Learning for Climate Change Mitigation Finance from Development Assistance

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ISDA Project

This paper is part of the project International Support for Domestic Action (ISDA). Case studies from five developing countries assess the barriers and drivers of actions that shift individual sectors onto low-carbon growth paths. Five cross-cutting papers then explore how international financial mechanisms, technology cooperation, intellectual property aspects, and suitable monitoring and reporting arrangements can enhance the scale, scope and speed of their implementation. The project is coordinated by Karsten Neuhoff, University of Cambridge; individual reports are available at http://climatestrategies.org/our-reports/category/43.html.

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Contents

Abstract

The climate conference in Copenhagen in late 2009 will be a milestone towards a new post-2012 agreement for tackling climate change. The 'finance package' for financing climate change mitigation and adaptation actions is considered an important part of any 'deal' in Copenhagen. The discussions on the details for financial support are still limited. This report therefore aims to shed some light on this issue by assessing what lessons can be learnt from the experience of development financing for mitigation financing for developing countries. This report evaluates the nature of financial assistance for development–with a focus on public finance-, reporting and verification requirements, differentiation between countries and sectors and harmonization.

1. Introduction

1.1 Climate Change and the Role of Finance

Climate change poses a serious threat to international development. Mitigation of greenhouse gases is therefore a global urgency. The first commitment period of the Kyoto Protocol – aimed at the mitigation of greenhouse gases – will end in 2012. The Conference of the Parties (COP) in Copenhagen in late 2009 will be a milestone towards a new post-2012 agreement. Plans for the post-2012 architecture are currently in the making. The 'finance package' for financing climate change mitigation and adaptation actions is considered an important part of any 'deal' in Copenhagen. Developing countries need to gain access to finance to enable the mitigation of their emissions, adaption to the impacts of climate change and becoming low carbon economies.

The discussions on the details for financial support are still limited. Adaptation finance is likely to serve the dual goals of supporting action on climate change adaptation and providing some sort of compensation from developed to developing countries (Interview with a climate change adaptation project manager, 2009). While certain provisions have already been made for adaptation finance such as the Adaptation Fund, there is limited concrete information about how climate change mitigation actions might be financed. It seems to be increasingly likely that public money, for example as provided by auctions, public budgets and Overseas Development Assistance (ODA), might be used to finance climate change mitigation.

1.2 Project Aims

This project report contributes to the Climate Strategies project 'International Support for Domestic Climate Actions (ISDA). "Domestic policies are required to facilitate a long-term transformation to a low-carbon economy. National policies have to internalise environmental externalities in investment, production and consumption decisions; provide a framework for the transformation of infrastructure, administration and regulation; and offer incentives and information for public, commercial and private decision makers" (Neuhoff, 2009).

Financing is an important building block of any new climate agreement. It is necessary to assess how international financial support for domestic climate policies and actions can best be designed. This report therefore aims to shed light on specific questions of climate change mitigation finance. The project intends to draw lessons for the ISDA project from IDS' broad experience of bilateral and multilateral development assistance, and to provide evidence on the different options for how such money could be effectively channelled towards developing countries. This is based on the assumption that climate change mitigation finance can learn from financing experiences in other development sectors. The majority of financing mechanisms differ not per sector, but per funding body. The assumption that it is possible to learn from other sectors seems therefore reasonable. There is however a limitation: A large part of development assistance comes from public funds from governments, but also from private trusts and foundations and private-public partnerships. The general expectation is that mitigation finance might come partly from public-private partnerships and private funds, although opinions about this vary depending on political positioning (UNFCCC, 2008; CAFOD, 2009). This report will particularly discuss the issues of donors/funders, recipients and implementing institutions in developing countries; reporting requirements and the link between deliverables and funding.

2. Methods and Theoretical Framework

This short project used three methods:

- Literature review about the nature of financial assistance and financial reporting mechanisms.
- A survey to evaluate IDS projects from various sectors and countries receiving bilateral and/or multilateral development assistance. This aims to shed light on the issues of donors/funders, recipients and implementing institutions in developing countries; reporting requirements and the link between deliverables and funding.
- Interviews with selected IDS development practitioners to shed additional light on the issues mentioned above, and also to identify the views of development experts on direct budgetary support, programme and project support and other financial structures.

The survey and the interviews form essentially a meta-study of development assistance projects and programmes recently conducted at IDS and the lessons that can be drawn for climate change mitigation finance.

The term ‘financial assistance’ does not exist as such in development studies. It is here defined as a broad and encompassing term which includes various types of financing such as Overseas Development Assistance (ODA), humanitarian aid, Foreign Direct Investment (FDI) and others. It also includes project financing, programme financing, Direct Budgetary Support (DBS), sectoral funding, basket funding, and conditional and unconditional funding. Regarding private sector funding, this research shows that private-sector funding for development assistance is often the case and mainly comes from trusts, (corporate) foundations and NGOs. Private-public partnerships also occur, for example a combination of governments’ ODA funding and funding from foundations and NGOs. These are parallels to the currently proposed public, private and public-private partnership funding for mitigation finance.

ODA is defined by the World Bank as “Loans, grants, and technical assistance that governments provide to developing countries.” (World Bank, 2009a;1). In this research, ODA was often paid to specific projects and programmes. It was sometimes paid through a combination of government spending and private spending through trusts, foundations or NGOs. ODA usually targets the socio-economic factors underlying poverty, while humanitarian aid is directly linked to humanitarian purposes. Humanitarian aid is financial, material or logistic aid which is donated in humanitarian crises.

DBS refers to financial assistance for specific budgets or sectors that is allocated by governments to developing countries. Sectoral funding is financial assistance for specific sectors and can be a part of DBS. Basket funding can also be part of DBS and is defined as “joint funding by several donors. It may or it may not be provided in the form of budget support to the recipient government. The budget support (or cash transfer) in turn can be provided either as support to the budget as a whole or as part of a programme or sector”

(UNEVOC 2009:1). 'Sectoral funding' relates to the Sector-Wide Approach (SWAp). "[…] a process in which funding for the sector - whether internal or from donors - supports a single policy and expenditure programme, under government leadership, and adopting common approaches across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement and accountability. A SWAp should ideally involve broad stakeholder consultation in the design of a coherent sector programme at micro, meso and macro levels, and strong co-ordination among donors and between donors and government." (UNEVOC 2009:1).

