Overseas Development Institute

Policy brief

May 2010

Reforming climate change finance

Key points

- International climate finance is neither transparent nor accountable
- Climate finance is highly fragmented leading to duplication and inefficiency
- Climate finance is not getting to the countries most in need

'ODI esimates that, of the $19 billion pledged to date, $2 billion has been deposited into dedicated climate funds, with only $700 million disbursed'

When the dust settled after the near failure of the UNFCCC climate talks in Copenhagen in December, the issue of climate finance seemed, strangely enough, to have been one of the few areas where real progress was made.

The Copenhagen Accord gives clear promises for both short- and long-term financial support by wealthier countries for developing countries, especially the most vulnerable, to deal with climate change. It pledges $10 billion per year from 2010-2012 with the promise to increase this to $100 billion per year starting in 2020. However, as the Accord is a non-binding political agreement, it raises questions about if and how these commitments can be fulfilled. There are concerns that these political pledges will follow the same path as earlier promises over aid – and will remain unmet.

ODI estimates that, of the $19 billion pledged to date, $2 billion has been deposited into dedicated climate funds, with only $700 million disbursed so far (Figure 1, overleaf). The proposed trajectory of increase in international public finance represents a daunting challenge for the next decade. Yet this money is necessary if climate change is to be tackled, otherwise there is the danger that existing hard won gains in development will be lost.

Numerous initiatives to generate international public funding for climate change already exist. A plethora of arrangements have been set up over the last two years: at the last count 21 separate climate finance initiatives are now underway, leading to considerable fragmentation of effort. Rather than consolidating, the list appears to be getting longer.

What this means at the point of delivery is a myriad of differing administrative arrangements for national governments. Little appears to have been learned from the experience of making development cooperation more effective through donor harmonisation. Experience with development assistance also suggests

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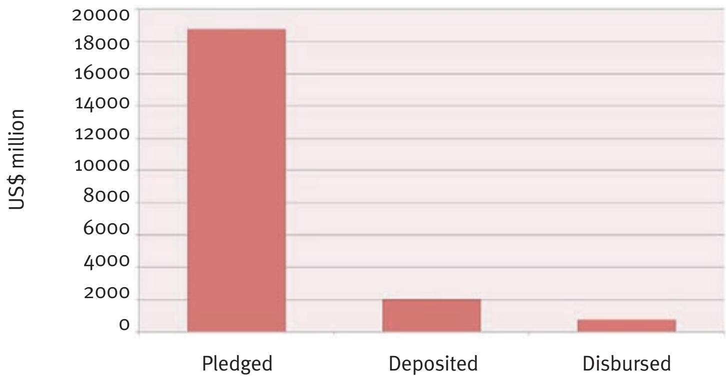
This policy brief draws on ODI's work on climate change issues:

http://www.odi.org.uk/themes/climate-change-environment

Figure 1: The money has yet to flow – total climate funds



Source: Climate Funds Update (information correct as of December 2009).

that project-based support will not deliver at the scale required. Allowing recipient countries direct access to funding is an important early principle to be secured in the international architecture.

A major, and as yet unanswered, question is whether these new funds represent a new approach or whether they imply merely 'business as usual'.

Policy recommendations

There are two possible starting points to the debate over financing actions to address climate change. The first is rooted in the longstanding relationship between donors and recipient countries.

The second proposes a new global response to human-induced climate change, in which industrialised countries should respond by applying the principle of 'common but differentiated responsibility'. Industrialised countries should be expected to assist where countries in the South are unable to meet present financing needs, but not through a donor-recipient relationship, but rather in terms of proportionate payments for damage already inflicted on global public goods. Strengthening national ownership, accountability and transparency mechanisms should be uppermost.

Therefore, channelling new financial resources quickly to countries in need should be an urgent priority. This early activity would be well guided by adopting a set of principles to strengthen the accountability of such financial transfers (both public, private and from new innovative sources). In this manner trust could be restored that the actions of developed countries will meet the needs of developing countries, as the latter respond to the challenges set by climate change on their sustainable development.

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References and useful resources

Bird, N. (2010) 'A transparency agreement for international climate finance – addressing the trust deficit', ODI Opinion 143. London: ODI.

Bird, N. and Brown, J. (2010) *International climate finance; principles for European support to developing countries*. EDC2020 Working Paper 6. Bonn: EADI.

Schalatek, L., Bird, N. and Brown, J. (2010) 'Where's the money? The status of climate finance post-Copenhagen', Washington, DC: Heinrich Boell Foundation and London: ODI.

Useful resources:
www.climatefundsupdate.org
(an ODI-Heinrich Boell Foundation initiative on climate finance)

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