



# The Principles and Criteria of Public Climate Finance - A Normative Framework

Liane Schalatek, HBS, and Neil Bird, ODI

Climate  
Finance  
Fundamentals **1**

DECEMBER 2015

**U**nder 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 low-emission climate-resilient development pathways. 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 and follow-up outcomes). 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 to assess and compare existing as well as new funding mechanisms and commitments, including under a new universal legally binding global climate agreement to be finalised in Paris this December 2015.

## The centrality of global climate finance

Estimates for the scale of overall climate finance needs vary depending on the category of climate action pursued (adaptation, mitigation or reducing emissions from deforestation and forest degradation - REDD) and by method, but will certainly run into hundreds of billions, if not trillions of US dollars annually after 2030. The Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR5) warned that delaying ambitious action now to limit global warming to below 2°C and to address adaptation will result in massive cost increases in the future. The slow progress in scaling up commitments by developed countries since Copenhagen, where USD30 billion in fast-start finance was committed to developing countries for immediate action over three years (2010-2012), to the committed USD100 billion annually from public, private and innovative sources by 2020 has to be seen in this context. With less than five years until 2020, a clear trajectory for increasing public climate finance flows remains absent.

Trust and commitment between developing and developed countries must be restored in the ongoing UN climate negotiations. This includes in the Ad Hoc Working

Group on the Durban Platform for Enhanced Action (ADP), in the process of finalising a new universal legal agreement on climate change at COP 21 in Paris. At COP21, significant public finance pledges need to be made by developed countries, including for the Green Climate Fund (GCF) as the centrepiece of the financial mechanism of the new agreement. The speed with which these new financial pledges are fulfilled and how these public flows are managed and guided will be a crucial yardstick for the success of a new Paris climate agreement. Particularly as developing countries are tying the ambition of their Intended Nationally Determined Contributions (INDCs) to scaled up funding support by developed countries, including for a new financing mechanism to address loss and damage.

This Brief looks at relevant principles and criteria applicable to the three sequential phases relating to the mobilisation; the administration and governance; and the disbursement and implementation of climate change funding. Taken together, they offer a minimum guiding framework for climate finance. Such a framework is strengthened by adding a human rights perspective. While human rights obligations are not yet formally addressed

in the UNFCCC nor the IPCC, a growing number of Parties have advocated for their explicit integration in the new climate agreement, supporting expert legal analysis confirming 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 several recent official statements and reports. Parties are also signatories to, and thus obligated to uphold, existing international human rights covenants focusing on economic, social, cultural, political and civil rights as well as on women's rights and gender equality.

## Fund mobilisation

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 mobilisation 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)). In the Cancun Agreements, paragraphs 95 and 97 of the outcome document of the Ad-Hoc Working Group on long-term cooperative action (AWG-LCA) echo these funding principles. Specifically, paragraph 97 on long-term finance states that "scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties." Since Durban, a series of workshops on long term finance sought to provide further clarity on how to mobilise climate finance.

While it will only be decided at COP 21 how the principle of equity and effort-sharing will be taken up in a new 2015 climate agreement, it is clear that it will have to extend beyond nationally determined mitigation targets to address means of implementation in support of actions in developing countries. The provision of public finance and the mobilisation of additional finance must be led by developed countries as part of the fair burden-sharing of all Parties. It is linked directly to the level of ambition that developing countries can take on for both mitigation and adaptation under a new agreement.

**The polluter pays** – this principle relates the level of both historical and current greenhouse gas emissions to the amount each country should pay for climate action, although it is unclear how to include historical cumulative emissions (the question of an adequate base year). Aside from serving as normative guidance to discuss the quantity of climate finance contributions of individual polluting countries, applying the polluter pays principle with an understanding of a "common but differentiated responsibility and respective capabilities" determines climate finance as 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 (the right to sustainable development referred

to in Art. 3.4 of the Convention). A country's obligation to pay for climate action – and whether to transfer funds internationally or implement them domestically – should be correlated with a sustainable and universally accepted living standard for each of its citizens, and could build on the recently agreed Sustainable Development Goals. 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** – while all development finance should have climate risks in mind, climate finance should be additional to existing official development assistance (ODA) commitments and other pre-existing flows from developed 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 separate climate finance classified as ODA from national contributions labelled as non-ODA. In more recent discourses, the term "additionality" has been also used to assess whether the use of public climate finance to leverage private sector actions has resulted in investments that would not have occurred otherwise (EC, 2012; Venugopal, 2012). These interpretations start with the premise that public finance must remain at the core of fulfilling developed countries' climate finance obligations, with private climate finance playing a supplementary, not a substituting role.

**Adequate and precautionary** – in order to "take precautionary measures to anticipate, prevent or minimise 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 global temperature increase scenario. A better gauge of adequacy might be cumulative national estimates of need, based on countries' own climate action priorities, building on the national investments planned in countries' INDC submissions.

**Predictable** – a sustained flow of climate finance is needed through multi-year, medium-term funding cycles (3 – 5 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 initial tranches made in the secure knowledge of continued funding.