The term 'financial assistance' was not narrowed down for the project, so that different forms of financing could be assessed. The interviewees and survey respondents had the choice to present their experience with different forms of financing for development assistance. However it became clear throughout the project that the majority of the financing received by the interviewees and survey respondents was ODA, or a combination of public and private funding. This is the reason why ODA and combinations of private-public funding play a special role in this report, particularly regarding the literature review.

Projects and programmes play an important role in this report and are here defined as the following: Projects are usually small to medium-scale actions, which are often used to pilot a new approach or methodology and are often at sub-national, local or case study level. Projects usually have a time-based schedule and reporting is required on project documents. Projects can be scaled up to programmes. Programmes are here defined as a scaling-up from the project level to larger actions which are often at the national or regional level. Programmes are usually divided into different phases and it is common for these to be redefined during the process. Reporting is done on the overall programme process and the inputs and outputs. This also requires evidence that the partner institutions are taking ownership of the process.

3. Results

3.1 Literature Review Results

The methodology included a short literature review about the nature of financial assistance and financial reporting mechanisms for ODA. ODA was the main financing received for the projects and programmes evaluated in this project, therefore the literature review focused specifically on this form of assistance. Humanitarian aid and Foreign Direct Investment seem to play only a limited role when it comes to traditional development assistance. Lessons can be drawn for mitigation financing from these different approaches to development financing.

Projects vs. Programmes:

There has been a general move away from projects towards programmes as preferred funding processes (White 2005; UNEVOC 2009), though projects are still funded by major donor agencies, by NGOs and Foundations.

Bilateral vs. Multilateral:

Multilateral bodies offer some advantages: they help to contain donor competition; minimise conflict among donors; provide space for collective action and balance aid allocations (Burall *et al* 2006); and allow recipient governments to have a greater say in decision making.
Bilateral bodies often have a long history of engagement; greater coherency with other policies such as trade and security; and greater flexibility than multilaterals, allowing them to react quickly.

Form of Funding:

Direct Budgetary Support (DBS) is "effective only if aid is a significant share of the budget and there is agreement on policy priorities between donors and government; it requires effective institutions for policy reform; it requires strong civil society monitoring and participation." Within budget support, conditionality is deemed appropriate to "ensure financing is additional to current government budget support; to ensure coordinated policy priority; to ensure the right instruments are targeted on vulnerable groups" but there is particular difficulty in "identifying appropriate indicators and there has been little clear link between public expenditure and outcomes" (Barrientos 2007:8). "Budget support can more easily identify these linkages, and support them effectively, especially compared with project aid. Budget support is also, on paper, more flexible in responding to changes in the pattern and significance of risks. Disbursement is more flexible." (Barrientos 2007:9).

Reporting and Verification:

Reporting mechanisms are likely to play a crucial role for monitoring the financing of climate change mitigation actions. Reporting mechanisms are almost entirely donor-driven; differences are chiefly attributable to donor ideology; each donor (including NGOs) gives out money in their own way, with little sense of 'best practice' for reporting mechanisms within any particular sector. Despite the Paris Declaration, and much emphasis on the importance of efficiency, this trend has increased over time (White 2005). Table 1 shows the different reporting requirements of each donor or funder.

Donor Organisations	**Financial Reporting Mechanisms**
Multilateral: World Bank	Own sets of indicators + interim reports
Multilateral: UNDP	Comparing contract against deliverables + UNDP Monitoring and Evaluation (M&E) Framework
Multilateral: UNICEF	Comparing contract against deliverables + reporting
Bilateral: DFID	Log frame + reporting
Bilateral: SIDA	SIDA M&E Framework
Bilateral: IDRC	Outcome Mapping + IDRC M&E Framework
Bilateral: EU	Comparing contract against deliverables + reporting + workshops
Bilateral: USAID	Reporting back every 2 weeks
Foundation: Rockefeller Foundation	Weekly conference calls

Foundation: Ford	Comparing contract against deliverables, report, workshops
NGO: Concern	Placed recipient organisations into different categories, depending on their track record, and based reporting mechanisms accordingly. The more trustworthy the organisation, the less reporting (more upfront money, quarterly reports). Less trustworthy organisations had to follow stricter reporting mechanisms (monthly reports; disbursements every 3 months). Reporting used as penalty.
NGOs: CAFOD, Action against Hunger	Reports and papers, comparing contract against deliverables

Table 1. Financial reporting mechanisms for recipient / implementing organisations by various donors and funders. Source: Interviews, surveys and literature review.

While interviewees saw little relationship between financial reporting and success of project, the World Bank, in a more rigorous analysis, found a positive relationship between successful project monitoring and evaluation (M&E) and successful project outcomes (World Bank 2008). 'Success' however needs to be defined in more detail, as it is unclear what is meant by success, how this is measured and who measures it. It might be more appropriate to speak about 'effectiveness' in terms of achieving the expected results with a certain amount of funding available.

Reporting of donor and funding organisations works according to their own guidelines. The World Bank produces an Annual Review of Development Effectiveness (ARDE); UNDP has the Results-Oriented Annual Report (ROAR), and DFID has the Development Effectiveness Report (DER). ARDE and ROAR both rate projects as either performing 'satisfactory' or 'not satisfactory'. DFID uses a project completion report and output-to purpose review (similar to a midterm review). ROAR is "geared towards results-based management" (White 2005: 5). These evaluations use a combination of quantitative and qualitative data including case studies — with case studies being a contentious issue since choosing four case studies out of a portfolio of 60 or more tends not to be representative (White 2005). However, evaluation of the effectiveness of processes at different stages of project identification, design and implementation was not mentioned – more a 'mid-term review'.

