OXFORD INSTITUTE FOR ENERGY STUDIES
A RECOGNIZED INDEPENDENT CENTRE OF THE
UNIVERSITY OF OXFORD

The Reformed Financial Mechanism of the UNFCCC

Promoting Transparency & Accountability

Luis Gomez-Echeverri

OIES EV 51
March 2010

The contents of this paper are the author's sole responsibility. They do not necessarily represent the views of the Oxford Institute for Energy Studies or IIASA any of their members, collaborating and supporting institutions

ISBN: 978-1-907555-07-7

Acknowledgments: This work has been made possible through funding support from **Climate Strategies,** www.climatestrategies.org

The author would also like to express his thanks to all the people who have helped him with their insightful feedback in putting together this paper. While it is not possible to mention them all individually, he would like to express his particular gratitude to Bisrat Aklilu, Manager of the Multidonor Trust Fund Office at UNDP; Antoine Khouri, UNDP Audit Office; Dennis Tirpak, WRI and ex UNFCCC staff member; Maria Netto, Coordinator Carbon Finance and Adaptation, Sustainable Energy and Climate Change Division, Inter American Development Bank and ex UNFCCC staff member; Amal Medani, The Global Fund to fight Aids, Tuberculosis and Malaria; Suzan Kahn Ribeiro, Senior officer of the Ministry of the Environment, Brazil; Alex Heikens, Programme Manager, Climate Change Environment Unit, UNDP office in Jakarta, Indonesia; Saleemul Huq, Senior Fellow IIED; Andrea De Angelis, Senior Advisor, Policy Support Unit, UNDP China

About the author

Luis Gomez-Echeverri is at IIASA (Laxenburg, Austria) with the Global Energy Assessment team, as well as advisor on climate change to several institutions and governments. He worked for close on 30 years with the UN, most of it with UNDP, where he established and was the first Director of the Environment Group, and with the UNFCCC, where he was Director of Implementation programmes and SBI coordinator.

Contents

I. Introduction

Tackling climate change requires urgent global, regional and local action. For most developing countries, the main bottleneck today for local action is the lack of resources – institutional, human as well as financial. Given the right conditions, many if not most developing countries are keen to take aggressive action in both mitigation as well as adaptation. In the area of mitigation, they see this as an opportunity for introducing new technologies, transforming energy systems and seeking relatively low-carbon-economy pathways that in turn, could allow them simultaneously to pursue climate change and development objectives. And in the area of adaptation, they see it as their only possibility for taking urgent action to help them cope with the negative impacts of climate change. For most developing countries, this is without doubt the top priority as they begin to experience impacts that are already compromising and sometimes reversing their development.

The on-going climate change negotiations, which were expected to culminate at the end of 2009 in Copenhagen, have suffered a major setback. Hopefully, this setback can be remedied during the course of the year 2010. But regardless of what happens in these negotiations, developing countries need and want to take urgent action now. The needs of developing countries cannot wait for the global community to agree on a grand deal that addresses all the climate change challenges of the 21st Century.

One of the few, albeit important, outcomes at Copenhagen, was an agreement by developed countries to come up with significantly higher levels of funding for climate change for developing countries. They will do this presumably as part of their obligations and commitments under the UNFCCC. This is good news as it had been one of the top priorities in the negotiations: it had been quite clear that without progress on this front, the negotiations would come to a standstill. The other top priority had been to come to a global agreement on a reformed financial mechanism that could govern the allocation of financial resources in an orderly, effective, and fair manner. This, unfortunately, was not accomplished and will have to wait for a later date.

However, developing countries are not sitting idle but taking action, introducing new policies, and most importantly, creating institutional mechanisms, national funds, and national funding hubs to absorb, mobilize, and govern the orderly allocation of resources for climate change in their countries. This is timely and important as there is growing recognition that there have to be greater efforts to shift the responsibility and decision-making authority on funding to developing countries. The following is brief review of a) some of the main issues of concern as this shift to the national level is given serious consideration and, b) the mechanisms that need to be in place to make this shift more credible and acceptable to all.

II. The Role of National Funds and Institutions

It is not yet known what decisions the Parties will make regarding the overall architecture of the Financial Mechanism of the Convention. There is consensus that present arrangements are not suitable for the task even under present conditions of a relatively small amount of funding available for developing country actions on climate change. With the envisaged increase in resources, the new regime would need to take a careful look at the options for allocation and disbursement. While it is clear that decisions on allocation need to be taken centrally under the authority of the COP, the argument of this report is that the management of funds and the decisions on disbursement should be made close to the place where the decision on what to fund and how to manage the actions being funded are taken. For this purpose, developing countries need to create, strengthen or adapt existing institutions, or put a mechanism in place to make the funding of climate change activities at the country level as smooth, effective and efficient as possible. It is at the national level that action needs to take place in climate change. Without effective and efficient institutions in place, this urgent level of action will not happen.

Shifting the management of funds and the responsibility of disbursement to the national level would have several advantages. In addition to the important enhancing aspects of ownership and a more conducive environment for alignment to national priorities, other advantages are equally important, such as the possibility for enhancing synergies among sectors and between mitigation, adaptation and REDD (Reduced Emissions from Deforestation and Degradation). All these are key factors in support of the shift of management and decision-making responsibility to the national level. This shift would also: a) relieve central funding entities from operational decisions and duties of micro-oversight, and b) offer a certain degree of flexibility that is required of programmes addressing the complex issues of climate change. Furthermore, and it is not a trivial matter, this shift is perhaps what is needed to have the developing country community more fully engaged in and seriously committed to the fight against climate change. In addition to good management rationale and advantages, encouraging countries to identify, formulate, and manage their own programmes would definitely have more appeal than managing projects of a Facility or Fund being run from and operated at a distant donor country capital.

