

How to Use Climate Finance

Among the greatest responsibilities for international politics in the 21st century is coping with global climate change. Now is the time to get the basics right for avoiding future conflict.

by Mark Daniel Jaeger, Axel & Katharina Michaelowa

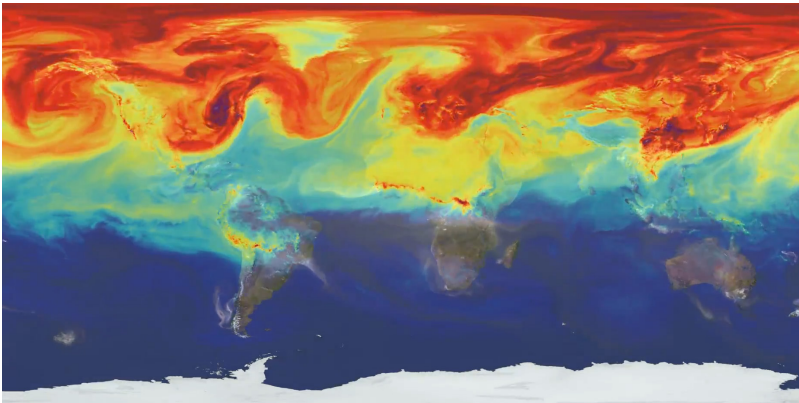
International climate negotiations are currently oriented towards preparing a new grand deal on mitigation of climate change. Intent on preventing global temperatures from rising more than 2°C, industrialized and developing countries aim to conclude this deal at the 2015 United Nations Climate Conference in Paris, France. The crucial element of the agreement is international climate finance. Industrialized countries have pledged to mobilize USD 100bn annually from 2020 onwards. In this framework, the Green Climate Fund (GCF) as the UNFCCC's primary financial mechanism shall allocate a significant public budget to developing countries for climate change mitigation and adaptation.

India and other developing countries insist that there will be no new agreement if industrial countries do not stay true to these funding commitments. Lately, there have been encouraging signs towards their realization, with almost 10 billion USD pledged to the GCF. Moreover, as the most important member of the G77, China for the first time committed to reducing its greenhouse gas emissions, after reaching a peak before 2030. This marks an important step as it acknowledges how much the world has changed since the 1990s, when a fixed set of countries was classified as “developing” and exempt from binding commitments under the Kyoto Protocol.

However, the obstacles in the way of a credible agreement remain immense. While framework rules for the GCF have been specified by its Board, detailed procedures are still to be developed. For its overall success, it is essential that the GCF a) attracts enough funding and b) that such funding is spent efficiently. Both of these issues are closely related. First, if concerns regarding the latter cannot be convincingly addressed, the fund might simply be unable to attract enough money. Second, even if sufficient resources were available, inefficient spending would

KEY POINTS

- A new grand deal on global climate change mitigation depends on the success of the USD 100bn Green Climate Fund (GCF).
- Partners at UN negotiations need to establish efficient spending procedures to provide the GCF legitimacy with donors and to obtain results.
- Research on energy poverty reduction efforts in India, linking climate change mitigation and development assistance, highlights how politics get in the way of success.
- GCF procedures should fuse value-for-money with ownership principles and focus on incentives, stakeholders, and transparency in domestic politics.



Global Carbon Dioxide Emissions. NASA, Goddard Space Flight Center / B. Putman.

damage the GCF's goals and compromise mitigation and adaptation benefits. Both donor and recipient countries thus need to ensure that the GCF acquires broad legitimacy through procedures that guarantee effectiveness. Otherwise, a new accord will be doomed to failure even before it is enacted.

Crossroads and Quandaries of Climate Change

In the diplomatic struggle for an accord, India illustrates the quandaries of climate change mitigation and adaptation needs perhaps most strongly, with a huge number of people exposed to poverty and global-warming-related risks, but a significant and rising share of CO₂ emissions. Our research on energy poverty reduction efforts in India illustrates key challenges and offers insights and relevant lessons to GCF effectiveness.

We focus on 'energy poverty' and India for two reasons. First, while India portrays itself internationally as an 'emerging power', it is actually still a poor developing country. Despite impressive economic growth rates, with GDP more than tripling in only two decades, average per capita income is less than half of the Chinese one. Overall poverty levels remain extremely high, with around 400 million people, or 25 per cent of the population living on less than USD 1.25 per day.¹ Basic needs, such as access to modern energy sources, remain a persistent challenge.

Second, 'energy poverty' is an issue that cuts across both climate change mitigation and development assistance. The GCF faces tasks and challenges similar to those that are dealt with in development assistance since decades. Since the early 2000s, specific policies seek to broadly enhance aid effectiveness. The ensuing discussion put donor earmarking of funds against the principle of 'ownership' and favoured the latter in order to ensure that efforts concord with priorities set by developing countries.² Thus far, the GCF favours similar arrangements.

