefacing a list of possible operating institutions for the Kyoto Protocol's Adaptation Fund (AF) with the word “all” which, apart from lending some additional emphasis, made no substantive difference.<sup>2</sup> The tragic side was that the episode revealed a large amount of distrust on both sides of the argument, reflected in a supremely sarcastic but telling final comment on these negotiations, when Saudi Arabia wished “to highlight to the plenary, and to our partners, and to everyone here, how *very, very* constructive [all] this has been for building trust between non-Annex I and Annex I countries.”<sup>3</sup> If not addressed promptly, this deterioration of trust can only be detrimental to the forthcoming climate change negotiations, and thus ultimately detrimental to all involved, since climate change impacts cannot be put on hold.

Like all funding matters, the issue in question – the governance of the AF which was established to help the countries that are most vulnerable and least capable with financing necessary adaptation measures – was particularly prone to lay bare distrust. The controversy was specifically about who should be operating the fund in. Should it be the Global Environment Facility (GEF)/World Bank – the majority view among industrialised countries – or, in essence, anything but the GEF? The latter view was particularly strongly held by lesser developed countries – the intended prime beneficiaries of the AF – who felt being railroaded into accepting the GEF by their industrialised colleagues. (You can have any operating entity, as long as it is the GEF, as it were.)<sup>4</sup>

The GEF itself did not dispel this view at the recent<sup>5</sup> Adaptation Fund workshop organised by the UNFCCC Secretariat. Asked to give a presentation on how it would operate the AF, it made the following intriguing claims: “In Marrakech, COP 7 ... requested GEF to make arrangements to manage the fund. GEF Council and World Bank Board accepted the request to establish the

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<sup>2</sup> Art. 3. “The SBI invited relevant international institutions, including, among others, [all] those contained in the annex ... without prejudice to any institution ... to submit information on issues” concerning the governance of the Adaptation Fund.[Subsidiary Body for Implementation, ‘Agenda Item 6. Financial Mechanism (Kyoto Protocol): Adaptation Fund’, FCCC/SBI/2006/L.18, 25 May 2006, bracket added]

<sup>3</sup> Author's transcript of the statement by the EU during the 5<sup>th</sup> SBI meeting 25 May 2006.

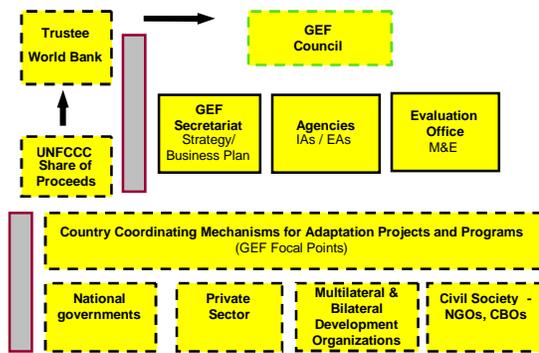
<sup>4</sup> Unfortunately, it was difficult not to get this impression, as the following excerpt from what turned out to be a highly controversial statement by the EU's Presidency after the adoption of the text shows: “The EU's objective of SB24 was to start work on operationalising the adaptation fund through the GEF as the financial mechanism, ... Also, the EU wanted to demonstrate that the existing arrangements between UNFCCC and GEF are the most efficient. ... Specifically, the EU feels we are not using our and the institutions' resources efficiently if we request information on how to operationalise the adaptation fund from institutions other than the GEF. The EU will disagree with any attempt to use Secretariat resources in this way.”[Author's transcript of the statement by the EU during the 5<sup>th</sup> SBI meeting 25 May 2006]

<sup>5</sup> 3 - 5 May 2006, Edmonton, Canada.

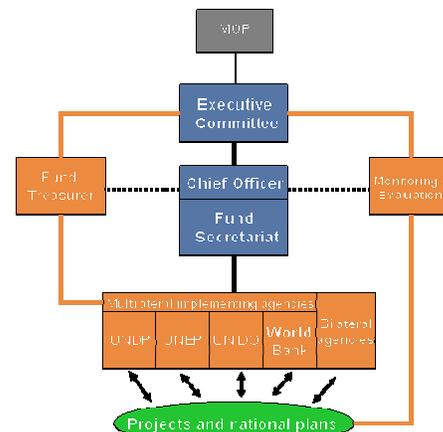
Adaptation Fund, including conversion of CER's. GEF Secretariat, Trustee's Office and UNFCCC Secretariat had begun discussions on Adaptation Fund arrangements."<sup>6</sup>

As a matter of fact, the relevant decision from the Marrakech Accords actually reads: The Conference of Parties "*Decides also* that the adaptation fund shall be operated and managed by *an* entity entrusted with the operation of the financial mechanism of the Convention"<sup>7</sup>. While it is true that at present the GEF is the only operating entity of the Convention's financial mechanism, the decision does not automatically constitute a mandate for the GEF to manage the Fund, for it does not preclude the COP from considering other institutions. If it did, it would indeed be curious that the Secretariat not only commissioned an "Overview of Possible Institutional Options for the Management of the Adaptation Fund" as a background paper for the AF-workshop, but also invited the World Bank, UNEP, UNDP and the Multilateral Fund for the implementation of the Montreal Protocol to present their case for operating the AF.