White (2005) defines the 'triple-A requirements' of such reports: attribution (what agencies do and what outcomes they hope to influence); aggregation (whether agency's reporting system produces data that can be aggregated across projects), and alignment. White (2005:5) found that the "method used for aggregation of reports had not been anchored in the techniques developed for meta-evaluation".

Micro-level evidence, a form of impact evaluation, is often carried out, which can have several different meanings, including: "rigorous analysis of the counterfactual"; "a focus on outcomes; evaluation carried out some years after intervention has ended; country or sector-wide studies" (White 2005: 9). There are differences between each donor and funder in relation to such impact evaluations for development assistance. According to Burall *et al* (2006), the World Bank understands under impact to review only 5% of its programmes 3-10 years after final disbursement; and of these they tend to focus on widely defined and subjective measures i.e. 'improvements in the environment' or 'the role of women' (Burall *et al* 2006).

Methods for measuring impact include: before or after comparison of outcome indicators; comparison of outcomes with those in a control group; and a combination of the two. Appropriate control groups are not easy to find or use (White 2005). However, these techniques may be of limited appropriateness for policy reforms and programme aid as it may be difficult to design indicators and control groups for policy reforms and large-scale programme aid. Further, particularly technical methods of evaluation are often impractical in developing countries.

The Paris Declaration has encouraged results-based improvement. This has proven difficult, however, not least because of the poor quality of administrative reporting, and a lack of know-how to provide feedback for policy (OECD 2004).

Donor Accountability

Oxfam carried out a survey of donor practices in 2004, with five variables: simplifying reporting requirements, delivering aid on time, committing for the long term, fitting in with the government budget cycle, and imposing minimal conditions (Oxfam 2004). Oxfam criticised aid delivery and a lack of donor accountability. The study suggested that "almost 30 per cent of G7 aid money is tied to an obligation to buy goods and services from the donor country." (Oxfam 2004:8). The study rated this as being inefficient and in the interest of developed countries governments and firms. The study also criticises the uncertainty of aid delivery due to changing policies and legislations, administrative problems and conditionality attached to funding. "Oxfam's analysis of World Bank loan conditions, for instance, found that the Bank requires governments of countries such as Ethiopia to carry out approximately 80 policy changes per year." (Oxfam 2004:9). By signing the Rome Declaration on Harmonisation in 2003 and the Paris Declaration on Aid Effectiveness in 2005, developed countries governments and multilateral donors committed themselves to change their practises and to reform the delivery of aid. According to Oxfam, "Some are making progress, mostly by collaborating to deliver joint funds directly to sector ministries or government treasuries; but others lag behind [...]. While donors are quick to hold governments to account for their use of aid, there is as yet very little done to hold donors to account for their management of aid. Initiatives such as independent monitoring or recipient-government reviews of donor practice occur largely on an ad hoc and voluntary basis." (Oxfam 2004:9).

3.2 Survey Results

The survey was designed to gather evidence on issues of donors/funders, recipient and implementing institutions in developing countries; and reporting requirements and the link between deliverables and funding in recent development assistance projects and programmes carried out at IDS. Respondents were asked to share their personal experiences with financial mechanisms for recent development assistance projects and/or programmes they were directly involved in. Most of the respondents were in positions of authority such as programme directors or project leaders, so the knowledge and familiarity with the subject was high. Surveys for 32 projects were collected from 15 selected development practitioners at IDS. Higher numbers of participants could have influenced the results, although it is not assumed that this would have made a significant difference as the range of participants show similar results. The findings are therefore considered as representative. The following data briefly summarises the survey results:

Projects vs Programmes:

Out of 32 completed surveys, 28 (88%) were development assistance projects and thereby received direct project support and 4 (12%) were programmes.

Bilateral vs Multilateral:

Out of the 32 completed surveys, 21 (66%) received bilateral financial assistance, 9 (28%) received multilateral financial assistance, and 2 (6%) received a combination of both bilateral and multilateral assistance.

Form of Funding:

In the survey, the respondents were asked about the form of funding they received for their development assistance projects or programmes. Out of the 32 completed surveys, 18 (56%) received ODA, 7 (22%) received direct funding for research, 4 (13 %) were Foundation-funded, 2 (6%) were NGO-funded, and one (3%) received a combination of financial assistance from Foundations-NGOs-ODA. None received humanitarian aid or Foreign Direct Investment. While interview respondents mentioned other forms of funding like Direct Budgetary Support and basket funding, this was not mentioned by any of the respondents in the survey.

There were cases of private funding by (corporate) foundations, such as Volkswagen and Ford, and NGOs, and also cases of private-public partnership. This might provide parallels to mitigation finance.

Countries:

A wide range of over 60 developing countries were mentioned, mostly African and Asian countries. Countries which occurred many times in the financial assistance were specific African countries like Kenya, Malawi, Tanzania and Ethiopia and specific Asian countries like China, Bangladesh and India. Interestingly, no correlation was found between different countries and the form of financial assistance received.

Sectors:

As the aim of the project is to learn from different sectors in development assistance, the surveys aimed to cover a wide range of expertise and sectors. The incidence of financial assistance varies across sectors; agriculture and food sector received financial assistance 10 times (22%), social protection 5 times (10%), education 4 times (8%), health 4 times (8%), climate change 4 times (8%), the energy sector 3 times (6%), industry 3 times (6%), the financial sector/trade 3 times (6%), the private sector/services twice (4%), transport twice (4%), infrastructure twice (4%), coastal zone management once (2%), households once (2%), water once (2%), elections once (2%), children once (2%), and governance once (2%). Also, no correlation was found here between different sectors and the form of financial assistance received.

