



Building Block on Climate Finance

4th High-Level Forum on Aid Effectiveness
Busan, Republic of Korea
30 November 2011

I. Objective

The objective of the session on climate finance was to identify lessons from decades of official development assistance (ODA) and growing experience in the provision of climate finance in order to facilitate access to - and optimise the effectiveness of - climate finance for developing countries drawing on donor and partner country experience and good practice in aid effectiveness. High-level speakers from both partner countries and development partners spoke in support of the building block. Importantly, the session included speakers from finance ministries and agencies, so that climate change was not only discussed as an environmental concern, but also as a development and finance issue.

II. Participants

Moderator: Administrator, UNDP, Helen Clark

Panellists

Erik Solheim, Minister of Development and Environment, Norway

Faumuina Tiatia Faaolatane Liuga, Minister of Finance, Samoa

Dr. Yong Hwan Kim, President of the Korean Exim Bank, Korea

Mr. Hugo Martinez, Minister of Foreign Affairs, El Salvador

Mr. Hugh Bredenkamp, Head of IMF delegation

III. Key issues discussed

The moderator pointed out that there is already a wealth of knowledge about how to make the best use of international public finance. The question for the panel was whether we are capable of building on what we already know about delivering and using international public finance for development to ensure that the growing volumes of climate finance deliver effectively for developing countries.

Some key messages emerged from interventions by building block participants:

Climate finance should be channeled through country-led strategies and country systems. Speakers spoke strongly on the need to learn from development co-operation experience when designing climate change finance mechanisms – including the Green Climate Fund, to avoid creating a new global bureaucracy and to keep transaction costs low. The new mechanisms should fund country developed and led strategies and plans and deliver finance through countries own budgetary and financial management systems. Creation of parallel procedures to country systems should be avoided.

Climate finance should be delivered equitably. Many poor countries which are among the most vulnerable to climate change are also those which have received least finance. Climate change finance flows tend to be biased towards countries with the capacity to meet the administrative requirements of the various funding mechanisms. The new funding mechanisms must have allocation mechanisms which ensure that funds flow to those in greatest need.

Climate finance flows need to be predictable. It was stressed that developed countries need to fulfill their commitments under the UNFCCC and to provide climate finance that is both additional



and predictable. The amounts of funding that developed countries could raise from new, climate related sources of funding, such as cutting subsidies on fossil fuels, introducing carbon taxes and emissions trading, and taxing aviation and shipping fuels would provide all the resources necessary to meet the commitments of USD100bn by 2020 – and still leave substantial resources for incentivizing green investments in their own economies.

Public climate finance needs to catalyse private finance. As a major part of the climate finance would come from private sources, it will be critical for public climate finance to catalyse private flows.

IV. Good Practices Discussed

Speakers referred to ongoing country and regional level initiatives that can provide good practice to be built on to support both the efficient delivery of and effective use of climate finance.

-Korea is participating in East Asia Climate Partnership, and committed to allocate 20% of its ODA as “Green ODA”.

- Norway provides significant funding to Brazil and Indonesia for REDD – reducing emission from deforestation and forest degradation. Norway is also supporting introduced successful country –led initiatives for climate change adaptation in Ethiopia, El Salvador and Bangladesh.

-El Salvador informed participants about a Regional Dialogue on Climate Finance and Development Effectiveness in Latin American and Caribbean, hosted by Honduras, to take place in early 2012. This Dialogue is designed to share lessons on managing climate finance in the region.

- Korea and Samoa stressed the value of regional dialogues on Climate Finance and Development Effectiveness that took place in Asia-Pacific and Africa, and “Call for Actions” developed through these Dialogues.

V. Main Conclusions and Possible Next Steps

The main conclusion of the session was that recognised principles of development effectiveness are valid in the context of climate finance as well. Notably, climate finance needs to be country-owned, make use of country systems, and avoid fragmentation. In achieving this, the development and climate communities need to communicate better to share lessons and good practice.

The building block attracted support from 28 countries and organisations. The supporters of this building block committed themselves to:

- strengthen linkages between climate change finance and countries’ planning, budgeting and public financial management systems.
- support regional platforms that promote lesson-learning across countries and policy areas. Policy areas include ministries of finance, planning- and climate/environment-related institutions, and platforms established in Asia, the Pacific and in Africa.
- share lessons across the relevant international policy processes such as the High Level Forum on Aid Effectiveness (HLF), UNFCCC COP and Rio +20, and pursue coherent approaches to the effective delivery of international finance based on common principles.

An implementation plan for the building block will be developed, based on good practices already implemented by its supporters. The commitments they have made will be implemented at national levels and the lessons and experiences will be shared among countries in the different regions and across the regional platforms through south-south co-operation. In addition, the supporters will seek to develop mutually supportive policy positions on climate finance in international processes such as UNFCCC and Rio+20.