Enabling environments and policy frameworks for effective deployment of climate finance

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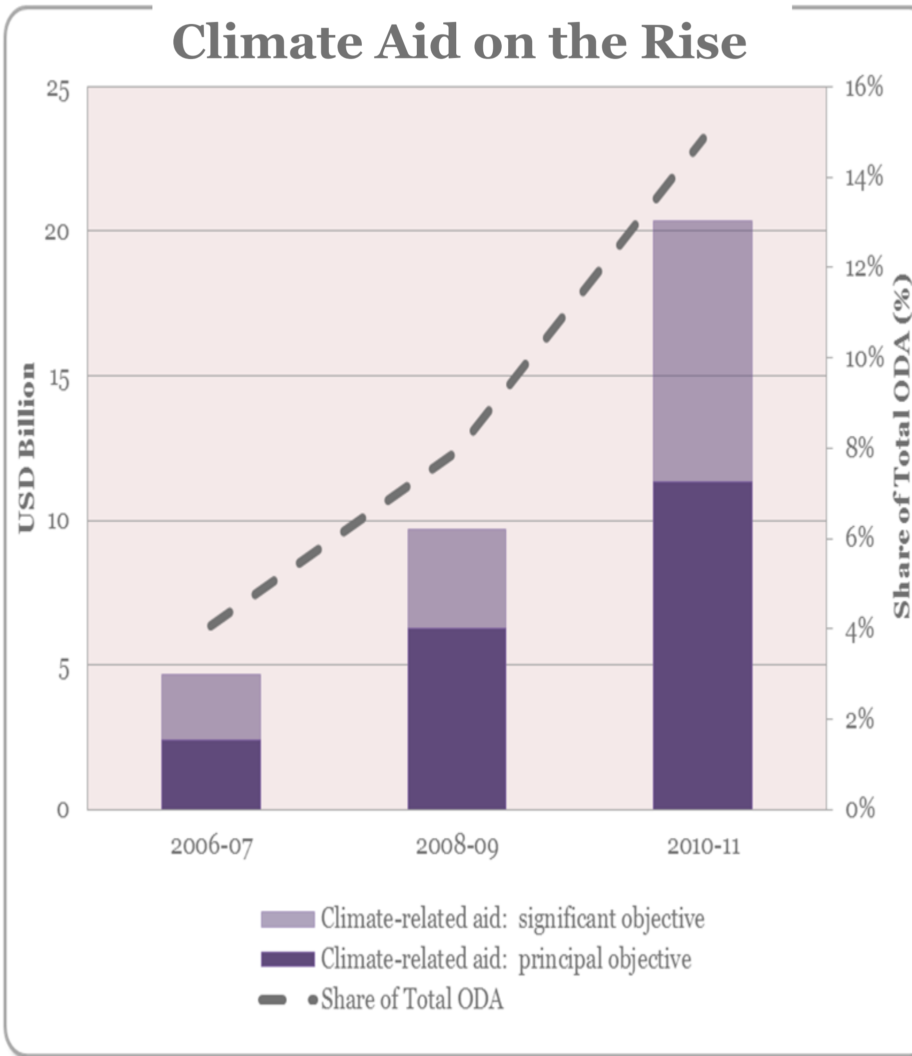
Key Messages

1. Developed countries are taking seriously their commitments to mobilise $100 bn p.a.
2. Making progress to improve the transparency and accountability of climate finance flows
3. The international community needs to work together to ensure that climate finance is “effective”
   - Financial sustainability is key to “effective” climate action and this can only be achieved through domestic policy = strong enabling environment
   - Domestic policy can incentivise private investment and generate domestic resources for climate compatible development outcomes
   - International development finance can be a catalyst for change
4. OECD ready to help the international community!

Progress in reaching the $100bn goal: *Official Development Finance*

- Total climate-related aid reported at **$12 – 21 bn p.a. in 2010-11**, rising to **15% of ODA**
- OECD DAC, working with international community, on Rio marker statistics to:
  - Improve data quality & coverage
  - Improve communication
  - Harmonise data across multilateral and bilateral sources
- **Support broader measurement** of external development finance to track delivery of post-2015 goals



Source: OECD DAC CRS System. **OECD DAC statistics on climate-related aid** (DAC bilateral commitments, USD billion, constant 2011 prices)

Progress in reaching the $100bn goal – *other international climate finance*

- Research Collaborative (RC) on Tracking Private Climate Finance – OECD coordinated
- RC aims to identify, develop and evaluate possible methodologies to:
  - Better measure and report private climate finance flows
  - Account for private climate flows mobilised by developed country public interventions
  - Conduct pilot measurements

