Acting on Climate Finance Pledges: Inter-Agency Dynamics in Contributor States

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Abstract

International climate finance—support by industrialized countries for mitigation and adaptation measures in developing countries—constitutes one of the most important issues in international climate change negotiations. However, little attention has been given to climate finance in the academic literature. An important research gap is the lack of knowledge about how contributor countries reach decisions on how to allocate public climate finance, and what lessons can be learnt from the development literature. In order to enhance understanding of the factors which influence decisions regarding climate finance, the paper analyzes the cases of seven contributor countries: Australia, Denmark, Germany, Japan, Switzerland, the UK and the US. We analyze the role of different agencies in the decision-making process—including development cooperation ministries, environment and finance ministries, as well as implementing agencies—and the respective views of these actors about finance allocation. The paper gauges the influence of the different actors and their beliefs across a range of parameters, including generating funds, priorities for allocation and financing modalities. We find that much disagreement has centred around the balance between mitigation and adaptation, with development agencies tending to prefer adaptation and other agencies that are more oriented towards domestic interests tending to emphasize mitigation. Overall, our results suggest that despite considerable similarities with countries' development assistance practices, some differences are notable. Some of these differences may be attributable to the greater involvement of other agencies—and the consequent diminishing policy influence of development agencies and some environment agencies—in climate finance as its monetary value and political importance has increased in recent years.

Keywords: Climate policy, climate finance, intra-governmental decision-making

1. Introduction

The contentious United Nations (UN) climate change conference held in Copenhagen in 2009 saw a marked shift in the ambition and form of coordinated action to address climate change in developing countries. To build trust and encourage wider participation than the predecessor 1997 Kyoto Protocol, developing countries were promised substantial funding to help them avoid major increases in greenhouse gas emissions (mitigation), and to prepare them for the now inevitable impacts of climate instability (adaptation). Under the Copenhagen Accord, developed countries undertook to provide new and additional resources approaching $30 billion over the period 2010-2012 ("fast-start finance"). Developed countries also pledged to mobilize jointly $100 billion a year in climate finance by 2020, drawing on a range of public and private sources, contingent on progress on mitigation and transparency by developing countries (UNFCCC, 2009, para. 8).

The scale of the long-term commitment is significant when compared with current flows of Official Development Assistance (ODA or "aid") of around $135 billion a year (OECD, 2012). But how the global architecture for delivering climate finance will evolve—and how it will relate to that for delivering aid—remains to be seen. The understanding of many recipient countries and

observers was that much of the longer-term funding would be channeled through funds established under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC), including a new omnibus Green Climate Fund (GCF), which was formalized during the next two rounds of negotiations in Cancún and Durban. However, the Copenhagen Accord's provisions on finance are sufficiently vague to vest individual contributing countries with significant discretion over how they deliver on their commitments. Climate finance remains at present a highly decentralized and fragmented system dominated by bilateral donor agencies and a series of funds administered by the World Bank. Most funding counted towards climate finance commitments is also currently counted as aid. Over the long-term, even if the GCF and subsequent decisions under the UNFCCC to promote institutional coherence will help reducing fragmentation to some extent, the diverse approaches of contributing countries—and their associated aid programs—are likely to play a continuing role in shaping the landscape of climate finance.

How do different ministries conceive of the problems posed by the need for climate change finance, and how do they respond differently? These questions are crucial for theoretical accounts of climate governance and for policymakers alike. Despite some comparative analysis of the positions of different contributing countries on certain aspects of climate finance, little is known about how the features of individual contributing governments have influenced their positions. Climate finance presents a particularly complex area of decision-making, given that it engages a range of ministries, ranging from environment and climate change, through to development, foreign affairs, and finance. Analyzing how intra-governmental dynamics have influenced climate finance so far is also crucial for understanding how it will develop in the future, especially since it appears it will be determined by a process that is largely bottom-up (driven by nations) rather than top-down (driven by the UN or other international organizations).

In this article we seek to improve understanding about the dynamics of decision-making on climate finance in key contributor nations. Our research is based on interviews with government officials from seven states: Australia, Denmark, Germany, Japan, Switzerland, the United Kingdom, and the United States. At the most general level, we seek to strengthen understanding of why countries take such different approaches to governing climate finance. Our particular focus is on the extent to which different approaches in contributor countries are driven by the priorities and relative clout of individual ministries. Given that much climate finance is being delivered through national development agencies and is largely counted as aid, we examine specifically whether climate finance is being conceived differently than aid for traditional development purposes. For this reason—and taking account of the slim literature on climate finance—we engage with relevant

studies on how bureaucratic politics and policy coherence bear on the allocation of aid.

The paper is structured as follows. In Section 2 we describe the landscape: how complex climate finance already is, how such a fragmented delivery system emerged, and the directions in which it appears to be heading. In Section 3 we review briefly relevant literature on climate finance and aid. In Section 4 we then describe our methods, and report and compare the results of our interviews with government officials. In each interview we asked a series of questions on: (a) interagency dynamics; (b) effort-sharing; (c) new and additional finance; (d) multi- versus bilateral finance; (e) mitigation and adaptation balance; (f) targeting recipient countries; and (g) financing and access modalities. In Section 5 we discuss the main findings of our results, focusing on typical configurations of inter-agency dynamics that are identifiable across several countries, and areas of greatest conflict and agreement. We find that much disagreement has centered on the balance between mitigation and adaptation, with development agencies tending to prefer adaptation and other, more national interest-oriented agencies tending to emphasize mitigation. Overall, our results suggest that despite considerable similarities with countries' development assistance practices, some differences are notable. Some of these differences may be attributable to the greater involvement of other agencies—and the consequent diminishing policy influence of development agencies and some environment agencies—in climate finance as its monetary value and political importance has increased in recent years. As this is an extremely new area of research, we conclude by proposing some useful directions such efforts might take.