Shifting the responsibility of management of funds and of disbursement to the national level brings other challenges that need to be addressed. There is general agreement about the weak institutional capacities of developing countries. Climate change programmes, whether in the areas of mitigation, adaptation or REDD are complex and require skills that are scarce in most developing countries. These are skills that are needed urgently. The assignment of greater responsibilities coupled with intensive capacity development programmes to address these weaknesses would reap attractive co-benefits of having developing countries more fully engaged, managing their own funds and programmes, and building their capacities in the process.

There are a few national institutions already in place from which other countries can build on the lessons learned and their best practices. Some common principles are emerging as minimum requirements for these institutions to be credible. In addition to being able to carry out the complex and specific functions on climate change, they need to be equitable, efficient and effective. Their governance must have credibility with the general public and therefore, it needs to be fair, transparent, and fully open to oversight and scrutiny.

Although the focus of this report is on issues of governance related to accountability and transparency, below is an illustrative (not comprehensive) list of types of functions that local institutions would need to perform, coordinate or ensure take place as part of their responsibilities in managing funds and disbursements of climate change funds at the national level: [1]

- ***Alignment with national policies***: In addition to the fiduciary responsibilities and performance assessment, the national institutions would also be responsible for

[1] Adapted from Meridian Institute Report: REDD+ Institutional Options Report: Developing an efficient, effective, and equitable Institutional Framework for REDD+ under the UNFCCC, September 2009.

coordinating the task of aligning policies and programme priorities for mitigation, adaptation and REDD in the country with actions to be funded on the ground.

- ***Financial support***: Helping to mobilize resources, leveraging investments and preparing up-to-date information to keep financers and stakeholders informed at all times.
- ***Standards Setting***: In addition to the standards needed for exercising their fiduciary responsibilities, national institutions would also be responsible for helping to fine tune the eligibility criteria of the Financial Mechanism to the national conditions, and to set sustainable development standards.
- ***Certification of Results***: Based on their expert assessment, this function includes ensuring the quality of the implementing actors involved and of the results of the actions performed. The MRV function would be included here. The institutions would need to verify that the funded programmes deliver adequate emissions reduction, adaptation needs, and REDD reference levels.
- ***Accountability***: In addition to being accountable for its own actions and responsibilities, national institutions would also be responsible for ensuring that the various implementing partners are also accountable and can be held responsible for their actions under their funded programmes and projects.

III. Internal and External Oversight

As larger amounts of resources become available to developing countries, the concern voiced by several is whether these countries have the capacity, institutions and most importantly, independent oversight institutions to ensure that the resources will be used effectively and for the intended purposes. In other words, are there enough safeguards on accountability to satisfy those countries which will transfer large amounts of resources to developing countries? And if not, what is required to satisfy these concerns? In order to try to answer these questions, the focus of this report is on independent oversight, both internal and external.

A. Some Definitions

For the purposes of this report, oversight – internal and external – is a generic term used to refer to activities designed to introduce checks and balances, accountability and transparency. There are several categories of activities that fall under this generic term, among which are: a) internal audit, b) financial audit, c) compliance auditing, d) performance auditing, and e) monitoring and evaluation, each one briefly defined below. For businesses, organizations and governments, independent oversight generally involves a combination of some of these activities rather than one of the discrete activities described below. Many also add one additional function to strengthen accountability – the function of recourse and outreach.

- **Internal audit** is designed to help entities achieve their stated objectives. It focuses on business processes, procedures and activities and its objective is to try to identify organization weaknesses or problems.
- **Financial audit** refers to reviews of financial statements carried out to provide an independent opinion on their relevance, accuracy, completeness, and fair presentation.
- **Compliance audits** are comprehensive reviews of adherence to regulatory guidelines, the nature of which depends on the type of activity.
- **Performance audits** normally refer to the examination of programmes, function, operation or management systems and procedures, to assess whether an operation is achieving economy, efficiency and effectiveness in the employment of available resources.
- **Monitoring and evaluation** are activities geared towards learning from experiences gained by an organization on efficiency, effectiveness and impact. Monitoring consists of collecting and analysing information on progress of work. Evaluation is the comparison of actual impacts against the agreed strategic plans and/or objectives.

The area of oversight is rich in instruments, methodologies and approaches. In each of the areas described, strong professional associations exist globally to improve quality, develop standards, and provide support to peers. There is no shortage of knowledge: Most important, it is knowledge that is easily accessible to all.

B. Global Networks, Standards and Best Practices

1. Global Professional Associations and knowledge networks

a. Audit

Since World War II, and particularly in the United States and Europe, the audit and public accountant professions have established numerous, strong, professional associations. They have been created not only to share knowledge but also to lift the level of confidence in the profession and its search for greater transparency and accountability. There are many of them, and equally as many areas of specialization. A large number have international branches to support local audit professionals and private groups throughout the developing world. For the purposes of this report, the two that have great relevance are the International Organization of Supreme Audit Institutions (INTOSAI) and the United Nations Board of Auditors.

(i) INTOSAI

INTOSAI was created in 1953 to provide a framework for support, knowledge sharing, and improvement of government audit worldwide. To facilitate and enhance its work worldwide, INTOSAI has regional groupings. It also has committees, working groups and task forces that are dedicated to addressing specific issues of interest to its members. It also develops and issues standards in several areas including those for good governance of public institutions. INTOSAI has a membership of over 180 nations and as such, is the benchmark for the audit of institutions that are funded by public money.