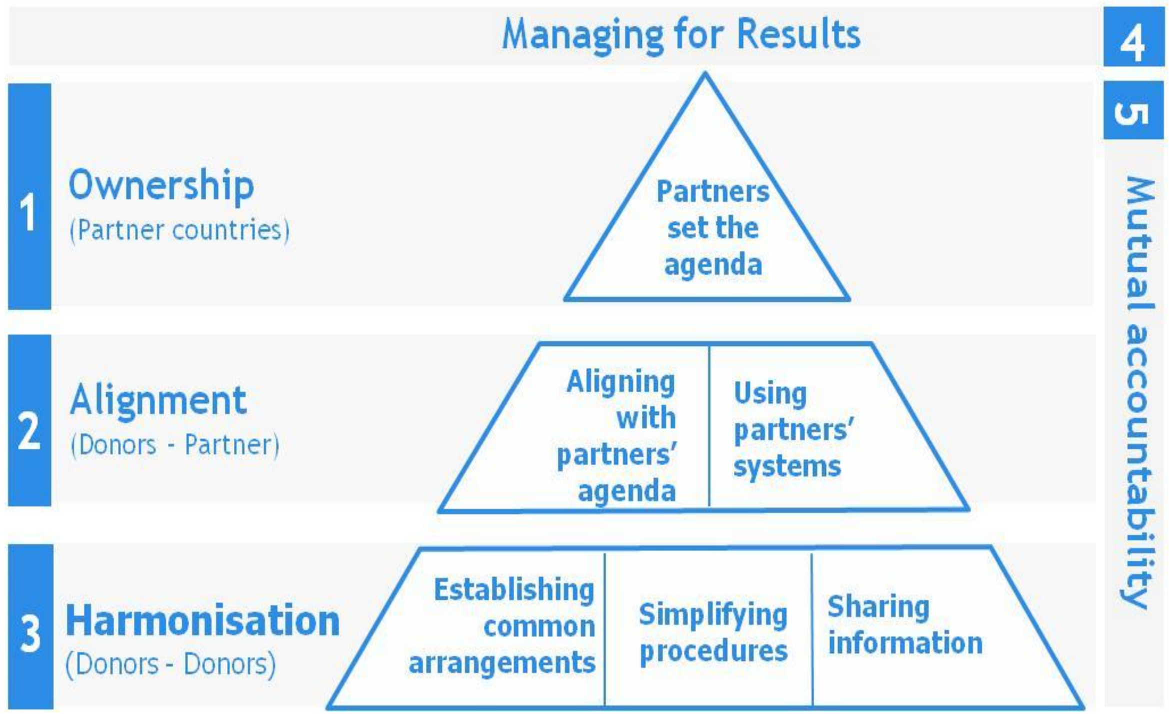
Source: www.oecd.org/env/researchcollaborative

From a development co-operation perspective there are some fundamental pillars to guide us

- **Aid Effectiveness Principles** draw from 50years of development co-operation experience

- **Busan Partnership for Effective Development Co-operation's commitment on climate finance:**

The Paris Declaration "Pyramid"

