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Can Climate Change Finance Draw Lessons from Aid Effectiveness Initiatives?

A comment on outcomes of the *Asia Pacific Climate Change Finance and Aid Effectiveness Dialogue* – Bangkok, 19/20 October, 2010

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Contents

I. A brief snapshot at the history of the Aid Effectiveness Initiative

Aid effectiveness has always been an issue of concern since the early days of international assistance in the aftermath of World War II when it was used to rebuild Europe and during the period of the Cold War when its objectives were more complex and often less straight forward. Since the end of the Cold War, the focus of has shifted to help countries alleviate poverty and achieve higher levels of development. It was during this period that many efforts began to try to ensure greater effectiveness and in mutual consultation between developed and developing countries. A few major events and outcomes mark the history of the movement since the late 1990s, when the aid effectiveness initiatives began in earnest. The most significant to mention include: the International Conference on Financing for Development that took place in Monterrey in 2002 and which produced the Monterrey Consensus, which declared the intention of the donor community to increase funding but with the agreement of all, developed and developing countries, that more needed to be done to improve the effectiveness of aid. This and the unprecedented global agreement on the Millennium Development

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Goals were seen by many as heralding a new era of global cooperation between developed and developing countries where achievements and targets, for both developed and developing countries, would become the accepted norm. Other high level conferences followed, one in 2003 sponsored by OECD in Rome – High Level Forum on Harmonization, followed later by one in Paris in 2004 where the Paris Declaration[2] was agreed, and later in 2008, a Third High Level Forum in Accra that also issued a Declaration were part of the movement. Several other conferences with more focused themes or geographical scope have been held and are continuing to be held with the support of the international community and particularly the OECD. The present comment focuses on the recently held conference – "Asia Pacific Climate Change Finance and Aid Effectiveness Dialogue held in Bangkok on 19 and 20 October, 2010 (from here on referred to as the Bangkok Dialogue). The Dialogue was held under the auspices of the Capacity Development for Development Effectiveness (CDDE) Facility supported by the Asian Development Bank, Government of Korea, Government of Japan, and UNDP. The Dialogue process leading up to the meeting was supported by SIDA and OECD and consisted of a series of preparatory meetings prior to the Bangkok meeting.

In October of 2009, the OECD issued its Factsheet on Climate Change and Development: Key principles to inform climate change financing. The principles were drawn from the Paris Declaration and focused on issues such as: <u>ownership</u> – and the need for activities to address climate change to be country driven and responding to the needs and priorities of countries, <u>alignment</u> – the need for climate change financing to be aligned to planning and budgeting mechanisms of the countries, the need for the international community to support more forcefully <u>capacity development</u> efforts in countries, <u>harmonization</u> - the need for greater coordination among donors and more simplification of procedures to reduce the burden of developing countries, and the need to enhance <u>complementarity</u> between climate change financing and development cooperation, and finally better <u>management by results</u>. These principles served as background for the Bangkok Dialogue and as the basis for five country case studies that in turn informed this Dialogue.

In the following section, I focus on the outcomes and conclusions of the Dialogue and on the Synthesis Report of the five country studies and make a brief assessment of which parts of the Aid Effectiveness package I believe are extremely helpful and useful to draw lessons while at the same pointing to others that I believe may not be so helpful and in fact may create some confusion during this delicate phase of the negotiations. The bottom line is that drawing lessons from 60 years of development assistance and cooperation in developing countries is extremely helpful as long as it does not result in leading to the conclusion that all climate change finance is aid. It is not. Furthermore, the Aid Effectiveness initiative principles, while helpful, can not under any circumstance create any conditionality for that part of climate change finance which is statutory or relevant to the various articles of the UNFCCC and the Kyoto Protocol, and the agreements arrived at within the framework of the Convention and its Protocol. The only terms and conditions ruling over this statutory climate change finance are those arrived at with the framework of the negotiations of these two instruments.

II. The Outcomes of the Asia Pacific Aid Effectiveness Dialogue

[2] **The Paris Declaration**, endorsed on 2 March 2005, is an international agreement to which over one hundred Ministers, Heads of Agencies and other Senior Officials adhered and committed their countries and organisations to continue to increase efforts in harmonisation, alignment and managing aid for results with a set of monitorable actions and indicators.

