More than 190 countries are gathering in Copenhagen from December 7-18, 2009, to decide on the next significant steps to avoid the catastrophic impacts of climate change. To achieve this goal, one of the things that the international community must negotiate is targets for new, significant, predictable, and stable finance to support developing countries’ transition to low-carbon economies. A significant amount of these resources will be raised from public sources in developed countries and invested in developing countries, and will be managed by one or more international institutions.

While much of the energy so far has been on securing commitments from countries to contribute financial resources to the global effort to combat climate change, it is important how these commitments are managed. To do this effectively, the parties in Copenhagen should consider resources and management simultaneously.

The magnitude of the financial flows, the challenge of getting the institutional architecture right, and the pressing need to use these resources efficiently and effectively, raise two significant questions:

1. How will these funds be collected, distributed, and accounted for at the international level?
2. What mechanisms are needed to ensure that recipient countries manage these funds in ways that are transparent and responsive to the needs and input of the public?

This brief seeks to address these questions based on an examination of existing and proposed climate change finance mechanisms and the findings of the International Budget Partnership’s Open Budget Survey 2008.

The Context for Climate Change Negotiations

The United Nations Framework Convention on Climate Change (UNFCCC) and the World

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1 This brief is based largely on Ballesteros, Athena et al., “Power, Responsibility and Accountability: Re-Thinking the Legitimacy of Institutions for Climate Finance.” WRI Working Paper. World Resources Institute, Washington, DC, October 2009. The paper is available at [www.wri.org](http://www.wri.org).

2 IPCC, Fourth Assessment report.
Bank estimate that the international community will need to generate between US$170-765 billion annually to address climate change. These estimates assume that a significant share will come from the private sector leveraged by an anticipated US$128-$574 billion in public funds.

Though there is increasing agreement about the amount of finance required to adequately address climate change in the coming decade (and beyond), there is still no consensus on how this money will be collected, distributed, and monitored. A variety of existing and proposed finance mechanisms have emerged, including a range of institutions with different levels of accountability, transparency, and capacity on issues related to climate finance. These institutions also represent diverse governance structures in terms of decision making for disbursement of funds and accountability for their use.

Regardless of how the required funds are generated (through private investment, bilateral and multilateral contributions, market-based mechanisms like carbon markets, or national public budget allocations), a significant share will flow to developing countries. In particular, those on small islands and in Africa and mega-deltas (particularly in Asia) that, because of entrenched poverty and threatened and degraded environments, are most vulnerable to and less able to respond to the predicted changes in weather patterns and harsher, more frequent natural disasters.

Any agreement on climate change finance that comes out of Copenhagen must address: 1) the need to help the poorest, most vulnerable countries build resilience and the capacity to respond to the impacts of climate change, and 2) the need for a post-2012 finance architecture that is seen as legitimate; is able to mobilize new, additional, and predictable sources of funds to address long-term needs; and is transparent and accountable.

The architecture also needs to ensure a fair and balanced representation of developed—primarily contributor—countries and developing—primarily recipient—countries. Finally, any resulting agreement will need to address the core functions of a climate finance mechanism: oversight, resource mobilization and allocation, project cycle management, standard setting, scientific/technical advice, and accountability.

Rethinking the Legitimacy of Climate Finance Institutions

The current round of negotiations on a climate agreement is forging a new relationship between contributing and recipient countries. In general, the legitimacy of an institution should be assessed on the basis of the procedures by which it takes its decisions, and the effectiveness of its investments. An institution is more likely to be perceived as legitimate

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4 These countries form a group of 100 nations, collectively housing well over a billion people. However, their CO2 emissions (excluding South Africa’s) account for only 3.2 percent of the global total, compared to the U.S.’s 23.3 percent, 24.7 percent for the EU, 15.3 percent for China and 4.5 percent for India. MVCs make up a significant number of Parties to the UNFCCC and the Kyoto Protocol (and a more significant proportion of the 131 ‘G77’ countries). See “Most Vulnerable Countries,” International Institute for Environmental Development Briefing, 2009, at http://www.iied.org/pubs/pdfs/17022IIED.pdf.

when it operates in a transparent, participatory, and accountable manner, and when it sets and abides by clearly articulated rules. Perceptions of any climate change finance institution’s legitimacy also will be based on its governance structure, for example, whether it reflects an equitable balance of contributors and recipients.