Donors:

All together there were about 20 different donors for 32 cases of financial assistance. However since IDS is an UK institution with strong links to DFID, the majority of the financial assistance comes from this UK government organisation. DFID provided financial assistance in 15 cases (42%). Several private foundations (e.g. Ford, Rockefeller, Volkswagen) and several UN bodies provided financing in 6 cases (15%). The International Development Research Centre IDRC provided financial assistance in 4 cases (10%). Non-UK Aid organisations, namely the Australians, Swiss, Dutch, and the Chinese provided financial assistance in 4 cases (10%). Several NGOs, such as Action Against Hunger and CAFOD, provided financing 3 times (8%), the World Bank twice (6%) (partly as a loan), the EU once (3%), the UK Foreign Commonwealth Office once (3%), and the FAO also provided financing once (3%). There was often more than one donor per project. The Chinese government provided financial assistance to its own country in one case, together with the World Bank and DFID. The public, private and public-private funded actions are interesting in terms of learning lessons for mitigation finance.

Recipients:

The respondents work in the development research sector. It is therefore not surprising that the majority of the financial assistance received in these specific cases goes to research institutions: 39 occasions (71%) were reported, of which 8 can clearly be identified as research institutions in developing countries. NGOs were the recipients of financial assistance 8 times (15%) of which 3 can clearly be identified as developing country NGOs. Consultants received the funding 4 times (7%), local and regional governments in developing countries 3 times (5%), and the World Bank once (2%). There was often more than one recipient per project or programme. As mentioned above, 'success' or 'impact' depend primarily on the definition and the approach of the respondents, however the authors were interested in any correlation between perceived success and financing arrangements. The perceived success of the projects / programmes –as judged by the survey respondents on a scale from 1 to 10 – seemed to have little to do with the recipient institution and rather seemed to be dependent on the donors and their regulations.

Although a high number of research institutions were financed in the specific cases cited here, the insights are more broadly transferable to general development assistance. The majority of respondents received ODA from governmental development agencies such as DFID, from NGOs and Foundations involved in development assistance, and from multilaterals such as the World Bank. One of the key findings of this research is that the development assistance process is mainly determined by the donors and to a lesser extent by sectors, countries or implementing agencies. The donor thus applies its general guidelines on reporting, project delivery and desired project outcomes, which tends to be somewhat independent of the nature of the intervention.

Development assistance is often multi-facetted. It can be in the form of research (developing an early warning system for tsunamis), infrastructure (building dykes and flood walls), capacity-building (training local people and authorities), knowledge management (collecting and managing data related to tsunamis), humanitarian aid (emergency rescue of locals due to tsunami) and others. Often various forms of development assistance are combined. Although there is a distinct difference between pure research and pure aid interventions, these two are often combined in the actions conducted by IDS. For example, IDS often combines development research, capacity-building and knowledge management. As a recipient of ODA, the research actions aim to serve the overarching goals of poverty alleviation and development – this is regardless of whether this is best achieved by research for the sake of development or other development actions. The presented results are therefore considered representative for general trends in financing development assistance.

Implementing Agencies:

While the recipients are the direct receivers of the financial assistance, the implementing agencies are those agencies which are responsible for implementing the development interventions. These implementing agencies can be the recipients in some cases and in other cases these may be different. The survey results show that in many cases part of the money received for development assistance is channeled through from the recipients to implementing agencies in developing countries.
Due to the nature of IDS' projects and programmes, the majority of implementing agencies are research institutions, which were mentioned 38 times (74%), of which 16 are local institutions in developing countries. Various UN bodies were the implementing agencies in 5

cases (11%). Local and regional governments were the implementing agencies in 4 cases (9%), with 3 such cases in China and one in Africa. In China the implementing organisation was a Ministry twice. In 3 more cases the implementation agency had government affiliations in Africa and Asia. The World Bank and NGOs are each mentioned twice as the implementing agency (4% each) and local consultants in developing countries each once (2% each). There is often more than one implementing agency per project or programme. The success of the projects or programmes seemed to have little to do with the implementing institution and rather seemed to be dependent on the donors and their regulations.

Reporting and Verification:

The majority of reporting and verification measures required the provision of reports in various forms (mid-term report, final report, narrative report, financial report). This is valid for 20 cases (46%). 10 donors requested presentations at workshops, seminars or conferences (23%), 5 requested publications in addition to the reports (12%), 3 requested an outcome mapping process (6%), 3 had external reviewers and advisory groups (7%), one demanded additional specified outputs (2%), another donor demanded regular meetings (2%) and one donor requested regular phone/video conferences (2%). There was often more than one method for reporting and verification per project or programme.

Linking Project Delivery and Funding:

15 respondents mentioned that the donors measured agreed milestones and/or the content of the contract or Terms of Reference against the deliverables (35%), 16 donors requested reports to link the delivery to the funding (37%), 11 donors held workshops to verify the results (26%) and one donor requested a special supervision scheme (2%). Also in this category, there is often more than one method for linking delivery and funding to the project / programme.

Relevant Strengths and Challenges to Learn from:

The survey asked about the strengths and challenges of the development assistance. Many of the comments made in this regard were related to the project or programme design, but some of the comments were also relevant for financial assistance.

There is consent among the respondents that local ownership of the development assistance and its results is important (as the Paris Declaration on Aid Effectiveness also confirms). The involvement of high-level policy-makers and the development of the development assistance in line with national policies and priorities is also important. A common challenge seems to be to achieve consent among donors, recipients, and implementers, especially when centralised government structures are in place. Practical guidelines are required to enable sustainable policy-making as a response to development assistance. Four respondents mentioned that time constraints reduced the success of their projects or programmes.

