

UNDP-Spain MDG Achievement Fund

Terms of Reference for Thematic Window on Environment and Climate Change

This document provides policy guidance to UN Country Teams applying for funding under the UNDP-Spain MDG Achievement Fund (MDG-F) Thematic Window for **Environment and Climate Change**. The framework elaborated below aims to set out the policy goals of the Fund in this area and illustrate the types of interventions the Fund will support. This guidance will also be applied by the technical assessment process that will review applications. These Terms of Reference should be read in conjunction with the Fund’s “**Framework Document**” which sets out the overarching strategy for the MDG-F and the “**Concept Note Format**” which provides the format for submissions. These can be viewed at the Fund’s home page at www.undp.org/mdgf. Kindly note that MDG-F Thematic Windows will only accept applications from UN Resident Coordinators in eligible countries, applying on behalf of their UN Country Team.

1. Background and rationale

Poverty reduction efforts must be based on sound environmental management since the critical ecosystem services the environment provides – such as food, fresh water, soil protection, disease regulation and flood control – contribute in important ways to the livelihoods, health and security of people living in poverty – particularly women and children. Furthermore, expanded public and private investment in environmental assets – biodiversity, land and water – can generate strong returns for poverty reduction, contribute to pro-poor growth and accelerate progress towards all of the Millennium Development Goals (MDGs).

Despite their critical importance, ecosystems continue to be degraded at an alarming rate. The Millennium Ecosystem Assessment found that 60% of ecosystem services are used unsustainably and concluded that “any progress achieved in addressing the goals of poverty and hunger eradication, improved health, and environmental protection is unlikely to be sustained if most of the ecosystem services on which humanity relies continue to be degraded.”

Although poverty sometimes leads to the unsustainable use of resources, it is not the main cause of environmental degradation. Rather, the primary drivers of this degradation are habitat change, climate change, invasive species, overexploitation and pollution; exacerbated by governance and market failures.

Climate change presents a particularly daunting challenge to many developing countries as its potential impacts include worsening droughts, floods, crop failures, disease outbreaks, rising sea levels, more frequent and intense storms, and the widespread extinction of species. People living in coastal, arid and semi-arid regions are most at risk. Given its implications for human development and security, adapting to climate change is likely to become one of the primary development challenges of the coming decades.

2. Key challenges and opportunities in this thematic area

In order to safeguard the integrity of ecosystems required for human well-being and to ensure that environmental management contributes fully to poverty reduction and the MDGs, environmental considerations must be embedded in a wide array of human activities. This includes, notably, national development planning frameworks, as well as the operations of key sectors of the economy, market-based mechanisms, and institutions and governance. This “mainstreaming” of environment is crucial for effective action to address the underlying forces that drive environmental degradation and to ensure that institutional arrangements and policies are conducive to sustainable ecosystem management.

A fundamental shift is also needed to people-centred approaches that build on poor people’s priorities and capabilities and that effectively engage all stakeholders in addressing the root causes of environmental degradation. This shift should also empower poor and vulnerable groups with the assets, rights and entitlements over the land, water, biodiversity and other natural resources they need to improve their lives and their environment. Indeed a number of studies have concluded that many integrated natural resource management and development programs have not succeeded due to an insufficient focus on participatory processes and civil society engagement.

National development strategies (including poverty reduction strategies) have emerged as a primary instrument in many developing countries for development planning, resource allocation and aid coordination. They provide a critical entry point for mainstreaming MDG targets and environment issues in country priorities. These strategies are intended to address the larger factors that cause poverty and to lay out a coherent set of poverty reduction policies and measures to generate ‘pro-poor growth’. However, poverty-environment links have often been overlooked or received inadequate attention in poverty reduction assessment, planning and policy processes. Further, considerable work is needed to ensure that national budgets (including medium-term expenditure frameworks) and sectoral plans and budgets respond adequately to the poverty-environment concerns of poor and vulnerable groups. In all these areas, countries are faced with significant capacity and resource constraints and there is strong demand for policy advice and capacity development support.

Local sustainable development strategies based on bottom-up approaches that integrate natural resources management in socioeconomic development processes, in both rural and urban areas, are also a key entry point for achieving the MDGs and combating climate change. Such approaches could, for example, greatly facilitate the valuation of environmental services in rural areas and the management of waste in urban settings.

‘Localizing’ the MDGs is thus a prerequisite for sustainable development. This is particularly true for the rural poor in developing countries since they are disproportionately dependent on their environment and natural resources for their health, livelihoods and security.

Another new and important response to environmental degradation is a set of emerging financial mechanisms that are beginning to channel significant resources toward improving environmental management. Until recently, valuation of critical ecosystem services (such as carbon

sequestration, flood regulation, erosion control, air and water purification) has been absent from economic decision making frameworks. However, there is a growing recognition of the need to value these services, and to estimate the cost for substituting them if they are lost, in order to better assess trade-offs and to develop policies and market mechanisms for improved poverty-environment outcomes.