In its principles for Best Audit Arrangements, INTOSAI includes the following as the minimum for effective, audit arrangements for international institutions:

- All international institutions financed with or supported by public money should be subject to audit by supreme audit institutions, to promote better governance, transparency and accountability
- And that the external auditor:

- Is fully independent in the conduct of the audit;
- Has sufficient authority to carry out the audit in a manner that meets best practices in the audit of public money;
- Has adequate resources to carry out the audit;
- Has the right and obligation to report on the results of the audit to the member states concerned through the governing body;
- Meets relevant professional and ethical standards; and
- Is appointed in an open, fair and transparent manner

(ii) United Nations Board of Auditors

The United Nations Board of Auditors (the Board) was established in 1946 to audit the accounts of the United Nations organizations and its funds and programmes. Its mandate also includes reporting to the General Assembly the results of its findings and recommendations in order to enhance transparency and accountability. The Board is completely independent and it conducts its audits according to the International Standards for Auditing mentioned below. It also conforms to the additional terms of reference spelled out in the Financial Regulations and Rules of the United Nations.

Although the main responsibility of the Board is to ensure financial and compliance auditing, it also conducts performance audits that are mandated by the Financial Regulations and Rules of the United Nations. In this regard, the Board may make comment on the efficiency of the financial procedures, the accounting system and the international financial controls, and, in general, the administration and management of the organization.

In its financial and compliance auditing responsibility, the Board is required to ensure the following:

- That the financial statements fairly present the financial position as at the end of the period and the results of operations for the period then ended,

- That the financial statements were prepared in accordance with the stated accounting principles,
- That the accounting principles were applied on a basis consistent with those of preceding financial period, and
- That the transactions were in accordance with the Financial Regulations and legislative authority

b. Monitoring and Evaluation

These two activities are complementary to each other. Most organizations and entities follow their own protocols for monitoring their own activities and for systematizing the information collected. In the area of evaluation, however, similar to the case of the auditing profession, there has been a growing trend to organize and provide guidance to those practicing evaluations and to 'professionalize' the evaluation function. Because of their large body of work throughout the world, International organizations and Official Development Assistance agencies and their evaluation practices have been particularly influential in developing countries and in the practices adopted by other global funds and programmes. Three examples of these institutions are mentioned below: presented here, not to boast about the capacities of these well resourced institutions, but rather to provide a glimpse of the rich knowledge that exists on these matters, which is fully accessible and being used by institutions throughout the developing world.

(i) United Nations Evaluation Group (UNEG):

The United Nations Evaluation Group was created in response to a General Assembly resolution A/RES/59/250 which encouraged the evaluation practitioners of the UN to enhance their collaboration on evaluation, in particular the harmonization and simplification of methodologies, norms, standards and cycles of evaluation. It is a professional network that aims at bringing together all the units responsible for evaluation in the UN system including the specialized agencies, funds, programmes, and affiliated organizations. Currently, UNEG is, chaired by UNDP, and has 43 members.

The objective of UNEG is described as aiming to strengthen objectivity, effectiveness and visibility of the evaluation function across the UN system and to promote the importance of evaluation not only for learning but also for decision making and accountability.

(ii) The Global Environment Facility (GEF):

The policy of evaluation of the GEF contains minimum requirements for monitoring and evaluation for GEF-funded activities covering project design, application of monitoring and evaluation at the project level, and project evaluation. The GEF evaluation office is independent within the GEF, and reports directly to the GEF Council on monitoring and evaluation matters. The goals of the evaluation function are to improve accountability of GEF projects and programmes and to promote learning, knowledge sharing and feedback.

The main areas of responsibility are:

- Evaluation: to independently evaluate the effectiveness of GEF projects
- Norms: to establish monitoring and evaluation standards
- Oversight: to provide quality control for monitoring and evaluation of GEF projects and programmes.

The main overarching objectives are:

- To promote accountability for the achievement of GEF objectives through the assessment of results, effectiveness, processes, and performance of the partners involved in GEF activities. GEF results are monitored and evaluated for their contribution to the global environmental benefits.
- To promote learning, feedback, and knowledge-sharing on the results and lessons learned among the GEF and its partners, as a basis for decision-making on policies, strategies, programme management, and projects, and to improve knowledge and performance.

(iii) The World Bank:

The World Bank has a Independent Evaluation Group that reports directly to the Board of Executive Directors. Its mission is to assess what works and what does not and how a borrower plans to run and maintain the project for which funds are being provided. Their mission is also to see whether the loans have a lasting contribution to the overall development of the country where the loan is being granted. As in other evaluation practices, the goal of the evaluation is to provide an objective basis for assessing the results of the Bank's work and to provide accountability.

The World Bank has a rich set of evaluation tools that are being used throughout the various sectors and programmes. They are used for ***project reviews,*** to assess their performance, ***country assistance evaluations*** to measure performance of countries being provided with loans, ***sector and thematic reviews*** to measure performance of their loans and programmes, ***process reviews*** to examine ongoing activities such as aid coordination or development grant-making and to report on their efficiency, and project impact evaluations.

2. Global Standards

A. International Standards on Auditing (ISA): These are standards issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB), a standard setting body operating independently under the auspices of IFAC. These standards are being used by over 100 countries, not only by governments but also by businesses and NGOs.

The goal of IAASB is to help set quality auditing, assurance, quality control and related service standards and to facilitate the convergence of international and national standards in order to enhance quality ands strengthen public confidence.

The UN Board of Auditors follows the International Standards of Auditing in carrying out its functions throughout the UN system.

B. Standards for Evaluation of the UN System: In 2004, in response to a resolution of the General Assembly (A/RES/59/250), an initiative was taken to prepare some common standards on evaluation for the United Nations system. These standards built upon the best practices of the UN system; many policies and guidelines existing within the various UN organizations; the national standards of OECD countries; evaluation policies of international financial institutions; evaluation policies of the European Union; and standards of evaluation associations.

