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Going beyond aid effectiveness to guide the delivery of climate finance

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In responding to the challenge brought about by global climate change, it is acknowledged that countries have differing levels of responsibility. The majority of cumulative carbon emissions have been generated by high-income countries. These countries should, therefore, bear most of the burden of carbon emission reduction. But it is developing countries that are likely to face up to 80% of the damage brought about by climate change (World Bank, 2010).

Agricultural yields, in particular, are expected to suffer, undermining food security for the poorest. Maintaining the relatively strong development progress of the first decade of this century represents, therefore, a major challenge for many developing countries, as they have to adapt their development models in the face of a changing climate.

Most commentators agree that the additional funding developing countries will need to respond to climate change will require a major flow of finance from richer countries to poorer ones. The *2010 World Development Report* estimated that the overall incremental cost of mitigation and adaptation in poor countries will be between $170-275 billion per year by 2030. The sourcing and spending of such a large amount of funding represents an extraordinary challenge and may require a transformation in the way global development finance is managed if climate finance is delivered in a similar way.

Whatever solutions are found, these should lead to policies that are effective, efficient and equitable (Stern, 2009). These three criteria provide an overarching framework against which to monitor and judge the delivery of climate change actions. They apply as much to national delivery as to international support and capture, with actions and results measured according to:

- how well actions that are funded lead to the desired result, in this case the mitigation of carbon emissions and the strengthening of adaptive capacity to climate change
- how such results can be achieved with the least amount of waste, or at the least cost
- the distributional impact of such actions, in particular whether they meet the needs of the most vulnerable people.

There have been many commentaries on what climate finance should look like (e.g. Müller, 2008; Newell et al., 2009; Pendleton and Retallack, 2009; Stewart et al., 2009; Craeynest, 2010; OECD, 2010). Far less attention has been paid to the delivery mechanisms required at country level for climate actions to be effective, efficient and equitable. Nor is there clarity on what kind of investments will be made with climate finance, a key question if decisions about modalities are to be sensible. The first studies of national climate finance (Brown and Peskett, 2011; Hedger, 2011; Thornton, 2011; Bird, 2011) have begun to analyse the structures and processes that are being put in place to administer this new source of finance.

Climate finance is distinct from development finance in a number of ways, as has been repeatedly highlighted within the negotiations around the UN Framework Convention on Climate Change (UNFCCC). However, there are also some clear similarities, and lessons gained from the experiences of development cooperation should be useful as climate finance delivery mechanisms are established. In particular, the principles of aid effectiveness, as defined within the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, have highlighted important areas of responsibility. This paper examines whether aid effectiveness might offer the right framework to help

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steer climate finance to outcomes that are effective, efficient and equitable.

Aid and climate finance compared

On the face of it, there are important differences between aid and climate finance (Table 1). These differences may dictate that performance assessments may need to be structured in different ways.

A first consideration is the longstanding consensus that aid flows should be voluntary transfers, politically determined by donor governments (Riddell, 1987). This remains the case, although the UK is moving towards a position of legislating its national commitment to spend 0.7% of GNI annually on aid. In contrast, there have been strong, early calls within the UNFCCC negotiations to make climate finance transfers mandatory within a legally binding global agreement. The outcome of such an agreement has yet to be reached, although the attention given to financing, first in the 2009 Copenhagen Accord and then in the 2010 Cancun Agreements, suggests that many countries will lobby hard for something more definite than the 0.7% GNI aid target, which has remained unmet by most donor countries for decades.

Official development assistance (ODA) is, by definition, public money from donor government treasuries. However, the discussion over climate finance has placed much greater emphasis on private flows and innovative public sources of finance. This has been acknowledged within the UNFCCC convention text, where there is formal recognition that funding may come from a wide variety of sources. The importance of securing different sources of finance to achieve the $100 billion per year target of the Copenhagen Accord was highlighted by the high-level advisory group on climate change financing (UN, 2010).

