

U4 Expert Answer



Corruption risks and mitigating approaches in climate finance

Query

What evidence exists on corruption risks particular to climate finance, focusing on current climate finance architecture, related programming and measures and approaches being used to mitigate risks in different contexts?

Purpose

We want to improve understanding of how fraud and corruption can pose a threat to the effectiveness and reputation of our climate finance mechanisms, and how these risks can be mitigated. We would also like to understand the state of current evidence and where the key gaps might be for future research.

Content

1. State of research on corruption risks in climate finance
2. Emerging good practice for mitigating corruption risks in climate finance
3. References

Caveat

This answer was developed upon request in less than one week. It provides only a very preliminary overview/mapping of issues and research available relating to corruption risks in climate finance. Further resources would need to be allocated for a more meaningful and comprehensive overview of the state of research and identification of knowledge gaps in this field.

Summary

There are major governance and corruption challenges associated with climate finance, with huge amounts of money from a wide variety of sources flowing through new, complex and relatively untested funding mechanisms at international, national and local levels.

Yet, as climate governance is still in a formative stage, research on the corruption risks associated with climate finance is nascent and represents a rapidly evolving field of investigation. An important stream of research focuses on understanding the complex web of actors and institutions involved in climate finance decisions, the scale and nature of money flows, as well as where the money is coming from and where it is going. While there is an emerging body of research on national and global mechanisms, it is also important to explore the risks and opportunities presented by local-level climate financing, and to gain a better understanding on how the global, national and local levels relate to each other, so that various interests can be better balanced, articulated and integrated to promote greater responsibility and accountability in climate finance.

Research into the governance and accountability frameworks of the various actors involved and how these are implemented at the international, national and local levels, is also important in gaining a clearer picture

Author(s): Marie Chêne, Transparency International, mchene@transparency.org

Reviewed by: Robin Hodess Ph.D, Transparency International, rhodess@transparency.org

Date: 21 January 2014 **Number:** 2014:02

U4 is a web-based resource centre for development practitioners who wish to effectively address corruption challenges in their work. Expert Answers are produced by the U4 Helpdesk – operated by Transparency International – as quick responses to operational and policy questions from U4 Partner Agency staff.

of how best to mitigate corruption risks and identify emerging good practice.

Lessons learnt on best practice from development assistance as well as other sectors can help inform the debate.

1 State of research on corruption risks in climate finance

Leaders of developed countries have pledged to disburse up to US\$100 billion in climate finance per year by 2020, and US\$30 billion has already been committed for 2010-2012 to fast-track the process. As a result of these financial flows, there are many corruption challenges associated with climate change policy, climate finance for mitigation and adaptation, and carbon markets. Climate money can be invested in both mitigation and adaptation programmes. Mitigation strategies aim to curb global warming through investments in renewable energy, clean transport, carbon markets or reforestation projects, while adaptation refers to interventions aimed at adapting to climate change, which can involve major investments in large infrastructure projects such as building sea walls, flood defences, irrigation systems or emergency shelters.

As climate governance is still in a formative stage, researchers have only very recently started focusing on the human, social, environmental and economic costs of corruption associated with it. Additionally, research on the corruption risks associated with climate finance is nascent. However, some organisations such as Transparency International, the United Nations Development Programme (UNDP), World Resource Institute (WRI), Overseas Development Institute (ODI) Global Witness and others have started working on mapping such risks and identifying effective risk-mitigation approaches. In particular, Transparency International's 2011 Global Corruption Report is one of the first and most comprehensive reports mapping corruption risks associated with climate change and exploring potential strategies to address them (Transparency International 2011).

However, given the rapidly evolving nature of this field, both policy and practice evidence of the extent, forms and levels of corruption affecting climate finance and projects remains scarce.

Factors affecting corruption risks in climate finance

The World Bank defines climate finance as "the resources to catalyse the climate-smart transformation of development trajectories by covering the additional costs and risks of climate action, creating an enabling environment and building capacity in support of adaptation and mitigation as well as encouraging research, development, and deployment of new technologies." (World Bank 2010). This broad definition implies various types of financial flows, from several national, international private or public sources, mobilised through a range of instruments – including new and untested channels and instruments. This complex landscape makes it challenging to find figures, transactions and decision-making processes that track and account for climate investments.

Against this background, several studies and reports produced by various organisations and researchers have identified a number of factors that make climate funds especially vulnerable to corruption (UNDP 2011; Transparency International 2011; Werksman 2010; Forstater and Rank 2012).

