

*Session 5*

*Corruption Risks in Climate  
Finance and in Natural Resource  
Management*

Workshop on Corruption Risks and Anti-  
Corruption Strategies in Climate Finance

Manila, Philippines

25 to 27 May 2015

## Session objective and outline

**Objective:** Common understanding of corruption risks in climate finance and in natural resource management at international, national, and sub-national levels

**Outline and presentations:**

1. Overview of corruption risks in climate finance
2. Corruption risks in NRM and REDD+
3. Corruption risks in multilateral climate funds
4. Corruption risks in national climate funds
5. Questions and discussion

# Discussion at the end

- What are the biggest corruption risks for climate finance in the Philippines? What should we focus on? (*post-its*)
- *On the PSF:*
  - What elements of the PSF are likely to contribute to successful transparent fund management?
  - What are the challenges/gaps in how to actually establish a transparent and accountable decision-making process regarding allocation of funds from the PSF?
  - What are the biggest corruption risks in the PSF?
  - What steps/actions would need to be undertaken, and by who, to mitigate these risks? What would a check-list of possible integrity mechanisms include for the PSF?



# Why discuss corruption in climate finance?

- Corruption threatens:
  - Effectiveness of funds – does climate finance meet goals; spent for intended purposes
  - Efficiency in use of funds – best use of funds, value for money
  - Mobilization of new funds
  - Accountability of government – use of scarce public resources
- Corruption raises the costs of climate change, and exacerbates its effects
  - Distorts wise use of natural resources, fails to help the vulnerable, leads to poor quality and inappropriate projects

# Climate finance: opportunities for corruption

- Large amounts of money & pressure to disburse quickly
- Wide variety of funding sources & levels – overlap
- Complex financial architecture: many actors & institutions, many financial instruments
  - New and untested funding channels and instruments with divergent governance standards (policies, rules, procedures)
- Lack of agreement on measurement and definitions of climate finance – what counts; duplication
- Poor climate change-affected countries are likely to have weak institutions and to be corrupt

# Specific corruption risks in climate finance

- Establishment of new institutions (channels), laws, and policies for climate finance
  - Lobbying by vested interests (oil, gas) to exercise undue influence on policy agenda
  - Policy capture by experts, due to highly technical nature of climate activities
- Weak domestic institutions for accountability
  - Freedom of information & whistleblower protection legislation
  - Citizen voice: elections, civil society organizations' strength

# Specific corruption risks in climate finance

- Lack of transparency, openness, and participation in decision making about resource allocation
  - Information asymmetry
  - Bribery, nepotism, clientalism, fraud, collusion used to
    - ensure favorable treatment of certain groups in benefit sharing, contracts, location of projects, etc.
    - create opportunities for further corruption (i.e. construction),
    - ensure certain approaches or technologies adopted
- Can you think of other risks?

# Corruption, resources, and climate finance

- Many climate finance-funded projects revolve around use of natural resources
  - REDD+ = conserve forests to absorb Co2 and GHG
  - Water systems and supply management
- But corruption in resource-related climate finance and/or the management of natural resources contributes to environmental destruction and improper use of resources
  - Can enhance (rather than mitigate) climate change



# *National Climate Funds*

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# What are national climate funds?

- Designed to raise, collect, blend, allocate, and account for climate finance, and coordinate activities and stakeholders
  - Act as a link between multiple international flows and domestic realities, earmark funds specifically for climate action
- Set and support country-driven climate change priorities, based on national context
  - Focus on national ownership in Adaptation Fund and Green Climate Fund – recipient countries direct access to funds
  - Vehicle for domestic revenue mobilization
- Outside of government budget, own governance & accounting standards, legal structure
  - Nationally managed or by a trustee like UNDP

# Examples of national climate funds

ASIA	AFRICA	LATIN AMERICA
Indonesia: CC Trust Fund	Mali: Climate Fund	Guyana: REDD+ Investment Fund
Philippines: People's Survival Fund	Rwanda: National Climate & Environment Fund	Ecuador: Yasuni ITT Trust Fund
China: Clean Development Mechanism Fund	Kenya: National Climate Fund	Mexico: Climate Change Fund
Bangladesh: Climate Change Resilience Fund, & Climate Change Trust Fund	Ethiopia: Climate Resilient Green Economy Facility	Brazil: Amazon Fund; National Climate Change Fund
Cambodia: Climate Change Alliance Trust Fund	Zimbabwe: proposed National Climate Fund	Colombia: National Adaptation Fund