A third difference between the two lies in the respective goals that each is trying to achieve. Within development circles there has been a sharpening of the objectives of aid in recent years, moving from a broad contribution to the economic and social development of aid recipient countries to one that now identifies poverty reduction as the primary purpose for aid. Within the UK this purpose was enacted into legislation with the 2002 International Development Act. In addition, the international focus on the Millennium Development Goals (MDGs), with targets to be achieved by 2015, has tended to drive a short-term perspective within the policy circles of development agencies (although longer-term development goals are integral to much aid spending).

In contrast, the overall goal for climate finance is twofold: to remain within a 2°C global temperature rise (mitigation) and to help the most vulnerable become more resilient to an already changing climate (adaptation). This has meant that the recent strong aid focus on least developed and other low-income countries is weaker in climate finance, where relatively richer countries (middle-income) are important recipients of climate finance. These middle-income countries are also, in general, more ready to absorb external finance, making spending in them more attractive to contributor countries in the short term.

Another difference concerns where the international leadership over policy coordination and implementation lies. For aid, the development assistance committee (DAC) of the OECD holds a pre-eminent position, where the 'traditional' donor countries come together to further the policy debate and to review progress on implementation. This has been seen by many civil society observers as being a small club of rich countries that, first and foremost, promotes its own views. The centre of power relations on climate finance lies elsewhere within a number of international fora, most visibly within the international negotiations of the UNFCCC. This difference in the seat of power has many ramifications for climate change actions, not least those associated with the demands of a much larger constituency.

Perhaps one of the most contentious issues underlying both aid and climate finance concerns the condi-

Table 1: Differences between aid and climate finance

Aid	Climate finance
• A voluntary paradigm	• Yet to be determined
• Focus on direct budgetary contributions from donor governments	• Much greater emphasis on private flows and innovative sources
• Present imperative of poverty reduction	• Dealing with an uncertain future
• OECD-DAC leadership	• UNFCCC leadership
• Aid conditionality set by donor countries prominent	• Commitments expected from both contributor and recipient countries
• Aid effectiveness has been a retrospective exercise after many years of delivery	• Delivery at scale has yet to begin

tionality that is attached to aid transfers. Developing countries' receipt of aid is associated with the adoption of positions or institutional arrangements that are favoured by donor countries. In contrast, the narrative of climate finance speaks of 'common but differentiated responsibility' (Article 3 of the UNFCCC), suggesting a very different type of partnership, as the negotiations under the UNFCCC attest. This is something that the emerging economy countries have been quick to understand and support.

An important distinction to make, and one that is relevant to any performance assessment framework, is that the aid effectiveness agenda grew out of many years of aid implementation. It has been an exercise very largely built up from a retrospective view of what have been judged to be the successes and failures of aid delivery. This body of experience is missing for climate finance, as large-scale delivery has yet to begin. An unanswered question is whether a performance framework deemed appropriate in one area of established public policy can be readily transferred to another area of developing policy.

A final issue to consider is whether there is empirical evidence to show that aid has become more effective through the attention given to assessing its performance, particularly since the formalisation of the Paris Declaration. While theory suggests that adopting the Paris principles will lead to more efficient aid giving, it is not yet clear whether donors have made significant changes in reality, nor whether the changes that have been adopted have led to improvements in aid effectiveness.

The evaluations taking place in 2011 in the lead up to the fourth High Level Forum on Aid Effectiveness in Busan will be key to answering this question. It appears that while progress has been slow, it has been important enough for developing countries to see Paris as an essential tool to improve mutual accountability between donor and recipient.

While there are significant differences, there are two important similarities between climate finance and aid. First, the early source of the public element of climate finance will be, to a large extent, the same as for aid, i.e. rich country treasuries. This leads to substantial difficulties in assessing newness or additionality of funds (Brown et al., 2010). Second, the way climate finance will be spent in helping vulnerable countries adapt to climate change is in many instances indistinguishable from aid. Some analysts believe that supporting poverty reduction is the best way to increase a community's resilience to climate change.

Principles underlying aid and climate finance

Aid – the Paris principles

A major landmark in the evolution of development cooperation was the 2005 Paris Declaration on Aid Effectiveness,[1] in which developed and developing country governments pledged joint support to five key commitments to improve aid effectiveness. These are: support for national ownership of the development process, promotion of donor harmonisation, alignment of donor systems with national systems, management for results and mutual accountability between donor and recipient (Table 2).