The stated objectives of the Conference were to a) enhance country capacity to effectively utilize fast start and long-term climate change financing, and b) ensure climate change financing mechanisms are best designed to support development outcomes. The meeting allowed for stakeholders both government and civil society, to participate and actively engage in the discussions. It also provided an opportunity for aid effectiveness and climate change experts to meet and exchange views. Several country representatives of the region were also present. Several officials of development and international agencies were also in attendance. One of the main background documents presented country case studies for five countries in the region. This document provides a wealth of information that is being shared in the region and beyond. I will give a summary of highlights of this document and the lessons that we need to draw to strengthen climate change financing throughout the developing world. The Dialogue also produced a set of recommendations summarized in the Bangkok Call for Action which I also summarize immediately below. The recommendations are targeted individually to countries, governments, international funders working at country level, and international funders working globally.

For countries, the recommendations were that they should broaden and deepen the political leadership on climate change across sectors, establish clear national priorities for climate change, emphasize mainstreaming, identify and allocate all available finance including from private sector sources, strengthen monitoring and evaluation

For governments, the recommendations were that they should strengthen their capacities, use existing institutional arrangements if possible rather than create new ones, improve overall coordination, strengthen overall policy, planning and financial management, financial frameworks should be strengthened or created to absorb domestic and external sources, and create enabling environments for private sector investment.

For international funders working at country level, they should ensure support is demand oriented, encourage mainstreaming, encourage incorporation of funding into national financial, administrative and management systems, strengthen coordination, support capacity development.

For international funders working globally, they should increase the volume of funding, have clarity on additionality, improve predictability, emphasize devolution of responsibility to national level, work together with private sector to ensure coherence with public sector finance, simplify the diversity of funding sources, facilitate easier and direct access to finance.

These recommendations emerged as conclusions from the Dialogue and from the country case studies which showed a number of common trends that are also found in a large number of countries around the world, and which I summarize below:

- Weak government structures and lack of clarity on the roles on climate change governance at the national level which in turn may lead to the absence of climate change action in some sectors with some countries complaining that the preference of some funds to work with some line ministries may exacerbate problem
- Some confusion on the roles on climate change are often attributed to the proliferation of funds and institutional requirements of some of the external funds that in some countries are perhaps distorting national priorities and creating undue burdens and diversion of resources that could be better invested elsewhere and in some countries being blamed for not encouraging national ownership

- Lack of clarity on the climate change priorities in countries and in some cases possibly would not even exist were it not for the funding available for climate change
- Little effort to mainstream climate change into development strategies
- Weak structures to mobilize and capture private funding to augment public funding sources
- Weak monitoring and evaluation and thus, performance evaluation
- Weak capacities in areas critical for climate change action management
- Tendency to create new institutions rather than strengthening or retrofitting existing ones in order to capture and manage both domestic and intentional funding for climate change
- Weak coordination at the national level
- Weak policy and overall climate change management structures
- A tendency for international funds to be supplied oriented with little emphasis on national capacity building and strengthening of existing financial and management mechanisms
- Inadequate and unpredictable levels of funding for climate change
- Little clarity as to what is additional with a tendency for re-labelling old pledges
- Reluctance of international funders to accept a new concept of development cooperation and climate change global cooperation based on devolution of responsibilities to the national level[3]

III. ODA and Climate Change Finance: the commonalities and the differences

The Country Case Study Synthesis report presents an excellent compilation of a large portion of the funding available for climate change response. It also presents a very good history of the global agreements that have emerged over the past 20 years including of course, the UNFCCC and the Kyoto Protocol. There are several observations that emerge from this section that are necessary in order to complete the picture of both the global agreements and the funding available. On the global agreements, reference is made to Article 11 of the Kyoto Protocol but the most important Article of the Convention, Article 4, which sets the basis for the obligations of all Parties is absent. The omission of this Article is important to point out because it is this Article that set climate change financing under the Convention apart from ODA. This Article establishes the obligations under the Convention and the nature of at least part of the financing for climate change under this obligation. The second observation, linked to the first, is that because of the absence of the Article 4 obligations, the climate change financing listed in the section of the Synthesis Report is a mixture of apples and oranges. And what is more, it is only a partial listing. If we want to list climate change financing available today, one would have to list the large amount of funds being allocated by many national governments and the private sector for investments in climate change related activities. The case of China comes to mind, where financing for climate change activities run into the billions, much more significant than the figures presented here.