3.3 Interview Results

The surveys provided the basis for more specific questions, particularly in relation to the nature of different forms of financial assistance, reporting and verification mechanisms, and the link between deliverables and funding. Nine experienced fellows and finance/project accountants with relevant expertise and background were interviewed. The interviews were intended to be semi-structured, but open-ended, and were individually suited to the background of each interviewee. The interviews had a length of about 20 to 30 minutes. The interviewees were informed about the scope and aims of this project. They provided some short insights into their own projects financed by development assistance, but also discussed at length their general experiences with and perception of financial development assistance. The interview results are presented here in an anonymous form to guarantee the anonymity

of the respondents.
The interviewees were selected from a range of different backgrounds to analyse whether different sectors had any influence on the financial assistance and the reporting mechanisms. The following sectors were covered by the interviewees: aid, agriculture, climate change adaptation, finance, growth, politics/elections, project management, social protection, trade. The aim was also to interview experts with different funding backgrounds, for example experts with funding expertise from DFID, the UN, Foundations, NGOs etc.

Projects vs Programmes:

The majority of interviewees favoured programmes over projects. The short life-time of projects makes them suitable for piloting new approaches, but less so for achieving large-scale change needed in development. Projects are also governed purely by contracting to strict rules, which increases the accountability of the donors such as DFID to the taxpayers (Interview with project accountant, 2009). Programme-based financing was considered better by the interviewees, because of the long-term support available, less stress in regard to time lines, more possibilities to relate the actions to national and local needs, increased use of the results, evidence of local ownership in developing countries and more flexibility to achieve what is needed away from the requirements of contracts and project documents (e.g. Interview with politics/election practitioner, 2009).

"A program is a learning process whereas a project is fixed – you have to do it by numbers. So what you report is much more qualitative. How the client system is taking ownership and meeting its obligations, from the president to the citizens. It has to report on activities and materials that went into those. A project simply requires reporting on the project document. A programme requires reporting on the whole process as well as the inputs provided. It requires qualitative as well as quantitative data – evidence that the partner system is taking ownership and doing what it has agreed to do." (Interview with politics/election practitioner, 2009:21). "Programme-based finance, sector funding and basket funding – is good. But it depends what you are looking at. Sometimes testing, or a new issue, pilot programmes, is better to project-based funding. But on a question of transaction costs and accountability, you need to do programmes" (Interview with climate change adaptation practitioner, 2009).

Despite this preference, 88% of the interventions evaluated for this study were projects. Favouring projects over programmes could however also be a currently emerging trend. DFID and many other donors are still funding many projects. These are usually relatively cost-effective, deliver results quickly and are easier to manage by donors due to the strict evaluation of results versus project document / contract. One interviewee however made critical remarks about the difficulty of scaling-up from projects to programmes: "Its going more and more to the programme model. They are very different. I think that scaling up from pilot to national programme is massively difficult. The person doing the pilot is not necessarily the right person at the other level [..] If you do projects, you can control leakage, [..] strong relationship, very targeted. When you scale up you can't control these things. We haven't seen very many scale-ups that are successful yet. It is better to do it at policy level, not just benefit to one community." (Interview with social protection practitioner, 2009:10). 'Controlling leakage' in this case refers to managing difficulties that occur during a project, such as financial and organisational problems.

Form of Funding:

The majority (56%) of the evaluated projects received ODA but this was criticised by some of the interviewees. The nature of ODA often leads to a certain budget being available before having determining what the money is needed for – leading, frequently, to a pressure to spend the money without considering what to spend it on (Interview with trade and social protection practitioners, 2009). One interviewee complains that "They [DFID] have a commitment to spend x, but they can't measure it because every country is different. It's really fundamental, but it is causing problems." (Interview with social protection advisor, 2009:18). This leads to the need to co-ordinate 'seasonality' of funding with the actual needs of developing countries (e.g. farmers need their funding before the growing season) (Interview with social protection and agriculture practitioner, 2009).

Some interviewees also received funding from private foundations and NGOs. The interviewees response towards them was generally mixed and depended upon the funder. NGOs are usually known for having only very limited funding available, so that only small-scale projects can be funded by them. Foundations have generally higher amounts of funding available. Some are corporate foundations such as Volkswagen and Ford, others are philanthropic foundations such as the Bill and Melinda Gates Foundation and Rockefeller. Each private funder uses its own approach to financing. Public-private partnerships were also experienced by the respondents, such as combined financing from foundations and governments. It might be argued that public funding can catalyse development through the private sector in some cases, meaning that public funding can be an incentive for private funders to invest as form of a joint partnership. Regarding financing climate change mitigation and transitions to low carbon economies, this is sometimes suggested by players such as the World Bank, the International Chamber for Commerce and the World Trade Organisation. Experience from other development sectors indicates that public funding can serve as a catalyst for private funding; however more research is needed to underpin this debate with more evidence.

The interviewees reported that programme-based funding, sectoral-based funding and basket funding (all variations of the same thing) were generally better, though there was an appropriate place for projects - particularly in the pilot stage (Interview with climate change adaptation practitioner, 2009). Programme funding was generally preferred in relation to sectoral funding as this is harder to manage in terms of transaction costs and accountability (Interview with climate change adaptation practitioner, 2009).

Direct budgetary support (DBS) is often paid as a block grant by bilateral donors such as DFID (Interview with project accountant, 2009). Regarding DBS and earmarked support, the interviewees had different opinions on best practice. One interviewee remarked that "DFID prefers to support DBS. But if it can't do that then it'll fund the government in some way, then it will fund UN agencies, or it will fund projects. Question: Will it bypass governments? Yes, because otherwise you won't get anything in Africa." (Interview with social protection practitioner, 2009:16). Some interviewees felt DBS was necessary and the only way forward and earmarking should be avoided. "There is no other way of doing it [than direct budgetary support]. […] A lot of money will get wasted, but creating red tape to prevent that will waste money also – that won't be better value for money." (Interview with aid practitioner, 2009:7). This is supported by other claims, particularly from civil society according to the literature (Johnson *et al* 2004).

Another interviewee suggested differently: "Earmarked budgetary support is better than direct budgetary support. It gives ownership to the country of a project or programme, they have an interest in how the money is spent. The drawbacks – they may not have capacity to spend it appropriately and there may be poor financial control. It highlights capacity development as an objective. There is a real concern to see that the money is spent as intended. Earmarked budgetary support means bills come from a project and the money is spent on the project directly. If you just give a chunk of money to a government, then you have no accountability. No pass through of bills. It's more open to corruption." (Interview with politics/election practitioner, 2009:20). Earmarking is strictly conditional, which was considered positive by some interviewees and negative by others.

