The Transparency and Effectiveness of Public Climate Finance:

Discussion Synthesis

Introduction

Climate Policy Initiative (CPI), the Overseas Development Institute (ODI) and the World Resources Institute (WRI) convened a dinner discussion on the transparency and effectiveness of public climate finance on the margins of COP 18 in Doha[1]. The meeting was motivated by the growing recognition of the need for better information on how public climate finance has been spent. Increasing information availability and transparency can enhance mutual accountability for delivering on UNFCCC commitments, and is a necessary precursor to efforts to understand and increase the effectiveness of scare public resources directed to address the urgent challenges of climate change.

The two-part discussion featured recent work from CPI, ODI and WRI, including; a recent series of studies of the UK, US, Japanese and German (forthcoming) fast start finance contributions, the 2012 Landscape of Climate Finance, and insights from the San Giorgio Group case studies. This synthesis note seeks to highlight some of the key issues from the discussion, which was held under the Chatham House rule. Participants are listed in Appendix 1.

ON TRANSPARENCY

The **lack of agreement on how to define "climate finance"** remains a precursor consideration in seeking to strengthen transparency of climate finance. In the absence of common definitions, it is difficult to ensure that data and information gathered by various actors are innately comparable. While there is widespread agreement that a common definition would be helpful, political efforts to reach such commonality have proved intractable.

In practice, many providers of climate finance have tended to use relatively broad and encompassing definitions of what "counts" as climate finance. In times of fiscal austerity, these broader and more flexible definitions have made it easier for some countries to meet climate finance commitments. At a minimum, contributors should be able to **clarify the assumptions that underpin what they have counted** in their self-reporting, including a base year against which they consider their contributions to be new. Agreeing on **common set of attributes against which to report** climate finance delivered may allow improvements in transparency even in the absence of consensus on definitions.

Efforts to mainstream climate change considerations into broad investment flows –which most participants agreed was crucially important –make it more difficult to state definitively what 'counts' as climate finance and what does not.

Some progress has been made towards standardisation of definitions within sub-sets of actors: for example the MDBs have been able to agree on common approaches to identifying investments that

[1] Contacts: Smita Nakhooda, ODI s.nakhooda@odi.org.uk; Barbara Buchner, CPI Barbara.buchner@CPIVenice.org; Taryn Fransen, WRI tfransen@wri.org

support mitigation (using a positive list approach, in which core activities that support mitigation were agreed) and adaptation (using a process based set of considerations to determine whether a project supports adaptation). Such approaches might be voluntarily adopted by other actors involved in climate related finance.

Transparency has different functions. If the goal is to strengthen accountability for delivering on international commitments, this requires somewhat different forms of reporting and information than if the goal is to facilitate learning and advance understanding of effectiveness.

Separate reporting systems were set up for the fast start finance (FSF) period. This has been cumbersome and time consuming. It might be more efficient to work through established systems for reporting on the delivery of international finance, recognising the need for those systems to also be strengthened and improved. Existing systems, however, might also need to be modified to accommodate the demands of monitoring delivery of climate finance.

The costs of greater transparency should not be underestimated**.** It is unclear that transparency will increase at the end of the FSF period: there is a real possibility that this marked a high water mark in terms of dedicated reporting on the contributor side.

Transparency of course **does not stop at the point of disbursement of finance.** It is important to be able to monitor flows, and understand how finance has been used. This poses some challenges and may require new systems and processes to be put in place. It may be helpful to try and work through existing national level systems to the extent possible, and focus on building new systems that really strengthen national financial management capacities more widely (rather than focusing on climate finance needs exclusively). There may of course be a sequencing gap, in that building such systems may be a longer term process than fits with the immediate terms for improved information. Several independent efforts to monitor climate finance at sub national level have recently been initiated.

ON EFFECTIVENESS

Ultimately **we need to focus on how well we are spending scarce public climate finance** rather than merely how much finance we are spending and how quickly. In some cases, FSF commitments may have created pressure to spend money very quickly, which resulted in a focus on projects that could be executed and would garner high visibility. This may have detracted attention from bigger picture questions around the scope, objectives and strategic value that international public climate finance can add.

The effectiveness of climate finance inevitably has multiple dimensions. **It is not helpful to separate development actions from climate change actions: we will need to accept that these imperatives are (and must be) interlinked at national level.** The concern about what is “unique” about climate finance for definitional purposes is largely political matter resulting from the UNFCCC negotiations. It may actually undermine good delivery and use of climate finance. The distinction between climate finance and other finance looks artificial from a practical on-the-ground perspective.

This is likely to be particularly true for adaptation finance given that in many cases development activities will be the best way to strengthen resilience to the impacts of climate change. **More attention to the procedural considerations may be helpful in understanding the links between**

spending and adaptation: for example, have national climate change resilience planning processes been invested in, or have priority areas for adaptation been identified that are benefiting from adaptation finance.

In the near term, many climate finance supported projects and programmes are in their very early stages. Any efforts to assess of effectiveness will likely be limited to trying to understand and analyse the interim outputs and objectives attached to climate finance. We can also consider how the use of climate finance has affected overall incentives related to investment and development.

Efforts to form common metrics are likely to focus on technical issues on which significant work has already been completed: for example measurement of greenhouse gas emission reductions, installed clean energy, etc. Objectives whose metrics are easier to measure are often preferred, and this may also skew the allocation of finance away from less tangible interventions that may have a major impact over the longer term.

There is a particular need for climate finance to build on (and depart from) the development finance experience, particularly by focusing on fostering innovation (in terms of technology, and in terms of approaches taken), and demonstrating a greater tolerance for risk.