Acknowledging that public resources and traditional donor support are insufficient to address climate change for example, the Kyoto Protocol introduced innovative market-based approaches to reduce greenhouse gas emissions. Besides the Kyoto carbon market, other emerging environmental markets and financing mechanisms include those for biodiversity conservation, water, fisheries and soils. These market-based approaches can generate significant new sources of environmental finance and, simultaneously, create new opportunities for tackling development challenges.

The MDG Achievement Fund seeks to reduce poverty and vulnerability in eligible countries by supporting interventions that improve environmental management and service delivery at the national and local level, increase access to new financing mechanisms and enhance capacity to adapt to climate change.

3. Illustrative Interventions for Priority Areas of Support

This section outlines the key outcomes sought by the Fund in four priority areas, and identifies illustrative interventions or activities to consider in preparing applications.

I. Mainstreaming environmental issues in national and sub-national policy, planning and investment frameworks

The MDG-F will welcome funding applications that aim to:

- Raise the profile of environment in the national policy agenda and mobilize political commitment to mainstreaming environment in national development processes;
- Integrate the environment into national and sub-national development strategies and plans, and key sectoral plans and their implementation;
- Create fiscal and other policy incentives, and increase public budgetary allocations, for sound and equitable environmental management;
- Improve institutional capacities to mainstream environment in development planning and implementation, using participatory approaches where appropriate;
- Develop and strengthen capacities for the formulation and implementation of laws and regulations that curb activities that could lead to environmental degradation and/or deforestation (unsustainable use of marine and freshwater resources, livestock, timber industry, mining etc.); and
- Remove barriers that limit the poor's access to and economic benefits from ecosystem services and equitable access to water and land resources, particularly among the rural poor and women.

To achieve these kinds of outcomes, applications could contain some or all of the following illustrative elements:

- ***Environmental Assessment, Targets and Indicators***: Supporting evidence and outcome-based policy and planning processes by:
 - Improving assessment of the linkages between environmental conditions and human well-being (livelihoods, health, vulnerability, participation and empowerment);
 - Strengthening institutional capacities in the use of integrated assessment and participatory planning tools (e.g., integrated ecosystem assessment, strategic environmental assessment, integrated water resources management, etc.);
 - Improving analysis, documentation and dissemination of lessons learned and good practices in environmental governance and mainstreaming; and
 - Developing environmental sustainability targets and indicators.
- ***Awareness and Advocacy***: Building public support for pro-poor environmental policies and investments by:
 - Improving communication of information and analysis on the links between environment, poverty reduction and sustainable growth; and
 - Engaging parliamentarians, legislators and sectoral ministries in promoting pro-poor environmental reforms and investments.
- ***Policy, Planning and Investment***: Strengthening capacity to integrate pro-poor environmental concerns into national and sub-national policy, planning and investment frameworks by:
 - Promoting policy, legal and institutional reforms that support sound management of and equitable access to, environmental resources and services (biodiversity, land and water), including decentralisation of responsibilities to local authorities;
 - Supporting environmental fiscal reform (e.g., subsidy reform, natural resource fees, user charges and other market incentives) for poverty reduction and environmental management objectives
 - Working with Ministries of Environment, Finance and others as well as local governments, provinces and districts to ensure environmental considerations become an integral part of national development strategies (such as PRSPs), development assistance planning (e.g. UNDAFs), rural development plans and sectoral development strategies (e.g. agriculture, forestry, tourism, water);
 - Integrating multilateral environmental agreement commitments into national and sub-national development planning processes and investment decisions;
 - Promoting policy reforms that lead to the scaling-up of successful community-level interventions in water supply and sanitation services and sustainable land and biodiversity management; and
 - Aligning national budgets to achieve pro-poor environmental priorities and targets in national development and poverty reduction strategies.
- ***Monitoring***: Strengthening capacity to monitor pro-poor environmental outcomes by:
 - Integrating pro-poor environmental concerns into national poverty monitoring systems; and
 - Supporting the development and dissemination of methodologies and tools for monitoring the contribution of the environment to poverty reduction and human development.

II. Improving local management of environmental resources and service delivery

The MDG F will welcome funding applications that aim to:

- Assess local demands, capacities, and delivery mechanisms for environmental resources and services for the decentralized achievement of the MDGs;
- Integrate environmental management into participatory rural development processes to help generate resources for poverty reduction and for the valuation of environmental services;
- Improve access to water and sanitation for the poor, promote the sustainable use of biodiversity and ecosystem services and increase clean energy service delivery through energy efficient and renewable energy options;
- Improve environmental service delivery mechanisms to support the achievement of the MDGs at the local level;
- Unleash the power of Small and Medium Sized Enterprises (SMEs) for environmental sustainability and the provision of water and sanitation services; and
- Ensure that community-based approaches to climate change adaptation are fully reflected and integrated into MDG delivery.

