THE GOVERNANCE OF ADAPTATION FINANCING: LEGITIMACY AT MULTIPLE LEVELS

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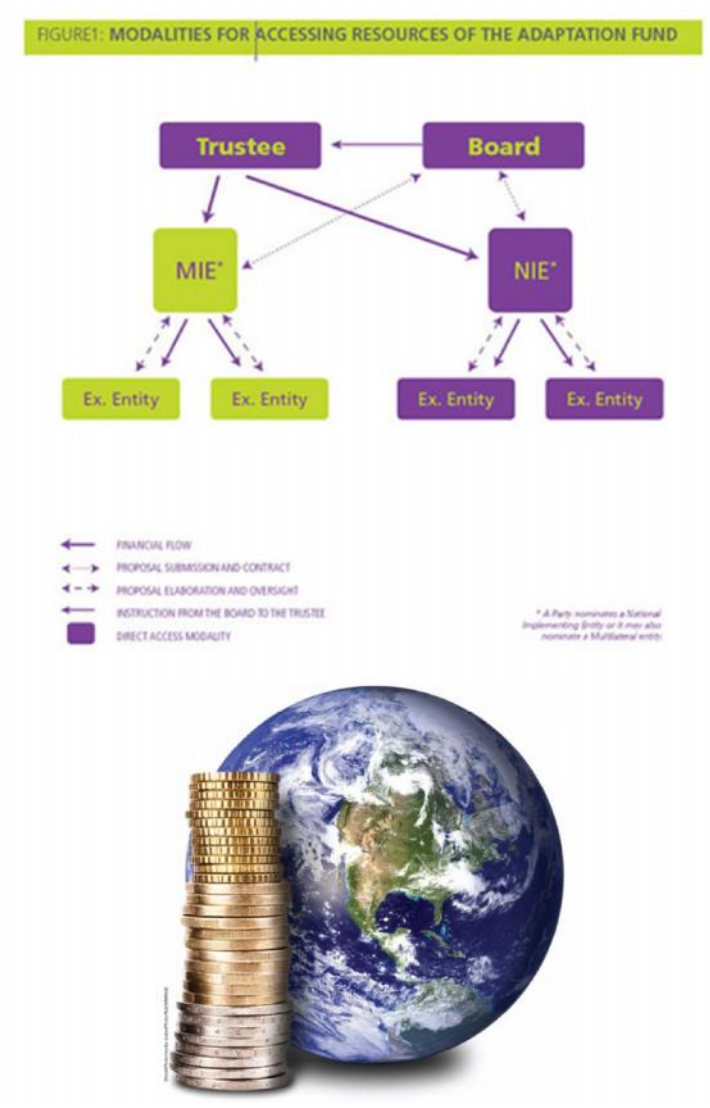
3rd Asia-Pacific Climate Change Adaptation Forum, Incheon, Korea, 18-20 March 2013

Rationale

- The legitimacy of a financing instrument matters because it influences how much funds the instrument can leverage, and through the specific criteria and priorities adopted, which projects and programs get funded.
- The design of international and national institutions that govern the financing of adaptation has been keenly contested.
- The support and resistance shown by different actors to proposed rules, procedures and criteria can be understood in terms of interests, norms and the pursuit of legitimacy.
- Governance at levels above the state or involving private actors, however, cannot rely on conventional avenues of legitimacy such as democratic accountability

Purpose & design

- This paper analyzes legitimacy issues in 6 international and 4 national financing institutions in Asia and asks:
- How are institutions that govern the financing of climate change adaptation legitimized?



Key terms

- Legitimacy refers to the acceptance and justification of an institution by a community (Bernstein 2011).
- Acceptance is to act in accordance with the rules of the institution.
- Justification is to reason with those it will affect in a way they can accept.

Sources of legitimacy

- **Accountability** or where people are answerable for their own behavior and actions (Biermann and Gupta 2011).
- **Transparency** or when there is full access to information. Transparency empowers as it helps hold authorities accountable and provides incentives for better performance
- **Participation**. If those who are subject to a decision have been included in the decision-making process they are more likely to accept authority of those who decide and act
- **Performance**. Claims of authority may be accepted based on history of responsible and competent behavior that results in satisfactory outcomes regardless of procedures
- **Discursive quality** in which the force of better arguments has weight and contributes to the quality of public decisions

International funds

- cost of adaptation in developing countries est. at 70-100 Billion USD per year – as much as 80% of current ODA
- High values help legitimize developing country claims for assistance and developed country responsiveness
- GEF manages several funds for the UNFCCC but with some independence that developing countries see undermine legitimacy as seen as serving interests of financial institutions or donors
- Adaptation Fund board 10 of 16 members from developing countries with reserved seats for LDC and SIS likely to be perceived as more legitimate as a less-donor driven architecture

	Managed	Started
Least Developed Country Fund (LDC)	GEF	2002
Special Climate Change Fund (SCCF)	GEF	2002
Strategic Priority for Adaptation (SPA)	GEF trust fund	2004
Adaptation Fund (AF)	Board under COP World Bank is interim Trustee GEF interim secretariat services	2009
Pilot Program for Climate Resilience (PPCR)	SCF (Strategic Climate Fund)Trust Fund Committee	2008
Global Climate Change Alliance (GCCA)	European Union – joint initiative Work through established channels rather than new institution	2008

