Enhancing the development effectiveness of international climate finance

FACTS AND FIGURES

- The Cancun Climate Change Agreements called on developed countries to provide new and additional resources for developing countries: USD 30 billion in “fast start financing” over 2010-12 and a longer-term goal of USD 100 billion per year by 2020, to come from public and private sources.

- OECD estimates total current climate finance flows at USD 70-120 billion per year, of which about USD 15-23 billion is flowing through bilateral ODA targeting climate change. Because there is no agreed definition of “climate finance”, however, it is unclear how much of this could be counted towards the USD 100 billion commitment.

Delivering ambitious climate change goals requires a significant scaling up and shifting of today’s levels of support for climate adaptation and mitigation in developing countries. The economic setback in a number of developed countries may affect delivery of this financing, and it is urgent to look at ways of making the most of what is available.

HOW CAN CLIMATE FINANCE WORK BETTER?

International public climate finance can serve as a catalyst for other sources of climate finance, for instance from domestic public and private sources, as well as international private sources. While there is still no formal agreement on what to count as climate finance under the Cancun Agreements, the magnitude of the different flows known to date suggests that steering and leveraging private sector investment is essential to successfully tackle climate change.

Estimates of North-South Climate Finance Flows:
(Total USD 70 – 120 billion per year, latest year estimates 2009-10), USD billion, constant 2010 prices

<table>
<thead>
<tr>
<th>Source</th>
<th>Lower Bounds</th>
<th>Upper Bounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral Public</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>Multilateral Public</td>
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<td>Private Investment</td>
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Much can be done to make existing – and potential – climate finance work better. It needs to be delivered in ways that support integration of climate within national development priorities, plans and policies. It should promote using developing countries’ own systems – for example for budgeting and procurement – to manage the funding. Lessons on innovative climate finance need to be identified and shared among the broader development co-operation community. The private sector needs to be engaged to accelerate the pace of development. And finally, developing country preparedness to access and deploy finance from different sources needs to be built up.

WHAT DOES THIS MEAN FOR DEVELOPMENT CO-OPERATION?

Activities undertaken in response to climate change should be clearly based on the needs, views and priorities of developing countries, with particular attention given to the poorest and most vulnerable people. Likewise, developing countries need to exercise full ownership of externally provided climate change funding, integrating it within national financial allocation and budgetary systems. Tracking these resources, both internationally and in national budgets, will help ensure that the use of international climate finance is subject to scrutiny by parliaments, civil society organisations and other domestic and international institutions to deliver accountability. Finally, developing countries and their partners can work together to promote private investment in support of climate action.

ACTIONS THAT WILL MAKE A DIFFERENCE

In all of this, a greater sense of urgency is needed. As a priority, providers of international development assistance and finance need to:

• support developing country partners to develop and integrate climate policies into their national development plans across all sectors, including agriculture
• support developing country partners in designing and using country systems to exert ownership over external sources of climate finance
• work with the international community to develop strong monitoring, reporting and verification (MRV) systems to assess progress on their financial commitments towards developing countries
• work with experts, civil society, women’s groups and country partners to better understand and track shifts in both public finance and private investment in support of climate change mitigation and adaptation
• work with experts, civil society and women’s groups and country partners to elaborate lessons from innovative climate finance and assess progress in “greening” financial flows relevant to climate change

In combination, these actions will support mutual accountability and transparency, helping to build trust and to further international action to limit the extent, pace and impacts of climate change.

For more information: on climate finance flows, see www.oecd.org/env/cc/financing; on the DAC CRS “Rio markers” and the underlying methodology, see www.oecd.org/dac/stats/rioconventions.

DEVELOPMENT ASSISTANCE COMMITTEE (DAC)