2. The challenge of scaling up climate finance under a fragmented governance architecture

a. From fast-start to long-term finance: the challenge of scaling up

The provision of fast-start finance served several purposes: it recognized the urgent needs of developing countries for support to address existing impacts of climate change and rapidly rising emissions; it provided capacity building as well as a learning period for the scale-up towards larger amounts of long-term finance; and it also provided a sign of goodwill that aimed to facilitate trust and agreement at Copenhagen on greater participation of developing countries in global mitigation efforts (Stadelmann et al., 2012, p. 117).

As of late 2012, contributing countries have made individual pledges that nearly add up to the $30 billion fast-start commitment (WRI, 2012; Ciplet et al., 2012; Stadelmann et al., 2012, p. 121). Actual delivery of fast-start pledges has been significantly patchier. Analysis at the mid-point of the

fast-start period (June 2011) indicated that less than a third of pledges had been allocated to specific projects, and considerably less had been disbursed (Stadelmann et al, 2012, pp. 121, 125). However it must be recognized that most projects have a longer time span than the three-year fast-start period and disbursement will take place over the coming years. Of funding allocated for specific purposes, several trends were notable: around two-thirds was allocated to mitigation and around 20 per cent to adaptation; around half was delivered through bilateral channels, and slightly less through multilateral channels; and approximately a third was provided in the form of concessional loans, with the remainder being grant-based funding (Ciplet et al. 2012; Stadelmann et al, 2012, pp. 121-25). Contributing countries have undertaken to provide annual reports to the UNFCCC on the status of their fast-start financing. These have helped to improve the transparency of financing efforts, but significant challenges remain in ensuring information is comparable and complete, and there is very little evidence to date regarding the effectiveness of fast-start finance interventions (Buchner et al, 2012).

At the Doha Conference of the Parties (COP) to the UNFCCC in December 2012, parties failed to make a specific collective commitment for the immediate post-2012 period, adopting a decision that only encourages parties to disburse resources at least at the average level of their fast-start contributions for the period 2013-2015 (UNFCCC, 2012, para. 68), and a smaller group primarily composed of wealthier EU countries making individual pledges. Any further pledges will need to be formulated in the light of two unresolved and interrelated questions. First, how large a part of the $100 billion shall be provided by public sources, and second the trajectory of funding towards the 2020 target in the period 2013-2019. On the one hand, in the negotiations as well as domestically there is a significant pressure on contributors to commit to and subsequently adhere to an upward trajectory for their funding towards a high share of public financing towards the 2020 commitment. On the other hand, major contributors—including the EU and the US—remain under fiscal conditions that are difficult and in some cases worse than in 2009.

b. Navigating vague commitments and a fragmented institutional architecture

The consensus model of decision-making within the UNFCCC has led to a compromise package between states on the nuts and bolts of climate finance (Streck, 2012, p.139). On this matter both the UNFCCC and its implementing decisions by the COP contain a rather indeterminate language which reflects the extant political divisions. At the very outset stands the fact that the system lacks a clear definition of climate finance both in economic and legal terms (Melle, 2011, p.3). Neither the UNFCCC, nor COP decisions define ‘climate finance’ as such. Rather, UNFCCC’s

obligations on financial transfers (UNFCCC, 1992, Articles 4(3), and 11) provide a set of principles and concepts upon which donor states and multilateral institutions relied through the years (Streck & Chagas, 2011, p. 347), but whose content has never been uniformly defined, due to lack of political agreement. This lack of clarity about the nature of the agreed financing commitments poses risks for the intended trust-building function of climate finance.

Thus, whilst broad agreement tells that financial transfers to developing countries should be i) new and additional; ii) cover only the incremental costs for mitigation; iii) be concessional or grant-based in nature; and iv) adequate and predictable, the ultimate implementation of such controversial concepts has been *de facto* carried out by the multifarious international and bilateral agencies acting in the field. Such unclarity and disagreement between donor and recipient countries have affected the international governance of climate finance, making it both more fragmented and leaving considerable discretion to contributor countries.

Fragmentation—a common feature of the global climate regime (see Keohane and Victor, 2011)—is exemplified by the wide range of actors involving in climate financing, including: i) the Global Environment Facility (GEF) as the financial mechanism of the UNFCCC; ii) UNFCCC-based institutions like the Green Climate Fund and the Adaptation Fund; iii) Multilateral Development Banks (MDBs), with the primacy of the World Bank and the collaborative initiative of the Climate Investment Funds; iv) specialized partnerships such like the Forest Carbon Partnership Facility; and v) bilateral agencies and national development banks. Furthermore, if we include private sources in the concept of climate finance, the private sector is estimated to currently provide more than the half of resources than the public sector (Buchner *et al.*, 2012, p.6). How private climate finance is defined and to which degree it can be counted towards the $100 billion target is a subject of contestation, particularly between developed and developing countries.[2]

The fast-start package was assembled relatively rapidly, with the result that parties relied heavily on existing institutions for its delivery. Conversely, the UNFCCC's agenda for long-term finance currently hinges on several initiatives that aim to enhance coordination and build a governance structure capable of managing scaled-up sources. The most notable advances have been the establishment of the GCF, which is envisioned to function as a central hub of climate finance under the auspices of the UN, and a Standing Committee on Finance, an inter-governmental body

[2] It has been much debated how large a fraction of the private financing should count towards the target (AGF, 2010).

with clear liaison functions. Although in future a significant share of climate financing may flow through the GCF, it is evident – also on the basis of statements from the donor community - that other channels will still be used for (most) climate financing. The Standing Committee has the potential to improve the coherence of climate finance flows but it remains to be seen how effective it will be in this role.