Scale and nature of climate finance

Huge money flows

Risks of corruption are also likely to be exacerbated by huge amounts of money flowing through new and relatively untested mechanisms and financial markets (UNDP 2011). Risks are also likely to be greater as recipient countries often have weak institutions and governance frameworks, low absorptive capacity and poor institutional records for public accountability (Transparency International 2011). According to the Global Corruption Report, investments in mitigation efforts alone could amount to US\$700 billion by 2020, while public investments of up to US\$250 billion a year could flow through new and uncoordinated channels (Transparency International 2011).

Pressure to disburse

The urgency of climate spending puts actors under pressure to disburse funds quickly, leading to increased flows over a short period of time, with pressure to demonstrate impact and success stories. This may create the wrong incentives for donors, undermine the effectiveness of projects and increase vulnerability to corruption. Pressure already exists to fast-track climate spending, further exacerbating corruption risks (UNDP

2011; Transparency International 2011). Substantially increased flows over a short period of time may create a risk that due diligence is compromised.

Fragmentation of climate finance

There is an increase in the number and diversity of funding sources from both public and private origins, often with overlap in the nature, purpose and governance of the various climate funds, some supporting adaptation, others for mitigation, or a combination of both. Some sources provide loans or a combination of loans, grants and technical assistance, while others target specific countries, regions or projects. There is also wide divergence in the governance of these funds, with different standards and practices, and varying levels of transparency and coordination between them (UNDP 2011). Diverging anti-corruption standards among donors may send mixed messages to recipient countries and undermine the anti-corruption agenda.

There is also fragmentation and overlap between development and climate change adaptation and mitigation activities, which create some confusion and challenges in terms of tracking, reporting and providing effective oversight of climate change investments (see below). There is a need for coordination between the various funding mechanisms and sources, with the view to developing and enforcing common standards of accountability, transparency and integrity across all funding sources.

Largely undefined concept of climate funding

There is also a need to develop a system to measure, report on and verify the relevant financial flows across a variety of sources, with the view to assessing whether targets are met and ensuring transparency and accountability (Buchner et al. 2011). However, there is no common and internationally agreed definition of what constitutes climate finance, including private and public climate funding, which is a barrier to the development of a common basis and methodology for tracking, measuring and reporting on climate finance. While climate finance is supposed to be additional to and above official development assistance (ODA) targets, contributions to adaptation are often reported as ODA and vice versa, and are likely to be double counted in the absence of adequate guidance (Klein 2011).

Funding specifically labelled as “climate finance” represents only a small part of the resource flows which

may have an impact on “climate-smart development”. At the national level, for example, international funding commitments made within the framework of the UN Convention on Climate Change (UNFCCC) contribute to public budgets in relevant areas such as forest conservation, renewable energy, flood defence and agricultural development, but represent only a subset of overall public spending in these relevant sectors. There are also other public and private investments and contributions to these sectors which may not have a specific climate-related aim (Forstater and Rank 2012). As already mentioned, development projects and activities not labelled as climate finance may also be implemented in tandem with climate adaptation programmes, creating risks of duplication or double counting between development aid and climate finance.

These overlaps and the lack of overview of international financial flows and sources pose major monitoring, reporting, coordination and accounting challenges, and are likely to undermine the transparency, accountability and effectiveness of international action (Buchner et al. 2011).

At present, there are efforts underway by various stakeholders to develop systems to address this gap. For example, the Heinrich Böll Stiftung and ODI are working on tracking climate finance at the donor end, analysing donors’ stated pledges and disbursement in order to identify trends and support monitoring activities, and to help identify and address the potential issue of double counting of development aid and climate finance (please see:

<http://www.climatefundsupdate.org/>).

In recent papers advocating for climate finance transparency, Publish What You Pay and Global Witness provide other examples of similar initiatives, emerging systems, and data-sharing sources and platforms to address this gap (Forstater and Rank 2012; Global Witness 2012).

Specific risks associated with various spending mechanisms

There are specific risks associated with various spending mechanisms such as loans, grants, sector-wide approaches or budget support. In a 2010 paper, Jakob Werksman from WRI stresses that corruption-related risks largely depend on the nature of the investment in particular sectors and countries, arguing that it may be easier to track project-based loans than budget support in some countries (Werksman 2010).