The third High Level Forum on Aid Effectiveness in Accra in September 2008 reviewed progress towards the 2010 Paris Declaration targets. A survey on the implementation of the 12 Declaration indicators was published and a Ministerial Statement (the Accra Agenda for Action)[2] was issued. Recognising that progress had been mixed, there was recognition in some quarters that greater emphasis needed to be placed on the fourth principle, with its focus on results and performance monitoring frameworks.

In Paris, the primacy of national ownership over the development process was acknowledged by donors and recipients alike, whilst in Accra there was also recognition that national ownership needs to extend beyond government, with important roles to be played by national civil society and the private sector.

Climate finance – the UNFCCC Convention principles

A collection of principles to guide action on climate change is beginning to emerge (Bird, 2010; Bird and Brown, 2010; Schalatek, 2011). These princi-

Table 2: The criteria of the Paris Declaration on Aid Effectiveness

Criteria	Description
National ownership	Partner countries exercise effective leadership over their development policies and strategies, and co-ordinate development actions
Alignment	Donors base their overall support on partner countries' national development strategies, institutions and procedures
Harmonisation	Donors' actions are more harmonised, transparent and collectively effective
Managing for results	Managing resources and improving decision-making for results
Mutual accountability	Donors and partners are accountable for development results

Table 3: Principles of aid effectiveness and climate finance compared

Five principles of aid effectiveness	Ten principles of climate finance
1. National ownership	1. Polluter pays
2. Alignment	2. Additionality
3. Harmonisation	3. Transparency
4. Managing for results	4. Accountability
5. Mutual accountability	5. Equitable representation
	6. National ownership
	7. Timeliness
	8. Appropriate
	9. Fair distribution
	10. Complementarity

ples (Table 3) have yet to secure broad international acceptance in the same way as the Paris Declaration on Aid Effectiveness, but they carry significant political weight as they are, for the most part, embedded within the UNFCCC negotiation texts.

First, there is increasing consensus that the 'polluter pays' principle should apply to national contributions towards the global costs of climate change and that the level of funding should be relative to national wealth ('respective capabilities'). Second, developed countries assumed an obligation to provide new and additional financial resources to meet 'the agreed full costs by developing country Parties' under Article 4 of the UNFCCC. It was also acknowledged that the implementation of these commitments should take into account the need for adequacy and predictability in the flow of funds. This was subsequently re-emphasised under Paragraph 1 (e) of the Bali Action Plan and can, therefore, be taken as a core commitment of developed countries.

Two further principles relate to the high standards of probity expected over public finances in democratic states: that such funding should be administered in both a transparent and an accountable manner. A fifth principle, that of equitable representation, can be characterised by the need for broad representation of all stakeholders on fund decision-making bodies. This represents a significant departure from development cooperation norms, where a more conventional donor-recipient relationship has generally applied.

Less attention has been given to the principles that should govern how climate finance is disbursed. Yet this is a key stage of the overall financial architecture, which will determine whether climate finance will be effective, efficient and equitable.

A sixth principle relates to the primacy of national ownership, as measured by the extent to which developing countries exercise leadership over their climate change policies and strategies. Next is the principle of timeliness, with the timing of action becoming ever more important as the science of climate change advances our understanding of what needs to be done. Then there is a consensus that the funding modality should be appropriate and not result in additional burdens for the recipient country. A ninth principle underlying international climate funding is that of equity. The UNFCCC convention text is explicit that climate finance should respond to the needs of all countries, taking into account the social and economic reality of different groups. This will require that credit, resources and technologies are made available to the most vulnerable.

While there are important differences between climate finance and aid, there are similarities throughout the funding cycle from sourcing through management to disbursement. A tenth principle is, therefore, that climate finance should complement aid spending. This is most important at the level of national disbursement where it is being spent in similar ways to current aid and where, therefore, costly new structures to manage climate finance may be unnecessary. This final principle could be summed up as follows: only set up new delivery mechanisms where they are demonstrably needed.