## People's Survival Fund (2012)

- Special government-administered fund designed to support local efforts on adaptation to climate change
  - Fund prevention measures: monitor vector-borne diseases, support institutional development for prevention measures
- One-billion peso annual fund, replenished each year
  - Supplementary to annual government appropriates for CC
- Funded from General Appropriations Act (GAA)
  - Can be augmented by donations
- LGUs and communities submit proposals to PSF Board
  - Funded activities are based on NFSCC



# National climate fund corruption risks

- Extra-budgetary funds are sometimes associated with reduced control and accountability measures as well as problems in reporting fiscal data
- Lack of transparency and the temptation to raid the fund for special interests (in return for political support) and personal benefit (rent-seeking) can result in corruption
- Design of a fund matters to avoid corruption (rules)
  - Mechanisms to ensure accountability and transparency

# GIZ lesson learned from several NCFs

- Strong monitoring and evaluation system needed to track flows & create transparency and accountability of fund's operations
  - Clear accounting policies
  - Publicly available audits
  - Strong, standardized and uniformly applied framework to monitor projects and evaluate results

# UNDP lessons learned from Asian NCFs

- Project cycle
  - Need transparency in project selection criteria and procedures, including beneficiary definition
  - External review of project proposals (i.e. technical committee), and approved by a Board of Trustees
  - Due diligence to determine that beneficiaries can properly manage funds
- Financial management
  - Accurate, timely recording of transactions, and regular audits
  - Transparent procurement practices
  - Scrutiny of disbursement and utilization of finances

# UNDP NCF design recommendations

- Set up effective governance structure
  - Oversight body, and a technical group to review proposals
  - Clear project proposal process – submission and approval
  - Clear, known decision-making rules
- Ensure sound fiduciary management
  - System to collect, distribute, and track funds and project data
  - Rules to avoid conflicts of interest between trustee/beneficiary
- Facilitate monitoring, reporting, and verification
  - Similarity and complementarity across MRV systems
  - Regular, systematized, publicly available reports
  - Clear oversight and audit roles



# Indonesia's Climate Change Trust Fund

- Governance
  - Steering Committee provides policy & operational guidelines, defines priority areas for funding, and does M&E
    - Broadly representative: gov'm't, NGO, development partners
  - Technical Committee evaluates project proposals; approved by SC
  - Secretariat manages daily operations
- Fiduciary management
  - UNDP is interim fund manager, aim to hand over to national mgm't
- MRV
  - Annual Sec. missions monitor and evaluate projects → reports
  - Annual audit of the whole fund

# Brazil's National Fund on Climate Change

- Governance
  - Steering Committee manages, monitors, evaluates allocation of financial resources
  - Broadly representative SC: gov'm't, NGOs, workers, etc.
- Fiduciary management
  - Trustee is the Brazil National Bank for Social & Econ Development
- MRV
  - Recipients prepare annual implementation reports

# Key design elements of the PSF

- Possible corruption risks in the PSF as a function of its design?
- Governing structure:
  - PSF Board: supposed to provide overall guidance in fund's management, give final approval of projects, etc.
  - Multi-stakeholder: gov't, civil society, business, academic/scientific community
  - PSF Board NGO, business, and academic/scientific members cannot access funds during tenure plus one year after
  - NGO reps and community members supposed to have opportunity to participate in project identification, M&E

# Key design elements of the PSF

- CCC to review & evaluate project proposals, and recommend their approval to the PSF Board
  - Review should rely on national panel of technical experts
  - CCC not supposed to implement projects
- CC Act outlines criteria for fund use & project selection
  - Asks that the PSF Board adopt a conflict of interest policy
- “The Commission shall formulate mechanisms that ensure transparency and public access to information regarding funding deliberations and decisions”
- Independent third-party evaluation and auditing of activities supported by the fund (to be ensured by PSF)



# Discussion

- What are the biggest corruption risks for climate finance in the Philippines? What should we focus on? (*post-its*)
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**CMI** CHR.  
MICHELSEN  
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