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Governing Climate Finance: The Importance of Reporting Guidelines and Review Mechanisms to Ensure Transparency and Accountability

Athena Ballesteros and Vivek Ramkumar

The international community has come together to address the challenge of global climate change. Through the United Nations Framework Convention on Climate Change (UNFCCC), participating governments have established a goal of stabilizing the global average temperature within 2° C and are engaged in an ongoing process of negotiating what needs to be done, who needs to do it, what it will cost, and who will pay for it. The next round of negotiations, the COP-16 (Conference of Parties), will be from 29 November-10 December 2010 in Cancun, Mexico. One of the most critical – and contentious – issues that will be addressed will be reaching agreement on financing climate change mitigation (actions to reduce emissions and stabilize temperatures) and adaptation (actions to reduce impact of current climate shifts and increase resilience to future impacts).

The COP-16 follows the last round of negotiations that took place in Copenhagen in December 2009. In Copenhagen countries committed to short-term, "fast start" financing and to coming to agreement on a long-term "balanced package" that provides adequate and equitable funds for mitigation and adaptation. In addition to decisions about how climate change finance will be implemented at the international and national level, whether through existing agencies and processes or new institutions and mechanisms, agreement must be reached on how to ensure that finance flows are completely transparent in order to enable sound decision making about distribution and use of resources, public participation, and adequate oversight. Thus parties to the COP-16 must decide on the format and review process for reporting financial data from donor and recipient countries and guarantee that the public within countries has full access to this information.

Agreements reached in Cancun can lay the foundation for a more robust climate regime in the long run. It will be critical for negotiators to reach decisions on key finance building blocks that can be implemented immediately and not fall back into a "nothing is agreed till everything is agreed" position. There is simply no time for that; the latest science tells us we need to accelerate actions if we are to stabilize temperatures at a safe level.

This brief looks at climate finance over the past year and how the current level of reporting is inadequate to the task of ensuring that funding commitments are fulfilled and funds are used effectively. It touches on the important role that civil society and public participation within countries receiving climate funds can play in decision making and oversight and presents recommendations for reporting mechanisms and public participation for the COP-16 and future negotiating sessions to consider.

Financing Our Climate Future: What's Happened Since Copenhagen?

In Copenhagen developed donor countries committed to providing up to US$ 30 billion between 2010 and 2012 in "fast-start finance" for investments in adaptation and mitigation in developing countries. By 2020 this commitment to mobilize funds from public and private sources are expected to grow to US$ 100 billion per year. The parties in Copenhagen also agreed to a "balanced package" of finance that provides funds for mitigation and adaptation, and that priority of funding would be given to the developing countries most vulnerable to climate impacts. In the Copenhagen Accord, the parties also agreed that "fast start" and future funds pledged would be "new and additional. In addition to clarifying what is meant by "balanced" and "new and additional" and establishing mechanisms of climate finance, there is a lack of trust between developing and developed countries that must be addressed. Developed countries committing funds for mitigation and adaptation want to ensure that those funds are used efficiently and effectively, and developing countries want to know that pledged funds will actually materialize in the promised amount and on time. A climate finance regime that is fully transparent in terms of both money flowing into countries and how it is used, and that includes adequate oversight mechanisms for public and private sources of funds and the governments and institutions that will use these resources, will be critical to building this trust. Because donor and recipient countries have a mutual responsibility and face internal and external political pressures to use climate funds effectively, they also have a shared interest in a transparent and accountable finance regime that ensures that their individual efforts are not undermined by leakages, corruption, or mismanagement at any point in the funding and execution process.

To date, research by the World Resources Institute (WRI) indicates that "fast start" pledges from individual countries are approaching US$ 29 billion, and countries have begun to make budget requests and allocations for the resources they have pledged. Though some information has been made available on individual pledges, much more clarity is needed on:

- the objectives each donor country plans to support;
- what impact climate change commitments will have on commitments for other development priorities;
- the institutions for channeling resources; and
- which countries will receive these funds.

This information is critical to both holding donor countries accountable for their commitments and building trust among parties. Also, aggregating this data by recipient countries and intended uses can point to gaps in the flows and guide future allocation of resources.

Tracking and Monitoring "Fast Start" Funds: Who Is Doing What, and What Are the Challenges?