In particular, the use of country systems to deliver and manage climate change finance is being debated between donor and recipient countries. The expected benefits of using such an approach include greater ownership, reduced duplication, domestic transparency and accountability, and greater opportunities for mainstreaming to achieve the expected development goals, as highlighted in the Global Forum on Using Country Systems to Manage Climate Change Finance held in Korea in December 2013 (Global Forum 2013). The national governance and institutional context may be key to determine whether this is an appropriate option, identify country-specific risks and develop effective strategies to address these risks. Among other recommendations, the report on this event stresses the importance of understanding the political economy in each country in order to identify various stakeholders' incentives and develop effective risk-mitigating strategies.

Newly established institutions to manage climate finance, such as the Adaptation Fund and the Global Environment Facility, for example, are exploring ways of using country systems for accountability through an accreditation process for national implementing agencies, while the World Bank adopted an approach of reviewing and selectively using country systems. Research into strengthening country systems for accountability, managing results, and safeguarding against environmental and social harm could support efforts to strengthen ownership and accountability of climate finance by recipient countries (Brown et al. 2013).

Risks and opportunities associated with the use of various mechanisms, including sector-wide approaches, budget support, or using country systems have been analysed within the context of development aid, and lessons can be learnt from the aid effectiveness agenda, as explored in a 2008 U4 [issue on corruption and aid modalities](#) (Fritz and Kolstad 2008). Lessons learnt from development aid and humanitarian assistance could help improve understanding of the risks associated with various funding mechanisms, and a stream of research could focus on the opportunity of adapting fiduciary development aid's risk-mitigating strategies to climate finance.

New, complex and largely untested funding architecture

The institutional set-up used to raise and allocate climate funds may also have an impact on corruption risks, based on the accountability, transparency and integrity mechanisms in place in the various institutions involved. At present, it is composed of a complex web of international and national institutions and there is a critical need for understanding the effectiveness of the various funding mechanisms and policies (Forstater and Rank 2012).

A number of new and existing institutions at the international and national levels are being used or created for managing these billions of dollars' worth of resources. These include the Global Environmental Facility, the Climate Investment Funds, the Adaptation Fund, the UN-REDD programme, as well as multilateral development banks, international finance institutions, bilateral institutions, the Clean Development Mechanism and the creation of a Global Green Climate Fund, among others (Forstater and Rank 2012).

Resources can be channelled directly to national institutions in recipient countries, which can present a set of context-specific corruption and governance challenges, or through bilateral or multilateral implementing agencies. Some recipient countries such as Bangladesh, Brazil, China, Ecuador, the Maldives and Thailand, among others, have also set up national funds, some administered by the UNDP (Forstater and Rank 2012). When new institutions are being established, this can present an opportunity to hold them to international standards of transparency and integrity, such as in the case of Poland's EcoFund or the closely watched Brazilian Amazon Fund (Werksman 2010). However, the success of such approaches largely depends on the specific context of each country, as the funds are exposed to corruption risks at country level.

In any case, greater representation of developing countries on the governing bodies of international institutions and climate funding mechanisms is recommended by some actors as a way to improve ownership and effectiveness of finance investments (Ballesteros et al. 2010).

International architecture

There are various levels of governance standards and integrity management systems in place in international institutions, which are likely to have an impact on each

institution's ability to adequately prevent and address corruption risks. As new institutions such as the Green Climate Fund are being established, there is an opportunity to integrate effective integrity and corruption management systems in their design from the outset, based on lessons learnt and good practice identified in other institutions and sectors.

Some of these institutions, such as the multilateral development banks or bilateral agencies, have developed safeguards and anti-corruption policies in recent years and made efforts to become more transparent and accountable by adopting comprehensive disclosure and anti-corruption policies, complaints mechanisms, etc. (Werksman 2010). However, while implementing agencies often enforce fiduciary safeguards and have policies and principles in place at the funding level, it is not always clear how these standards are being enforced further downstream, what safeguards are in place at the implementation level and how effectively these risks are being managed. This could constitute an important stream of research.

Less is known about the accountability and integrity management systems of the other, more recently established institutions mentioned above. To address this knowledge gap, Transparency International has conducted a mapping and assessment of the anti-corruption accountability framework and safeguards of six multilateral climate funding initiatives: the Adaptation Fund, Climate Investment Funds, the Special Climate Change Fund, the Least Developed Countries Fund, the Forest Carbon Partnership Facility and UN REDD. As part of the accountability mapping, lines and levels of accountability of key actors within the funds are analysed. Also included is an analysis of standards, investigation mechanisms, penalties and sanctions (Transparency International, forthcoming).

