

PRINCIPLES AND CRITERIA FOR CLIMATE CHANGE FUNDING		
DELIVERY PHASE	PRINCIPLE	CRITERIA
Fund Mobilization	Transparency and Accountability	Financial contributions by individual countries and international organizations and agencies as well as their composition and sources are disclosed publicly and timely
	The Polluter Pays	Financial contributions are relative to the quantity of (historic) emissions produced
	Respective Capability	Financial contributions are correlated with (existing) national wealth and (future) development needs
	Additionality	Funds provided are more than existing national ODA commitments and are not counted towards fulfillment of existing national ODA commitments
	Adequacy and Precaution	Amount of funding is sufficient to deal with the task of maintaining global temperature rise below 2 Degree Centigrade
	Predictability	Funding is known and secure over a multi-year, medium-term funding cycle
Fund Administration and Governance	Transparency and Accountability	Accurate and timely information on a mechanism's funding structure, its financial data, the structure of its board and contact information for its board members, a description of its decision making process and the actual funding decisions made as well as the existence of a redress mechanism or process
	Equitable Representation	Board representation of stakeholders on the Board of a fund or funding mechanism
Fund Disbursement and Delivery	Transparency and Accountability	Disclosure of funding decisions according to publicly disclosed funding criteria and guidelines; duty to monitor and evaluate implementation of funding; existence of a redress mechanism or process
	Subsidiarity and National/Local Ownership	Funding decisions to be made at the lowest possible and appropriate political and institutional level
	Precaution and Timeliness	Absence of scientific certainty should not delay swift and immediate disbursement of funding when required
	Appropriateness	The funding modality should not impose an additional burden or injustice on the recipient country
	Do No Harm	Climate finance investment decisions should not imperil long-term sustainable development objectives of a country or violate basic human rights
	Direct Access and Vulnerability Focus	Financing, technology and capacity building to be made available to the most vulnerable countries internationally and population groups within countries as directly as possible (eliminating intermediary agencies where not needed)
	Gender Equality	Funding decisions and disbursement take into account the gender-differentiated capacities and needs of men and women through a dual gender-mainstreaming and women's empowerment focus



## Climate Finance Fundamentals

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### BRIEF 1

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## A Normative Framework for Climate Finance

Under Article 4.3 of the UN Framework Convention on Climate Change (UNFCCC) developed countries committed to provide funding for the “agreed full incremental costs” of climate change in developing countries, meaning the additional costs of transforming business-as-usual fossil-fuel dependent economic growth strategies into a low-emission climate-resilient development path. The Convention, the Kyoto Protocol and follow-up agreements and decisions by the Conference of the Parties (COP) have laid out some of the key principles relevant to the financial interaction between developing and developed countries. Other important principles, which can be instructive for a climate finance governance framework, stem from Parties’ existing human rights obligations or a larger body of environmental law outside of the UNFCCC (such as the Rio Declaration). While the precise meaning of these principles remains a matter of interpretation and discussion, collectively, they can nevertheless serve as normative guidance for a coherent framework by which the relative worth of different new funding mechanisms to tackle climate change can be assessed and compared.

### The centrality of global climate finance

Estimates for the scale of overall climate finance vary, depending on the category of climate action pursued (adaptation, mitigation or reducing emissions from deforestation and forest degradation - REDD), but could be in the range of US\$150-200 billion annually by 2020. The political pledges of the Copenhagen Accord in November 2009 have to be seen in this light. In Copenhagen, developed countries promised to transfer US\$30 billion in fast-start finance to developing countries over three years (2010-2012) for immediate action. They also pledged to scale up funding for climate actions to US\$100 billion annually from private and public sources by 2020. How quickly these new financial resources are committed, and how these flows are managed and guided, will be crucial to re-building trust and commitment between developing and developed countries in the ongoing UN climate negotiations. Answering these questions satisfactorily will also be the prerequisite to make progress toward a comprehensive, fair and effective post-Kyoto Agreement global climate deal.

