Overseas Development Institute

Opinion

March 2010

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A transparency agreement for international climate finance – addressing the trust deficit

Neil Bird

'There has been little focus on bringing the principles of climate finance together in a governance framework. Yet this will help determine whether climate finance is effective, efficient and equitable'

The commitment to new finance for international action on climate change was one of the few areas where progress was made at the Copenhagen COP meeting in December. The challenge is to get proposed 'fast start' finance to countries in need.

As new funding initiatives appear, principles to assess their worth have been proposed under the UN Framework Convention on Climate Change (UNFCCC). However, there has been little emphasis on how these principles might fit together in a coherent framework by which compliance with the principles could be assessed. A transparency agreement for international climate finance (Table 1) to provide such a framework could rebuild the trust that was eroded in Copenhagen.

Mobilising funds

There is growing consensus that the 'the polluter pays' principle should apply to national contributions towards the global costs of climate change and that funding should correspond to national wealth ('respective capabilities'). Annex I countries (industrialised and transitional countries) are now obliged to provide new and additional financial resources to meet 'the agreed full costs by developing countries Parties' under Article 4 of the UNFCCC. It has been acknowledged that the provision of these resources should reflect the need for adequacy and predictability in the flow of funds. But how compliance against the following principles remains unclear:

- **The polluter pays**: whether this includes 'historic' emissions is uncertain. The timescale matters in determining national contributions, but the lack of historic data limits how far back in time reliable estimates can be made.
- **Respective capability**: contributions should relate to a measure of national wealth, such as gross domestic product, but the reference year for any international comparison is a concern, given major changes in countries' relative economic performance. One approach would be to use the same period of time for emissions and national wealth estimates to derive indicators with a common time period.
- **New and additional**: funding should be additional to existing official development assistance (ODA) commitments to maintain the funding that is needed for development. However, current statistics do not allow for the separation of existing ODA expenditure from climate finance that is classified as ODA. The clear labelling of national contributions as non-ODA would help.
- **Adequate:** this relates to the level of funding required to keep within a global 2°C temperature increase. However, funding needs remain uncertain. Progress may mean moving away from the global, top-down approach and replacing it with national estimates of need as set out in national climate change strategies. African countries require immediate support in making these initial assessments.
- **Predictable:** financial flows should be sustainable to let national investment programmes plan, scale-up and implement priority actions. One indicator could be the proportion of funding pledged over successively longer time periods.

Fund administration

Three principles underpin the management of climate funds. Two relate to the high standards of probity expected over public finances in democratic states: that funding is administered in a way that is transparent and accountable. The third principle is equitable representation, requiring broad representation of stakeholders on bodies that make decisions on funding. This principle represents a major departure from development cooperation norms where the donor-recipient relationship dominates.

Fund disbursement

Little attention has been given to the principles of how climate finance should be disbursed. Yet compliance with these principles will help determine whether climate finance is effective, efficient and equitable. Four principles for action are:

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Delivery phases	Principle	Criteria	Possible types of indicator
Mobilisation: how funds are raised	The polluter pays	Financial contributions are relative to the quantity of emissions produced	Level of emissions since agreed date; amount pledged
	Respective capability	Financial contributions are relative to national wealth	GNI, GDP since agreed date; amount pledged
	Additionality	Funds provided are more than existing national aid commitments	National funding above the UN target of 0.7 per cent of donor GNI
	Adequacy	Funds generated are equal to the scale of the task of maintaining global temperature rise to below 2oC	National estimates of need; amount deposited in national system
	Predictability	Funding is known and secure over a multi-year funding cycle	Source of funding; timescale of funding
Administration: how funds are managed	Transparency	Funding structure, financial data, board members, decision making processes and decisions are put in the public domain	Website description
	Accountability	Fund management reports to a recognised authority, e.g. the UNFCCC COP, the European Parliament	Statement in Fund Constitution
	Equitable representation	There is broad representation of all stakeholders on the Board of the fund	Membership of fund decision-making group
Disbursement: how funds are spent	National ownership	Recipient countries exercise leadership over their climate change policies and strategies	Direct access to the fund by national authorities permitted
	Timeliness	Funding is delivered when required	Amount disbursed
	Appropriateness	The funding modality does not result in additional burdens for the recipient	Type of funding provided, e.g. grants, loans
	Access for the most vulnerable	Credit, resources and technologies are made available to vulnerable groups	Funding supports micro, small and medium-scale businesses

Box 1: Proposed table of principles, criteria and indicators for international climate finance

- **National ownership**: the extent to which recipient countries lead their own climate change policies and strategies, and determine their own spending needs, based on national strategies.
- **Timeliness:** the timing of action is becoming ever more important as the science of climate change advances our understanding of what needs to be done. An appropriate performance indicator could be the time taken from a political statement on funding to the disbursement of such funds in support of national actions.
- **Appropriateness:** funding should not place extra burdens on the recipient country, but there is little consensus on how this could be measured. Civil society has raised concerns over climate finance delivered as loans, not grants, but some countries believe that loan finance is appropriate under specific national conditions, depending upon what is being financed.
- **Access for the most vulnerable**: climate finance should be distributed in an equitable manner, reflecting the needs of all regions and countries and the social and economic reality of the recipients. This will require that credit, resources and technologies are made available to vulnerable groups, but how this is to be measured remains unclear.

Would a transparency agreement help?

The idea of a transparency agreement for international climate finance has yet to be taken up, but its implementation would help to improve trust between different country blocks. To date, debate and experimentation has focused on the logistics of mobilising climate finance and progress has been slow.

A key concern for Africa is the emphasis on matching international financial resources with defined needs within countries, as identified through National Communications, National Adaptation Programmes of Action and Nationally Appropriate Mitigation Actions. Much can be learned from experiences in the budget support arrangements for development cooperation to help chart the necessary financial architecture. Before the Paris Declaration on Aid Effectiveness, national ownership of development processes was a principle sometimes ignored by donors. The Paris Declaration provided the means to go beyond vague statements of principle to agree explicit criteria and indicators for the impartial monitoring of progress. A transparency agreement for international climate finance could have a similar goal.

Conclusion

Channelling new financial resources quickly to countries in need is a top priority for all parties under the UNFCCC. This needs to be supported by going beyond the present set of vaguely worded principles to a coherent governance framework that would help to track and monitor funding (public, private or from new innovative sources). In this way, trust could be restored in the ability of developed countries to help meet the needs of developing countries, as the latter respond to the challenges set by climate change to their sustainable development.

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References and useful links

Reference:

Neil Bird and Jessica Brown (2010). International climate finance: principles for European support to developing countries. EDC2020 Working Paper.

Useful links:

ODI on COP15: http://bit.ly/ODICOP15
Climate Funds Update: http://www.climatefundsupdate.org/

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ISSN 1756-7629

Printed on recycled paper, using vegetable-based inks