Pilot Program on Climate Resilience

- PPCR set up by WB outside UNFCCC process with emphasis on integrating resilience into national development planning
- Banks expect to gain legitimacy from demonstrating results
- Other actors concerned with amount of control given to banks over financial flows and thus ownership of projects
- Concessional loans for adaptation criticized because may add to debt and because loans lack the legitimacy of aid financing which can be interpreted as compensation for harm caused by emissions from developed countries

Contributors and recipients

- Developing countries sensitive to adaptation funds being seen as charity when should be thought of as compensation
- Developed (donor) countries reluctant to enter into binding commitments based on responsibilities for consequences of climate change
- As a consequence private sector finance largely excluded

	Sources of Finance	Eligible Recipients
Least Developed Country Fund (LDC)	Voluntary contributions from donor countries	49 Least Developed Countires
Special Climate Change Fund (SCCF)	Voluntary contributions from donor countries	All developing countries
Strategic Priority for Adaptation (SPA)	Voluntary contributions from donor countries	All allocated as of 2009
Adaptation Fund (AF)	2% proceeds from Clean Development Mechanism	Particularly vulnerable countries
Pilot Program for Climate Resilience (PPCR)	Voluntary country contributions	intended to be country led,
Global Climate Change Alliance (GCCA)	Voluntary Contributions	Focus on LDCs and SIDs

Transparency and results

- SCCF and LDCF only finance additional costs due to climate change relative to a ‘development baseline’ – a legitimizing argument donor countries could make to their domestic constituencies
- But while separation helps transparency it makes mainstreaming and achieving results more challenging
- Many developing countries already struggling to meet ‘baseline’ development costs…let alone ‘additional’
- Many greatest needs are in primary sectors like agriculture, water management and coastal resources where are substantial co-benefits of development and adaptation funding
- Funds need to look more at mainstreaming and co-benefits and accountability to intended beneficiaries

National funding institutions

- National funds are justified by governments with respect to national plans and strategies
- Legitimized by arguing they meet real needs and better integrated into other development activities
- Internal sourcing implies legitimizing to bureaucracy, legislature and maybe the public

Indonesian Climate Change Trust Fund
Bangladesh Climate Change Resilience Fund (donor)
Bangladesh Climate Change Trust Fund
Philippines People's Survival Fund

National recipients

- National funds vary in accessibility to non-state actors and types of supported activities
- ICCTF takes proposals from cental and local government agencies in which universities or civil society organizations may be partners
- BCCRF allocates 10% budget to civil society and private sector projects
- BCCTF allocates 2/3 to activities and 1/3 to investments – projects have been reviewed and some criticized for corruption
- PSF is promoted and legitimized strongly as being directed at local communities

Multi-level linkages

- National institutions which govern financing of adaptation are legitimized to donors, bureaucracies and legislatures but not always to wider public (democratic accountability may be limited)
- National funds can draw on non-conventional sources of finance and combine external/internal sources
- Existence of national funds may make it easier to take on ‘national implementing agency’ roles in the Adaptation Fund or Green Climate Fund
- international financing itself has helped legitimize adaptation as an important development and policy objective at the national level

Key observations

- adaptation financing institutions draw on multiple sources of legitimacy that reflect key actors involved, architecture of the fund and scale interactions
- at local level adaptation projects are legitimized by donors, non-state actors and even national governments as being action ‘on-the-ground’ and thus more likely to produce results which serve the interests of vulnerable communities.
- separation of financing to meet basic development needs from adaptation to the impacts of climate change makes it difficult to design and implement projects that would best enhance the well-being of low-income and vulnerable groups.

Suggestions

- Balanced representation on key decision-making bodies can improve accountability (but be undermined by less accountable administrative procedures or M&E)
- Participation is important for legitimacy – intended or argued beneficiaries are rarely involved in design of projects or funds
- Transparency can be increased through civil society pressure to explain processes, projects and commitments
- Competence or performance is a key concern of donors but should not seen as a hindrance to financing but rather an opportunity to build needed capacities

Limitations and new questions

- The legitimacy lens adopted here does not cover all the dimensions of governance relevant to the design of financing institutions for adaptation. Institutional performance depends on many other factors.
- An understanding of incentives, how power and agency is exercised in the establishment and implementation of financing instruments is needed to complement analyses of architecture (institutional design)

Conclusions

- Multiple sources of finance will continue to be necessary to match large and growing needs of developing countries.
- The architecture of financing institutions has a significant bearing on their legitimacy and thus likely success
- a shift from depending on UN agencies and multi-lateral banks to national agencies in developing countries to lead projects is underway and raises new legitimacy issues
- Experiences with building institutional legitimacy should be taken into consideration in design of new financing institutions

Acknowledgement

- This paper was prepared for the Adaptation Knowledge Platform now merged with the Asia Pacific Adaptation Network (APAN)
- It was a product inspired by discussions at the 2nd Asia-Pacific Adaptation Forum.

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