This first Brief looks at the three sequential phases relating to the mobilization, the administration and governance and the disbursement of climate change funding. Taken together, they offer a minimum guiding framework for climate finance, based on the principles and criteria briefly examined here. Such a framework is strengthened by adding a human rights perspective. While human rights obligations are not formally addressed in the UNFCCC, expert legal analysis has confirmed their compatibility with the UNFCCC. The UN High Commissioner for Human Rights (OHCHR) has warned of the effects of climate change on the enjoyment of human rights in an official report. Parties are also signatories to, and thus obligated to uphold, existing international human rights covenants focusing on economic, social, cultural, political and civil rights.

## Fund mobilization

Most fundamentally, the Convention has laid out that the parties need to take climate actions, including on finance, on “the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities” (UNFCCC, Art. 2). Interpreted as the principle that ‘the polluter pays’, this is relevant for the mobilization of climate change funding, as is the UNFCCC requirement for “adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties” (Art. 4.3.). The Bali Action Plan from 2008 likewise stipulates that funding must be adequate, predictable, sustainable as well as new and additional (Bali Action Plan, Art. 1(e)(i)). The Copenhagen Accord, though not a formal decision under the UNFCCC, echoes these funding principles in Paragraphs 3 and 8.

■ **The polluter pays** – this principle relates the level of greenhouse gas emissions to the amount each country should pay for climate action, although it is unclear whether and how to include historical cumulative emissions (the question of an adequate base year). Besides determining the quantity of climate funding, applying the polluter pays principle will define a legal obligation for compensatory finance, distinctly different from aid flows.

■ **Respective capability** – contributions should relate to a measure of national wealth more broadly defined, as well as the status and trend of national economic and social development. A country’s obligation to pay for climate action should be correlated with a minimum development standard for each of its citizens. The choice of a reference year could be a concern; periodic re-evaluations of a country’s capacity to pay would be needed.

■ **New and additional** – funding should be additional to existing official development assistance (ODA) commitments and other pre-existing flows from developing countries to avoid the diversion of funding for development needs to climate change actions. This is commonly understood to be above the 0.7 % of gross national income (GNI) that has been the ODA target, unfulfilled by most developed countries, since 1970. Unfortunately, existing aid classification indicators are insufficient to clearly separate climate finance classified as ODA from national contributions labeled as non-ODA, and thus clearly “additional” transfers.

■ **Adequate and precautionary** – in order to “take precautionary measures to anticipate, prevent or minimize the causes of climate change and mitigate its adverse effects” (UNFCCC, Art. 3.3.),

the level of funding needs to be sufficient to keep a global temperature increase as low as possible. Most current global funding needs estimates use a top-down approach by tying their costing to a 2° C temperature increase scenario. A better gauge of adequacy might be cumulative national estimates of need, based on countries’ own climate action plans.

■ **Predictable** – a sustained flow of climate finance is needed through multi-year funding cycles (ideally at least 5 – 10 years) to allow for adequate investment program planning in developing countries, to scale up or maintain existing efforts or to fast start a country’s national adaptation and mitigation priorities with small initial tranches in the secure knowledge of continued funding.

## Fund administration and governance

Where public funding for climate change is used, national governments and global funding entities (receiving contributions from developed countries) are obligated to administer public funds in a way that is both transparent and accountable. Accountability furthermore suggests that broad stakeholder participation and representation should be ensured in the administration of climate funding on the principle of equity.

■ **Transparent and accountable** – while relevant for all stages of the climate funding cycle, both these principles are most strongly tied to the governance of climate funds. A transparent administration of public climate funding requires publicly available, accurate and timely information on a mechanism’s funding structure, its financial data, the structure of its board, its decision making-process as well as actual funding decisions made. The principle of accountability demands the existence of a redress mechanism that would ensure a country’s or affected citizens’ procedural rights to challenge climate funding decisions or climate finance project implementation, as well as strengthened parliamentary oversight.