The standards are intended to guide the establishment of the institutional framework, management of the evaluation function, conduct, and use of evaluations. They also serve as a guide and reference for the competencies of evaluation practitioners and their work ethic. They are now being applied throughout the UN system. The intention is to continue to update, elaborate and expand the coverage of the standards.

IV. Selected Case Studies of Present Practices

The following is a glimpse at some of the oversight, accountability and transparency efforts of a few selected examples. Many of these present best practices that can be emulated by new national funds and institutions as they become established. Each of these was selected to show different features that may be of interest to those responsible in establishing new institutions or strengthening those that now exist so that they are enabled to take on the responsibility of coordinating, managing, and funding climate change activities at the national level.

A. UNDP Multi-donor Trust Fund: the simplicity of pass-through funds modality in action

The UNDP acts as Administrative Agent for multi-donor trust funds that use a pass-through fund management model. This modality has been established by the UN System, national authorities and donors in the context of humanitarian, transition, reconstruction and development programmes. Under this arrangement, participating UN organizations appoint an Administrative Agent, in this case UNDP, through a Memorandum of Understanding (MOU). The UNDP as Administrative Agent receives, administers and transfers donor-funds to the participating UN Organization in accordance with the MOU. What is unique about this arrangement is a) that each fund has its own governance arrangement to suit the circumstances and needs of those providing the funds and those receiving the funds, and b) that the UNDP has developed an on-line system by which each of the donors and recipients can check on-line the status of the funds, the expenditures and the pledges. It is a unique system in the UN.

Following is the list of UNDP-Administers multi-donor trust funds. They amount to some 4 billion USD.

UNDP-administered MDTFs and JPs as of 31 December 2009				
MDTFs	**Pledges (USD)**	**Commitments (USD)**	**Deposits (USD)**	**Transfers to Part. Orgs. (USD)*****
Central African Republic Common Humanitarian Fund / ERF*	-	22,128,729	22,128,729	18,146,350
Darfur Community Peace and Stability Fund	28,726,773	23,830,027	20,655,467	5,645,818
Democratic Republic of the Congo Pooled Fund	-	512,626,911	478,307,555	445,370,638
Democratic Republic of Congo Stabilization and Recovery Fund	-	17,707,300	2,647,059	-
Sudan Common	-	677,848,920	663,205,394	567,739,976

Humanitarian Fund				
Sudan Recovery Fund – Southern Sudan	-	108,023,907	74,656,800	13,038,163
Lebanon Recovery Fund	-	45,857,496	45,857,496	46,017,473
One UN Pilot Funds:				
Albania One UN Coherence Fund	-	20,724,628	16,166,004	10,895,354
Cape Verde Transition Fund	-	8,794,252	7,573,405	4,094,790
Mozambique One UN Fund	-	41,332,891	35,696,493	28,236,117
Pakistan One Fund	-	66,445,232	30,908,125	24,024,294
Rwanda One UN Fund	-	52,741,247	41,300,172	15,301,877
Tanzania One UN Fund	9,940,358	72,061,993	64,768,968	55,220,649
Uruguay One UN Coherence Fund	-	11,780,289	11,013,921	9,518,622
Viet Nam One Plan Fund I & II	-	77,860,755	64,966,739	56,112,411
Other Delivering as One Initiatives:				
UN Bhutan Country Fund	-	677,000	677,000	670,230
Kiribati One UN Fund	-	500,000	500,000	495,000
Malawi One UN Fund	-	22,234,282	21,642,186	7,759,649
Papua New Guinea UN Country Fund	-	1,595,000	1,595,000	1,360,000
Sierra Leone MDTF	-	-	-	-
Expanded DaO Funding Window**	-	259,386,488**	161,246,158 **	N/A**
Peace building Fund	6,680,500	324,767,519	331,448,019	130,147,939
UN Action Against Sexual	-	8,742,152	5,413,981	1,132,263

Violence in Conflict				
UNDG Iraq Trust Fund	-	1,358,504,292	1,354,639,372	1,259,827,536
MDG Achievement Fund	-	705,794,972	690,200,572	253,663,728
UN Central Fund for Influenza Action	577,201	33,315,505	23,923,929	23,072,843
UN CBA Programme Fund	-	-	-	-
UN-REDD Programme Fund	-	54,131,128	54,131,128	15,829,961
UN Peace Fund for Nepal	3,338,898	21,775,232	18,436,334	10,686,695
UN Trust Fund for Human Security (JPs)	-	15,830,989	13,253,676	13,035,769
Total	**49,263,730**	**4,484,317,824**	**4,175,497,682**	**3,016,651,929**

