Climate Finance and Development Effectiveness: A Road map for a Country-Led Approach in Asia and the Pacific

12th - 13th September 2011
Bangkok, Thailand

Preamble

Today, climate change is a core agenda for all countries aiming to promote green, low-emission and climate-resilient development. Financial resources are urgently needed to address climate change, through both adaptation and mitigation. These resources are expected to increase substantially and the 2010 Cancun Agreements of the United Nations Framework Convention on Climate Change recognized the commitment of developed country parties, in the context of meaningful adaptation and mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020. These resources to address the needs of developing countries will primarily come from the public contributions from developed countries. In addition, developing countries parties may generate resources from a wide variety of public and private domestic and external sources, including bilateral and multilateral, as well as alternative sources.

All countries aim to maximize the impact and effectiveness of their limited financial resources by allocating them through budget and planning in line with national priorities. In the same way, to be effective, countries will need to lead decision making over the use of climate finance. Climate finance must be provided to developing countries as new, additional and predictable resources. Whilst there will be differences in sources, the management of climate finance by developing countries is intrinsically linked to the management of conventional development assistance and can facilitate significant co-benefits between development and effective climate change response. So lessons learnt in improving the quality of development assistance, as articulated in principles to promote development effectiveness, can be used to inform the management of climate finance. Likewise lessons from innovative mechanisms to mobilise and utilise climate finance can inform the future of ODA management.

Through an innovative whole-of-government approach which goes beyond business as usual, policy makers and practitioners spanning climate, finance, planning as well as a range of stakeholder groups have begun to articulate this relationship between climate finance and development effectiveness as outlined in the 2010 Bangkok Call for Action, the 2011 Pacific Islands Forum Secretariat Options Paper on Improving Access and Management of Climate Change Resources, and ongoing regional consultations and country level dialogues in Asia and the Pacific, as well as in Africa and Latin America and the Caribbean.

Developing countries, and their partners with the strong participation of civil society, have through this DRAFT Roadmap, committed to support a country-led approach to strengthening the effectiveness of existing and new and additional climate finance. Based on the discussions facilitated by the Capacity Development for Development Effectiveness (CDDE) Facility during the Asia Pacific Climate Change Finance and Development Effectiveness Dialogue on 12-13 September 2011, the DRAFT Roadmap

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1 The Asia Pacific Climate Change Finance and Development Effectiveness Dialogue held on 12-13 September 2011 in Bangkok included 150 participants from a range of ministries, civil society and development partners including
identifies a concrete set of outcomes to be achieved over the coming years and intermediate measures to ensure effective use of scaled-up climate finance. It aims to be inclusive and the DRAFT Roadmap will be further discussed and revised through consultations in Africa and Latin America. All partners are invited to join and support the achievement of its objectives through their work at the country level and at the international level, to ensure policy coherence among the processes of the UN Framework Convention on Climate Change (UNFCCC), the Fourth High Level Forum on Aid Effectiveness (HLF4) and the Rio+20 United Nations Conference on Sustainable Development (UNCSD).

1. A framework for country-led management of climate finance

Ongoing consultations have identified a framework of three key outcomes that will help realize country leadership in managing climate finance effectively. This framework needs to be adapted to each specific country context and can be summarized in the following three desired outcomes:

- Climate policy and measures are costed and prioritized, and reflected in the planning and budgeting processes at national and local levels

- Climate related expenditures are managed and implemented in ways that are consistent with country systems for public financial management (PFM), procurement and program management

- An accountability framework for reporting on climate related expenditures and their impacts is operationalized

2. Key initiatives to be taken

To achieve these outcomes, developing countries and their development partners have identified a set of distinctive and mutually reinforcing key initiatives, which are fully embedded in ongoing country, regional and international processes, and do not generate additional transaction costs. On the contrary, the key initiatives will help simplify collective action on country-led climate finance and narrow the gaps identified in monitoring and evaluation exercises, for example around the implementation of the Monterrey Consensus on Financing for Development and Paris Declaration on Aid Effectiveness. The following actions will be pursued inter alia:

representation from 19 developing countries and from 12 development partners. More details are attached in the Annex. The DRAFT Roadmap will be further discussed and revised in Africa and Latin America.