The majority of developed countries that are party to the climate change negotiations have made public some information on their "fast start" pledges. For example, in June 2010 the European Union presented a state of play of the delivery of its "fast start" funding and confirmed that the combined EU pledges totaled EUR 2.39 billion for 2010 and are estimated at EUR 7.55 billion for 2010-2012, with all 27 Member States and the Commission contributing to this funding. Likewise, the United States, Canada, Japan, and Australia have publicly announced their individual "fast start" pledges, with varying degrees detail (see www.faststartfinance.org).

In addition to country reports on pledges, there have been a number of efforts to compile databases of all of the pledges to date. In response to the call for accessible, comprehensive, and publicly available information on "fast start" funds, the governments of several countries, led by the Netherlands and in partnership with the UNDP, UNEP, UNFCCC, and the World Bank, launched www.faststartfinance.org. The aim is for both developed country contributors and developing country recipients to provide the information, but so far not all have participated.

There are also ongoing efforts by nongovernmental and other independent organizations to collect and present publicly available data on "fast start" finance. These include efforts by the Overseas Development Institute and Heinrich Boell Foundation (www.climatefundsupdate.org), World Resources Institute (www.wri.org), Project Catalyst (formed by the Climate Works Foundation and European Climate Foundation), Oxfam, Climate Action Network, and the World Development Movement.

Tracking and monitoring climate finance pledges present a number of challenges. To date, the information that donor countries have made available on their pledges 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.[1] Country reporting also often does not identify how pledged funds will be channeled to developing countries, whether through bilateral or multilateral institutions.

Under current UNFCCC reporting guidelines, developed donor countries are supposed to not only include in their country reports what "new and additional" financial resources they are providing to address climate change but also to indicate, among other things: 1) how they have determined such funds to be "new and additional" to those already committed; 2) how the funds are to be channeled, i.e., through bilateral and regional mechanisms to specific countries, or through multilateral institutions; and 3) the private sector activities that meet country commitments under the UNFCCC.[2]

The absence of a common reporting system makes it difficult to track and monitor "fast start" finance pledges. Current reporting systems on climate finance under the UNFCCC and the OECD's Development Assistance Committee, as well as those of multilateral development banks, are decentralized and often not comprehensive. Guidelines must be established for reporting financial information in a comparable, transparent, complete, accurate, and efficient manner. The parties at COP-16 should begin the process of creating the draft guidelines that will lay the foundation for reporting on climate change finance flows over the long term. These guidelines should be based on current international standards for good practice for 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. In the meantime, there should be increased transparency in reporting by developed countries in order to demonstrate that they are delivering on their "fast start" pledges.

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[1] "Fast Start" funds are defined as those pledged for 2010-2012; however, this period was not used by all countries. Specifically, Norway has made pledges for 2010 but not 2011-2012; the United States, Canada and Australia have made pledges only for 2010 and 2011; and data for Japan includes pledges for the 2008-2012 period. (WRI)

[2] See UNFCCC: Decision 4/CP.5 FCCC/CP/1999/7, summarized in Tirpak, et.al., 2010. "Guidelines for Reporting Information on Climate Change," World Resources Institute, Washington, D.C.

The Other Side of the Coin: How to Ensure that Climate Funds Are Used Effectively

While tracking and monitoring the commitments made by donor countries is essential for assessing the adequacy and appropriate distribution of funds for climate mitigation and adaptation, it is equally critical to ensure transparency and accountability for what happens to those 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 organizations to participate in decision making and monitoring and oversight.

Increasing evidence argues that when they have access to information and opportunities to participate civil society organizations can contribute to sound decisions about public spending and efforts to hold governments to account for the use public money, ultimately improving outcomes. For example, in 2008 Fundar, a civil society group in Mexico, used access to information to set up a database to monitor how funds were being distributed through a farm subsidy program designed to offset the negative impact of free trade agreements on poor farmers. Fundar was able to use the data it collected to document that a disproportionate share of subsidy funds was going to a small number of wealthy landowners. The resulting public outcry led to more subsidies going to the vulnerable farmers the program was intended to serve and changes to the program regulations to ensure that funds would reach targeted beneficiaries.