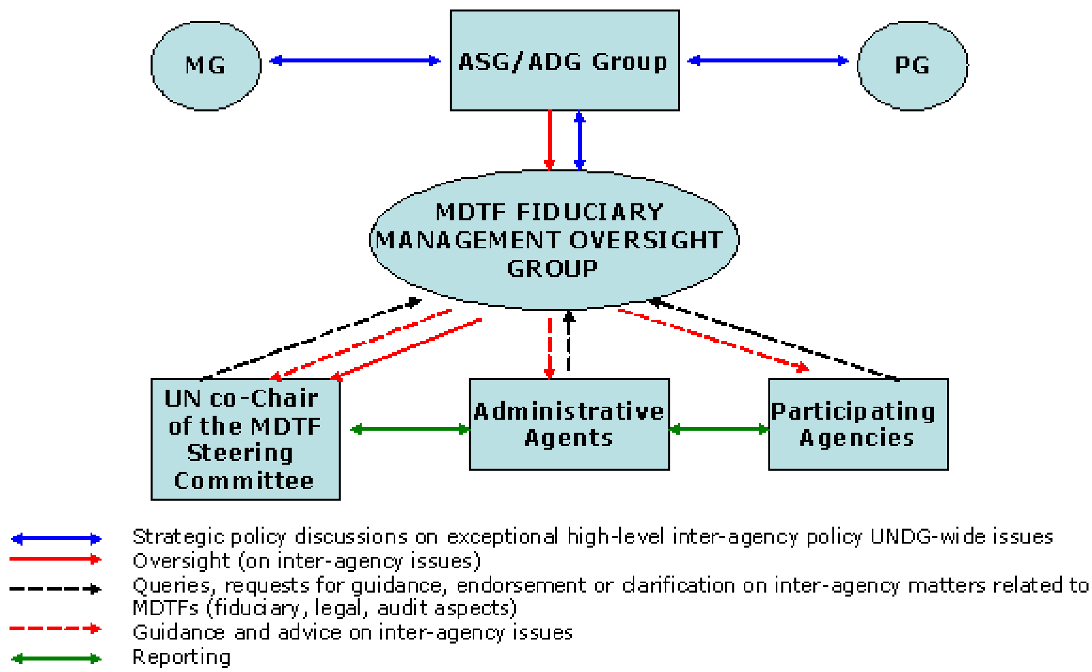
All figures are provisional as of 14 January 2010.
* In July 2008, the existing Central African Republic (CAR) Emergency Response Fund (ERF) was developed into a Common Humanitarian Fund (CHF).
** The Expanded Delivering as One Funding Window for the Achievement of the MDGs, for which the MDTF Office has been appointed the Fund Manager, is a global facility set up to support eligible Delivering as One countries, with current contributions from The Netherlands, Norway, Spain and the United Kingdom. EFW Commitments and Deposits are reflected in the table, but to avoid double-counting, only the 'EFW balance' (total commitment/deposit amount – allocations made) have been included in the Total Commitments and Total Deposits figures.
*** Transfer to Participating UN Organizations figures are as of 30 September 2009.
- Pledges: A pledge is an indication of intent to contribute funds.
- Commitments: Contribution as per signed Letter of Agreement/Standard Administrative Arrangement.
- The Table does not include Country-Level Joint Programmes with present commitments of $101,576,416.
- Any minor discrepancies in totals are due to rounding.

In order to harmonize and strengthen the fiduciary management oversight, an Oversight Framework has been developed. This system allows for the supervision of inter-agency Multi-donor Trust Fund Activities of all entities participating in the them, with joint responsibility to control, or exercise significant influence over the fiduciary decisions of the MDTFs.

A typical Fiduciary Management Oversight Framework consists of:

- A Steering Committee at country-level to manage the MDTF according to the specific terms of reference.
- Oversight by an Assistant Secretary General at Headquarters of UN to address high level policy and fiduciary management oversight issues of an interagency nature. The ASG Group will also agree on the proposed governance structure based on the proposal from the country Team of the UN and the government.
- Fiduciary Management Oversight Group (FMOG) is responsible for carrying out this responsibility at Headquarters where the fiduciary and legal dimensions of the MDTF are discussed. The FMOG has responsibilities covering management review and oversight, assurance and reporting as well as MDTF guidance.

MDTF Fiduciary Management Oversight Framework (inter-agency issues)



The unique feature of the UNDP MDTF office is that it offers those of its partners using the pass-through facility full transparency regarding the funds that it administers. It gives 24-hour on line access to all relevant information and data and allows printing reports pertaining to individual agency projects. It is a unique experiment in the UN system.

B. UN Nationally Executed Projects and cash transfers: building on and trusting the national systems of auditing and oversight

For the last twenty years, UNDP has been using the modality of nationally executed / implemented programmes and projects. Over these last two decades, it has also developed and strengthened its methods for oversight and for ensuring transparency and accountability. Under the nationally executed/implemented modality, projects of the UNDP are carried out either by the government or other national entities, which are given the responsibility with the condition that they will be subject to auditing by independent entities. UNDP offices in the country are responsible for assessing risks and assessing the capacity of the entities to be made responsible for the implementation of the programmes.

Most recently, the use of cash transfers has also increased and this has posed additional challenges for the UN System. The UNDP experiences of nationally executed projects were useful in setting up systems of independent oversight. Under the system, the UNDP has the responsibility of assessing the capacity of the Public Financial Management System and of the capacity of the intended implementing partner.

In both cases, the audits are carried out by independent bodies in consultation with the government.

C. Climate Investment Funds of the World Bank: an experiment in transparency by a powerful multilateral institution

The recently created Climate Investment Funds consist of two others – The Clean Technology Fund and the Strategic Climate Fund. They were established to act as financing instrument to support 'low carbon and resilient development'. The goal of the Funds is to scale up the level of financing and channelling it through the multilateral development banks and the World Bank.

The organizational structure of the two funds includes:

- ***Trust Fund Committee (TFC)***: Each of the Funds has its own TFC responsible for overseeing the funds' operations, providing strategic direction, and approving and overseeing the programming and projects. The meetings are attended by observer representatives, self-selected by various constituencies: UN, GEF, UNFCCC, civil society, and indigenous people.
- ***Multilateral Development Bank Committee:*** It is designed to exchange information, share knowledge and identify problems as well as best practices.
- ***Administrative Unit:*** It provides support and coordination to the CIF and the various committees. It is housed at the World Bank.
- ***Trustee:*** It is responsible for committing and transferring CIF resources, with the approval of the Trust Fund Committee.
- ***Monitoring, evaluation and auditing***: Because the implementation and the funding for programmes and projects is being channelled through the World Bank and the multilateral development banks, the monitoring, evaluation and auditing are carried out by each organization following its own practices and procedures. In addition, the decision is that an independent evaluation of the operation of the CIF will be carried out

jointly by the multilateral development banks and results will be published and made widely available.