2 See DRAFT Guidance note Climate Fiscal Frameworks: Improving the effectiveness of climate finance at the country level, CDDE Facility 2011 for further guidance on this framework.
2.1. For climate policy and measures to be costed and prioritized, and reflected in the planning and budgeting processes at national and local levels

We encourage developing countries to:

- Define clear climate indicators in national, sector and subnational plans
- Define what immediate and longer-term climate expenditures are across national and local governments, sectors, sub-sectors, programs and activities
- Identify, design and use specific budget codes and lines of climate finance which, based on clear criteria and informed by international good practice, help aggregate the expenditures across government levels and sectors
- Cost climate expenditures within the existing processes of costing priority public expenditures, taking into account available climate-related baselines and assessments
- Provide clear guidance to the private sector on climate related fiscal policy and strategy to optimize their role in the climate plans.
- Enable and stimulate the private sector to partner with governments and national stakeholders including civil society, both through investments, fulfilling strong environmental and social safeguards, and corporate social responsibility actions.
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- Enable and stimulate the private sector to partner with governments and national stakeholders including civil society, both through investments, fulfilling strong environmental and social safeguards, and corporate social responsibility actions.
- Enable civil society organizations (CSOs) to partner with the national and local governments to design and implement the adaptation and mitigation efforts.
- As climate impacts and a climate response will be particularly faced at the local level, support local governments to strengthen their role in prioritising climate expenditures in planning and budgeting, and to create an enabling policy environment to stimulate private investments at the local level

We encourage development partners to:

- In line with existing international and national agreements, ensure transparent climate funding, including predictable, new and additional resources; simplified access and harmonized procedures to reduce transaction costs; and simplified access and tailored modalities, so as to support country level decision making, based on information of all available financial resources
- Enable improved planning and budgeting at the national and local level, through the provision of regular, detailed and timely information in line with national calendars.
- Share existing and support the emergence of good practice on defining climate-related expenditures including the OECD Rio Policy Markers; and other good practice

2.2. For climate related expenditures to be managed and implemented in ways that are consistent with country systems for public financial management (PFM), procurement and programme management

We encourage developing countries to:
• Undergo regular assessment of reform efforts of national and local systems to identify readiness for fully capturing and managing climate finance
• Articulate preferences for the modalities for receiving and managing externally provided climate related finance that they would like to have access to, consistent with other relevant policies such as development policies

We encourage development partners to:

• Use country systems and the modalities preferred by the country as the first option for channeling external climate finance, and where use of country systems is not feasible, establish additional safeguards and measures in ways that strengthen rather than undermine country systems
• Support ongoing and future reform efforts in a harmonized and predictable way
• provide development assistance to strengthen the institutional capacity and overall national capacity development in a sustainable way

2.3. In order to operationalize an accountability framework for reporting on climate related expenditures and their impacts

We encourage developing countries to:

• Include climate finance in their national and local accountability systems, with strong roles for parliaments and civil society
• Take a strong lead in and provide guidance to the dialogue on the quantity and quality of climate finance as part of existing country-led coordination mechanisms and use monitoring systems to support such dialogue
• Ensure that these accountability systems are useful for informing international accountability, for example at the UNFCCC level

We encourage development partners to:

• Fully engage in mutual accountability mechanisms at the country level around criteria such as predictability, transparency and quality of external finance
• Ensure full transparency and inclusion of external contributions in national accountability systems
• Ensure international monitoring frameworks are rooted in national accountability and that international processes align their monitoring to national processes wherever possible

3. Peer learning and M&E of country-led climate finance
Based on the key initiatives outlined in the previous sections, we will engage in a process of peer learning and country-level monitoring and evaluation which will be linked up to ongoing and future exercises at the level of the UNFCCC and following the HLF4 in Busan.