Bilateral vs Multilateral

The interviewees had worked with both multilateral and bilateral agencies. Of the 10 interviewees, only one person felt that their nature as a bilateral or multilateral organisation made any significant difference in their experience with them as a donor agency.

The difference between multi-lateral and bilateral organisations was not distinct in terms of reporting. One interviewee expressed the value of multilateral organisations, in that their procedures are less confusing and more in line with the Paris Declaration. "The donor community has signed up to the principles of the Paris Declaration. And that has to remain the baseline against which everything else operates, its critical. Don't go back to separate bilateral, it's a recipe for disaster, it's so confusing. I'd recommend you transfer money to countries on whatever basis is deemed appropriate and the money gets transferred to the government and the government does what it will with it and gives report to climate change with shadow reports encouraged" (Interview with aid practitioner, 2009:5). The same interviewee answered the following way: "Question: Is there any relation between bilateral and multilateral donors and the success of a programme? No." (Interview with aid practitioner, 2009:5).

Reporting and Verification:

An important factor for reporting is the experience and the capacity of those preparing the reports. Manipulation of the reports occasionally occurs as one of the interviewed practitioners reveals. While all interviewees admitted to the value of at least one (mid-term) review, views differed on the value of more reviews. Some preferred to carry out the development assistance their own way with minimal supervision; others appreciated the supervision.

"The standard operating procedures are to send reports up the system every 6 months. Logframes. It has changed over time, they have been revised. This should be in the operating manual. They [the donors] should agree if there is a standard report versus non-standard report, and all bilaterals have their own operating manuals, and its agreed recipients only have to report once to all the donors, and then you have to compromise, and then you have to persuade your people in the head office to agree to compromise. This can get very tricky" (Interview with aid practitioner, 2009:8). According to this interviewee all bilateral donors have their own operating manuals and in the case of multiple funding by multiple bilaterals it is agreed that recipients have to report only once to all donors, so compromises are made. Developing countries therefore seem to benefit from harmonisation, even if this reduces local ownership, because harmonisation reduces the effort for reporting towards multiple donors. In line with this, the OECD's Development Assistance Committee DAC has done much work on harmonisation, but still different rules exist for different donors.

None felt that more than monthly reporting was useful, though occasionally it was required (Interview with aid practitioner, 2009) except for very specific short term projects. Milestones were generally approved. Some donors and funders have the reputation to have extraordinarily strenuous and labour-intensive reporting mechanisms such as the EU, which basically require the support of professional accountants. This is a downside for climate change mitigation financing, as most developing countries have very limited organisational capacity.

Besides milestones and reports of various types, the interviewees reported other reporting mechanisms including IDRC's outcome mapping, which however could be 'manipulated' or 'twisted' by the researchers using it; DFID's logframe and a Foundation (Rockefeller) which used weekly check-in calls, which were seen as initially beneficial but, later, as a form of micro-management. The interviewee reported that it "felt like you were working under strict

consultancy rules and we did get some free rein at the end and they [the Foundation] realised how complicated our project was. I don't think a bilateral can sustain that level of engagement" (Interview with climate change adaptation practitioner, 2009:13).
One interviewee discussed his experience with the INGO Concern. Concern links financial assistance to outcomes as closely and in as much detail as possible. NGOs, in general, tend to have good reporting about where they spend their money, as this is often the access to future grants (Interview with project accountant, 2009). However, developing countries may not have this capacity. East Asia is well known for its institutional capacity and its ability to deliver and to meet reporting and verification standards, while large parts of Africa do not have the institutional capacity to achieve this (Interview with climate change adaptation practitioner, 2009).

One interviewee mentions the practice of shadow reporting which might also be a practice to consider for supporting the reporting and verification mechanisms for financial assistance for climate change mitigation projects / programmes. Shadow reporting is done in relation to reporting for the Universal Declaration of Human Rights. While countries submit their reports, civil society organisations like Amnesty International produce their own 'shadow' reports which are also used by the Human Rights Council to draw a picture about the performance of the country (Interview with aid practitioner, 2009). "The Human Rights commission is a really good example. The State has to report against it, every 2 years or every 3 years, you have to report against it in the progress you are making. In some places, […], you have shadow reports where the state reports on how it is doing and as I recently heard a HR lawyer say, of course states always lie. Civil society coalitions produce shadow reports and these are affected with treaties meetings. These are on a rolling basis […] and then if governments reports get priced over from representatives from other commissions […] and then the representatives from the offices of shadow reports […]. At the end the commission gives a report on what they think of the reports. It congratulates them for XYZ but then it needs to make gains for ABC….. It can get very political but that's the process" (Interview with aid practitioner, 2009:3-4).

This might be a useful reporting and verification mechanisms which could also be helpful for climate change mitigation finance. Countries could report every year on their climate change mitigation efforts and their financial spending while civil society organisations such as the Climate Action Network (CAN) or other qualified NGOs produce shadow reports which are then compared to each other by a special commission under the UNFCCC. It is, however, difficult to measure the mitigation efforts of a country and could work better when related to measurable outputs such as renewable energy plants built or buses driving on natural gas.

Linking Project Delivery and Funding:

Linking project delivery and funding will be crucial for a successful implementation of mitigation finance. There were no 'simple' answers for recognising when a program has or has not been 'successful' (and thus able to link money to outcomes) not least because rarely were programmes designed along simple metrics such as an increase in the number of hospital beds. Interviewees reported that funding is usually directly linked to the delivery of reports which are evaluated against the contract or project documents. There were no reports of non-payment of funding or of delayed funding; it is thus assumed that the reporting link between delivery and funding seems to work well in the development practice. One interviewee commented that milestones and reporting are not very helpful, as it is just to "tick boxes". "The overall time would be spent more effectively if one just allocates the time in accordance to the needs of the projects and not in ticking boxes. People usually don't read interim reports anyway, it's just ticking box after things were delivered on time" (Interview with growth practitioner, 2009:23).