National institutional set-up

The governance and institutional framework of the donor and beneficiary sectors and countries may also determine, to a large extent, opportunities for rent-seeking, and the close involvement of the public sector may act as a facilitating or inhibiting factor for corruption depending on the country and local contexts (Werksman 2010).

At the national level, it is also of crucial importance to understand the complex web of actors and institutions involved and money flows, have a clear picture on where the money is coming from and where it is going,

and to map out the actors and institutions responsible for climate finance decisions and spending, and how they relate to each other, as well as their governance and accountability frameworks.

This is the approach taken by Transparency International's Climate Finance Integrity Programme, which conducted an anti-corruption and governance mapping and assessment of climate finance in six countries (Bangladesh, Dominican Republic, Kenya, the Maldives, Mexico and Peru) (Transparency International 2013). In addition to mapping the institutional infrastructure and coordination of the various actors involved, these country studies explored various aspects of governance and accountability, such as financial transparency, participation, transparency of decision-making processes, regulatory oversight, etc.

The reports in all six countries highlighted that contradictory financial information is supplied by various sources (from government ministries, donor websites and tracking initiatives such as www.climatefundsupdate.org). As climate funds are not clearly labelled in government budgets, this also makes it difficult to distinguish climate finance from other budget lines, and to track and adequately oversee financial flows. Similarly, in most countries, there are no consolidated and comprehensive databases of projects funded by climate finance.

UNDP also stresses the importance of carrying out corruption risks assessments in order to ascertain the condition of the general governance framework in recipient countries, to map corruption risks and vulnerability areas, and tailor anti-corruption measures to the country-specific circumstances and institutional landscape (UNDP 2011).

ODI, for example, has carried out a number of national-level reviews called Climate Public Expenditure and Institutional Reviews (CPEIR), which, beyond corruption risks analyse national policies, institutions and budgets, from which relevant risk areas are drawn (ODI 2012).

These reviews include:

- An assessment of current policy priorities and strategies relating to climate change;
- A review of institutional arrangements to promote the integration of climate change priorities into budgeting and expenditure management;

- A review of the integration of climate change objectives within the budgeting process.

Similarly, WRI is partnering with Oxfam and ODI within the framework of the Adaptation Finance Accountability Initiative to develop new tools for supporting civil society organisations' efforts to track and monitor adaptation funding, with the view to helping them:

- Map the adaptation funding landscape in their country (including where funding is coming from and what projects it is flowing to);
- Assess the total amount of funding available for adaptation;
- Track selected adaptation funding streams from source to implementation, to ensure that finance labelled as "adaptation" actually goes to adaptation activities.

Local institutional set-up

The role of local governments in channelling climate finance is also of crucial importance. Global Witness in particular suggests that, when used appropriately with stringent financial safeguards, allowing sub-national and local entities to directly access funds and bypass national governments may be an effective way for financial flows to reach project-level activities and reduce misallocation at the national level (Global Witness 2012).

Yet research thus far has primarily focused on the international and national levels, and the local architecture managing climate finance has not received enough attention to date, which constitutes a major knowledge and research gap (Global Forum 2013). At the same time, a lot of money is spent locally on smaller-scale projects, emphasising the need for studies at this level.

Corruption risks in climate finance and programming

Lobbying, state and policy capture

New institutions, laws and policies are being developed for climate finance. Early evidence presented in Transparency International's Global Corruption Report suggests that there are many grey areas and loopholes that could be exploited by corrupt interests.

This risk of policy capture is exacerbated by the level of complexity, novelty and uncertainty associated with many climate issues and the fact that climate change and finance are complex areas to engage with (Transparency International 2011). The highly technical nature of climate adaptation and mitigation work makes it easier for a small number of experts and vested interests to control and potentially distort information and the policy debate. This also makes it challenging for civil society to meaningfully engage with, monitor and influence the climate finance policy agenda.

In addition, the most lucrative and powerful industries such as oil and gas will be affected by climate change policies. In particular, they will need to adjust to policies aimed at reducing reliance on fossil fuels, and they have considerable vested interests and incentives to exercise undue influence on the policy agenda. Similarly, investors in general and investment banks in particular have the opportunity to make considerable profits through participation in carbon markets. While green industries emerging as a lobbyist group may help balance the influence of the energy sector on policy processes, evidence at the US and EU levels suggests that oil and gas interests continue to dominate the policy debate (Transparency International 2011). In addition, many groups at the national level may have opportunities and incentives to influence the policy debate to their advantage (Despota 2011).