In the current circumstances, contributor countries retain substantial discretion over the governance of their climate finance commitments, including over whether their funding is to be oriented more towards their own interests than towards recipients' needs. Contributors' discretion in turn allows considerable scope for individual government agencies to influence the outcome of decisions on climate finance. Bilateral development agencies have traditionally played a pivotal role in the implementation of climate-related aid programs, while other agencies or departments (notably environment, finance and foreign affairs) have increasingly taken a stronger interest in broader policy settings on climate finance (Skovgaard, 2012).

3. Knowns and Unknowns: A Literature with Many Gaps

Although an extensive literature from various disciplines has emerged on national decision-making in international development assistance, little scholarly research has been conducted on climate finance, let alone on national decision-making in this area. In this section we begin with a summary of existing literature on climate finance, covering three main areas: the global governance architecture, national decision-making and the relationship between climate finance and development assistance. We then identify relevant literature from development studies on national decision-making in aid that may shed light on our analysis of climate finance.

a. Climate Finance Literature: key themes and gaps

The global architecture for governing climate finance

Much of the existing literature on climate finance has centered on how to build an overarching global governance structure. Aside from an extensive literature on the innovative features and pitfalls of the Global Environment Facility - the first UNFCCC operational entity of its Financial Mechanism - in managing UNFCCC funds (Gupta, 1995; Clémençon, 2006; Streck, 2001; and Werksman, 2004), more recent publications tackle the issue of how to build an effective, legitimate, and scaled-up architecture for governing climate finance. Some analysis evaluates the governance structure as a whole (UN Secretariat, 2010; World Bank, 2010; Stewart et al., 2012; Ballesteros et al, 2011; Caravani et al., 2012; and Greene, 2004), while other contributions examine newer

multilateral mechanisms such as Green Climate Fund (Bredenkamp & Pattillo, 2010; Abbott & Gartner, 2010) and the Climate Investment Funds (Ballesteros et al., 2011; and Haughey, 2008-2009). Although international decision-making is generally not the focus of this research, the broader literature on climate finance nevertheless highlights possible ways in which decisions about the multilateral architecture may alter the locus for decision-making among contributor and recipient governments and multilateral institutions. Many commentators consider that any short or medium-term governance of climate finance will be largely decentralized (Ballesteros at al., 2010, p. 268; and Bird et al., 2011, p.5). At the same time, some argue that the international political balance between developed and developing countries is shifting toward enhanced participation by developing countries in multilateral climate finance institutions such as the GCF (Bird et al., 2011, p.6). This trend follows efforts to enhance developing countries' "ownership" of the delivery of climate finance under the Adaptation Fund of the Kyoto Protocol, for example by enabling national implementing entities of developing countries to manage funds without requiring the involvement of the various intermediaries (O'Sullivan et al., 2011).

National decision-making on climate finance

The scant literature on contributor nations' approaches to climate finance mostly seeks to map and compare existing policies and programs. Several analyses synthesize data on the contributions of all or the large bulk of contributors. Stadelmann et al. (2012), for example, provide an overview of the whole fast-start package as of its midpoint in mid-2011, while an ongoing quantitative project by the Climate Policy Initiative maps the "landscape" of climate finance (Buchner et al., 2011, 2012). Other comparative analysis focuses on crucial policy issues faced by contributors, including understandings of what constitutes "new and additional" climate finance (Stadelmann et al., 2011), and coding of climate-related aid (Michaelowa & Michaelowa, 2011). Several recent reports offer an in-depth analysis of the contributions of individual countries, Japan (Kuramochi et al., 2012), the UK (Nakhooda et al., 2012) and the US (Fransen et al., 2012), together with an overview of their national programmes, funds and actors. The consultancy Climate Analytics also recently published a study on lessons learned from the implementation of German fast-start finance (Vieweg et al., 2012). In addition to these publications, a set of yearly reports have examined climate-related financing flows from four bilateral agencies and development banks (Kehler Siebert et al., 2011; Kehler Siebert *et al*., 2010; and Atteridge *et al*., 2009).

These reports highlight considerable diversity among contributors on key policy issues and institutional arrangements for delivering climate finance, including effort-sharing, understandings of additionality, allocation priorities and choices about delivery channels,and financing instruments.

Most of these reports do not focus on explaining such variations, but some analysis points to the relevance of internal political factors. Michaelowa and Michaelowa (2012), for example, argue that part of the prevalent miscoding of aid as climate-related might be due to internal factors of each contributor state, such as the aid agencies awareness of public sensitivity to the global warming issue and the role of national media in informing the public on climate policy issues.

The relationship between climate finance and aid

One notable strand of the literature on climate finance addresses the relationship between climate finance and development assistance. In this context, there is broad consensus that the majority of long-term finance will rely upon financial instruments beyond traditional aid-funded grants and concessional loans, including innovative public sources and private sector investments (UN, 2010, p. 14; Brown et al., 2011; and Ghosh et al., 2012). However, since wealthy countries are likely to continue to draw to some extent on aid funds to meet their climate finance commitments, the ongoing role of aid in supporting climate objectives requires further clarification (Stadelmann et al., 2011). The recourse to non-ODA instruments is politically challenged by developing countries for that they should not account for 'new and additional' finance (Hutala et al., 2010). Numerous authors argue that the modalities for climate finance will need to offer considerably greater ownership to developing countries than traditional development assistance, for example by delivering funds with lighter conditionalities (Werksman, 2009; Schalatek, 2012).