On the other hand, a lack of transparency can reduce the credibility of government's policy choices and the effectiveness of policy interventions. It can also open the doors to corrupt, wasteful, or inappropriate spending, which can reduce the impact of policies and actions, including those designed for climate change mitigation or adaptation.

We have described the inadequate reporting of the donor side of climate change finance, but the International Budget Partnership's (IBP) recently released Open Budget Survey 2010 and the results of a broad study on public access to detailed government budget information indicate that there are serious concerns about the recipient side of the climate finance equation, as well. The 2010 Survey found that 74 of the 94 countries assessed fail to meet basic standards of transparency and accountability with national budgets, and that 40 countries release no meaningful budget information to their citizens. Without this information, it is difficult for the public and civil society organizations to hold government accountable or to have meaningful input into decisions about how to use public resources. Therefore, it is critical to ensure that new institutional arrangements being set up or designed to channel, manage, and administer climate finance be as transparent and accountable and ensure participation.

Using a subset of Survey questions the IBP calculates the Open Budget Index (OBI), a comparative ranking of the amount of budget information governments make available and opportunities for public participation. The OBI 2010, which assigns countries scores from 0(scant or minimum information published) to 100 (extensive information published), presents a mixed picture of whether countries most likely to receive climate change funds will administer them in a transparent and responsive manner. On one side, there is Chile (72), Brazil (71), and India (67), all of which make publicly available significant information. On the other, many likely climate finance recipients currently do not provide their public with enough budget information to allow for meaningful input into decisions or monitoring of the use of public money, including Dem. Rep. of Congo (6), Bolivia (13), China (13), and Vietnam (14). Current budget practices in these countries raise some concerns, but the advent of a transparent global climate finance regime may offer an opportunity to improve reporting and disclosure. The introduction of performance-based climate funding (such as the Norwegian-Indonesia REDD partnership), for example, presents an innovative incentive-based mechanism to support action in many developing countries to reduce emissions.[3]

In 2010 the IBP also conducted a pilot study of what happens when the public asks their government for detailed information on what it is spending on development commitments, including environmental protection. The *Ask Your Government!* Initiative found that of the 80 countries included in the exercise, only one, New Zealand , provided comprehensive answers to the questions asked. Responses in the other countries varied in the questions answered and the amount of information provided, but overall the study found that if governments are not proactively making information available to the public, it is extremely difficult for ordinary citizens to get details on what the government is spending public money on.

Climate funds flowing into a country may be administered through a variety of mechanisms or institutions, including line ministries, local governments, and new funds specifically created to manage climate funds and projects. The first two options presume that funds would flow through existing budget processes, which ideally would be open and accountable. The advantages of this include integrating decisions about climate change mitigation and adaptation into the ongoing process of setting national priorities and managing public resources, as well as tapping existing oversight mechanisms and institutions to ensure that climate funds are used effectively and appropriately. In countries where the normal budget process is broken — i.e., lack of transparency, inadequate oversight, closed to public input and scrutiny, and weak institutions — donors are unlikely to choose this option.

The alternative is for countries to establish entities, such as trust funds, that will administer climate funds separate from national or subnational budget systems. In some contexts, this may be necessary to ensure that climate funds are used as intended. However, even countries with relatively well functioning budget systems may elect to go this route, often driven by donor pressure. For example, India and Brazil have established such funds, though both have comparatively transparent national budgets.

It must be noted that moving climate funds "off budget" does not guarantee that they will be administered transparently, inclusively, or with appropriate oversight. In the case of Brazil, it has established the Brazil Amazon Fund to implement US$ 1billion between 2009 and 2015, primarily from the government of Norway. The fund is administered by the Brazil National Development Bank (BNDES), which operates substantially independent from the government budget process and systems of accountability and public participation. Although there is currently underway a civil society campaign to make the BNDES more open and accountable (http://internationalbudget.org/pdf/iBase1.pdf), it is not clear that the bank will administer the Amazon Fund with substantial, or any, public input or oversight, which could threaten the legitimacy and potential sustainability and impact of the Fund's projects.

