

14<sup>th</sup> June 2013

Dear Members of the UNFCCC Standing Committee on Climate Finance,

RE: Inputs for the Committee at its fourth meeting 15-17 June 2013 in Bonn, Germany

Transparency International (TI), as an international civil society organisation dedicated to promoting strengthened transparency, accountability, integrity and anti-corruption safeguards, welcomes the work of the Standing Committee on Finance in a number of these areas and submits the following inputs for further consideration at its fourth meeting:

- Agenda item 4: COP-GCF arrangements
- Agenda item 5: Fifth review of the financial mechanism
- Agenda item 7(b): Issues arising from SCF3: MRV of support
- Agenda item 7(d): Code of Conduct of the Standing Committee on Finance

#### **Agenda item 4: COP-GCF arrangements**

TI welcomes efforts to establish processes and structures to ensure the accountability of the GCF through internal procedures and through its relationship with the COP. Equally welcomed is the on-going work to adopt policy and procedural measures to prevent conflicts of interest.

The accountability of financial mechanisms under the UNFCCC is crucial for their fair and effective operations as well as their ability to attract financial inputs. TI is calling for clear and effective accountability mechanisms at all levels of climate finance institutions, including the Global Environment Facility and the Green Climate Fund. In cases where behaviour, an act or a practice is or is perceived to be corrupt or fraudulent, a robust accountability model would be responsible for elucidating 'who is accountable to whom? For what? How? And at what consequences or penalties?' Knowing who or what body has independent oversight functions, has the power to investigate, and has the agreed authority to judge and issue sanctions is crucial to a healthy accountability system.

The GCF's current (developing) governance structure requires greater clarity over these lines of accountability, particularly as relates to its Board. In the run-up to the selection of the GCF host country, TI received allegations of actions which could be construed as vote-buying. As TI does not – by mandate – investigate cases of corruption, the case was referred to the GCF Secretariat. Yet because the alleged act was believed to have taken place outside an official GCF Board meeting, the Secretariat was unable to pursue any action. Beyond the Secretariat, no other 'higher authority' could be identified, thus underscoring that no one actor was clearly in charge in this case.

Risks to the integrity of Board decision-making fall primarily within the area of a conflict of interest. In some cases, such conflicts may also arise as a result of corrupt activities such as bribery or influence peddling. At present, the governance arrangements vis-à-vis the GCF Governing Instrument would likely mean that allegations of conflicts of interest or other forms of corruption or fraud on the part of a Board member could be pursued

through national channels – meaning the 43 governments of the 43 acting and alternate Board members – or by the regional constituencies which have nominated country representation on the GCF Board. This approach, while not inoperable, does pose significant challenges by making accountability chains complex, and leaving room for potential disparities in interpretations of corruption and in the weight and execution of remedial actions. Such an accountability system would also be reliant upon active citizen monitoring of the Board’s actions and decisions, and competent national institutions mandated to look into the integrity of government representatives sitting on the GCF Board.

Accountability could be more reliably secured by an accountability mechanism specific to the GCF which enables clear and consistent independent oversight, investigatory functions and the authority to determine what actions or remedies should be taken when things go wrong. Currently, the Governing Instrument dictates that the envisaged Independent Integrity Unit is to ‘work with the Secretariat’ and that both this unit and the Independent Redress Mechanism report to the Board. TI has instead been proposing to the GCF Board that at minimum these bodies should exercise control *over* the Secretariat and groups of experts, and at best over the Board itself. To do so effectively means that requisite independence and integrity for oversight and investigatory functions needs to be secured - by either the COP or the GCF Board or potentially both.

#### **Agenda item 5: Fifth review of the financial mechanism**

The *Draft consolidated guidelines for the review of the financial mechanism* listed in the Annex to the ‘Background paper on the initial draft of the consolidated guidelines of the fifth review of the financial mechanism of the Convention’ (SCF/2013/4/5) outline the draft objectives, methodology and criteria to review and assess, inter alia, the effectiveness, conformity and consistency of the mechanisms and their activities. Measuring the effective use of finance is critical to guiding and developing financing models. We welcome that the effectiveness criteria of the financial mechanism include in Section C (a) ‘the transparency of decision-making processes.’ We suggest further that effectiveness should also relate to outcomes and may be assessed during project cycle monitoring activities, periodic and final auditing and evaluation actions. Such assessments should seek to determine: how effective has the amount and use of public money and its various financing modalities been in achieving the intended climate change adaption or mitigation objectives?

TI’s experience shows that corruption and fraud can result in poor quality and substandard outputs, which undermine the effectiveness of public finance and can create greater financial inputs beyond initial investments. The inclusion of project cycle monitoring and assessment as additional criteria for the fifth review would prove instructive to highlight particular challenges and support efforts to strengthen governance where necessary, assuring the effectiveness of financial mechanisms and climate finance more broadly.

#### **Agenda item 7(b): Issues arising from SCF3: MRV of support**

TI welcomes the Committee’s work to elaborate on the definition and scope for measuring, reporting and verifying support provided to developing countries. Tracking, tagging and labelling climate finance in many countries globally remains an arduous task. In six countries where we have attempted to monitor climate finance, in almost all cases access to information and clarity on accurate financial flows was extremely difficult. This MRV of support effort could – if connected well with the engagement of civil society– transform current informational voids.

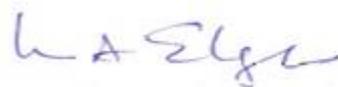
The current model of MRV of support appears to check that finance is flowing to developing countries. It is unclear why this does not seem to extend to verifying actual spending and taking account of public or private audits. TI suggests that this purpose of the MRV function also be considered in the further elaboration of this initiative. In addition to the parameters outlined in Part II Sections A and B of the relevant background paper (SCF/2013/4/8), the MRV of support could also benefit from inputs/ elements likewise specifically from civil society and local stakeholders who are engaged in monitoring public spending and projects. As above, it could draw on financial data retrieved from audit reports.

#### **Agenda item 7(d): Code of Conduct of the Standing Committee on Finance**

TI welcomes the Committee's efforts to discuss the necessity of adopting a Code of Conduct and to prepare and consider a background paper which reviews the Codes of Conduct of existing mechanisms and committees established under the Convention. In particular considering the weight of the Committee's mandate in relation to the COP and the financial mechanisms, this will offer important assurances to constituency groups that its members are acting in accordance with an agreed set of principles and requirements. A Code of Conduct should contain commitments to honesty, independence, integrity and fairness. TI further suggests a specific commitment to avoid corrupt or fraudulent activities and behaviour. Guarding against conflicts of interest is crucial and should enable appropriate policies regarding the public disclosure of financial and other interests. An effective Code of Conduct should also provide for a compliance procedure, clarifying what review procedures should be followed, by whom and what penalties would ensue where violations may occur.

TI urges the Committee to take into consideration the matters and suggestions proposed above and looks forward to further engagement and exchanges. TI is committed to supporting actions at policy and practice levels with the purpose of safeguarding climate finance and attenuate decision-making processes from corruption and fraud. Leadership in designing and implementing robust accountability mechanisms can usher in desired transformational benefits at all levels.

Sincerely yours,



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