



# CLIMATE CHANGE AND DEVELOPMENT

## KEY PRINCIPLES TO INFORM CLIMATE CHANGE FINANCING

Factsheet - October 2009

### **CLIMATE CHANGE AND DEVELOPMENT ARE INTRINSICALLY LINKED**

Climate change poses a serious risk to lives and livelihoods, particularly for the world's poorest and most vulnerable populations. The impacts of climate change may reverse progress towards achieving the Millennium Development Goals. In this sense climate change is both a development and an environmental challenge.

### **MOBILISING SUFFICIENT FINANCE TO ADDRESS CLIMATE CHANGE MITIGATION AND ADAPTATION IS THEREFORE A KEY CONCERN**

It is clear that the mobilisation of "adequate, predictable and sustainable"<sup>1</sup> financing will be critical to address climate change in developing countries. There are a number of estimates of the magnitude of funding needs<sup>2</sup> and evidence shows that existing commitments and disbursements fall far short of these estimates. In raising new funds full advantage will have to be taken of innovative sources such as carbon markets and funding should be additional to existing financial assistance. A range of proposals for generating additional public and private funding are currently under discussion within the framework of the UNFCCC.

### **BUT MOBILISING FINANCING IS ONLY PART OF THE STORY**

While climate change related needs will have to be matched with support, an equally challenging question concerns how public climate change funding is to be effectively governed and delivered to developing countries. The development community has important experience to share in this regard.

## **LESSONS FROM DECADES OF DEVELOPMENT FINANCING PROVIDE USEFUL GUIDANCE FOR CLIMATE CHANGE FINANCING**

Based on decades of experience, donors and developing countries have agreed on a few key principles to guide their partnership. Most of these are relevant to climate change financing and many of the principles are already embedded in climate change agreements such as the Marrakech Accords:

### **OWNERSHIP**

For development to be sustainable over the long term, developing country governments must exercise effective ownership over the development process. Activities undertaken in response to climate change should therefore be country-driven and should clearly be based on needs, views and priorities of partner countries. National sustainable development strategies, poverty reduction strategies and related climate change policies and instruments should be taken into account where they exist<sup>3</sup>. Developing countries must therefore take the lead in establishing and implementing their national climate change strategies through a broad consultative process and ensuring that these strategies are fully integrated into policies, plans and programmes in all relevant sectors (e.g. agriculture and rural development, water resources management, etc.).

### **ALIGNMENT**

Climate change financing needs to be integrated into countries' own planning and budgeting mechanisms. This will enable the partner country to exercise genuine ownership and control over financial resources. Recording these resources in the national budget ensures that the use of these funds is subject to scrutiny by parliaments, and other domestic accountability institutions and civil society.

In order to ensure that the international community is responding to genuine local needs and priorities articulated by the recipient countries, it is important that new and additional climate change financing is channeled through countries' existing financial allocation systems.

1. UNFCCC (2007): Bali Action Plan.
2. See for example UNFCCC (2008): Investment and Financial Flows to Address Climate Change: an Update.
3. See, for example UNFCCC/KP/CMP/2006/10/ - Decision 5/CMP. 2 of the UNFCCC related to the Adaptation Fund.

## CAPACITY DEVELOPMENT

Capacity development will be critical to ensure that partner countries have sufficient capacity to absorb and manage climate change financing and to integrate climate change adaptation actions into national planning.

## HARMONISATION

Experience with aid has shown the importance of harmonisation of international financial flows. When there are scores of contributors and funding mechanisms, each with its own administrative and reporting requirements, the resulting workload may place a strain on partner countries' administrative capacity. To lighten this burden, it is important for the international community to co-ordinate their actions, simplify procedures and share information to avoid proliferation and duplication of funding mechanisms. A shift to programmatic approaches can help in this regard.

## MANAGING FOR DEVELOPMENT RESULTS

Clearly, the challenges posed by climate change call for effective responses, which yield actual results on the ground. This is well recognized by the Bali Action Plan, which stresses the need for the various actions undertaken by Parties to implement the Convention to be "measurable, reportable and verifiable".

## MOREOVER, THERE IS A NEED TO ENSURE COMPLEMENTARY BETWEEN CLIMATE CHANGE AND DEVELOPMENT OBJECTIVES

Greater efforts are needed to ensure complementarity between climate change and existing development finance. It is crucial that climate change financing contributes to poverty reduction and other sustainable development objectives. Countries therefore need to commit themselves to better link climate change and development planning and maximize synergies between poverty reduction and climate change mitigation and adaptation. The recently published OECD Policy Guidance on *Integrating Climate Change Adaptation into Development Co-operation* sets out ways to operationalise the mainstreaming of climate change adaptation into decision-making in developing countries at all levels.

## CONCLUSION

In conclusion, both sides of the climate change financing equation present formidable challenges. Mobilizing sufficient resources to address both climate change adaptation and mitigation will require significant innovation and political will – particularly in the current economic climate.

Yet an equally great challenge is how to manage these funds. There is a need to pay greater attention to the lessons learned from decades of experience with development. Not least is the critical importance of avoiding complex and fragmented sources of climate change financing and ensuring that developing countries have sufficient capacity to effectively absorb and use the additional resources for their intended purposes. Furthermore, as development objectives and climate change strategies are strongly intertwined, policymakers will also need to ensure complementarity between development and climate change objectives in order to achieve effective results on the ground.

**Further reading:** OECD (2009): *Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance*, OECD, Paris.

### About the DAC Network on Environment and Development Co-operation (ENVIRONET)

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What it does:

The ENVIRONET promotes and facilitates the integration of environment and climate change into all aspects of development co-operation, as called for by the Paris Declaration and the Accra Agenda for Action. Building on lessons learned and best practices, the Network works towards enhancing policy co-ordination and coherence to achieve more rapid progress towards the Millennium Development Goals and creating a successful shift towards "green growth".

ENVIRONET's work is organized around the following work streams:

- Integrating climate change adaptation and mitigation into development co-operation.
- Supporting OECD-wide work on green growth.
- Developing capacity for natural resources and environmental management.
- Improving the monitoring of ODA-flows in support of the three Rio Conventions (climate change, biodiversity and desertification).

ENVIRONET works in close collaboration with the Environment Policy Committee (EPOC). The Joint DAC-EPOC High Level Meeting took place in May 2009. High level decision makers discussed urgent issues at the interface of environment and development co-operation and ways to further deepen the strategic alliance between the environment and development co-operation communities. The meeting endorsed two documents during the course of this meeting: a *Policy Statement* and a *Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation*.