Transparency & ACCOUNTABILITY Initiative

Climate finance

A guide to best practice in transparency, accountability and civic engagement across the public sector

The Transparency and Accountability Initiative is a donor collaborative that includes the Ford Foundation, Hivos, the International Budget Partnership, the Omidyar Network, the Open Society Foundations, the Revenue Watch Institute, the United Kingdom Department for International Development (DFID) and the William and Flora Hewlett Foundation.

The collaborative aims to expand the impact, scale and coordination of funding and activity in the transparency and accountability field, as well as explore applications of this work in new areas.

The views expressed in the illustrative commitments are attributable to contributing experts and not to the Transparency and Accountability Initiative. The Transparency and Accountability Initiative members do not officially endorse the open government recommendations mentioned in this publication.

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During the United Nations Framework Convention on Climate Change (UNFCCC), Conference of the Parties (COP) in Copenhagen, Denmark in 2009, developed nations agreed to collectively provide new and additional fast-start finance resources 'approaching $30 billion for the period 2010–2012' to help developing countries, particularly the poorest and most vulnerable, to reduce their greenhouse gas emissions and to adapt and cope with the effects of climate change. By 2020, developed countries also agreed to a goal of jointly mobilising, over the longer term, an additional '$100 billion a year to address the needs of developing countries'.[1] These pledges present an opportunity to build trust between developed and developing countries in the international climate arena, in turn fostering progress towards a comprehensive post-2012 international climate agreement.

Developed countries want to ensure that their funds are used efficiently and effectively, and developing countries want to know that committed funds will actually materialise in the promised amount and on time. A climate finance regime that is fully transparent in terms of the scale of resources flowing into countries, how they are channelled, the financial instruments used, how resources are spent and the oversight mechanisms put in place are critical to building this trust.

Developed and developing countries have distinct but critical roles to play in facilitating the flow of climate finance and ensuring that climate funds are used effectively by: (1) delivering on their fast-start finance pledges; (2) providing long-term, predictable finance to developing countries; (3) developing and supporting transparent, inclusive and robust reporting systems for climate finance; and (4) working towards an open, transparent and inclusive process in designing and operationalizing the Green Climate Fund.

Initial steps

Goal

Developed countries deliver on their 2010–2012 fast-start climate finance pledges.

Justification

WRI research indicates that, to date, individual country pledges add up to $29 billion of the $30 billion in fast-start funding promised in Copenhagen. Countries are taking steps (e.g. through budget requests and appropriations processes) to make their pledges available, and are providing additional details of these pledges. For example, the government of the Netherlands has developed a website (http://www.faststartfinance.org) that aims to provide transparency about the amount, direction and use of fast-start climate finance. While this increased transparency is welcome, it is important for countries to deliver on their commitments in order to build trust among developed and developing country parties. This information is critical both to holding donor countries accountable for their commitments and building trust among parties. Increased transparency can also point to gaps in flows and guide future allocation of resources.

Recommendations

1. Developed countries must deliver on their fast-start finance commitments and provide further clarity on:
   - The scale of the funds provided
   - The method for determining whether the money is 'new and additional'
   - The objective of the funding (i.e. mitigation or adaptation)
   - The institutions for channelling resources
   - The geographical distribution of the funding
   - The type of financial instruments used (i.e. grants, loans, guarantees)
   - The status of funding (i.e. committed, pledged or already delivered to a recipient country).

[1] World Resources Institute. 'Summary of Developed Country Fast-Start Climate Finance Pledges'. Last updated 23 November 2010. http://www.wri.org/publication/summary-of-developed-country-fast-start-climate-finance-pledges

More substantial steps

Goal

Developed countries provide stable, predictable and adequate long-term climate finance.

Justification

Developed countries must deliver on their commitment to provide the $100 billion per year to developing countries promised by 2020 to help them respond to the challenges of climate change. It will be very difficult to secure agreement on global climate action if there is no demonstrated willingness to help generate stable, predictable and adequate long-term climate finance. The UN Secretary General's High-Level Advisory Group on Finance (AGF) has shown that scaling up climate financing to support developing countries for climate change is challenging, but feasible. A menu of options is available to help deliver tens of billions of dollars towards the $100 billion financial target agreed at the Copenhagen Summit. Now it is up to countries to choose the option(s) that work best in their domestic contexts and to take necessary steps to raise new revenues through these innovative mechanisms.

Recommendation

1. Drawing on the findings of the AGF report, the international community must explore ways to generate and scale up new and additional long-term resources to developing countries for tackling climate change.

Most ambitious steps

Goal 1

Goal

Developed and developing country parties to the UNFCCC work together to design a transparent climate finance reporting system for both donor and recipient countries.

Justification

Developed and developing country parties to the UNFCCC must work together to create guidelines that will lay the foundation for reporting on climate change finance. These guidelines should be based on current international standards for good practice in transparent public finance management in order to take advantage of existing capacity and to avoid undue administrative burdens that would likely accompany a climate finance reporting scheme that differs significantly from these established processes.

Currently, tracking and monitoring climate finance pledges presents a number of challenges. The information that donor countries have made available on their pledges to date is incomplete and lacks specificity, precluding an accurate assessment of the level of funding and the potential impact for developing countries. Compounding the lack of details, information made public is often based on different methodologies for calculating pledges, covers different periods and sometimes lacks clarity on the balance of allocation between adaptation and mitigation. For example, parties to the UNFCCC have not yet achieved consensus on a clear and specific definition of additionality that can be applied uniformly to developed country financial pledges. As a result, countries have proposed a variety of methods for defining the additionality of their fast-start finance. In addition, country reporting often does not identify how pledged funds will be channelled to developing countries.

While tracking and monitoring the commitments made by donor countries is essential, equally important is ensuring transparency and accountability for what happens to climate funds once they reach recipient countries. The key components of an effective approach to managing and monitoring the use of climate funds are complete transparency about the amount of funds coming into the country and the details of how those funds will be spent, public access to all of this information, strong oversight mechanisms and opportunities for citizens and civil society organisations to participate in decision-making, monitoring and oversight.

Recommendations

1. A standardised financial reporting format with common definitions and methodologies for developed countries to quantify their climate finance contributions should be adopted.
2. A more robust process should be established at the international level to review data reported by developed countries.
3. A long-term commitment should be made to investing in a robust international reporting and review system.
4. With support from developed countries, governments receiving climate funds should put in place systems to report complete information on their use of the funds to their citizens and legislatures. They should also promote mechanisms for involving the public and civil society in managing how these funds are used and ensuring complete public access within countries to comprehensive data.

Goal 2

Goal

Commitment to open, transparent and inclusive processes in designing and operationalizing the Green Climate Fund.

Justification

The Green Climate Fund was established at the UNFCCC Conference of the Parties in Cancun in 2010. This fund is seen by many, particularly developing countries, as an opportunity to create a 'legitimate' institution for delivering scaled-up finance to address climate change. In Cancun, the COP decided to set up a Transitional Committee and entrusted it with the task of designing the Green Climate Fund. The Transitional Committee will include representatives from 25 developing countries and 15 developed countries, including representatives from the USA.

Recommendations

1. The Transitional Committee should commit to an open, transparent and inclusive process in the design of the Green Climate Fund and abide by the existing terms of reference. It should ensure mechanisms for civil society, private sector, MDB and UN agency participation in the process. This is important for transparency in the Transitional Committee's processes.
2. Countries should also ensure that the Fund applies the highest environmental and social safeguards and best-practice fiduciary standards and sound financial management to its investments.[2]

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[2] Sources:

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