[3] For more literature on all of these, please refer to the series of publications of the Oxford Institute for Energy Studies (OIES) and of the European Capacity Building Initiative (ecbi), some of which are listed below:

a. *The Reformed Financial Mechanism of the UNFCCC: Part I: Architecture and Governance,* by Benito Müller and Luis Gomez-Echeverri, Oxford Institute for Energy Studies Background Paper EV 45, April 2009.

b. *The Reformed Financial Mechanism of the UNFCCC: Part II: The Question of Oversight Post Copenhagen,* by Benito Müller, Oxford Institute of Energy Studies Background Paper EV 52, April 2010.

c. *National Funding Entities: Their role in the transition to a new paradigm of global cooperation on climate change*, by Luis Gomez-Echeverri, ecbi Policy Report, October 2010.

The synthesis report also lists the pledges for Fast Start Financing made by developed countries (see table below)

Fast Start Finance Commitments			
Donor country	**Pledge US$bn**	**Donor country**	**Pledge US$bn**
Japan	15	Netherlands	0.4
EU reported pledge	10	Canada	0.4
US	3.2	Australia	0.3
UK	2.3	Belgium	0.2
Germany	1.7	Denmark	0.2
France	1.7	Austria	0.2
Sweden	1.1	European Commission	0.2
Italy	0.8	Finland	0.1
Norway	0.6	Ireland	0.1
Spain	0.5	**Total**	**29**

See www.climatefundsupdate.org for details.

The forthcoming COP 16 at Cancun in December of this year is a good opportunity for developing countries to press and demand more details as to these pledges in order to ensure that at least some of these materialize.

The Synthesis report also cites the High Level Advisory Group on Climate Change Finance established by the Secretary General and which issued its report on November 5, after the publication of the Synthesis Report. This report as well as the Bangkok Dialogue are extremely useful in driving a consensus that the resources required for addressing climate change run in the hundred of billions. And the usefulness of the SG report is that it declares publicly that, although difficult, the figure of 100 billion by 2020 is reachable. It makes it clear, like many recent declarations of developing countries, that much of these resources would need to come from carbon markets and private sector investments. However, it does provide a good menu of options for other sources, many of which are under discussion under the UNFCCC. For many, the report would have been more useful if it would have pressed for the obligation of developed countries to mobilize these resources, whatever the sources, and not to imply any burden for this task for developing countries. The recommendations on governance of funding may also have not been as useful, as the report seems to assign important roles to multilateral development banks, an issue that is clearly within the realm of Parties in the negotiations.

The Synthesis report mentions briefly the vertical funding mechanisms such as the Global Fund to Fund Aids, Tuberculosis and Malaria, Global Alliance for Vaccines and Immunization (GAVI), and other similar ones whose benefits target more than one region of the world and whose relationship is defined by concrete agreements on objectives, institutions to be established, new products to be created or established, and contribute dedicated resources to these objectives. From a certain perspective, these funds have been very effective in contributing to advancing the goals that they set. But some see these funds as creating unnecessary burdens on countries. Given the success of some of these vertical funds, the question is whether the analysis on their success or failure can be transferred to climate change financing. The tentative answer at least, from the results obtained in the case studies and other analysis on climate change financing, the answer is that climate change financing is not successful unless mainstreamed into development strategies and plans. The Synthesis reports echoes the feeling that many of us have on climate change financing. It is unique and more complex than ODA (including those targeted by vertical funds) in many ways because of the demands in some cases to measure and report performance, the basis of which is complex and uncertain, and often requiring skills and competencies that are new for most countries including both developed as well as developing countries.

IV. Conclusions and suggested next steps

We started by asking the question in the title: Can Climate Change Finance Draw Lesson from Aid Effectiveness Initiatives. The answer is clearly yes, but as argued in this report, only to a point. The most urgent tasks for the Parties of the Convention in the forthcoming negotiations at Cancun and beyond, are:

- To set up a global fund for climate change under the framework of the UNFCCC and under the authority of the COP and with target amounts of resources to reach by 2020 and 2050
- To set up a governance mechanism for managing these funds[4]

[4] Please refer to comment by Benito Muller …..xxx