The World Resources Institute recently reviewed the governance structures, operational procedures, and records to date of 10 international and national finance institutions, looking at the critical dimensions of Power, Responsibility, and Accountability. The WRI’s analysis concludes that a new global deal on climate finance will likely redistribute power, responsibility, and accountability significantly between traditional contributor and recipient countries. This redistribution is both long overdue and necessary to ensure the national and local “ownership”—and thus the effectiveness—of mitigation and adaptation actions in developing countries.

**Climate Change Finance Issues to Be Resolved**

Part of the broader dynamic of the climate change negotiations is how the responsibility for responding to climate change and its impacts is shared between developed and developing countries. One of the most hotly debated questions is whether we need new climate finance institutions, or will existing institutions serve our future finance needs, including performing the functions outlined above, in a manner acceptable to UNFCCC Parties.

There is sharp disagreement on this issue between donor and recipient countries, and developed and developing countries. Developing countries see existing institutions as being dominated by donor countries in a way that undermines their legitimacy and performance and so want to create new institutions—such as Mexico’s proposal for a Green Fund and India’s for a new executive board that would distribute funds as grants rather than loans. Developed countries, on the other hand, prefer reforming existing institutions as a more viable approach, citing these institutions’ proven capacity to deliver finance to target recipients.

Another issue for developing countries is whether the new finance mechanism will rely on intervening agencies, like the World Bank or UN agencies, to set project priorities and make allocation decisions, or whether countries will have “direct access” to climate change funds. Essentially, direct access would enable national and subnational institutions within developing countries to take direct responsibility for the programming of resources at the country level.

With direct access, recipient governments would bypass implementing agencies and enter into grant and loan agreements with a global climate change fund. Arrangements for direct access should be supported by nationally derived and owned low-GHG (greenhouse gas) emissions development strategies and national adaptation programs. If these strategies and programs contain measurable, reportable, and verifiable (MRV) actions, they should provide a more legitimate basis for allocating resources between countries, as well as for designing programs within countries. Such direct access arrangements would have to be designed carefully so as to avoid shutting out the poorest, most vulnerable countries that are likely to be least able to produce high-quality plans.

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Transparency and Accountability in a Climate Change Finance Regime

However these issues are resolved, it is imperative that recipient governments manage mitigation and adaptation resources effectively, given the potential impacts of climate change on their economic development and the lives and livelihoods of their people. This will require recipient countries to be transparent, engage civil society and the public in decision making, and establish effective accountability measures and institutions.

Responses to climate change will require fundamental adjustments to how economic development objectives are pursued, and many choices will incur significant environmental and social risks that need to be managed. For example, decisions about where to site low-GHG emissions energy facilities may displace local communities and people or create new stresses on water and ecosystem services. Involving civil society organizations (CSOs) and the public in decision making processes can strengthen policy choices, increase buy in, and, ultimately, improve outcomes. However, for this type of public engagement to be meaningful, it requires access to comprehensive and useful information and opportunities to participate.

The next generation of climate finance needs to strengthen the national institutions that will implement mitigation and adaptation activities and ensure their transparency and accountability to citizens within countries, as well as to the international community. Below we outline the three main strategies through which a finance architecture arising from Copenhagen can do this.

1. Ensure Donor Practices Do Not Undermine Transparency

A global climate change finance institution can promote budget transparency and accountability by supporting and influencing the actions of domestic governmental and non-governmental actors in recipient countries. However, it should also incorporate practices and procedures into its own operations that ensure that its finance flows are transparent, thus promoting accountability at both the international and country level.

Donors often channel their aid through mechanisms that are outside a recipient government’s formal budget system, and which follow separate and parallel budget formulation, implementation, and reporting procedures. Such off-budget funding is justified by concerns that existing government budget management institutions and practices may be weak and, therefore, susceptible to mismanagement.