Gaps in the literature

The literature surveyed above highlights two major gaps that we seek to address in this article. First, little is understood about how decision-making takes place in contributor countries and how the roles of different government actors influence policy outcomes. In particular, much of the existing literature focuses primarily on quantitative analysis or broader comparative analysis of policy documents, thus not permitting a more fine-grained analysis of the internal political dynamics amongst agencies in shaping decision-making. Second, to the extent that the relationship between climate finance and aid is discussed, little is known about how the relationship is informed by the dynamics between the different ministries that respectively govern these two types of funding.

b. International Development Literature and Analogous Experiences

Given the relative paucity of the literature on climate finance, it is important to identify where findings from analogous domains may be applicable. In this regard, several areas of the literature on international development assistance (aid) and national policy-making are particularly relevant. Emphasis differs within and across these areas on whether the objective of the research is primarily oriented towards *causal explanation* (e.g. examining motivations for agency behaviour and how inter-agency decision-making influences broader policy outcomes) or *policy prescription* (e.g. identifying examples of good or bad practice with a view to improving inter-agency decision-making). For this research on climate finance allocation within contributor countries, three strands of literature are particularly important: the first examines the functioning of public administration, the second the politics of allocating development assistance and the third the coherence among different policy areas.

First, the literature on the functioning of public administration helps to justify why analysis of inter-agency decision-making should be a matter of both theoretical and practical interest. The public choice literature, based in economic theory, has underscored that bureaucratic entities do not function purely as the instrument of others' interests (e.g. citizens or legislatures) but also pursue their own interests. Bureaucrats may be interested to maximize their discretionary power through increasing the size of their budgets but expansionary tendencies and inefficiencies may also be reduced by intergovernmental competition, control function of voters (if they are well informed), and bureaucrats' aversion to the resulting risk of losing their existing budgets and control over them (Müller, 2003, pp. 359-385). Other scholars of public policy have stressed the importance of how bureaucrats from different institutions may perceive policy problems in different ways (Kingdon, 2003; Drezner, 2000). Research in international relations has also highlighted that public officials face a complex two-level game in international negotiations, as they have both to consider domestic interest groups and the strategies of other countries (Putnam, 1988). Some of the policy-oriented literature on horizontal coordination among government agencies notes several factors that may influence its effectiveness. For example, coordination may be impeded where individual agencies have strong linkages with distinct groups of stakeholders, or where organizations cover similar policy areas but have different approaches to service delivery, raising the risk of turf battles (see Peters, 1998).

Second, a substantial body of research has sought to explain the determinants of aid allocation decisions. The most prominent debate in the literature has discussed whether the geographic distribution of aid tends to advance contributors' own diplomatic or commercial interests (McKinley & Little, 1979; Maizels & Nissanke, 1984) or recipients' needs, with most

newer quantitative studies finding that both are relevant (Alesina & Dollar, 2000) but that factors influencing allocation vary across donors (Berthélemy 2006, Dreher et al. 2011). Newer studies also find that recipient merits are partly relevant for aid allocation (Nunnenkamp & Thiele, 2006; Nunnenkamp & Oehler, 2011). Some analysis using principal-agent theory also argue that bureaucracy-internal incentives (e.g. to spend money) may play an important intermediating role (Martens et al., 2002) Possible domestic influences that have received substantial attention include the political orientation of the governing party (Tingley, 2010) and the level of public support for social spending (Thérien & Noel, 2000). A subset of this literature concerns the influence of factors such as these on the levels of environmental aid within a country's overall aid portfolio (see Hicks et al., 2008) or the allocation of environmental aid to countries (Lewis, 2003). A further factor that is of particular relevance to our study but has received less attention in the literature is the way in which aid policy and implementation is organized within government bureaucracy. As Lancaster (2007) notes:

> The way governments organize themselves to manage their aid - whether aid programs and policy-making are fragmented or unified and where they are located in the bureaucratic hierarchy – determines the voice and influence of the interests within government on aid's purposes. (p. 7)

Limited attention to this factor is possibly attributable to difficulties in quantifying organizational differences across donor countries (Faust, 2008, p. 395). Accordingly, comparative analysis of this aspect has lent itself more to qualitative studies such as Lancaster's (2007).

A third, relatively heterogeneous area of literature focuses on coordination and coherence in the specific areas of development and environment, primarily centering on concepts of 'policy coherence', 'interplay management' and 'environmental policy integration'. While definitions of policy coherence vary, its core goal is generally understood to involve ensuring that policy areas within across governments i) do not undermine one another; and ii), where possible, reinforce one another in the achievement of their policy objectives (compare OECD, 2005; Nilsson et al., 2012). While much of literature on policy coherence for development has focused on areas such as security (see for example Picciotto, 2004), some addresses relationships between development and environmental policies, particularly via the concept of sustainable development (e.g. Vogler & Stephan, 2005).

A closely related endeavor has involved quantifying countries' 'commitment to development', notably through the Center for Global Development's Commitment to Development Index (CDI) (Center for Global Development, 2012). The CDI ranks wealthy countries on their aid and climate performance alongside a range of other indicators. CDI rankings for case study countries are

discussed further in section 5 below. Relatively little work has been done on determinants of a country's commitment to development, but one paper has found that the quality of democratic voice and accountability (and its corresponding role in constraining domestic special interests) is strongly positively correlated with commitment to development (Faust, 2008). Nevertheless, Faust (2008) notes that there is considerable scope for further research in this area, highlighting that:

> Future work could concentrate more explicitly on the influence of political variables in specific areas of external development promotion. ... With regard to possible independent variables, there is still a great lack of knowledge with regard to the differences of institutional and organizational structures of donor countries' aid systems. (p. 395)

The literature on institutional interplay has largely focused on interactions among international organizations (e.g. the UNFCCC and the international trade regime) rather than interactions among national government agencies (Oberthür, 2009).