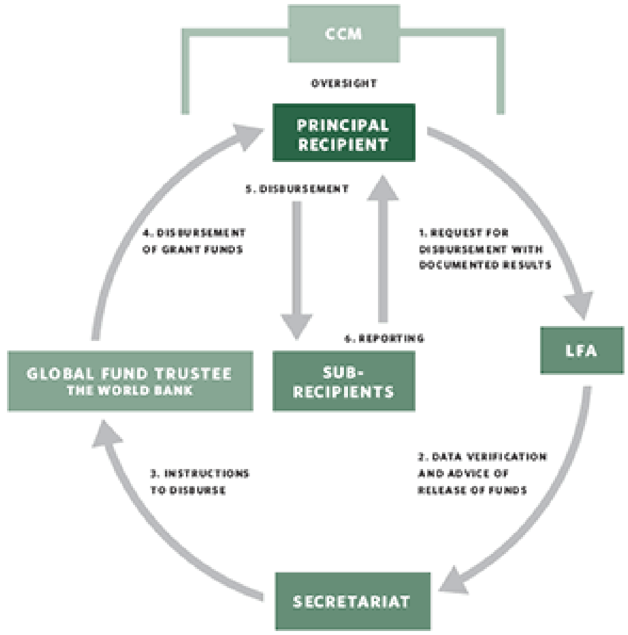
- ***Other efforts to enhance independent oversight***: The multilateral development banks are often targeted for what many describe as lack of transparency. Because of these criticisms, the CIF has been making special efforts to innovate in terms of access by stakeholders of information on its operations. Many will be observing how these intentions of transparency and accountability will be put into practice. Important among these efforts is the access to outside groups and civil society.

D. Global Fund to fight Aids, Tuberculosis and Malaria: a unique public/partner partnership that promotes innovation in accountability with civil society involvement

The Global Fund was created in 2002 to significantly increase the resources to fight three of the most devastating diseases in the developing world. To date, it has committed some 19 billion US dollars to some 600 projects in 144 countries. It is unique in that it is truly a partnership between governments, business and civil society. Its mode of operation involves partnering with bilateral and multilateral agencies for the implementation and monitoring of programmes and projects through a core structure that is designed to do a lot of its work through others at the country level. The Global Fund has very few staff on the ground.

The core structure of the Global Fund is composed of the following:

- Country Coordinating Mechanism (CCM): responsible for submitting proposals for funding but does not handle resources. Instead, the CCM nominates the entities that would administer and manage the funds at the national level. The CCM is composed of all the stakeholders active in the work on the three diseases.
- Global Fund Secretariat: responsible for managing the grant portfolio, for overall strategic, policy, financial and administrative support and for overseeing monitoring and evaluation.
- Technical Review Panel (TRP): an independent group of international experts in the three diseases and cross-cutting issues such as health systems. Its has responsibility for reviewing proposals based on technical criteria and for providing funding recommendations.
- The Board: composed of representatives from donor and recipient governments, civil society, the private sector, private foundations, and communities heavily affected by the diseases. It offers strategic advice and policy and mobilizes resources.
- Principal Recipient (PR): designated by the CCM through a legal agreement, the PR receives financing directly, and uses it to implement projects and programmes or passes it on other entities to do so.
- The Trustee: The World Bank acts as the Trustee of the Global Fund. It is responsible for making payments to the recipients at the instruction of the Secretariat.
- Local Fund Agent (LFA): LFAs are responsible for monitoring implementation. Included in its responsibilities is to provide recommendations to the Secretariat on the capacity of the entities chosen to manage the financing and on the soundness of regular requests for the disbursement of funds and results submitted.



Global Fund Grant Process

The independent oversight system of the Global Fund is supported by a well developed Monitoring and Evaluation Kit that is used throughout the world to increase accountability at all levels and with all the stakeholders. The Global Fund is also committed to a performance based funding approach that ensures the following:

- To link funding to achievement of country-owned objectives and targets
- To ensure that money is spent for delivering money to people in need
- To ensure learning and knowledge sharing
- To promote the use of evidence and metrics for decision making
- To provide a tool for independent oversight and for management
- To stop funding to non-performing projects and programmes

E. Medicines Transparency Alliance (META): promoting good decision-making and efficiency through disclosure of information:

META is a multi-stakeholder alliance working at both national and international levels to improve access to medicines and to increase the affordability of medicines for that large portion of the population in the world unable to benefit due to high costs or unavailability. META carries achieves its objective by increasing transparency and accountability in the healthcare marketplace. The central idea of META is that information improves decision-making all along the supply chain. The simple principles of openness and disclosure of information promotes good decision-making and efficiency. This is a universal prescription that could be applied to any enterprise or institution. In the case of META, such disclosure of information enables policymakers and authorities to take corrective measures quickly when unusually high prices, counterfeit drugs, or theft of quality medicines is detected through this open information system.

META was established to tackle the information blockages on price, quality, availability and promotion of medicines in developing countries. This lack of openness, META claims, leads to:

- excessive price mark-ups;
- corruption;
- poor forecasting of essential supplies, leading to shortages;
- large but infrequent orders that put a burden on local infrastructure, leading to the trashing of products that are beyond their sell-by date;
- increased risk of theft or spoilage through inefficient storage and supply, and
- poor quality counterfeit drugs.

F. Bangladesh Multi-donor Trust Fund (MDTF): an example of shared governance between a national government and international institutions

According to a personal communication with Saleemul Huq. (Senior Fellow at IIED), at the time of finalizing this report, a decision had not yet been made on the management modality of the Fund. The two options being considered are a) management by the World Bank which most donors appear to favour, or b) management by the Ministry of Finance which the Government of Bangladesh prefers and would like to argue as the best option. To come up with its decision, the government has set up a high level inter-ministerial committee headed by the Minister of Planning to come up with a recommendation. The Committee is in the process of finalizing its work and a decision is expected soon.