In order to achieve these kinds of outcomes, applications could contain some or all of the following illustrative elements:

- ***Assessing local environmental needs and services:*** using local multi-stakeholder approaches to assess demand, and capacity gaps, based on the ‘subsidiarity’ principle of decentralized governance at community, municipal, district, and “territorial” levels to identify environmental priorities to secure achievement of the MDGs;
- ***Environmental governance and capacity development:*** undertaking institutional capacity development to ensure an integrated environmental governance approach for the management of biodiversity, land and water resources, and for the provision of effective, equitable and low-cost clean energy services, water and sanitation.
- ***Local delivery platforms:*** building on established local and small grant delivery mechanisms, including UN or national programmes with a proven track record. These platforms should empower local communities and the rural poor in the delivery of water, sanitation, clean energy and other ecosystem services, as well as the sustainable management of biodiversity, land, water and other natural resources.
- ***Supporting local and indigenous SMEs:*** supporting and promoting the capacity of SMEs to generate business opportunities that enable the sustainable use of natural resources (biodiversity, land and water) and the provision of water supply and sanitation services, and advance national MDG targets through activities such as: access to enterprise development services; removal of market barriers; improvement of the policy and investment enabling environment; and advocating for pro-poor, pro-environment lending practices by banks and other financial institutions.
- ***Local and community-based adaptation to climate change:*** to ensure the sustainable impact of the above, “climate proofing” of all the stated outcomes should be considered, and integrated into the design, implementation and monitoring activities of decentralized MDG activities to help local resource users and municipal government adapt to climate change.

III. Expanding access to environmental finance

The MDG-F will welcome funding applications that aim to:

- Integrate the value of ecosystem services into economic decision-making frameworks;
- Evaluate the business case for participation in carbon finance markets and other payment for ecosystem services (PES) models;
- Improve capacities to engage with and benefit from, the Clean Development Mechanism (CDM);
- Test new approaches for payments for ecosystem services; and
- Enhance public/private partnerships for sustainable development, including tax incentives, market development, and incentives for enterprise development benefiting the poor, particularly women.

In order to achieve these kinds of outcomes, applications could contain some or all of the following illustrative elements:

- Supporting the establishment of a CDM infrastructure (including operational Designated National Authorities, Certified Emission Reductions, clarification on ownership rights, etc.) and the creation of CDM-friendly regulatory and business environments to leverage carbon finance for sustainable development;
- Building the capacity of local experts and other stakeholders in the identification, design, and implementation of CDM projects through provision of targeted hands-on workshops for national consultants, practitioners, and project developers establishing innovative public private partnerships;
- Identifying areas within the country (geographic, business or sectoral) that show high potential for carbon finance or payment for other ecosystem services;
- Building capacity of local financial institutions in the appraising and funding of CDM projects by incorporating carbon finance in their mainstream project financing; and
- Providing technical and/or financial assistance to establish and develop viable business models for payment for ecosystem services. Dissemination of lessons learned from these experiences, and provision of scale-up assistance where appropriate.

IV. Enhancing capacity to adapt to climate change

The MDG-F will welcome funding applications that aim to:

- Integrate climate risk reduction into national development and investment decisions through policy reform and their implementation;
- Integrate climate risk reduction into UN programming frameworks; and
- Pilot or scale-up climate adaptation projects and approaches.

In order to achieve these kinds of outcomes, proposals could contain some or all of the following illustrative elements:

- Supporting UN Country Teams to implement due-diligence procedures to reduce climate change risks in UN country programming. This risk reduction procedure will include

applying a standardised climate screening tool (e.g. checklist) to identify programmes/projects at highest risk to climate change. Based on this analysis, the UN Country Teams will help governments to assess trade-offs across the components of the UN country programmes and to realign them so as to achieve the objectives of national development strategies;

- Assisting governments to evaluate climate change risks in their development planning;
- Implementing adaptation measures in at-risk areas or sectors including agriculture, food security, water resources management, climate-change related disaster risk management, coastal development, and natural resources management; and
- Building adaptive capacity to climate change and reducing vulnerability to climate change of high-risk areas or sectors, while at the same time addressing short-term climate variability.

Note: In each of the four priority areas of support described above, applications should give adequate attention to the key cross-cutting concerns of gender, public participation (including enhancing the role of NGOs, CSOs and other civil society actors) and capacity development.

4. How will we know we are having an impact?

Programmes financed by the MDG-F in this sector, will be expected to demonstrate credible, measurable results. Applications to the Fund will therefore need to identify the key indicators that can be used to measure and monitor success of the programme and the means to collect that data during and after the proposed programme period.

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