■ **Equitably represented** – in a clear break with existing ODA-delivery mechanisms and the old unequal power-relationship between donor and recipient countries (which give donor countries a bigger voice in funding decisions), climate funds need to be governed based on equitable representation. This goes beyond a focus on nation states, and requires the inclusion of a broad group of stakeholders into fund management and decision-making structures, including from civil society and climate change affected groups and communities in recipient countries.

## Fund disbursement

The ongoing discourse on climate finance is preoccupied with the slow progress of mobilizing climate

finance and how it will be governed globally. Less attention has been given to the principles guiding disbursement. These are, however, crucial, as they will determine the effectiveness and efficiency of the funds used.

■ **Subsidiarity and national/local ownership** – to guarantee that the disbursement of funding meets actual spending needs in developing countries, funding priorities should not be imposed upon a country or a community from the outside. Rather funding decisions – in keeping with the concept of subsidiarity, as expressed in the Paris Declaration on Aid Effectiveness and the Rio Declaration (Principle 10) – should be made at the lowest possible and appropriate level.

■ **Precautionary and timely** – the absence of full scientific certainty on necessary adaptation and mitigation action should not be used as a reason to postpone or delay funding for possible climate action now (Rio Principle 15). In the absence of binding assessed contributions of industrialized countries to pay for climate action, performance indicators are necessary to guarantee that currently mostly voluntary climate finance pledges are turned into rapid funds delivery. While this should not come at the expense of oversight and due diligence, a harmonization of donor allocation guidelines could reduce burdensome and lengthy disbursement requirements.

■ **Appropriate** – Climate funding should not place extra development burden on the recipient country. Depending on which finance modality is used to disburse climate funds to developing countries – grants, loans, investment guarantees or project insurance – recipient countries (many of which are still highly indebted) might be placed in a situation where climate action would come at the expense of national development priorities or the fulfillment of their international human rights’ obligations.

■ **Do no harm** – Some climate finance investments have at best a dubious benefit for the climate

and may harm sustainable development objectives as well as violate human rights. Public funding for climate change should avoid such investments. Areas of special concern include investments with a focus on traditional fossil fuel exploration, large hydro dams or nuclear power generation.

■ **(Directly) accessible for the most vulnerable** – access to and the benefits of climate finance should be distributed equitably, thus corresponding to the differing needs and capabilities of countries and regions to deal with the challenges of climate change, as well as the social and economic realities of recipient countries and the people living in these countries. Supporting vulnerable groups should be prioritized by making capacity building, technologies and funding resources available especially for them. Among nation states, special funding provisions should be made for Least Developed Countries (LDCs) and Small Island Developing States (SIDS). Countries and sub-national groups and non-governmental actors should be allowed direct access to funding, once properly vetted and accredited, as a matter of supporting country ownership instead of receiving funding only via implementing agencies such as the World Bank, UNEP or UNDP.

■ **Gender equitable** – women and men due largely to their gender roles and respective rights (or lack thereof) have differing vulnerabilities to climate change as well as differentiated capabilities to mitigate emissions, adapt to and cope with climate change impacts. These differences need to be taken into account by creating gender-aware climate financing mechanisms and gender-equitable fund disbursement guidelines and criteria. Evidence from gender-mainstreaming efforts in development finance suggests that gender equality increases the effectiveness and efficiency of ODA; analogously, it could be expected that gender-equitable climate change funding decisions and disbursement practices make for “smart climate finance”.

## References and useful link:

Neil Bird and Jessica Brown (2010). International climate finance: principles for European support to developing countries. EDC2020 Working Paper 6.

Liane Schalatek (2010): A Matter of Principle(s): A Normative Framework for a Global Compact on Public Climate Finance. Heinrich Böll Stiftung.

Climate Funds Update: <http://www.climatefundsupdate.org/>