G. The Indonesia Climate Change Trust Fund (ICCTF): using a national financial mechanism to mainstream climate change into the national development agenda

The main objective of the ICCTF is to mainstream and align climate change within the national development agenda. As such, the ICCTF acts as a financial mechanism for the Indonesian policy framework. It consists of two funds: an innovative fund that acts like a venture capital fund but with an emphasis on social benefits, and a transformation fund which mobilizes investments in low-carbon economic development Initially, the ICCTF will be resourced by grants from bilateral and multilateral development agencies.

The principle guidelines of the ICCTF are:

- mainstreaming sustainable development

- mainstreaming good governance
- mainstreaming civil society participation and local community empowerment.

The main characteristics of the ICCTF are:

- ***catalytic role:*** help bring greater engagement and effectiveness and of more diverse resources
- ***capacity building*** of institutions and actors to increase impact on climate change
- ***building partnerships*** between government, civil society and private sector

The governance consists of a Steering Committee that includes donors and government representatives with the right to vote; an Advisory Committee consisting of government, donors, NGO and CSO representatives, responsible for overall strategic policy recommendations; a Technical Committee which advises on technical matters; and a Secretariat.

The ICCTF will have a comprehensive monitoring and evaluation function, and an auditing mechanism with an independent auditor to be selected on the basis of an open and fair bidding process

The UNDP in Indonesia has been assigned the role of Interim Fund Manager. In addition, UNDP has also been charged with the responsibility of developing national capacity so that a national entity can take over this responsibility after an undefined interim period.

H. Amazon Fund: promoting innovation and accountability through hybrid institutional approaches[2]:

Creating new institutions, one of the options for developing countries, is not always the best option. The Amazon Fund is an example of a new generation of institutions that are innovative and adapted to local circumstances and current needs and opportunities. The Fund is one of a new generation of hybrid institutions that was able to be put into place in a remarkably short period of time. From first conception to launch took only approximately two years, supported by a strong political will and a Plan of Action for the Prevention and Control of Deforestation in the Amazon. For the first time ever for Brazil, it had a commitment to incorporate targets for rates of deforestation. This was an essential element

[2] This sections draws heavily on 'Lessons from the Amazon Fund', Climate Policy Briefing Series, Briefing 2, 2009, Accountability by Simon Zadek, Maya Forstater, Fernanda Polacow, and Joao Boffino.

for the success of the Fund, as with that in place, international funding would be more easily forthcoming - as proved to be the case.

Brazil's initial concern was to have an institution or mechanism that would be voluntary, protect national sovereignty over the Amazon, and meet the concerns of donors, national and state governments, NGOs, indigenous people's organizations, industry and the Brazilian public. Several institutional options were explored including contracting existing institutions or creating new ones. In the end, none appeared suitable to the task, which included enabling flexibility and learning which was considered important not only for avoiding illegal timber trade but also for ensuring that the fund would be a vehicle for creating sustainable opportunities in the Amazon.

The simplicity and power of the institution rests on five innovations, all designed to address major concerns that emerged during the negotiations of the Fund[3]:

- ***Performance-based financing***: international funds are secured, uniquely to date, on the basis of emissions reductions demonstrably achieved, drawing on credible monitoring data, acceptable baselines, and a fixed and mutually acceptable carbon price.
- ***Competency-based investing***: project investing is undertaken through a mandate to the Economic and Social National Development Bank (BNDES), enabling diverse stakeholders to co-design the criteria whilst avoiding their interference in investment decisions.
- ***Cost-effective value chain***: low cost, rapid decision-making is supported by short chains of command, simple reporting arrangements and a fixed carbon price.
- ***Restricted multi-stakeholder governance***: a multi-stakeholder committee guides the Fund, with the Government having sufficient rights to intervene to give it confidence to confer considerable autonomy in practice on the Amazon Fund.
- ***Autonomous, policy coherent investing***: project investment decisions are made, autonomously from the international community, following credible guidelines, coherent with government policy and agreed by a multi-stakeholder advisory group, also with the highest levels of transparency as to decisions made and finances allocated.

The Fund's uniqueness means that it is charting new ground. Its future success will rest on its ability to adapt as problems arise. The areas which will be most challenging are:

a) being able to keep its governance sufficiently lean but growing for the task as necessary,

b) being able to provide lessons for scaling up approach,

[3] 'Lessons from the Amazon Fund', 2009, transcript form Policy Brief

c) building skills and capacities to allow its investments to be scaled up, and lastly,

d) maintaining the link between policy innovation and implementation

I. Brazil's National Fund on Climate Change: using existing strong national institutions rather than creating new ones

The Government of Brazil created its National Fund on Climate Change on 9 December 2009 under the responsibility of the Ministry of the Environment for the 'provision of funds to support projects or studies and financing for enterprises that aim at climate change mitigation and adaptation to climate change and its effects'[4]. The Fund is administered by a Managing Committee reporting to the Ministry of the Environment. The Committee's duties and responsibilities are established by law, as is its composition, which consists of six representatives of the Executive power and six member of the NGO community. It provides grants and loans through an Operating Agent (see below). Following are the comprehensive types of activities to be supported by the Fund:

- Capacity building, training, education and mobilization in the area of climate change
- Climate science, impact analysis and vulnerability analysis
- Society and ecosystem adaptation to the impacts of climate change
- Projects to reduce GHG emissions
- Projects to reduce carbon emissions from deforestation and forest degradation, giving priority to natural areas in danger of destruction which are relevant to biodiversity conservation strategy
- Development and dissemination of technologies to mitigate GHG emissions
- Elaboration of public policies to solve problems related to GHG emissions and their mitigation
- R&D of systems and methodologies for projects and inventories that contribute to reducing GHG emissions and to reducing emissions from deforestation and land use change
- Development of products and services that contribute to the dynamics of environmental conservation and of stabilizing GHG concentrations
- Support to sustainable production chains
- Provision of payment for environmental services to communities and individuals whose activities convincingly contribute to carbon storage, combined with other environmental services
- Agro-forestry systems that contribute to reducing deforestation and carbon absorption by sinks and to generating income

[4] Presidency of the Republic of Brazil, Civil House (Executive Office), Legal Affairs Sub office, Law no. 12, 114, of 9 December, 2009.

