In the debate on institutional arrangements for international climate finance a powerful, mostly Northern school of thought contends that one should not create new institutions but only make use of existing ones. What is the basis of this contention?

‘Existing Institutions’

The term ‘existing institutions’ has become an euphemism for the World Bank’s Climate Investment Funds (CIFs), the Global Environment Facility (GEF), and the regional Multilateral Development Banks (MDBs) in the current debate on institutions for climate change finance in the post-2012 period. Curiously, the Kyoto Protocol Adaptation Fund (AF) is usually not included even though it has as much legitimacy to carry this epithet as, say, the CIFs. Indeed, it is widely held among the advocates of the “No-New-Institutions” school that all UN/UNFCCC institutions are inefficient and opaque, in contrast to other existing multilateral (i.e. Bretton Woods) institutions. Does this view hold up to closer scrutiny?

Take the oft-cited fact that the AF still has not actually funded any activities to date. Is this really a sign of UN inefficiency? Given that the counterpart of the AF at the World Bank, the Pilot Programme for Climate Resilience (PPCR), is not envisaged to disburse any funding before the end of 2010, two and a half years after its creation (July 2008), the AF – which will issue a first call for projects at COP15, exactly two years after its formal creation at COP13 in Bali – does seem to compare quite favourably.

As to the question of transparency and good governance in general, it turns out that some of the traditional ‘existing institutions’ are not necessarily the shining examples they are often portrayed to be by the No-New-Institutions school. Take the case of the World Bank Group. A recent high-level report on the modernisation of the Group’s governance, commissioned by World Bank President Robert Zoellick and chaired by former Mexican President Ernesto Zedillo, has revealed some important shortcomings in three areas of the Group’s governance: strategy formulation, voice and participation, and accountability. The report contends that [c]urrent mechanisms for strategy
formulation [of the World Bank] are not adequate for setting priorities and guiding operations. Mission creep is endemic, weakening accountability for results and increasing the risk that resources will be misallocated or spread too thin, undermining the institution’s effectiveness. The Group’s decision-making process is widely seen as too exclusive, offering many member countries too little voice and too few opportunities for participation. Insufficient institutional accountability for results weakens the World Bank’s effectiveness and legitimacy. And certain conventions and practices have contributed to the perception that the institution is accountable and responsive only to a handful of shareholders at best. These weaknesses spring in large measure from the fact that the World Bank’s governance—forged in the 1940s—has not kept up with historical change and today is not adequate to deal with global problems that require forward-looking, flexible, inclusive, and legitimate multilateral institutions.3

In the present context, it has to be pointed out that there are aspects of the CIF governance – such as the North-South balance on the governing bodies – that, for the Bank, are a step forward and in the direction of the Zedillo Report recommendations, even though they were only brought about by considerable outside pressure4. Other recommendations, such as the need for a more equal voting system, do not fare as well: in creating the CIFs, it was decided to simply abolish voting altogether.

As to transparency, the CIFs do have a policy of publishing documents on the website, although the speed of publication is not always as one might wish. Six months after being presented to the PPCR Sub-Committee, the report by the PPCR Expert Group on the criteria for pilot country selection is still not published.

There is no doubt that the AF could, and should, learn certain governance lessons from the CIF experiment, not least as regards civil society participation. By and large, however, the AF need not fear a comparison with respect to the Zedillo Report recommendations.

To sum up, the argument here is not that institutions under the UNFCCC – such as the Kyoto Protocol Adaptation Fund – are perfect or better than other ‘existing institutions,’ but merely that some prevalent stereotypes to the contrary are misguided and based on prejudice, not fact.

Methodological Approaches

The question of how to construct an institutional architecture for international climate finance has been approached from a number of methodological vantage points, even within the No-New-Institutions school.

Some seem to take as starting point a set of existing institutions which they think should be given a role, more often than not because they stand a better chance of controlling them.5 They then proceed to stretch the functions and governance of the climate finance regime across the Procrustes’ bed6 of these existing institutions. The result – as in the legend – is unlikely to be viable.
A more promising route has been to start with an *analysis of the functions and purposes* of the envisaged regime and then see whether there are existing institutions that can perform those functions. In doing so, one should indeed apply a methodological principle known as *Ockham’s razor*\(^7\) which can be used in favour of existing institutions by rejecting the introduction of unnecessary new entities. If an existing entity is fit for purpose, then a new one is not needed. But this does not mean that one can dispose of creating new institutions altogether (nor incidentally, that all existing ones should have a role!). Existing institutions should not be given precedence simply because they exist, but only if *they are genuinely fit for purpose*.