4. Seven Issues and Seven Donor Countries: Australia, Denmark, Germany, Japan, Switzerland, UK and USA

Our literature review has identified major gaps in understanding of the role of contributor government agencies in decision-making on climate finance, and of the relationship between climate finance and aid. By examining a series of case studies, we seek to assess the nature and extent of different agencies' influence on national climate finance policy, to understand whether there are consistent patterns across countries and whether climate policy ends up following the same route as other international policy areas, such as international development assistance more broadly. Reflecting the need for qualitative analysis to address these questions, our methods included a review of the secondary literature on climate finance, a review of national reporting on climate finance, including fast-start finance reports and key informant interviews in each country.

We sought to capture most of the main contributors to climate finance, especially to the fast-start finance program, but we also wished to compare some smaller contributors and to capitalize upon our relations with agency staff. In defining the substantive scope of analysis, we sought to cover a range of themes that i) were representative of the main areas for national decision-making in climate finance, ranging from issues of high political importance domestically or internationally to those of a more technical nature; and ii) enabled a comparison of practices between climate finance and aid. For the interviews we developed a 21-question interview script organized around seven general themes. The first three themes address overall governance arrangements and decisions about how funds would be generated. First, we examined how different agencies interacted, which agency 'led the charge' on climate finance, and their degree of impact. A second set of questions

focused on how different ministries thought about what proportion would be their 'fair share' of the Copenhagen commitment, while a third focused on how different agencies consider what funding is new and additional. The remaining four themes addressed a range of choices about the delivery of funds, including: whether funding should be channeled through bilateral agencies or through UN or other multilateral funds; the balance between mitigation and adaptation; how funding was allocated to different recipient countries; and how agencies decided on funding modalities, including whether funding would be delivered as grants or loans, or through budget support or project-based funding. We report our findings on each of these areas in turn.

a. **Interagency dynamics**

When it comes to the agencies and departments responsible for national governance of climate financing, some configurations are the same in most of the analyzed countries. In all of the countries, agencies or departments responsible for environment/climate change, development/ foreign affairs and finance/the treasury were all involved in the decision-making process. Generally speaking, the main decisional role lay with the department of environment/climate change and/or the department of development/foreign affairs, with the department of finance playing a less directly active role. Whereas the departments of development often held the responsibility for implementation (often due to their experience with development projects), the departments of environment/climate change in general played a greater role regarding overall policy-making and the international negotiations on climate change. In some countries (especially Denmark and the UK) there is a more or less institutionalized split of responsibilities, with the department of development/foreign affairs taking care of adaptation projects and the department of climate change/ environment (in Switzerland the State Secretariat for Economic Affairs) taking care of mitigation projects.

Relationships between the departments have in practically all cases been characterized by some level of disagreement, often concerning how the money should be spent and by which department. Whereas departments of development have emphasized the importance of adaptation projects and that climate financing should not damage ODA, departments of climate change/environment (and in some cases also departments of finance) have emphasized the importance of mitigation projects, getting as many reductions as possible, and having created a separate "stream" for climate financing. Often, departments of finance have sought to limit the expenditure, particularly by insisting that climate financing should be taken from the ODA. Yet, such disagreements have generally been more significant in the beginning of the fast-start period, as

departments of development/foreign affairs feared they would be sidelined by institutions with little understanding of and respect for poverty reduction and development. Over time, many of the disagreements have subsided, as cooperation has become more institutionalized and some of the issues of disagreement have been solved, for instance through splitting the responsibility for adaptation and mitigation between the departments of development/foreign affairs and climate change/environment.

b. **Effort-sharing**

Participants reported relatively little disagreement among departments and agencies about principles for effort-sharing within individual countries, but views on effort-sharing nevertheless showed considerable divergences. This was facilitated by the fact that the Copenhagen Accord did not specify how effort-sharing arrangements should be determined. Interviewees reported that the fast-start finance commitment was devised on a relatively ad hoc basis, despite some consultation among contributors

In general, European countries tended to favor effort-sharing principles tied closely to objective criteria such as emissions and national income, which in turn are generally associated with the Convention's principle of "common but differentiated responsibilities" (CBDR) (UNFCCC, 1992, article 3). This approach largely reflected the European Commission's policy position (European Commission, 2011), although some countries preferred a stronger emphasis on emissions than capacity, partly in order to provide contributing countries with further incentives for low-carbon development. Both the US and Australia placed greater emphasis on burden-sharing measures in other international organizations as a reference point for climate finance contributions. Indeed, the US explicitly did not base its share of fast-start finance on a quantified measure of CBDR. In addition, the ability from the US to announce an overall multi-year share of fast-start finance was constrained (as it is with other multilateral funding commitments) by its congressional budgetary processes, which tend to permit only year-by-year budget announcements. On some estimates, the use of existing burden-sharing measures would result in each country contributing a lower share of climate finance than under measures of emissions and national income (Jotzo et al., 2011). One reason for this is that most other burden-sharing measures are based primarily on capacity rather than emissions, thus tending to place less of a burden on emissions-intensive economies. In addition, some burden-sharing measures (such as the UN Scale of Assessment) place a cap on the size of any one country's contribution, which tends to favour a large country such as

the US (Barrett, 2007, pp.113-116).