The GEF is governed by a 32 member Council in which each G7 member – together with China, the Netherlands and Iran – have their own sole representatives, while lesser developed countries are represented through six (on average) eight-member 'constituencies.' This type of differentiated representation is liable to be regarded as unfair by these lesser developed countries, which are typically small emitters and slow growing economies. The GEF Council adoption of the so-called Resource Allocation Framework (RAF) for the GEF Trust Fund – according to which climate change money is to be channelled primarily to large emitting and rapidly growing



**Figure 1. World Bank: 'Proposal on Governance Structure for Adaptation Fund'**  
Source: World Bank (2006)



**Figure 2. Montreal Protocol Fund: 'Fund Governance'** Source: MPF(2006)

countries – did not help matters either. Nor does the GEF's incremental cost principle or the requirement of generating global environmental benefits, particularly when applied to adaptation funding. Or for that matter, the World Bank's AF workshop presentation which in its diagrammatic representation of its proposal for the AF governance depicts the GEF Council as clearly being in charge, with the UNFCCC only mentioned as provider of the share of CDM proceeds.

Even though the RAF, as well as incremental costs and global environmental benefits have now been excluded from the two UNFCCC funds operated by the GEF, their history, and the fact that they remain operative for the GEF Trust Fund, continue to affect the view of lesser developed countries of the GEF, its Council, and the ability of the COP to protect COP funding from

<sup>6</sup> GEF, 'Arrangements for the Management of the Adaptation Fund: Global Environment Facility (GEF)', [http://unfccc.int/files/cooperation\\_and\\_support/financial\\_mechanism/adaptation\\_fund/application/vnd.ms-powerpoint/5](http://unfccc.int/files/cooperation_and_support/financial_mechanism/adaptation_fund/application/vnd.ms-powerpoint/5)

<sup>7</sup> Art. 4,10/CP7, emphasis added.

unwarranted (GEF Council-) influence. It is therefore not surprising that the governance structure of the Montreal Protocol Fund (Fig. 2) has been put forward as an alternative to the GEF/World Bank proposal.

It may, of course, be possible for the GEF operations to be suitably safeguarded to assuage these fears. What is clear is that a power-play imposition of the GEF as operating entity of the Adaptation Fund will only aggravate the situation. The only way forward is to engage in an open-minded and constructive discussion on the 'pros' and 'cons' of the available options. The reasons put forward by the World Bank at the AF-workshop as to why the AF should be managed by the GEF, are particularly pertinent in this context, as they seem to reflect the main objections to a 'stand alone' operation of the AF, namely (i) avoidable transaction costs, and (ii) *unité de doctrine*:

- "GEF management of AF with other Funds (GEF TF/SCCF/ LCDF) avoids additional costs and time associated with standalone administration of the Adaptation Fund
- Experience in managing GEF Trust Funds permits application of same standards/oversight to Adaptation Fund
- Small and uncertain size of Adaptation Fund can be better managed as compliment to the portfolio of GEF Trust funds
- Adaptation fund could benefit from the larger co-financing and global program resources
- Use of existing trustee infrastructure to manage the Adaptation Fund can result in significant cost savings, which could be ploughed back into the fund to support more projects."

The first of the WB conclusions, for example, is based on the reasonable assumption that the administrative costs of a stand alone fund would be 5 percent of the fund volume. What is curious in light of the claim is that according to the UNFCCC Background Paper, this is in fact slightly *lower* than the administrative cost share of the GEF operated Least Developed Country Fund.<sup>8</sup>

As to the "small and uncertain size" of the AF, there is no doubt that at current (World Bank) estimates for 2012 of between \$270 to \$600million,<sup>9</sup> the fund will not be able to cover the expected annual developing country adaptation costs of between \$9 and \$41 billion<sup>10</sup>. But it is also clear that the funds that will flow will do so at a steady rate, free of the uncertainties of donor replenishment rounds (one of the main drawing points of the AF!). Moreover, it stands to reason<sup>11</sup> that in light of the above-mentioned funding gap, additional significant sums of private sector money will sooner than later have to be raised for adaptation funding, and that the natural home of this money will be the AF.