Recently, though, the ownership principle moved onto the defensive. Critics pin it against 'value-for-money'

approaches, supposed to consist of a results-oriented management, specific issue-focus, including private actors – and aid strictly tied to donor control.³ We do not agree with putting ownership up against value-for-money, but rather seek to highlight that the latter is as much of concern to developing countries as it is to donors. As our case study demonstrates, the distributive implications of funding bear political effects that constantly endanger the consistency of normative goals and actual results.

The Politics of Energy Poverty

'Energy poverty' is a politically used term in India.⁴ Critics suggest that some actors might exploit the term for their own purposes.

We are interested in the *politics* of energy poverty and argue that there is a struggle between official commitments and domestic politics. We investigate whether actual policies and results in India are consistent with declared reduction goals. Against assertions to the contrary, we find that politicians struggle to deliver on energy poverty reduction. Findings demonstrate that prudent attention to political incentives, the consideration of stakeholders, and establishing transparency are crucial for a successful realization of policy goals.

We examined the extent to which the Indian poor can prevail in the political process against better organized and equipped interest groups such as the middle class or business lobbies with regard to energy policies. We assessed the research issue by empirically analysing, first, pricing and subsidy policies and, second, access to clean energy. On the first, we find that there indeed is a significant distortion of benefits. Vested interests profit disproportionately if not exclusively from most subsidies on energy sources, making the instrument pointless for efforts towards reducing energy poverty. Although their inefficiency in helping the poor has long been established by experts, efforts to significantly change policies are limited. They are furthermore met by opposing factions actively taking the lead in the name of the poor, even when it is clearly not in their interest.

On the latter, access to clean energy, we examined electrification and clean cooking policies. Lack of access to, and regular supply of, electricity is a large component of energy poverty, with most conservative estimates putting at least a quarter of the population without access. Yet, electrification clearly is a policy area with strong pro-poor positions resulting in actual pro-poor policies. Political actors use such positions to significantly enhance their electoral prospects and stay true to commitments to electrification, as long as political costs do not become too high. We found several instances where political costs were consequential: First, in times of heightened public scrutiny re-

sulting in increased costs for political inactivity, such as ahead of elections, politicians were keen to appear acting on the issue. However, second, political actors did not support projects initiated by their opponents at different governance levels who would then get credit for success. Third, when meaningful projects become complex and expensive, politicians will rather move their effort to short-term benefits than to endure costs for the larger ambition.

In contrast, 'clean cooking' is a policy area with much potential, fed by an astonishing degree of neglect: With a market potential of 160 million households in India and serious health hazards leading to more than 400,000 premature deaths per year, there is much to argue for any clean cooking initiative. Yet political actors shy away from even committing to any position towards enhancing conditions because expected political gains are minimal if not negative. Strong cultural habits on cooking weigh more heavily than health implications and demonstrate the former's influence on the prospects of any well-intended technological interventions.

Results

The analysis bears five key insights, highlighting that successful energy poverty reduction policies are a matter of existing incentive-structures, stakeholder-involvement, and established transparency.

1. Domestic politics are incentives-driven and politicians cannot be expected to push initiatives that will either not pay off or be costly to them – no matter how noble the aims. This is most evident from comparing politics on access to electricity and on clean cooking. Supporting electricity initiatives had immediate merits while a clean cooking initiative would be costly.

2. In order to ensure that initiatives will properly pay off it is crucial to mobilize and involve stakeholders. Since the allocation of funding brings distributional implications, it always involves politics. Having stakeholders on board initially can act as a counterweight to vested interests diverting such funds. This is an obvious lesson from policies on access to electricity.

3. Transparency of the implementation process and its clear communication enables stakeholders to pressure for success. However, this provides no guarantee that initiatives and affiliated complex projects will be carried out. Electrification initiatives often stop short of fully delivering results. Politicians greatly ex-

aggerate progress and refer to statistical data distorting the actual situation and outcomes.

4. Furthermore, sensitivity to context provided by a specific issue focus helps in realistically evaluating the initial conditions that might provide appropriate incentive-structures and stakeholder involvement. Although also true for electrification initiatives, this is most evident in the field of clean cooking. Past initiatives failed to take into account the many idiosyncrasies existing in local cooking culture and never successfully mobilized stakeholders.

Implications

The lessons stemming from examining energy poverty reduction efforts in India reinforce the viability of some of the principles subsumed under 'value-for-money' approaches, such as emphasizing an inclusion of private actors and promoting a specific issue focus. In addition, the

FURTHER READING

Aid effectiveness: bringing country ownership (and politics) back in

Booth, David (Conflict, Security & Development 12(5), 537–588, 2012)
This article provides essential insights on the existing limitations of implementing the 'ownership' principle in development assistance. It delineates institutional hurdles to effective ownership and draws conclusions towards reforming policies for overcoming the involved collective-action problems.