While donors should be concerned about the proper use of their aid monies, they also need to assess the long-term impact of off-budget funding. In practice such approaches can be a source of the very weakness and mismanagement they are trying to avoid. Off-budget financing places strains on domestic budget management systems, inhibits the effective coordination of donor support and its integration in the regular policy- and budget-making cycle, and undermines the capacity of civil society to engage in oversight.

This issue is particularly relevant to climate change finance where there already exists a strong tendency toward project-oriented, off-budget funding approaches. Efforts should be made to ensure that a new global climate finance mechanism will channel funds through government budget systems whenever possible, for example, by using budget support mechanisms of different kinds. When this is not possible, efforts should be made to ensure that the systems and procedures utilized for climate finance-funded projects and programs are as compatible as possible with those of recipient government budget systems.
2. Encourage Greater Transparency in Recipient Governments

The Open Budget Survey 2008, a comprehensive survey and analysis of government budget transparency and accountability across 85 countries, finds that many of the countries that will receive mitigation and adaptation funds make little public finance information available to civil society and the public, thus limiting their ability to inform and influence policy decisions.

The Open Budget Index (a comparative measure of budget transparency derived from the Survey) found that in many cases, these governments produce budget documents for internal purposes or for their donors but choose not to make them publicly available. A climate change finance mechanism could place appropriate pressure on recipient countries to make information publicly available in cases where the government lacks the political will to be transparent. For example, a clause could be included in all agreements relating to climate change support that all information on the amount and use of these resources that the recipient government provides to the finance mechanism be considered publicly available.

3. Support Governments and External Oversight Agencies to Enhance Transparency and Accountability

In countries where the main obstacle to increased transparency is a lack of technical capacity or adequate systems for producing and disseminating information, a climate finance institution could play an important role. For example, it could provide support for the introduction of comprehensive information systems to enhance the capacity of a government to produce accurate and timely information, and the creation of information disclosure systems. Such systems would allow governments to proactively make public information on the use of mitigation and adaptation resources.

It will also be important to recognize that managing these climate change funds will be influenced not just by the overall level of transparency in a recipient country but also by the wider accountability environment. This includes formal or constitutional oversight institutions, such as legislatures and supreme audit institutions (SAIs), that have an official mandate to monitor the work of the executive but often lack sufficient independence or capacity to effectively fulfill this role.

In addition to these institutional actors, CSOs and the media are playing an increasingly important oversight role—using available budget information to hold governments to account for the use of public resources. There is growing evidence that their efforts improve the overall quality of accountability and support the functioning of formal oversight institutions.

Support for enhancing the institutional system of checks and balances in public finance processes, as well as strengthening the role and powers of legislatures and SAIs, could be an important contribution to efforts to use climate change resources effectively. Though significant reforms to formal and informal accountability systems would require a domestic political consensus, a climate change finance mechanism could include a commitment to providing technical support to build the capacity of these oversight actors.

Conclusion

Transparency and accountability are key challenges in negotiating the design of a future climate finance mechanism. If done properly, shifting power and responsibility to
developing countries, through greater voice in decision making and “direct access” to funds, will entail greater responsibility for the consequences of investment. Combining this with a climate change finance architecture that promotes transparent, participatory, and accountable national and international systems for decision making, measuring, reporting, and verifying funded actions may lead to a more reciprocal relationship and deeper partnership between contributors and recipients and, ultimately, to more effective and sustainable efforts to combat climate change.

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

For more comprehensive information on climate change finance, see “Power, Responsibility and Accountability: Re-Thinking the Legitimacy of Institutions for Climate Finance,” by Athena Ballesteros et al., at http://www.wri.org/publication/power-responsibility-accountability.

For more information about how donors can support budget transparency and accountability in aid-dependent countries, see “Improving Budget Transparency and Accountability in Aid Dependent Countries: How Can Donors Help?” by Vivek Ramkumar and Paolo de Renzio, at http://www.internationalbudget.org/resources/briefs/brief7.pdf.