Linking Financial Assistance Mechanisms to Sectors and Countries

The interviews suggested there was no relationship between sectors and type of financial mechanisms or reporting mechanism. “Question: Have you noticed any differences between sectors, particularly between agriculture and others? Answer: Not really.” (Interview with trade practitioner, 2009:23). Another interviewee had the same reaction to a similar question: “Question: Do you see differences across sectors in terms of financial reporting mechanisms? Answer: Oh no. It’s much more about differences between donors and most donors fund across sectors, they set the rules” (Interview with project accountant, 2009:3).The understanding that financial mechanisms and sectors are independent was also supported by the results of the survey.

A similar observation was made both in the interviews and surveys for different countries. The donors largely decide the ‘rules of the game’, but national variations are usual. While most interviewees thought that national differences were not that significant, two interviewees reported differently, one in relation to climate change adaptation finance for fragile states and rapidly developing countries. “Question: Is adaptation finance looking at differences per country? Answer: To some extent yes. The big question is alternative financial delivery mechanisms for fragile states. There are some questions around how rapidly developing countries should be under the same systems…There’s another set of issues of how money goes into a country – into multi-donor trust funds at national level, or it goes through civil society organisations – sometimes they do a better job than through national government. The tendency is towards wanting to protect the Paris Principles, even if not calling it that, to strengthen national governments.” (Interview with climate change adaptation practitioner, 2009:11).

The other comment from an interviewee was made on reporting mechanisms which DFID tries to differ per country, however this observation was not confirmed by any other interviewee or by the surveys. “DFID is trying to use a country’s own reporting mechanisms.” (Interview with aid practitioner, 2009:5).

The actual type of financial assistance and the rules attached to this seem not to be influenced by sectors or countries, but to be strongly influenced by donors. There was also no experience of certain types of reporting (e.g. reporting every 3 months versus once a year) within any sector or within any country; however the donors were the deciding factor for reporting.

Based on this evidence, lessons can be drawn for mitigation finance and financing transitions to low carbon economies: The donors determine which type of financial assistance is granted (whether this is bilateral or multilateral), whether the financing is in form of ODA or foreign direct investment or other, what kind of reporting and verification mechanisms are attached and how deliverables and funding are linked.

4. Discussion and Conclusion

The project results suggest that the issue of financial assistance is inherently complex and no simple ‘one size fits all’ model can be extracted as a lesson for climate change mitigation finance. However, this study sheds some light on these complex issues and based on the evidence collected from the surveys, the interviews and the literature review it is possible to make an ‘authoritative’ judgement on the different mechanisms and on the experience of development practitioners about their effectiveness. This can provide useful lessons for mitigation finance and financing transitions to low carbon economies:

There are indications that private financing and private-public financing will play a large role for mitigation finance, however there are also suggestions that public financing will play a role to some extent. One of the main protagonists for increasing private sector funding is the World Bank (World Bank, 2009b). The UNFCCC's Expert Group on Technology Transfer and some proposals of UNFCCC parties (such as of the G77 and China) share some of these views (UNFCCC, 2008; UNFCCC EGTT, 2008), but at the same time also advocate the importance of the public sector. The public sector plays a large role regarding publicly owned technologies which can be relevant for mitigation. The lessons drawn from this study are mainly related to public funding, although some lessons from public and public-private partnerships were also explored.

The majority of the development practitioners at IDS, and relevant literature, support the view that programme-based financial assistance is preferable to project-based funding, although scaling-up from project to programme can be difficult. Basket-funding and sectoral-funding is also considered as positive, however the transaction costs are high and the accountability is lower. It is therefore advisable to consider programme-funding as a serious option for climate change mitigation financing. Development practitioners agree that Overseas Development Assistance (ODA) seems to be the most adequate form of financial assistance as there is long experience and expertise with ODA in developing countries. ODA for climate change mitigation actions, however, should be additional to existing ODA as suggested by the G77 and China's proposal on financing to the UNFCCC (UNFCCC 2008) and other reports (CAFOD, 2009: ActionAid, 2008).

There is no consensus among practitioners when it comes to the effectiveness of direct budgetary funding and ear-marking. The advantage of Direct Budgetary Support (DBS) is that a specific amount of money is available and the government of a developing country can decide exactly what to do with it. The disadvantage is that this money can also be subject to corruption or can be used for other (detrimental) purposes (e.g. when the money is invested in warfare instead of education). In the case of mitigation finance, earmarking is preferable. Earmarking ties the money to a certain purpose, such as climate change mitigation or the renewable energy industry. This might mean less ownership from the development perspective, but at the same time also less risk of corruption.

It was found in this study that bilateral and multilateral financing are generally considered more appropriate than funding from foundations or NGOs as the bi- and multilaterals have more expertise and experience dealing with developing countries. Some practitioners indicate that in the case of financing mitigation actions, multilateral funding might be better as it is more flexible than bilateral funding and easier to harmonise. Harmonising the results and the reporting and verification mechanisms (at least to some extent) will be essential for climate change mitigation finance. This could be more easily achieved by a multi-donor trust fund administrated, for example, by the World Bank or the UN. This multi-donor trust fund could receive funding from bilateral donors such as DFID, USAID, GTZ, SIDA, etc. An intermediary structure, a combination of multilateral and bilateral, might therefore be the most suitable option for climate change mitigation finance. There are, however, concerns whether some of the large emitters (e.g. US) would be willing to contribute large amounts of funding into such a multi-lateral body. Another concern is the uncertainty in relation to an adequate governance structure of such a body and its implications for domestic actions.