**What purpose?**

Many in the No-New-Institutions school believe that previous experience in climate finance makes existing institutions automatically more ‘fit for purpose’ than new ones. However, this depends on what the purpose is. For instance, the Reformed Financial Mechanism (RFM) proposal\(^8\) (Figure 1), envisages two distinct types of financial transactions. There would be the traditional international funding activities as undertaken by existing institutions (evaluation and approval of projects and programmes). But then there would also be a *disbursement of funds* to in-country designated funding entities according to some (performance or formula-based) macro-criteria. While it may be useful to

![Figure 1. RFM: Institutional Arrangements](image-url)
have some technical experience in carrying out the international funding, the key to the success of such disbursements lies in political buy-in – not technical or procedural expertise.

The question therefore is: can existing institutions be made fit for these purposes, or would they be able and willing to undergo such reform? As I have argued elsewhere, such a reform might be possible for the purpose of international funding (despite the less-than-encouraging track record), but not for operating the disbursement function, which I believe requires the operating entity to be ‘under the authority of the COP’. Given that it will not be possible to adequately scale-up the financial flows to developing countries effectively without a significant devolution of funding decisions to them, it is clear that it will not be possible to have a international financial regime fit for purpose without the introduction of a new entity to oversee international funding and operate the required in-country disbursements.

Conclusions and the Way Forward

Existing institutions have no automatic right to be involved simply because they exist. It is important to be clear about what purpose the institutions will be required to serve, before deciding whether the existing ones are fit for purpose. The mere prospect of reform is not sufficient to justify their involvement.

Experience has shown that clarity on functional and governance arrangements is the key to any fruitful discussion on institutional issues. In June 2006 – after six months of acrimonious exchanges about the desirability of the GEF as operating entity for the Adaptation Fund (AF) – the negotiations on operationalising the AF were close to a break down, and expectations for a decision in Nairobi in December (CMP.2 ) were extremely low. The process was only salvaged at Nairobi because an implicit understanding had been reached between the G77+China and the EU not to mention any existing institutions, but to focus on the substance of the institutional architecture and governance. Without this, there would not have been a Nairobi decision on the AF (CMP.2/1) and the debate on whether the GEF should be the operational entity or not would probably still be raging. Given the limited negotiation time, the only successful way forward is to again focus on the functional and governance structure of international climate finance in general, and the UNFCCC financial mechanism in particular, and to postpone any discussion referring to existing institutions to post-Copenhagen. The aim of Copenhagen must be to design a functional and governance architecture that is sufficiently specific to allow existing institutions to reform themselves and to present themselves as fit for purpose when the time comes to make the relevant institutional arrangements. Given the experience with institutional reforms in and outside the ‘existing institutions’, the watchword has to be ‘prudence’; and it is clearly more prudent to assign functions on the basis proven reforms rather than promises to reform.
Endnotes

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2 http://siteresources.worldbank.org/NEWS/Resources/WBGovernanceCOMMISSIONREPORT.pdf


4 See, for example, Benito Müller and Harald Winkler, *One Step Forward, Two Steps Back? The Governance of the World Bank Climate Investment Funds*. Oxford Energy and Environment Comment, February 2008

5 Indeed, the difference in control seems to be the main reason why the Adaptation Fund is generally not included in the list of ‘existing institutions’

6 Procrustes, in Greek mythology, had an iron bed on which he compelled his victims to lie. If a victim was shorter than the bed, he stretched him by racking the body to fit. If he was longer, he cut off his legs to make the body fit the bed's length. In either case the victim died. (See “Procrustes”, (2009) in *Encyclopædia Britannica*.)

7 The philosophical principle referred to by the nineteenth Century Scottish philosopher Sir William Hamilton as ‘Ockham’s razor’ (also known as principle of economy/parsimony) is attributed to 14th-century English logician William of Ockham and sometimes expressed as *pluralitas non est ponenda sine necessitate*; (plurality should not be posited without necessity), or *entia non sunt multiplicanda praeter necessitatem* (entities should not be multiplied unnecessarily). See, for example, Panaccio, Claude (1998), “William of Ockham”; or Craig, Edward (1998), “Pluralism”, both in In E. Craig (Ed.), *Routledge Encyclopedia of Philosophy*. London: Routledge; or “Ockham's razor” (2009) in *Encyclopædia Britannica*.

8 For more on the RFM proposal, see http://www.oxfordclimatepolicy.org/publications/mueller.html