Some participants noted the potential influence on effort-sharing measures of broadening the pool of contributor countries. Countries such as Australia have made of the increasing the pool of participating countries a broader focus of their negotiating stance on mitigation as well as on finance. The question of enlarging contributors' participation was one of the few areas where participants in one country reported a divergence of views among agencies. In Germany, the finance ministry reportedly saw considerable value in encouraging major emerging economies such as China to contribute finance, whereas other ministries thought this view underestimated the considerable domestic investments in mitigation already being made by these economies.

c. **New and additional finance**

While contributor countries agreed to report annually to the UNFCCC on their fast-start finance, no standards were set for what types of funding could count towards meeting commitments and on consistent reporting formats (Stadelmann & Roberts, 2010; Stadelmann et al., 2011). Moreover, no common agreement exists among either scholars or practitioners on what baseline should new and additional climate finance add up to (UN, 2010, p.8; Stadelmann et al, 2011). As a result, nations have chosen to count quite different kinds of financial flows, some even included export credits and insurance to their own companies doing business in developing countries. Given the lack of accepted standards to gauge new and additional finance by contributing countries, it is no surprise that different understandings exist between states as well as government agencies.

From interviews it emerged either implicitly or explicitly that countries' views on what constitutes new and additional finance is closely tied with the degree to which they have relied on ODA to meet their individual fast-start pledges. While some officials showed skepticism about the practical relevance of the additionality issue, all interviewees claimed that their government's climate finance was new and additional in at least some sense of these terms. This is either because their overall level of ODA has been increasing (Australia and Switzerland), even above 0.7 per cent of Gross National Income (Denmark) or because specific additional budgetary resources have been earmarked for climate aid (UK, Germany and Japan). US participants noted a major increase in climate funding in Fiscal Year 2010.

Germany adopted an individual criterion to measure its additional efforts, counting as new and additional that fast-start finance committed in addition to its 2009 ODA baseline or raised from the EU Emissions Trading Scheme auctioning revenues or other carbon market instruments. The UK

followed suit by measuring its additional efforts to national ODA levels. By contrast, US officials claimed that every annual budgetary amount dedicated to climate finance should be accounted as new and additional, since they have no longer-term budgeting and have to fight for climate finance each budget year.

While UK interviewees from different departments shared a common view on this issue, there seem to be divergent views within the German administration on whether the $100 billion commitment by 2020 (as opposed to fast-start finance) must strictly be new and additional due to some ambiguity on this point in the Copenhagen Accord and subsequent decisions. Such different views on new and additional finance seem to be confirmed by the literature which, for instance, highlights how while the UK and US do not account as new and additional finance private sector efforts (Fransen at al., 2012; Nakhooda et al., 2012), Japan has instead included the private sector into its notable $15 billion pledge of fast-start finance (Kuramochi et al., 2012). Finally, some interviewees confirmed early findings in the literature (Michaelowa & Michaelowa, 2011) that donor countries have at times relabeled some of their existing ODA as climate-related in order to make it fit into their fast-start finance portfolio.

Beyond differences about defining additionality relative to ODA, some countries disagreed about options for innovative sources of finance (which most analysts consider to provide greater assurance of additionality). Australia's Department of Climate Change and Energy Efficiency commissioned analysis on the viability of a levy on bunker fuels (covering shipping and aviation) which calculated that a unilaterally adopted scheme would have minimal impacts on the competitiveness of Australian industries. However, other departments (including Treasury and Foreign Affairs and Trade) opposed a unilateral scheme on competitiveness grounds. Ultimately Australia adopted a position that any schemes covering bunker fuels should be developed on a multilateral basis, and should primarily focus on mitigation, with the generation of finance a secondary objective.

d. Multi- vs. bilateral finance

The choices between the use of multilateral or bilateral intermediaries in channeling climate finance are different for each donor state. Countries' strategies vary significantly against the background of two broad trends: i) only 2 percent of pledged fast-start finance has been channeled through UNFCCC-related funds (Ciplet et al., 2012); and ii) at an aggregate level contributors have generally preferred bilateral channels over multilateral ones (Buchner et al., 2011, p.25). At one end of the spectrum, the UK relies almost totally on multilateral channels (Nakhooda et al., 2012) while,

at the other, Japan acts mostly through national agencies (Kuramochi et al., 2012), as do the US (Fransen et al., 2012) and Germany, whose parliamentary budget commission has decided to treat climate finance as general ODA, and is accordingly obliged to spend at least two-thirds of it through bilateral means (BMZ, 2012). In the middle ground stands Denmark with a 60 per cent share of its fast-start finance through multilateral channels. Finally, and still from interviews, it emerged that Switzerland and Australia choose their channels mostly on a case-by-case basis for each programme or project.

Interviewees generally justified their choice of financial intermediaries on the basis of their efficiency and effectiveness. Such 'value for money' claim is reflected also by concerns over the lack of human and technical capacity on the ground in recipient countries by contributor governments, as in the case of UK, where the bulk of fast-start finance flowed through multilateral funds. Another driver emerged from interviews relates to the capacity by multilateral intermediaries to pool different sources of finance for more ambitious programmes.