This study shows that sector differences seem not to influence the effectiveness or the success of development assistance. There are inherent country differences and some donors take this into account in their procedures. However, the donor is more important for financial assistance. It seems to be the donor institution that determines the outcome of financial assistance; this is relevant knowledge for differentiating between countries and sectors for mitigation finance. It is clear that low income countries cannot be treated the same as middle income countries when it comes to providing funding for enabling mitigation and low carbon economies and there must be a differentiation in the amount of funding and support received, however development experience suggests that the procedures between countries and sectors seem to be very similar per donor.

To effectively compare the results of financial assistance under one donor with the others, harmonisation between the donors is required. Harmonisation can also be beneficial for evaluating the aid effectiveness of donors. The Paris Declaration on Aid Effectiveness has the goal that developing countries set their own nationally specific strategies for poverty reduction (or climate change mitigation in this case) and come to an agreement about this with the donors. Here also, some form of harmonisation will be required; such as when one multilateral administrates the funding of several bilateral donors as proposed above.

In the specific cases of this study the recipients were mainly research organisations (both from the UK and developing country), but also NGOs, consultants and national governments (central and local, ministries). Centrally-governed countries like China tend to involve their government institutions as recipient and/or implementing institutions. As research will only be one part of the mitigation finance, while the development of infrastructure and 'hardware' will also be important, it might be advisable to increasingly finance governments and to some extent relevant research institutions, consultants and civil society organisations such as NGOs or private companies (e.g. energy developers). Financing governments and local institutions will also increase the local ownership in developing countries, which will also be the case for mitigation finance. A part of the financing, however, should remain with independent non-government-affiliated institutions to avoid corruption. This was mentioned by the interviewees particularly in relation to Africa.

Recipient institutions are also often the implementing institutions as the surveys and interviews have shown. Similar observations have been made for implementing institutions as for recipient institutions, however governments (local, regional and ministries) already play a larger role here and this could be increased to some extent, especially in those countries with an otherwise low institutional capacity. Also here, a part of the financing should however remain with independent non-government-affiliated institutions to avoid corruption.

Regarding financial reporting, the interviews, surveys and literature agree that there are no agreed sector-specific or country-specific best practices for financial reporting. Instead, there has been a dramatic increase in the multiplicity and diversity of international financing mechanisms, particularly since the mid-1990s. Donors, recipients and independent observers all agree that the current ODA system is too complicated with unduly high transaction costs (e.g. Burall *et al* 2004; Oxfam 2004; White 2005;). These trends have continued despite the tremendous literature bemoaning it. The interviews suggest that developing countries benefit from harmonisation of aid and harmonization of reporting procedures, because harmonisation reduces the effort of accounting to multiple donors. To effectively compare the results of financial assistance under one donor with the others, harmonisation between the donors is needed. Harmonisation can also be beneficial for evaluating the aid effectiveness of donors. In line with this finding, the Paris Declaration on Aid Effectiveness was a recurring theme which was mentioned by all the interviewees and also plays a prominent role in the literature. The consensus is that any 'deal' on a financial package for mitigation and adaptation in Copenhagen must be in line with the Paris Declaration Principles (see Annex I).

The study revealed that reporting and verification guidelines are usually determined by the donor. In the case of mitigation finance, it could be easier to have multi-donor trust funds administrating funding from bilateral donors who agree on defined reporting standards. Usually this consists of reports and producing results according to the contracts or agreements. Workshops can be used as supervision and verification tools, but also as a tool for learning and capacity building of developing countries. Shadow reporting by civil society organisations could be useful in addition, as the experience from Human Rights has shown.

Regarding the link between delivery and funding, the practitioners agreed that milestones, reports (and shadow reports), verification workshops and in some cases supervision schemes, could be useful and suggested this as a way forward for mitigation finance. Supervision schemes are used by the International Atomic Energy Agency (IAEA) in the form of inspections (with limited success). Otherwise few useful supervision schemes – expect from shadow reporting – seem to be in place.

No case of sanctioning of non-reporting was mentioned in this study and funding seemed to have been paid each time when the project deliverables were achieved or even upfront. The NGO Concern uses an interesting system of funds disbursal related to the trustworthiness of an organisation which could also be used in the mitigation case – though with some caution so that implementing and recipient institutions are ranked according to trustworthiness, not countries.

Based on these findings, the following four activities are recommended for further research:

- Public and private funding: conduct a study on how public funding can catalyse private funding for mitigation finance.
- Best practice in financial assistance: to interview experts at donor organisations (DFID, World Bank, GTZ etc.) about best practice within their organisation and their views on effective financial assistance.
- Effectiveness: analysis of literature and data on aid effectiveness (e.g. OECD, 2006) to assess what literature suggests on effective aid.
- Reporting: collecting and evaluating reporting devices/manuals from various donors to assess the reporting mechanisms and indicators used.
- Harmonisation: Assessing the progress and efforts made in harmonisation of development aid among different donors and evaluating lessons which can be learned for mitigation finance.

Interviews with:

Aid practitioner, 2009. Working primarily in Latin America and the Caribbean and Sub Saharan Africa.

Climate change practitioner, 2009. Working primarily on Africa and Asia.

Financial accountant, 2009. Past work experience primarily from Africa, now global reach.

Growth practitioner, 2009. Working primarily in Sub Saharan Africa.

Politics/election practitioner 2009. Working primarily in Asia and the Pacific

Project accountant, 2009. Global reach.

Social protection and agriculture practitioner, 2009. Working primarily in Africa, Latin America and Eastern Europe/Russia.

Social protection practitioner, 2009. Working primarily in Asia and Africa.

Trade practitioner 2009. Working primarily in Sub Saharan Africa.

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Annex I: Paris Declaration Principles on Aid Effectiveness (2005)

Principle 1: Ownership: Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.

Principle 2: Alignment: Donor countries align behind these objectives and use local systems.

Principle 3: Harmonisation: Donor countries coordinate, simplify procedures and share information to avoid duplication.

Principle 4: Results: Developing countries and donors shift focus to development results and results get measured.

Principle 5: Mutual accountability: Donors and partners are accountable for development results.

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