Assessments of effectiveness **need to consider the extent to which innovation has been enabled** or encouraged. The effectiveness of finance also depends on **the extent to which it addresses the range of associated risks and costs** which often hamper the scale up of green investments. It is also important to consider how finance **fosters improvements in policy, regulation, and governance**, in addition to **providing incentives for new approaches to development** that incorporate climate change. We need to think about finance from more of a systems perspective, and the key is to create systems that set the right incentives. This is likely to become more important than discrete project or programme level outputs and indicators.

Such change is difficult to measure. Issues of attribution are also complex and difficult (and only become more so as one moves further away from direct impact or output measurement). **Qualitative approaches to understanding such change are likely to be necessary: simple quantification is unlikely to be adequate or feasible.**

Some participants expressed enthusiasm for the idea of a set of broad MDG-like goals related to low carbon climate resilient development that could be a political focus, against which country specific targets could be set and progress tracked.

Discussions suggested a growing consensus on the **central importance of "ownership"** to efforts to address climate change, which is also recognised as the central principle in efforts to strengthen the effectiveness of development assistance. Programmes to address climate change are likely to be most effective when they clearly meet national needs, and help realise well thought out strategies to address climate change. **Programmes financed need to be set in the context of emerging national climate change plans and associated strategies**.

Of course building ownership is no straightforward task (in developed or developing countries), but it has central importance: it requires **engaging stakeholders both within and outside of government, and may sometimes be a disruptive process**.

Efforts to understand the effectiveness of climate finance will need to be **iterative**; processes to incorporate the findings from reviews into ongoing programming and improve impact in real time (to the extent possible) need to be strengthened. There may be limits to the changes that can be implemented, however, once core elements of a programme have been agreed.

Finally, the effectiveness of finance is also **linked to the scale and form of finance available**. It is important to be realistic about what can be achieved with limited volumes of public and private finance on hand.

KEY MESSAGES

We can all do better in defining (and understanding how each other define) transparency and effectiveness. On effectiveness, it seems clear that some of the factors that support bold shifts and inspiring impacts sought from the use of climate finance will not be easy to measure, particularly not quantitatively**.** Perfect solutions are elusive at present, but collective efforts to strive for continuous improvement and learning are essential.

Ultimately we will need to balance the need to find pragmatic solutions to near term needs with long term efforts to find better definitions and framings. Iteration should, in theory, lead to improvement. In the near term there is a risk that the "perfect becomes the enemy of the good", which must be avoided.

A focus on practical implementation is needed. Many systems for reporting and evaluation are liable to present substantial burdens and costs for both contributors and recipients of finance. The costs of monitoring and evaluation need to be considered, and kept reasonable. Integrating climate change monitoring and evaluation processes into national systems may have the potential to help reduce cost burdens over the longer term.

Contributors and recipients (governments, intermediaries, and associated stakeholders) need to find better ways to listen to each other, and recognise each others' constraints. Strengthening mutual understanding is essential to success, and ultimately is likely to be the only way to foster national ownership of ambitious approaches to low carbon development. If monitoring and evaluation exercises can be structured to reflect both contributor and recipient country perspectives, there is likely to be greater willingness and enthusiasm to engage with such processes.

A focus on the effectiveness of climate finance is necessary and essential: but the scale of the challenge that countries confront requires substantially more finance than is presently available. A focus on effectiveness should not detract from the imperative to scale up the delivery of climate finance substantially. There is a need for equal emphasis on the delivery of finance, alongside a needed focus on results and performance.

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Appendix 1: Participants

Alexis Bonnel	French Development Agency (AFD)	bonnel@afd.fr
Alexander Froede	GIZ	alexander.froede@giz.de
Barbara Buchner	CPI	barbara.buchner@CPIVenice.org
Charlene Watson	ODI	c.watson@odi.org.uk
David Waskow	Oxfam America	dwaskow@oxfamamerica.org
Dennis Tirpak	WRI	dennis@tirpak.com
Eric Usher	UN Environment Programme	eric.usher@unep.org
Gloria Visconti	Inter-American Development Bank	gloriav@iadb.org
Heather McGray	WRI	hmcgray@wri.org
Ingmar Juergens	CPI	ingmar.juergens@cpiberlin.org
J Timmons Roberts	Brown University / Aid Data	j_timmons_roberts@brown.edu
Jan Corfee-Morlot	OECD	Jan.CORFEE-MORLOT@oecd.org
Jerome Van Rooij	African Climate Finance Hub	Jvanrooij123@gmail.com
Jochen Harnisch	KfW	Jochen.Harnisch@kfw.de
Joerg Hass	European Climate Foundation	Joerg.haas@europeanclimate.org
John Ward	Vivid Economics	john.ward@vivideconomics.com
Juichiro Sahara	Japan International Cooperation Agency	Kawamura.Mihoko.2@jica.go.jp
Mafalda Duarte	African Development Bank	M.DUARTE@AFDB.ORG
Miriam Vieweg	Ecofys	m.vieweg@ecofys.com
Masaya Fujiwara	International Group for Environmental Strategies	m-fujiwara@iges.or.jp
Noriko Shimizu	International Group for Environmental Strategies	shimizu@iges.or.jp
Pierre Forestier	AFD	forestierP@afd.fr
Preety Bhandari	ADB	pbhandari@adb.org
Richard Calland	Africa Climate Finance Hub	rjtcalland@gmail.com
Smita Nakhooda	ODI	s.nakhooda@odi.org.uk
Sven Harmeling	Germanwatch	harmeling@germanwatch.org
Taryn Fransen	WRI	tfransen@wri.org
Virginia Sonntag O'Brien	UNEP National Climate Finance Institutions Support Programme	Virginia.SonntagOB@unep.org