Indeed, the source of the AF replenishments is one of the key factors why the choice of the GEF – with its differentiated voting procedures – as operating entity for the Adaptation Fund is more controversial than it was in the case of the other two climate change funds because of the special nature of Adaptation Fund replenishments. The Convention Funds are replenished by voluntary donor contributions, while the Adaptation fund is meant to be primarily replenished through a

<sup>8</sup> "At the project level, as of April 24 2005, 43 national NAPAs and two global support projects have been approved and amounted to US\$9,415,219. Allocations made for IA fees amounted to US\$1,048,191 (9%), and net allocations made for administrative budgets by GEFSEC were US\$600,679 (5.3%). However, it is not clear what amounts were disbursed for M&E of projects financed under the LDCF nor or other special funds such as the SCCF." [UNFCCC (2006):12, emphasis added]

<sup>9</sup> World Bank Edmonton Presentation

<sup>10</sup> See World Bank Environmentally & Socially Sustainable Development and Infrastructure Vice Presidencies, 'Clean Energy And Development: Towards An Investment Framework' Development Committee (Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries), Washington D.C./USA: 5 April 2006

<sup>11</sup> See Benito Müller, 'The World Bank Investment Framework Initiative,' OIES (forthcoming)

two percent levy on the Kyoto Protocol Clean Development Mechanism. The origin of the replenishments has historically been a potent argument concerning who should control the funds in question (according to the ‘paymaster says’ principle, as it were). The problem is that, unlike in the case of multilateral donor funds with funding of unquestionably Northern provenance, the provenance of the Adaptation Fund replenishments has been strongly disputed. While Europe in particular has maintained that these replenishments are somehow ‘international’ in character, the G77+China has strongly claimed ownership of all the contributions in questions.

Neither is right. While the levy, once it is taken, can be regarded as an international good, the base upon which it was levied, i.e. emission permits (CERs) generated in CDM projects, will generally be private property, and will not cease to be so and ‘transubstantiate’ into international property just prior or during the collection of the levy. In short, the provenance of the Adaptation Fund replenishments is the private sector, in most cases both from the North (investor) and the South (project owners), who therefore should have a say in the operations of the fund, if one adheres to the paymaster says principle.<sup>12</sup>

A pre-requisite for a constructive debate is that the alternatives are clearly spelled out and costed. Given that an operating entity will have to be found, stand-alone rejections without the provision of worked-out alternatives are not constructive. This is has to be kept in mind particularly by proponents of the second option for the language proposed in the Draft Conclusions on the Adaptation Fund, according to which the governing body of the Kyoto Protocol (COP/MOP) would establish “a new committee/body under the direct supervision of the Conference of the Parties serving as Meeting of the Parties to the Kyoto Protocol and elected by COP/MOP, to manage/operate the Adaptation Fund”<sup>13</sup>. Given the material made available not only by the UNFCCC Secretariat,<sup>14</sup> but also by ‘template institutions’ such as the Montreal Protocol Fund,<sup>15</sup> this should be possible even in the face of the inevitable capacity constraints.

Apart from the need for worked-out alternatives, there is one other requirement which is crucial for the sort of interactions needed to progress constructively in this context, namely: time to communicate! The communication needed to overcome the difficulties in question is simply not possible during negotiations. It may therefore be a fortuitous turn of events that the decision was taken to aim for ending negotiation sessions by 6pm.<sup>16</sup> This actually may give the delegations time to interact informally and to communicate in the manner necessary – albeit not necessarily sufficient – to re-build some of the trust lost and to arrive at a constructive mutually acceptable solution of the problem of who should operate the Adaptation Fund. Anyone interested in constructive progress should accordingly strive to support Parties, and try to convince them of the necessity to keep an open mind for the good of the over-all process.

<sup>12</sup> Note, however, that there are other principles which could legitimately be evoked in the debate of who should be running the AF, such as the Principle of Common but Differentiated Responsibilities, which would presumably justify a majority developing country government participation.

<sup>13</sup> Art 14, FCCC/SBI/2006/L.18

<sup>14</sup> [http://unfccc.int/meetings/workshops/other\\_meetings/items/3672.php](http://unfccc.int/meetings/workshops/other_meetings/items/3672.php)

<sup>15</sup> [www.multilateralfund.org](http://www.multilateralfund.org). To illustrate the wealth of information available note, for example, that the *Report of the First Meeting of the Executive Committee of the Multilateral Fund Under the Montreal Protocol* (<http://www.multilateralfund.org/files/0102.pdf>), contains as Annexes the job description of Secretariat Chief Officer, a template letter requesting contributions towards the Montreal Protocol Fund, and a description of the proposed structure of the specific agreements between the Executive Committee and each of the three main co-operating agencies.

<sup>16</sup> “... there was broad agreement among parties that the long work hours, evening sessions, proliferation of contact groups and packed agendas that characterize the climate process should be addressed. ... while the Umbrella Group and the G-77/China sought strict limitations on evening meetings, the EU favored a more flexible approach. For COP 12 and COP/MOP 2, the discussions resulted in a recommendation that meetings should normally end by 6:00 pm but may, in exceptional circumstances, continue later, but not beyond 9:00 pm.”[ENB, Vol. 12 No. 306, 29 May 2006, <http://www.iisd.ca/vol12/enb12306e.html>]