As mandatory lobbying registries are still not required in the majority of OECD countries, it is extremely challenging for researchers to "follow the money", or to map the various interests involved and how private businesses may have exerted due or undue influence on public climate policy processes.

Bribery, clientelism and cronyism

Adaptation planning and implementation

There are also many opportunities for nepotism and cronyism in the process of identifying and prioritising adaptation plans and deciding which projects to allocate funding to. Many decisions need to be made with regard to resource allocation, location and beneficiaries of projects, establishment of management structures, appointment of staff, selection of technologies, procurement processes, etc. Corruption can affect the decision-making process and can occur at all stages of project design and implementation. In particular, high-level actors, political elites, and powerful national and international companies may capture the process through corrupt means to ensure that programmes benefit certain groups and vested interests at the

national and international level (UNDP 2011). Such forms of corruption may involve:

- Bribery, nepotism and clientelism resulting in plans favouring specific interest groups rather than areas of greatest need, such as landowners seeking priority for particular regions;
- Rent-seeking and abuse of discretion in the implementation of funds, giving priority to infrastructure projects with greater opportunities for bribery;
- Fraud and collusion to ensure favourable treatment, such as provision of inaccurate or incomplete information by industry groups to ensure the adoption of specific technologies, funding of research to support specific approaches and methods, etc.;
- Corruption in procurement processes of large infrastructure projects, which typically involve many sub-contractors, and are highly complex and technical, making procurement processes easy to manipulate through bribery, collusion between industry stakeholders, kickbacks in the management of contracts, etc.;
- Appointments of staff managing and implementing adaptation projects, such as members of supervisory boards and committees managing resources, may also be vulnerable to nepotism, patronage and clientelism, and "selling" positions with high rent-seeking potential;
- Petty bribery: there are also many opportunities for petty bribery in the delivery of essential services such as water, food and health services to local communities.

Mitigation planning and implementation

Corruption in mitigation activities are not in essence very different from the abovementioned forms of corruption that can occur in adaptation projects and programmes, as they also involve major investments in large infrastructure projects and strategic technological choices which are all vulnerable to policy capture, bribery, nepotism, patronage and clientelism.

However, there is a specific set of corruption and governance challenges associated with newly developed incentive-based mechanisms, such as the initiative for Reducing Emissions from Deforestation

and Forest Degradation (REDD), which are meant to directly link market/financial incentives to the reduction of greenhouse gases emissions resulting from deforestation and forest degradation.

In particular, proving "additionality" – that is, reductions in emissions that would not have taken place without additional support – to access climate funding may be subject to corrupt practices. Experience with the Clean Development Mechanisms (CDM) indicates that, in practice, the concept of additionality is difficult to prove and monitor, with several studies confirming that many projects under consideration should not have been awarded additionality status, as they would have been carried out anyway and therefore will not yield *additional* emissions.

A previous Expert Answer on Corruption, auditing and carbon emission reduction schemes (Chêne, M. 2010) has more specifically dealt with corruption in carbon emission reduction schemes.

According to the 2011 Transparency International's Global Corruption Report on climate change, strategies for reducing carbon emissions should:

- Adopt a robust, transparent and accountable system for measuring, reporting and verifying carbon emissions;
- Develop and enforce adequate safeguards in the carbon market;
- Strengthening civil society participation in all related processes, including capacity-building activities.

2 Emerging good practice for mitigating corruption risks in climate finance

Regulating and monitoring lobbying practices

It is essential to gain a better understanding of how the various groups of stakeholders interact and to what extent they influence mitigation and adaptation policies. Only a few countries, such as the US, have mandatory lobbying registries that allow researchers to track and identify money flows poured into lobbying activities to influence the climate change policy debate (Despota

2011). Direct tracking of expenditures enables researchers to compare spending by various interest groups and helps them identify the respective weight of various businesses and groups of stakeholders in shaping climate change policies.

For example, the Centre for Public Integrity documented spending and lobbying activities undertaken by various groups in the US in the run-up to a Congress policy debate on climate change legislation (Lavelle 2009). In 2009 alone, it is estimated that oil, gas and electricity utilities and alternative energy companies spent a record US\$403 million on lobbying the federal government in the US, and more than 2,000 lobbyists are registered to lobby on climate legislation in Washington (Blumenthal 2011).