So, there are some shared principles between aid delivery and international support for climate change actions, some principles that are new to climate finance, and some where the emphasis has been restated (Table 3).

This suggests that any assessment of climate finance through the lens of aid effectiveness will deliver only a partial result. Concerns over the effective delivery of climate finance need to be complemented by questions of efficiency (as measured, in part, by the timeliness of support) and equity, requiring an explicit focus on the needs of the most vulnerable groups, at all scales from the national level to the local.

Applying the ten climate finance principles

An examination of two important areas shows how applying these principles could play out in practice. As we shall see, while they are useful guiding principles, they will not mean that hard, context-specific decisions can be avoided. Much will continue to depend on having national capacity to manage the many challenges that will come about through climate change in each country. The two areas are: (1) country allocation decisions, and (2) choosing between funding modalities.

Country allocation decisions

Aid delivery recognises the importance of distinguishing between different country contexts. Various aid recipient country groupings, such as low- and middle-income countries, least developed countries and fragile states, are recognised and each group receives a different response from the donor community. In the past decade there has been strong pressure on aid donors to allocate higher proportions of their aid to least developed and low-income countries, which has, in part, been heeded. However, this approach has not been formalised in any way, and is not mentioned in the Paris Declaration or subsequent iterations of the international consensus on aid effectiveness.

One as yet unanswered question is whether climate finance will retain the uncoordinated approach adopted for aid delivery, or whether a more formalised allocation system will develop. Whatever allocation mechanism transpires, the UNFCCC principles call for transparency over the decision-making process to demonstrate accountability to contributors and recipients alike. The same applies to within-country allocations where a strong national strategy needs to direct funding decisions. However, at the global level the principles of timeliness and appropriateness also come into play – often it is the relatively wealthier middle-income countries that are able to spend money quickly. These countries also have more mitigation potential in the short to medium term, which needs to be secured if the global temperature rise is to remain within the 2˚C goal.

Choosing between funding modalities

There is consensus that no global blueprint exists for aid disbursement. However, direct support to country budgets (either national, state-level or sectoral) has been given prominence by many donors in recent years, although some donor countries remain reluctant to commit funding beyond specific projects. The diversity of within-country interventions has led to a proliferation of funding mechanisms and a complex landscape of aid delivery. The Paris Declaration agenda was, in part, a reaction against this and reflected a desire to move towards the better coordination of effort, although this goal remains elusive.

The same issues will apply to the delivery of climate finance, as the early proliferation of climate funds attest.[3] To date, project activity has dominated the delivery of all climate finance, with poor development of broader programmatic support for national systems. Here, the principle of national ownership over the climate change response should be respected, and current efforts to integrate climate change strategies into broader national development planning need to be accelerated in many countries. Current development spending in poorer countries may be quite similar to proposed adaptation spending, implying that the principle of complementarity should emerge as a key guide to be followed.

Outlook for the relationship between aid and climate finance

While there is much still to be discovered and discussed in what is a confusing global picture, we take three main conclusions from this analysis:

- The aid effectiveness principles of Paris are broadly appropriate for climate finance, but should be built on to take account of the consensus within the UNFCCC negotiations on the principles appropriate for climate finance
- The emerging principles of climate finance could equally well be applied back to the delivery of aid. In other words, both worlds have plenty to learn from each other.
- As climate finance increases, the world of development/climate financing will become even more complex than it is today.

Attempts to bureaucratise and coordinate these flows have met with limited success – a major lesson from the aid effectiveness debate is that principles and declarations are hard to convert into incentives and real change. The key element to making best use of the money available is a strong country-level aid and climate finance management capacity that can manage the complexities of the system as strategically and effectively as possible. This capacity differs across countries, demanding considerable flexibility when it comes to global support efforts. Retaining such flexibility will be critical as the international architecture for climate change actions is built up over the coming months and years.

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Endnotes:

1 See: www1.worldbank.org/harmonization/Paris/FINALPARISDECLARATION.pdf

2 See: http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf

3 See: www.climatefundsupdate.org

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