Given the various means and institutions that might be established within recipient countries to administer climate funds, and the importance of spending these funds

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[3] To read more, see http://pdf.wri.org/working_papers/investing_in_results.pdf, November 2010.

effectively, the COP 16 should consider a process to establish a better reporting system for countries receiving climate funds and actions taken, as well as to promote mechanisms for involving the public and civil society in managing and overseeing how these funds are used. Within the UNFCCC negotiations, emerging concepts around a registry or a matching facility where actions are matched with financial and technical support, as well as improved national communications for non-Annex I countries offer possible ways forward.[4,5] It will be essential for the reporting systems for donor and recipient countries to be aligned to both increase the ability to track climate funds seamlessly from source to use and across countries and avoid the drain on resources for recipient countries that would come from having to file multiple, varied reports to different donors. These administrative burdens can actually create a disincentive for governments to be more transparent.

Recommendations for Reporting

A transparent and comprehensive reporting process can help inform current negotiations and build trust and understanding between developed and developing countries. It is also critical to allow for public climate financing to be evaluated and to flow effectively and efficiently. Detailed reporting from both donor and recipient countries should help determine whether parties are meeting their financial commitments, improve understanding of sectoral and technological investment trends, and lead to assessments of different forms of financing and whether financing results in real emissions reductions and increasing resilience.

WRI recently published "Guidelines for Reporting Information on Public Climate Finance" with the aim of helping parties to the UNFCCC develop robust reporting processes for climate finance. The report analyzed the characteristics of a robust reporting system and presented a set of guiding principles. WRI then used these to identify options for improving the current reporting systems and suggested specific reporting formats for various sectors. The objective is to improve what are now voluntary guidelines so as to encourage greater transparency and ultimately serve as basis for a long-term standardized and harmonized reporting system.

An ideal reporting process for climate finance would ensure that reporting is complete, transparent, comparable, accurate, and efficient. However, current reporting of public sector financing for climate change projects by bilateral and multilateral institutions do not fulfill these principles. Hence, the COP-16 participants should request that current guidelines for reporting information be revised according to the recommendations below.

- Contributing countries should adopt a standardized financial reporting format with common definitions and methodologies to quantify climate finance based on components of existing systems. (However, in launching an effort to either revise or initiate a new means to collect finance data, countries that are Parties to the Convention will need to determine the kinds of data a climate finance reporting system should provide, which will determine the extent of any expanded data collection effort and its likely cost.)

- Contributing countries should establish a more robust process to review reported data**.** This could include launching voluntary pilot projects to establish review processes, using independent, nonpolitical technical financial experts; formally

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[4] Annex I countries are those that were committed to return their greenhouse gas emissions to 1990 levels by the year 2000 as per Article 4.2 (a) and (b).
[5] For more information, see http://pdf.wri.org/working_paper/counting_the_cash.pdf, December 2009.

establishing clear rules and guidelines for civil society participation in the review process; and improving record keeping so that data between countries can be compared.

- Parties to the UNFCCC should make a long-term commitment to investing in a robust reporting system. The introduction of an improved reporting system will require this commitment and take time to implement. In the short-term, in particular for "fast start" funding, countries need to build on the current reporting and address some of the factors leading to inconsistent reporting in order to lay the foundation for a more transparent and accountable climate finance regime.

- As part of overall confidence building, it is important to ensure that financial support to developing countries is accounted for in a clear and transparent manner during the "fast start" period through existing reporting systems and through short-term efforts on the part of multilateral institutions and donor countries. Lessons learned from this experience could shape the implementation of new long-term reporting and review systems.

- The parties should also develop a process and format for governments receiving climate funds to report complete information on their use of the funds and encourage all governments to participate in this reporting process. These reporting formats should be aligned with donor reporting formats and should ensure complete public access within countries to this comprehensive data.

In addition to strengthening climate finance reporting, the parties at the COP-16 should seek to establish systems and processes that involve civil society and the public in decisions about how funds will be spent and in oversight. Given the substantial investment of resources – financial, political, technical – that will be required to address global climate change, and the potentially devastating impacts of failing to do so, it is imperative that the flow and use of funds for mitigation and adaptation are transparent, participatory, and accountable.

This Brief was prepared by Athena Ballesteros, a senior associate for Governance and Access at the World Resources Institute, and Vivek Ramkumar, manager of the Open Budget Initiative at the International Budget Partnership.

To learn more about the World Resources Institute's recommendations, see its Summary of Developed Country Fast-Start Finance Pledges (Q&A on Analysis) and Guidelines for Reporting Information on Climate Finance at www.wri.org.