- Rehabilitation of degraded areas and forest restoration, prioritizing Legal Reserve areas, Permanent Preservation Areas, and those areas that are priority to generate and ensure the quality of environmental services

Brazil chose not to create a new institution but rather to assign the responsibility of Trustee of the Fund of Operating Agent to one of the strongest and largest banking institutions in the country and in the Latin American region, the National Social and Economic Development Bank (BNDS). It simplified its decision on how the Fund would be sourced, by making modifications and revisions to existing laws. This created a strong funding overnight as many of the laws cited pertained to well funded sources of funds of the Brazilian government. By doing this, Brazil was able to establish the Fund quite quickly and without the need to create structures for management, supervision and oversight. The BNDS is also one of the strongest development institutions in the country and with capacities to ensure that programmes and projects approved are aligned with national policies, supervised by a large body of experts, and accustomed to dealing with very large sums of money. It is also one of the institutions with the highest credibility in Brazil and in the region.

J. China CDM Fund (CDMF): enhancing chances of success through high level political commitment and direct link to National Climate Change programme.

The government of China decided to create the Clean Development Mechanism Fund (CDMF) to support the CDM projects in China and to collect, manage and utilize the national share of proceeds of CDM projects. But the CDMF does not target only CDM projects and its limited amount proceeds from CDM transactions. The objective is to become an innovative financial mechanism to implement China's National Climate Change programme, to actively support and promote national action on climate change and related sustainable development, to actively engage in and promote international cooperation, and to mobilize resources and contribute to global sustainable development. As such, the CDMF performs as a funding source, a platform for financial cooperation, for cooperative action and for information and knowledge sharing.

The CDMF was jointly established by the Ministry of Finance, National Development and Reform Commission, Ministry of Foreign Affairs, Ministry of Science and Technology and related agencies. The project of preparation started in October of 2005 and in May of 2006, the Ministries involved presented a joint proposal to the State Council. In April 2007, the formal establishment steps were completed. The speed with which this decision was taken and the high degree of coordination and engagement with the most relevant ministries is a testimony of the importance that China gives to climate change action at the national level. It is a guarantee of the success of its operation.

The financial resources of the CDMF come from the financial proceeds of CDM projects in China, earnings from CDM business operations, grants and other types of cooperation from multilateral development banks, as also from international institutions, and grants and other capital from the State Council. Its funds are designed to support activities in the following areas:

- Capacity building activities in support of climate change action
- Public awareness activities on climate change
- Mitigation related activities including CDM projects
- Adaptation related activities
- Mobilization of resources

The CDMF is operated by a Management Center, the legal entity which manages the operations on behalf of the Ministry of Finance including the process of approvals of proposals that are submitted to the National Development and Reform Commission (NDRC). It reports to the Board. The NDRC is responsible for screening and forwarding those proposals that it approves. The CDMF forwards these proposals to the Board of the Fund which in turn has the final decision on approval. The involvement of several ministries and the approval process by one coordinating government department and the Board guarantee the necessary checks and balances to ensure that the projects conform to national policies and the priorities of the Chinese government. The Management Centre also has the responsibility of monitoring the projects that it funds.

The Board exercises the following functions:

- To examine the basic management regulations
- To examine the Business Plan
- To examine project applications
- To examine the outcomes and impact of the funded activities
- To examine the Annual budget and financial status
- To provide oversight

V. Conclusions and Recommendations

At the end of 2010, the Parties to the UNFCCC will get together once again to try to come to agreement on how to address climate change in the decades to come. The success of these negotiations rests on whether developing countries commit to taking action both in mitigation as well as adaptation and REDD. Developing countries have argued that the basis of the agreements will need to rest on the legal framework of the Framework Convention which calls for developed countries to support the efforts of developing countries. Developed countries took a major step in this regard at Copenhagen by committing to abide by this obligation and transfer significantly larger amounts of resources in the next decade.

The challenge for developing countries will be to ensure that adequate institutions and skills are in place to make use of the resources effectively, efficiently and fairly. Further, they need to ensure that the management of these funds is exercised with transparency and accountability. Many countries are already well equipped but a large majority require much effort in institution building and capacity development. But the greatest need rests, not so much in the areas which appear to be of so much concern to some developed countries – accountability and transparency – but rather in developing expertise to resource the new institutions so that they can identify, formulate and implement effective programmes to tackle climate change.

This report shows that the knowledge, networks and present practices of management, accountability and oversight are very well developed and available to all. It is also evident that the expertise exists worldwide so that it can be contracted to play an independent role and oversight. The evidence also shows that many of these practices, networks and professional associations are already pervasive throughout the developing world and that they can be easily transferable to national institutions to be put in charge of managing climate change programmes at the national level.

Lastly, developing countries have many choices. They can create new institutions, adapt or strengthen existing ones, or assign the role to existing financial institutions in the country. Each country will have its own needs and capacities on which to base its decision. Others may opt to make use of international institutions – such as the World Bank, the GEF of the UNDP, among others, to assist them during a transition period until national capacities are in place. This suggests a large potential need and equally large task in capacity building in the years to come in developing countries. Helping to map out these needs and providing resources and assistance to create the capacities that will enable developing countries to take determined action on climate change should be one of the major priorities of the deal to be reached at Mexico at the end of this year.