In countries where there is no mandatory registry of lobbying activities, researchers can use other methods to assess the influence of businesses and other groups in shaping climate change policies, such as participation in open stakeholder meetings and documentation of the policy development process through the review of communications relating to draft legislation. In Europe, for example, some researchers have used freedom of information requests to review email exchanges and draft EU initiatives on climate commitments (Carbon Watch Trade 2011). The report shows how leading business groups have launched a campaign to prevent a rise in targets and other steps, including by developing close ties with European institutions with the view to weakening the EU's climate commitments.

Assessing governance and anti-corruption management systems of the various finance mechanisms

Anti-corruption safeguards should be integrated into the design of adaptation and mitigation interventions, and into the core structures of climate policies and institutions (Transparency International 2011). As already mentioned, while multilateral and bilateral institutions already have mechanisms in place, these should include assessing whether the various bodies tasked with managing climate finance have adequate safeguards to ensure transparency and accountability of climate funding.

Some institutions have already taken steps to mainstream anti-corruption as part of their operations. UN-REDD for example has integrated corruption risk assessments from the outset as part of programme

design in countries such as Bangladesh, Democratic Republic of Congo, Kenya and the Philippines.

Global Witness reviewed a selection of existing international multilateral funding mechanisms in the forestry and climate sectors as well as the Fund to Fight AIDS, Tuberculosis and Malaria, to assess how financial flows from REDD+ - which expanded REDD to include mitigation measures from conservation, sustainable management of forests and the enhancement of forest carbon stocks - might be best managed (Global Witness 2012). The report recommends adopting best practice from the development aid sector, in particular with regards to transparency of funding and finance.

Similarly, Transparency International's abovementioned forthcoming reports and mapping of governance and accountability safeguards of a number of institutions at national and international levels will contribute to identifying weaknesses and emerging good practice.

Findings suggest that there is still a long way to go in terms of achieving adequate anti-corruption safeguards, and that the scope of anti-corruption regulations varies greatly among actors. For example, none of the funds reviewed have a zero tolerance of corruption policy, and only the Adaptation Fund and UN REDD programme have a conflict of interest policy. In terms of publishing contractual agreements, the Forest Carbon Partnership Facility, the World Bank and the African Development Bank have demonstrated good practice in disclosing information on contracts, public grants and loan agreements on their website, while UN agencies do not perform as strongly in this regard. A major gap identified across all funds is the lack of an independent body to provide oversight and investigate allegations of corruption.

There is also a lack of accountability after the money leaves the various funding institutions, as accountability relies heavily on the performance of implementing actors who are charged to coordinate and manage the funds at the country or project level. Targeted research could shed light on safeguards (or lack thereof) required of the various funds by the implementing agencies, and how those are being implemented to assess levels of transparency and accountability in the management of these funds downstream.

At country level, there are emerging good practices. In Kenya for example, anti-corruption agencies are engaged in ongoing planning of REDD+ through the Corruption Risks Assessment and their participation in

the national-level REDD+ working group. In the Maldives, under the past presidency, a national-level database was developed to provide access to information on all ongoing projects on climate. This has, however, gone somewhat out of use since the regime change, but could be revived.

Ensuring transparency in flows of funding for mitigation and adaptation

Financial flows related to climate can be misrepresented in a variety of ways, with the possibility of double counting and risks of over-representing climate-related spending. There are a number of existing tools to track and present climate financing commitments and disbursement, such as the Voluntary REDD+ database (<http://reddplusdatabase.org/>), the Climate Funds Update (<http://www.climatefundsupdate.org/>), or Fast-Start Finance Submissions from donor countries to UNFCCC. With regard to REDD+, Global Witness for example recommends the consolidation of existing databases into a single financial tracking and reporting system consistent with the OECD Credit Reporting System (Global Witness 2012).