In detail, the process will be articulated around the following activities:

**Peer learning:** Developing countries will share their experiences in pursuing the key initiatives through peer-to-peer learning, hand in hand with national parliaments and other specialized national actors (such as CSOs and academia). Peer learning might take place at the sub-regional, regional and inter-regional levels.

**Country-level monitoring and evaluation:** Developing countries and development partners are encouraged to agree on a series of country-level benchmarks and time-bound indicators to measure and evaluate progress in the key initiatives, closely collaborating with national stakeholders.

### 4. Taking the DRAFT Roadmap to the global level

Through agreeing this DRAFT Roadmap, we seek to promote coordination among our governments in close communication with our national and international partners, including civil society, in pursuing the common objectives on strengthening country leadership in the effective management of climate finance. In particular we will inter alia:

- Through the proposed Building Block on Climate Finance and Development Effectiveness, bring this DRAFT Roadmap to the Busan HLF4, support learning within the development effectiveness community around effective climate finance, and ensure that climate finance is reflected in future monitoring and evaluation frameworks.
- Share this DRAFT Roadmap with our partners of the climate community which will gather for the Conference of Parties in Durban and support the UNFCCC’s Transitional Committee to include effectiveness principles in the design and management of the Green Climate Fund.
- Support the establishment of a forum under the Standing Committee of the Financial Mechanism of the UNFCCC, proposed by the G77+China, for the exchange of information and improved coordination among relevant financial institutions, bilateral aid agencies, and UN agencies around country-led climate finance which could address these issues.
- Seek to promote more systematic dialogue and coherence *between* climate, development effectiveness and sustainable development communities such as those involved in the UNFCCC, the OECD DAC HLF4 process and the Rio+20 process.
- Encourage Asian and Pacific countries to pursue the measures reflected in this document.
- Encourage African countries to move discuss and strengthen this DRAFT Roadmap during the Nairobi Conference on 21-23 September 2011.
- Invite countries in Latin America and the Caribbean and other regions to initiate a regional process of dialogue, consultation and analysis around country-led climate finance.
Annex: List of countries and organisations represented

The drafting of the DRAFT Roadmap was led by a representative of the Ministry of Finance of Fiji and the Climate Change Commission of the Philippines. It was a partner country-led drafting process and development partners were invited to comment upon the drafts.

Disclaimer:
It was recognised that for this DRAFT Roadmap to be formalized there would need to be further discussion within governments and organisations. This could take place in the lead up to at the High Level Forum on Aid Effectiveness in Busan and the UNFCCC 17th COP in Durban. It was also recognized that countries in Africa, Latin America, and other parts of the world, would be invited to comment upon and strengthen the DRAFT Roadmap.

1. Government officials representing environment, climate, finance, planning and local government, as well as civil society, from:
   - Afghanistan
   - Bangladesh
   - Bhutan
   - Cambodia
   - Cook Islands
   - Fiji
   - Indonesia
   - Lao PDR
   - Maldives
   - Nepal
   - Pakistan
   - Philippines
   - Samoa
   - Solomon Islands
   - Thailand
   - Timor Leste
   - Tonga
   - Vanuatu
   - Vietnam

2. Representatives from development partners and international / regional organisations from:
   - Asian Development Bank
   - Australian Government AusAID
   - Belgium
   - Danish Institute of International Studies
   - European Commission
   - IBON
   - Japan
   - Mexico
   - New Zealand Aid Programme
   - OECD Development Assistance Committee
   - Overseas Development Institute
   - Pacific Island Forum Secretariat
   - Reality of Aid
   - Rockefeller Foundation
   - Swedish International Development Cooperation Agency
   - United Cities and Local Government Asia-Pacific
   - UNCDF
   - UNDP
   - UNEP
   - UNFCCC
   - United States Agency for International Development
   - World Bank
   - World Resources Institute