Finally and still related to the choice of multi or bilateral intermediaries, a general trend of not differentiating fast-start climate finance from general national ODA channeling strategies has been confirmed from interviews. As to be seen below, this approach also extended to the targeting of recipient developing countries. While Japanese and Swiss interviewees made explicit assertions on this, UK officials only reported that climate finance and ODA policies share the same economic and policy indicators (with the obvious exclusion of typical climate indicators, such as greenhouse gas emissions), which then influence the decision making on the choice of the channeling institution.

e. **Mitigation and adaptation balance**

Most interviewed officials made clear that the Copenhagen Accord requiring fast-start finance to achieve a "balanced allocation between adaptation and mitigation" (UNFCCC, 2009, para. 8) was important in guiding their funding decisions. However, countries had different interpretations of 'balance', with some like Australia adopting an equal 50-50 split between mitigation and adaptation (the interpretation preferred by developing countries), while others allocated considerably more to mitigation (e.g. Switzerland, Japan and the US). In the UK, an equal 50-50 split was set as non-binding guiding target but was ultimately not achieved. In Japan, the focus on mitigation was linked to the Japanese government's favored strategy of funding infrastructure measures through loans. Some governments were not sure whether to allocate finance for Reducing Emissions from Deforestation and Forest Degradation (REDD+) to mitigation as REDD+ also has adaptation benefits. Germany, for example, included REDD+ as independent

category and aimed for a one-third split of its fast-start commitment between mitigation, adaptation and REDD+. While REDD+ is by definition primarily aimed at mitigation, it may be in the strategic interests of governments not to count REDD+ as mitigation, in order to make their portfolio look more 'balanced'.

Apart from the Copenhagen decision text, the different interests and views of ministries played a major role in informing debates about the thematic balance of funding. While development agencies generally favoured more adaptation funding given the close links between promoting adaptation and development objectives, other agencies and ministries (particularly the ones responsible for climate change and environment), instead called for a focus on mitigation, which reflected their own knowledge and the interest of industrialized countries in emission reductions by developing countries. Also during the implementation stage, development agencies had a stronger focus on adaptation, while other agencies and ministries focused on mitigation. In the end, most agencies were still involved in all areas (mitigation, adaptation and REDD), which can be interpreted as a strategic decision.

f. **Targeted recipient countries**

Interviewees reported that allocation of fast-start finance to recipient countries followed similar patterns to development assistance. Contributor countries apparently tried to strengthen partnerships with countries that were a priority for their existing development cooperation (e.g. Japan). However, at least some minor deviations from existing aid allocation patterns could be found. In the case of adaptation funding, higher priority was given to low-income countries (mentioned by most contributors), Africa (mentioned by the US) and small islands developing states (mentioned by US and Australia; partly related to media reports on sinking islands). The US also mentioned that it allocated REDD+ financing to countries with large areas of forest cover. In the case of mitigation, a larger share of funding was focused on rapidly growing middle-income or high-emitting countries. This strategy to focus mitigation finance on richer developing countries was sometimes also linked to the high share of loans in fast-start finance compared to the ordinary grant-loan mix (Germany) and the goal of mobilizing private investments (UK). Denmark also intended to assure distribution of funding to all major world regions, while the UK also aimed at strengthening the international climate finance architecture. Finally, a German agency used fast-start finance as a tool to build and strengthen strategic partnerships with specific developing countries in the climate negotiations, while Japan made some loans even conditional on host country agreement with specific policy and GHG reduction goals.

In general, ministries decided independently of the general government strategy on how to allocate funding to countries. At best general guidelines on priority regions and countries were set up at the inter-ministerial level. This was rather different in the case of the UK, where a list of eligible recipient countries was generated; eligibility was based on different criteria for adaptation and mitigation funding. In some countries, the foreign ministry had some oversight role and sought to assess whether funding was in line with the overall foreign relations strategy.

g. **Financing and access modalities**

The final issue to address relates to the means (or modalities) through which climate finance is implemented, including i) the extent to which contributors apply internationally agreed guidelines for ODA (see e.g. OECD-DAC, 2008) when delivering climate finance; and ii) whether the financial instruments employed in their climate finance portfolio differ from those used in their general ODA.

On the first aspect, interviewees broadly agreed that, since their fast-start finance programmes were tied to ODA programming, ministries and agencies sought to follow OECD's agreed guidelines and standards. However, Swiss officials noted how the peculiarities of climate finance might lead to a diversion or to a different understanding of general ODA principles, while a British interviewee highlighted how during the fast-start finance period the government has almost fully delegated the issue to multilateral institutions, as that is where the major bulk of their sources has passed.

On the second aspect, interviewees confirmed findings in the literature that climate finance has adopted similar financial instruments to general ODA. Both, in fact, have been channeled through grant and concessional loans, with the exception of Japan, whose share of market loans and other instruments has been identified to be more than a quarter of the total fast-start finance (Kuramochi et al., 2012, p.11). As for long-term finance, we noted differing views between countries and among national agencies within each country, especially in their understanding of future financing practices of the Green Climate Fund. For instance, the Swiss State Secretariat of Economic Affairs has considered transforming some of its grant funding to non-concessional instruments in case of emerging economies (contributions would still be in grant form but later transformed to concessional loans). In the case of Australia, the aid program has traditionally focus overwhelmingly on grant-based funding and lower-risk investments, but one interviewee from the Department of Climate Change and Energy Efficiency considered that the latter had a stronger appetite for non-traditional investments, including non-concessional private funding, even though

the risk profile for such investments could be greater. In Germany, differing views between the Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Environment Ministry (BMU) have been reported in regards to their preference to multilateral institutions' financial practices, whereby BMZ is more oriented towards the practices of the World Bank and BMU to UNFCCC-related institutions.

5. Discussion

As the analysis above illustrates, climate change finance and particularly fast-start finance caused considerable tensions within contributor governments. From the perspective of development agencies, climate change finance is fundamentally a kind of aid that has been re-branded due to the international climate change negotiations, and this re-branding has led to the involvement of environment agencies. From the perspective of most environmental policy actors inside and outside government agencies, climate change finance is fundamentally different from development aid, and development agencies are often seen to be encroaching on the turf of the environment agencies. Either way, the result is some degree of upheaval and disagreement between agencies, and a potentially important role for finance ministries when policy-making ceases to follow established inter-agency structures and new structures are being defined, but possibly also due to their larger interest in climate change finance compared to development aid. How such disagreements have been dealt with is important, as the absence of a clearly defined international framework grants contributor governments significant discretion.