Comparisons of the set-up of various (including, but not limited to, climate finance) institutions can help identify good practice that can be adapted to climate financial flows. The Global Witness report on REDD+ identifies a number of good practices to improve the effectiveness, transparency and accountability of international financial flows, including, among others:

- A clear set of minimum fiduciary safeguards, such as those promoted by the Global Environment Facility, are applied among all implementing agencies;
- Financial accounts, donor contributions and expenditures are publicly available;
- Keeping the number of intermediaries between source of money and its expenditures to a minimum to avoid unnecessary transaction costs (as demonstrated by the Amazon Fund);
- Payment in tranches dependent on performance to ensure effectiveness of funding (as demonstrated by the Global Fund to fight AIDS, Tuberculosis and Malaria);

- Predictable funding arrangements over a specified timeframe, as envisaged within the framework of the Adaptation Fund;
- The presence of an official independent investigative body, such as the Office of the Inspector General which provides oversight of financial management and handles allegations of fraud and corrupt practices for the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Transparency in flows of funding is a prerequisite to ensure accountability with measures aimed at improving the tracking of climate finance, and ensure transparency on commitments and disbursements. Global Witness and Publish What You Pay recommend, for example, adopting the International Aid Transparency Initiative best practice on aid flows for adaptation and mitigation flows (Global Witness 2012; Forstater and Rank 2012). This voluntary, multi-stakeholder initiative offers a useful shared standard to make information about aid spending easier to find, use and compare.

Research should also focus on tracking developed-country pledges for climate funding, and assessing whether commitments made are “new and additional” to commitments made as part of official development assistance. For example, WRI compiled a summary of developed-country fast-start climate finance pledges, focusing on tracking and reporting on pledges made by donor countries (WRI 2012). A prerequisite to achieve this objective would be to develop common metric, indicators and baselines to monitor and evaluate the use of climate funding (Klein 2011).

Measuring the success and effectiveness of climate funding is also an important field of research. ODI has developed an approach to measuring the effectiveness of the national systems underlying public finance delivery, looking at three dimensions of government administration: 1) the policy environment supporting climate change expenditures, from the formulation of climate-related policies to spending through national strategies and action plans; 2) the institutional architecture and different roles and responsibilities of various government institutions involved in managing climate funding; and 3) the public financial management system through which climate change expenditures are channelled (Bird et al. 2013). While there are already many diagnostic tools and methodologies for assessing countries’ public financial management systems, such as the Public Expenditure and Financial and

Accountability framework, such tools need to be made more specific and relevant to the nature and scale of climate financial flows.

Ensuring ownership, transparency and participation in climate finance decision-making processes

Strengthening civil society participation and empowering citizens to engage with the climate change agenda is crucial for climate governance. In particular, transparency of decision making could be improved by making key documents and reasons for decisions publicly available, as well as by opening meetings to observers (Global Witness 2012).

Some international climate finance mechanisms have started opening to the public. For example, meetings to govern REDD+ are open to the general public and the media, a webcast is provided and key documents are made available beforehand (Global Witness 2012).

Yet, at the country level, opportunities for participation may be more limited depending on the local context and circumstances. Transparency International's country reports reveal that there is minimal disclosure with regard to key decision-making processes, and limited opportunities for civil society to engage with such processes and hold decision makers accountable. In Bangladesh for example, citizens have questioned some adaptation decisions, suspecting political interference in prioritising specific regions over others. Similarly, in the Maldives, no information was provided on project selection criteria, which could indicate conflicts of interests in the project selection process.

There is also inadequate participation of civil society in consultation processes in many countries. In Kenya, for example, capacity constraints are evoked, and in Bangladesh, while there is some level of civil society representation in decision making, the independence of the process may be challenged by the fact that representatives are selected by government. In Peru, while a civil society representative was given a formal role in the National Climate Change Commission, this was reduced to an observer role in 2012, undermining the potential of civil society to influence the decision-making process.

However, there are some examples of emerging good practice. In the Maldives, for example, the National Planning Council was formed with multi-stakeholder representation from government, private sector and civil

society to appraise and approve all development projects, including climate change projects. Decisions were well disclosed, including a weekly-updated list of all projects submitted and discussed and decisions taken. However, its operations were suspended in 2012 following a shift in power.

In Peru, the Rendi Cuentas (Accountability) initiative provides civil society organisations with a platform to regularly report on their finance and activities, including projects related to climate finance. Twenty-eight specific climate-related projects were identified in the 2009-2011 period, amounting to US\$5 million.

More country-level studies could be conducted to improve understanding of the landscape, uncover factors that may facilitate or hamper civil society participation and identify good practice in this regard.