## Fund administration and governance

Where public funding for climate change is used, including in efforts to leverage or crowd in private sector finance, 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 principles of equity and of non-discrimination, for example of marginalized groups such as women or Indigenous Peoples.

**Transparent and accountable** – while relevant for all stages of the climate funding cycle, both these principles need to be firmly reflected in the governance of climate funds as a prerequisite in implementation. A transparent administration of public climate funding requires publicly available, comprehensive, accurate and timely information on a mechanism's funding structure, its financial data, the structure of its board, its decision making-process, project preparation documents, actual funding decisions and disbursements made, as well as implementation results. To-date information on actual disbursements has been limited. The principle of accountability demands the existence of an easily accessible 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 oversight by national legislatures.

**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 their representation on fund boards, and requires the inclusion of a diverse 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 and implementation

While the ongoing discourse on climate finance must continue to challenge the slow progress of mobilising adequate, predictable and additional public climate finance and how it will be governed globally, more attention should be given to the principles guiding disbursement and implementation. The latter are crucial, as they will determine the effectiveness and efficiency of the funds used, including by ensuring that they benefit and respond to the needs of those most affected by climate change.

**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 developed countries to pay for climate action, which is likely to continue under a new climate agreement, consolidated guidelines and indicators for measuring, reporting and verifying (MRV) climate finance are necessary to guarantee that voluntary pledges are

turned into rapid fund delivery. While this should not come at the expense of oversight and due diligence, a harmonisation of funder allocation guidelines with streamlined approval processes particular for smaller scale sub-national activities could reduce burdensome and lengthy disbursement requirements.

**Appropriate** – Climate funding should not place any extra development burden on the recipient country. Depending on which financing instrument is used to disburse climate funds to developing countries – grants, loans, investment guarantees/project risk insurance or equity investments – 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 fulfilment of their international human rights' obligations. For these reasons, public finance for adaptation should be provided exclusively in the form of grants.

**Do no harm** – Some climate related investments may harm sustainable development objectives as well as violate human rights. Public funding for climate change should avoid such investments, including through the provision of finance support for private sector investments. Areas of special concern include investments with a focus on traditional fossil fuel exploration and use, 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. Sub-nationally, support for vulnerable groups should be prioritised by making capacity building, appropriate technologies and funding resources available especially for them, for example in form of separate programs or facilities and through streamlined approval processes. Among nation states, special funding provisions should be made for Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African States. Countries' direct access to funding should be facilitated and supported, including via finance support for institutional capacity-building as a matter of enhancing country ownership instead of receiving funding primarily via international implementing agencies such as Multilateral Development Banks (MDBs) or UN agencies.

**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-responsive climate financing mechanisms and fund disbursement guidelines and criteria that support gender equality and women's empowerment in order to increase the effectiveness and efficiency of climate financing; such a link has been proved for gender-responsive development finance.

**Table 1: Principles and criteria for climate change funding**

Delivery phase	Principle	Criteria
Fund Mobilisation	Transparency and Accountability	Financial contributions by individual countries and international organisations and agencies as well as their composition and sources are disclosed publicly and in a timely manner
	The Polluter Pays	Financial contributions are relative to the quantity of historic and current emissions produced
	Respective Capability	Financial contributions are correlated with (existing) national wealth and the right to (future) sustainable development and universally accepted minimum living standards for citizens
	Additionality	Funds provided are more than existing national ODA commitments and are not counted towards fulfilment 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	Availability of publicly available comprehensive, 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, project preparation documents, the actual funding decisions and disbursements made, the implementation results achieved, and the existence of a redress mechanism or process
	Equitable Representation	Representation of a diverse group of stakeholders on the Board of a fund or funding mechanism in addition to contributing and recipient countries; countries' Board seats are not dependent on financial contributions
Fund Disbursement and Implementation	Transparency and Accountability	Disclosure of funding decisions according to publicly disclosed funding criteria and guidelines and the disbursements made; 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 disbursement of funding when required
	Appropriateness	The financing instruments used 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 multilateral intermediary agencies where not needed and strengthening national institutional capacity)
	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

**References and useful links**

Climate Funds Update Website: [www.climatefundsupdate.org](http://www.climatefundsupdate.org) (data accessed in November 2015)

Ballesteros, A., Nakhooda, S., Werksman, J. and Hurlburt, K. (2010). Power, responsibility and accountability: rethinking the legitimacy of institutions for climate finance. WRI, Washington DC.

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

EC (2012) Climate Change Financing: the Concept of Additionality. European Commission, Directorate General for External Policies.

Schalatek, L (2011): A Matter of Principle(s). A normative framework for a Global Climate Finance Compact. Heinrich Böll Stiftung.

Venugopal, S., Srivastava, A., Polycarp, C. and Taylor, E. (2012). Public Financing Instruments to Leverage Private Capital for Climate-Relevant Investment: Focus on Multilateral Agencies. WRI, Washington DC.

The Climate Finance Fundamentals are based on Climate Funds Update data and available in English, French and Spanish at [www.climatefundsupdate.org](http://www.climatefundsupdate.org)