Our analysis has attempted to identify some common traits regarding inter-agency dynamics and how they have or have not influenced crucial funding decisions. The analysis found that inter-agency dynamics have been salient regarding some but not all issues concerning climate change financing. Perhaps unsurprisingly, the issues most characterized by inter-agency differences have been the balance between climate change adaptation and mitigation, which recipient countries should be targeted, and to some degree also the question of how "new and additional" finance should be understood.

Regarding the adaptation/mitigation balance, funding decisions have been influenced by development agencies' emphasis on adaptation, which is more closely linked to development priorities, and environment agencies' emphasis on mitigation, which to a large degree has been shared with finance ministries due to domestic interests. Yet, there has been significant variation between governments regarding this issue (as regarding most others), with some governments splitting funding evenly between mitigation and adaptation and others dedicating a much larger

share to mitigation, and some countries (the UK, Denmark) solving the issue by splitting the responsibility for mitigation and adaptation between the environment and development agencies.

The mitigation/adaptation split is closely interconnected with the issue of which countries receive funding: financing for mitigation has often focused on emerging economies, where it is possible to obtain more emissions reductions per dollar spent, whereas adaptation financing has often focused on Least Developed Countries and Small Island Developing States, whose need for adaptation funds is greater. At this stage, it is difficult to say anything conclusive about whether the strength of different agencies has affected the choice of countries or the balance between mitigation and adaptation.

The contested relationship between climate change finance and development is most pertinent when it comes to the issue of whether and how climate finance should be new and additional to development aid. Interestingly, the variation in views on the "new and additional" question is bigger between governments than within governments, since development and environment agencies often agreed on how to define "new and additional" climate finance. This commonality suggests that the traditional ODA level and overall fiscal situation of individual countries may have a larger influence.

Yet, there have also been areas characterized by agreement within governments. Areas commanding the greatest level of agreement were effort-sharing (although finance ministries in some cases wanted as low a share as possible), the balance between multilateral and bilateral channels, and financing and access modalities. This may be attributable to a perception by other agencies that choosing funding channels and access modalities—while not without political ramifications—involves a level of expertise that justifies delegating these issues to implementing agencies (typically development banks and agencies). However, practically all issues are characterized by significant variation *between* governments.

6. Conclusions

This article set out to analyze climate finance as the new field that it is, especially for academics but also for those directly involved in policymaking. More particularly, we have sought to contribute to closing the important knowledge gap regarding how contributor countries reach decisions on how to allocate public climate finance, by looking into inter-agency dynamics as a potentially influential factor. Such dynamics included the differing perspectives of environment and

development agencies ministries on climate finance, and the role of finance ministries as additional players. In order to analyze the role of inter-agency dynamics, we interviewed key officials from seven countries about six important challenges that all developed countries face when deciding about how to allocate fast start finance: effort-sharing; new and additional finance; multi- versus bilateral finance; the balance between mitigation and adaptation; targeting recipient countries; and financing and access modalities.

On the basis of these interviews, it is possible to say that regarding the challenges of agreeing on effort-sharing, multi- versus bilateral finance, financing and access modalities, and to a large degree also the concept of new and additional finance, the different agencies were in agreement. As mentioned there were also significant issues regarding which development and environment/finance agencies within countries did not agree, namely mitigation or adaptation and the choice of recipient countries. However, regarding all challenges the variation between countries has been more significant than the disagreement between agencies. There is also considerable variation regarding how interaction between the different agencies has been institutionalized in the seven countries. In some countries, responsibilities were split between agencies, with the development agency handling adaptation and the environment agency mitigation, whereas others have chosen more centralized models with one lead agency, and some using a hybrid model with close cooperation among relevant agencies.

Altogether it is evident that more research is needed in order to answer some of the questions that our analysis raises. The first and arguably most important group of questions concerns the relationship between cross-country variation and intra-governmental dynamics. Is it possible to explain the variation between countries by differences in inter-agency dynamics? In other words, is there a causal relationship between the influence or power of different agencies and government decisions on the various aspects of climate finance covered in our analysis? One could imagine, for instance, that variation between countries regarding the share of adaptation reflects differences in the power of environment and development agencies vis-à-vis each other, or the degree of finance ministries' interest in climate change (i.e., the larger the interest, the larger the share of mitigation). Yet, other factors apart from inter-agency dynamics may have influenced the decisions, such as national political debates about climate change, the strength of civil society, fiscal constraints, and the degree to which the state generally acts according to self-interest or altruism. One way of analyzing this set of questions would be to compare the climate finance practices of the countries analyzed with their practices in development aid. If we see the same patterns (for instance when

it comes to effort-sharing) in development aid as in climate finance, this may indicate that inter-agency dynamics arising from the involvement of environment agencies have not played a decisive causal role.

Besides comparison with development aid, it is possible to learn more from more in-depth comparison between countries and over time. The former may make it possible to explore the above-mentioned relationship between cross-country variation and inter-agency dynamics as well as other factors. The latter may make it possible to analyze whether the roles of different agencies have changed over time. Some preliminary evidence suggests that involvement of other ministries has increased particularly since the mid-2000s, as climate policy became a higher priority for governments and took on broader economic and fiscal implications (see for instance Skovgaard, 2012). In order to investigate the possible implications of this, more research is needed on agency decision-making and relative influence of agencies, including the possibility of international learning between agencies of the same type.

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