3 References

- Ballesteros, A. et al. 2010. *Power, responsibility and accountability: re-thinking the legitimacy of institutions for climate finance*. World Resources Institute, <http://www.wri.org/publication/power-responsibility-and-accountability>
- Bird N., et al. 2013. *Measuring the effectiveness of public finance delivery at the national level*. Overseas Development Institute, <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8303.pdf>
- Blumenthal, P. 2011. *US climate policies: a snapshot of lobbyist influence* in Transparency International's Global Corruption Report, http://www.transparency.it/upload_doc/GCR_climate_change.pdf
- Brown, L., et al. 2013. *Within reach: strengthening country ownership and accountability in accessing climate finance*. World Resources Institute, <http://www.wri.org/sites/default/files/Ownership%20and%20Accountability%20Final%20Paper.pdf>
- Buchner, B. et al. 2011. *Monitoring and tracking long-term finance to support climate action*, <http://www.oecd.org/env/cc/48073739.pdf>
- Carbon Watch Trade. 2011. *Caught in the cross-hairs: how industry lobbyists are gunning for EU climate targets*, <http://www.carbontradewatch.org/publications/caught-in-the-cross-hairs-how-industry-lobbyists-are-gunning-for-eu-climate-targets.html>
- Chêne, M. 2010. *Corruption, auditing and carbon emission reduction schemes*, http://www.transparency.org/whatwedo/answer/corruption_au

[diting_and_carbon_emission_reduction_schemes](#)

Despota, K. 2011. *Corruption and climate governance*, <http://corruptionresearchnetwork.org/resources/frontpage-articles/corruption-and-climate-governance>

Forstater, M. and Rank, R. 2012. *Towards climate finance transparency*. Publish What You Fund/Aidinfo, http://www.publishwhatyoufund.org/files/Towards-Climate-Finance-Transparency_Final.pdf

Fritz V. and Kolstad, I. 2008. Corruption and aid modalities, U4, <http://www.u4.no/publications/corruption-and-aid-modalities/>

Global Forum on Using Country Systems to Manage Climate Change Finance. 2013. *Report on the Global Forum on Using Country Systems to Manage Climate Change Finance*, <http://climatefinance-developmenteffectiveness.org/globalforum2013>

Global Witness. 2012. *Safeguarding REDD+ finance: ensuring transparent and accountable international financial flows*, <http://www.globalwitness.org/sites/default/files/library/Safeguarding%20REDD+%20Finance.pdf>

Klein, R. 2011. *Show me the money: ensuring equity, transparency and accountability in adaptation finance*, in Transparency International's Global Corruption Report, http://www.transparency.it/upload_doc/GCR_climate_change.pdf

Lavelle, M. 2009. *A case of lowered expectations in the US*, <http://www.publicintegrity.org/environment/climate/climate-change-lobby/global-climate-change-lobby/>

Loris, N. 2009. *Cap and corruption: the fraud behind carbon reduction targets*. Heritage Foundation Notes, http://www.facebook.com/note.php?note_id=98134940907

ODI. 2012. *The Climate Public Expenditure and Institutional Review (CPEIR): a methodology to review climate policy, institutions and expenditure*, <http://www.odi.org.uk/publications/6191-cpeir-methodology-climate-finance-national-public-expenditure>

Transparency International. 2013. *Country assessments of climate finance governance*, http://www.transparency.org/whatwedo/activity/making_sure_climate_money_gets_to_where_its_needed

Transparency International. 2011. *Global Corruption Report: Climate Change*, http://www.transparency.org/whatwedo/pub/global_corruption_report_climate_change

Transparency International. Forthcoming. *Mapping of accountability lines and anti-corruption performance of six international institutions (working title)*.

UNDP. 2011. *Staying on track: tackling corruption risks in climate finance*, <http://www.undp.org/content/undp/en/home/librarypage/democratic-governance/anti-corruption/staying-on-track--tackling-corruption-risks-in-climate-change/>

Werksman, J. 2010. *Climate governance: ensuring a collective commitment to a low carbon, climate resilient future*, <http://14iacc.org/wp-content/uploads/JacobWerksmanClimateGovernance14IACC.pdf>

World Bank. 2010. *Monitoring climate finance and ODA*, <http://climatechange.worldbank.org/sites/default/files/documents/DCFIB%231-web-June15.pdf>

World Resources Institute. 2012. *Summary of Developed Country 'Fast-Start' Climate Finance Pledges*, <http://www.wri.org/publication/summary-developed-country-%E2%80%98fast-start%E2%80%99-climate-finance-pledges>