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Recent bilateral initiatives for climate financing: Are they moving in the right direction?

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'The apparent haste to create new funding mechanisms may be at the expense of conceptual thinking on how the funds should be delivered. Providing more of the same will not do.'

Governments worldwide are debating how best to respond to the many challenges set by climate change. Within this debate there is growing recognition that national funding efforts need to be complemented by additional finance at the international level. Over the past year, a whole range of traditional donor countries have created new funds to support climate change programmes in developing countries. These include the governments of Australia, Germany, Japan, Spain and the UK, together with the European Union (Box 1), with pledges totalling $2.7 billion per year over the next few years. The impetus behind these new financial mechanisms has been, partly, a frustration with existing frameworks for technology transfer and investment that are not sufficiently responsive to the global challenges of climate change. However, these initiatives raise some important questions about the underlying relationship between the North and South.

Recent ODI research into these new funding mechanisms (see useful resources) has raised a number of issues that need addressing. Four key questions can be highlighted.

First, what will these proposed new environmental funds support? This question should be seen in the context of climate change mitigation being, primarily, a northern agenda, while adaptation to climate change is of more immediate concern in the south. They are quite different responses to climate change itself. Mitigation focuses on policies and practices that aim to reduce greenhouse gas emissions, or remove gases already in the atmosphere, which have been generated through industrial development in the northern economies. Adaptation, on the other hand, refers to the activities in which all countries must now invest, to deal with the consequences of climate change. Many developing countries lack the resources to implement adaptation programmes and new international funding is needed. Yet, of the six bilateral funds studied, not one focuses on adaptation – rather, all of them have multiple objectives, with support for mitigation efforts predominating. Greater clarity of fund objectives is needed, with more emphasis on adaptation funding, despite the continuing uncertainty over what adaptation is actually required.

Second, is the scale of funding that is being proposed enough to do the job? For these initiatives to be credible, their contribution needs to respond to the level of need. Unfortunately, this is where substantial uncertainty exists. The World Bank estimates the incremental costs for developing countries to adapt to the projected impacts of climate change to range from $9 billion to $41 billion per year, and that appears to be little more than a 'back of the envelope' calculation. Such estimates need to be made in a more rigorous manner. The predictions about the level of funding that might be required has led to calls to scale-up current finance levels by two orders of magnitude (from hundreds of million to tens of billion dollars per year). Among the six bilateral initiatives, it is only the Japanese Cool Earth Partnership that appears to offer resources at this scale, with $10 billion pledged over the next five years – yet most

Box 1: Six new bilateral environmental funds announced since December 2006

- The Cool Earth Partnership of Japan
- The Environmental Transformation Fund (International Window) of the UK
- The International Climate Protection Initiative of Germany
- The Global Initiative on Forests and Climate of Australia
- The Global Climate Change Alliance of the European Union
- The UNDP-Spain MDG Achievement Fund – Environment and Climate Change Thematic Window

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of this money is intended to support mitigation – rather than adaptation – activities.

The third question that remains unresolved is whether these new funds represent a new response to tackling climate change or whether the funds are simply the continuation of official development assistance. 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, involving the transfer of financial resources between the North and South as part of the development process. 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'. Northern 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. In this model, there is no question of aid conditionality. The resource transfer is a payment to the developing country – to do with as it pleases.

However, traditional donors appear to be stuck in the mode of development spending. The evidence of the six bilateral funds studied is unequivocal: all the funds announced are considered official development assistance. The question to raise is whether this is the right basis on which to move forward; and whether the development agencies of these countries are the best institutions to provide the necessary leadership.

Finally, a fourth question that warrants more investigation is how these funds will be disbursed. There are at least two aspects to this question: whether the financial flows will incur costs for the recipient country and what methods of financial transfer will be employed. On the former, it is telling that the terms of the two bilateral funds of any scale – namely the Japanese Cool Earth Partnership and the UK's Environmental Transformation Fund – are offered largely as concessional loans. So, not only are these funds considered part of development assistance, but they are loans not grants, which means they will have to be repaid at some point. This is at odds with the alternative response to financing climate change actions under the principle of 'common but differentiated responsibility' and might possibly end up making it harder to find appropriate responses to climate change.

The experience of development assistance also suggests that project-based support will not deliver the funds in the amounts required. In addition, the proliferation of multiple projects and donors would likely result in additional burdens on already over-stretched ministries, and run counter to the Paris Declaration principles that the same donor countries have already signed. There is much to learn from recent lessons with development finance and the move away from project assistance to more programmatic forms of support, including budget support in aid-receiving countries.

The proliferation of funding initiatives over the past year represents an important statement of intent by northern countries to support global actions on climate change. However, the apparent haste of these developments appears to have been at the expense of conceptual thinking on how this finance should be delivered. Providing more of the same will not do – the opportunity to establish a new global accord on financing climate change is in danger of being missed.

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Useful resources

The new global environmental funds: http://www.odi.org.uk/fecc/resources/reports/s0178_final_report.pdf

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