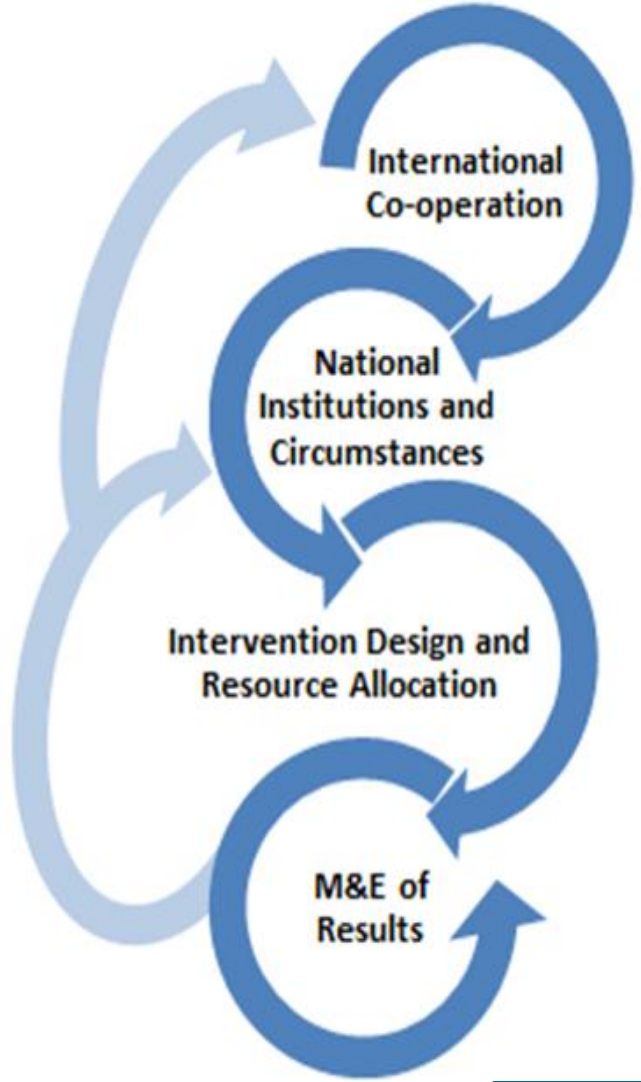


- *Support national climate change policy and planning*
- *Where appropriate – using national country systems*
- *Share lessons*

**Source:* OECD ***Source:* Paragraph 34, Busan Partnership for Effective Development Co-operation, December 2011

International community working together - ensure climate finance is "effective"

- Decades of development co-operation – what lessons learnt? (i.e. The Paris Declaration, Accra and Busan - 5 principles)
  - Ensure programmes are country-led;
  - Country ownership and alignment with partners' agendas and systems
  - Harmonisation of donor activity and mutual accountability for delivery of results.
- Assessing results essential to ensure continuous learning and accountability
  - Monitoring and evaluation can be considered at different levels of activity (e.g. international, national, local, project level)
  - Effectiveness is approached in different ways depending on who the actor is (e.g. provider, supporter or recipient of aid).



Sources: Zou & Ockenden (2013 forthcoming), Ellis et al (2013 - CCXG drat discussion document), OECD (2012), Aid effectiveness in 2011, and the Busan Partnership for Effective Development Co-operation's commitment on climate finance

Financial sustainability is key to climate compatible development (CCD)

- Requires domestic policy frameworks to guide climate finance with goal to achieve financial (self-) sustainability in all countries
- Governments set the agenda, establish the rules for engagement, incentivise private investment, potential to raise and direct public revenues to CCD
- Private sector is key:

➡ Without private sector investment in low-carbon, carbon resilient infrastructure and development, it will be impossible to protect people from climate change

- Aid is essential but goal is to make it redundant!

Domestic enabling environments: developed and developing countries

- **Strategic vision, leadership, planning** -- integrate climate priorities:
  - national (and urban) development planning, economic strategies
  - infrastructure planning
  - sector policies
- Implementation e.g.: **Green fiscal policies** put a price on the "bad", incentivise green investment and generate fiscal revenues
  - reform of fossil fuel subsidies
  - greening of domestic taxes
  - use of cap and trade systems to both generate revenues and
- **Identify and deliver large, near-term co-benefits** through climate policy:
  - tackling deathly air pollution (the No. 1 environmental risk to human health in developing countries today)
  - Energy security, resource efficiency, limit vulnerability to natural disaster
- **Systems for learning**, e.g. capacity for monitoring and evaluation

International climate finance can be a catalyst for change – varying by context

- **In low-income developing countries**
  - poorly developed or weak capital markets
  - public development finance as the main source of financing for action on climate change, basic infrastructure and services investment, at least provisionally
  - adaptation typically the highest priority, local programmes key to planning and implementation of adaptation
- **In medium to higher income developing countries**,
  - investment policies and capital markets are well developed
  - more opportunity to blend development finance with private resources (domestic and external)
  - leverage investments in infrastructure through innovative instruments e.g. loan guarantees, etc.
  - Mitigation and adaptation are joint priorities
- **In all contexts, private investment is key** - the motor of low carbon, climate-resilient development

What OECD can do to help…

- Support to MRV of $100bn - boosting accountability and transparency
  - DAC statistics on development finance, Rio markers
  - Research on tracking private climate finance
- Promote “effective” climate development finance
  - Busan Partnership on Climate Finance and Development
  - OECD assesses lessons learnt through partner country and donor practice, advises donors on good practice, works with willing partner countries
- Advise and providing guidance on domestic policies, measures and frameworks
  - ‘Peer review’ processes e.g. economic surveys, environmental policy reviews, development cooperation policy reviews, investment policy reviews – OECD countries and “on demand” basis for developing countries

THANK YOU!

For more information:

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OECD DCD Environment and Development

http://www.oecd.org/dac/environment-development/

OECD DAC-CRS: Methods and data on climate change financing
http://www.oecd.org/dac/stats/rioconventions.htm

OECD Environment: Financing Climate Change Action
http://www.oecd.org/env/cc/financing.htm

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