Strengthening Country Ownership and Accountability in Accessing Climate Finance

Brown, Louise, Polycarp, Clifford & Spearman, Margaret (World Resources Institute, Washington, D.C., 2013)
The paper takes up experiences gained on ownership and accountability in development assistance. It explores concrete options for better reconciling these principles with one another and enhancing their application in the context of the Green Climate Fund.

The Green Climate Fund: How Attractive is it to Donor Countries?

De Sépibus, Joelle (NCCR Trade Working Paper No 2014/19, World Trade Institute, Bern, Switzerland, 2014)
This paper focuses explicitly on the institutional design of the Green Climate Fund. It assesses the fund's designated institutional elements. The paper finds deficits with regard to value-for-money principles and stakeholder participation in particular.

Global climate policy and local energy politics: Is India hiding behind the poor?

Jaeger, Mark Daniel & Michaelowa, Katharina (CIS Working Paper No 83, Center for Comparative and International Studies, ETH and University of Zurich, 2014)

The research reported in this publication is based on an extensive analysis of the politics on energy poverty in India. Our working paper elaborates on the successes and obstacles of energy poverty reduction.

insights warrant scepticism against procedures that the UNFCCC negotiations currently seem to favour for the GCF, which are analogous to sector budget funding and *government* ownership – if adequate results-oriented programme design and inclusive stakeholder arrangements are absent. Ownership is important, but must be ensured more broadly than just at government level. While in India, democratic processes still ensure a certain level of stakeholder involvement, the situation must be expected to be way more problematic in non-democratic states.

Nevertheless, this analysis does not lend support to simply tying funding to donor control. While governments may act against the benefit of the poor in their country, donors do not necessarily know better and also have their own stakes when discussing the allocation of funds. Our analysis suggests that both industrialized nations and developing countries as partners in the GCF should pay close attention to the (domestic) politics of resource allocation and establish procedures that go beyond development assistance concepts from the past decade. For donor countries, there is no point in questioning the ownership principle, but there are good reasons for promoting *country* ownership that broadly includes stakeholders. Developing countries though need to be aware of the responsibility that comes with ownership – and of the formidable challenges that lie in the way of successfully delivering on goals set in climate mitigation efforts. GCF partners need to collaborate closely to provide viable funding procedures that lend legitimacy to the fund. Otherwise, collecting billions of USD every year, including from private sources, will prove a promise impossible to keep.

SELECTED SOURCES

1. World Bank (2014): *World Development Indicators*: <http://data.worldbank.org/data-catalog/world-development-indicators> (25 November, 2014)
2. *Paris Declaration on Aid Effectiveness*, OECD (2005).
3. For the debate on 'value-for-money' vs. ownership and budget support, see: Jackson, Penny (2012): *Value for money and international development: Deconstructing myths to promote a more constructive discussion*. Working Paper. Paris: OECD DAC.
4. For a detailed analysis, see: Jaeger, Mark Daniel with Michaelowa, Katharina (forthcoming). Energy Poverty and Policy Coherence in India: Norms as Means in a Strategic Two-Level Discourse. In Knodt, Michele, Müller, Franziska & Piefer Nadine (Eds.): *Challenges of European External Energy Governance with Emerging Powers*. London: Ashgate.

Dr. Mark Daniel Jaeger is Researcher at the Center for Security Studies and the Center for Comparative and International Studies (CIS), ETH Zurich.
www.css.ethz.ch/people/CSS/jaegerm

Dr. Axel Michaelowa is Head of the research group on International Climate Policy at the Institute of Political Science, University of Zurich and Managing Director, Perspectives GmbH, Zurich.
www.ipz.uzh.ch/institut/mitarbeitende/staff/axel-michaelowa_en.html

Dr. Katharina Michaelowa is professor of Political Economy and Development at the Center for Comparative and International Studies (CIS) at the University of Zurich.
www.ipz.uzh.ch/institut/mitarbeitende/staff/michaelowa_en.html

POLICY PERSPECTIVES is edited by the Center for Security Studies (CSS) at ETH Zurich. The CSS is a center of competence for Swiss and international security policy. It offers security policy expertise in research, teaching, and consultancy. The CSS promotes understanding of security policy challenges as a contribution to a more peaceful world. Its work is independent, practice-relevant, and based on a sound academic footing.

Editor: [Martin Zapfe](mailto:Martin.Zapfe@css.ethz.ch) / Assistant Editor: [Prem Mahadevan](mailto:Prem.Mahadevan@css.ethz.ch)

Comments welcome at PolicyPerspectives@sipo.gess.ethz.ch

Recent editions of **POLICY PERSPECTIVES**:

- // **PUTIN'S PATRIOTIC PIVOT** (2/4) by Aglaya Snetkov
- // **WAR RISKS IN ASIA – DECIPHERING 1914** (2/3) by Jonas Grätz, Micheal Haas, Prem Mahadevan and Martin Zapfe
- // **#NIGERIAONTHEEDGE** (2/2) by Jennifer Giroux and Raymond Gilpin

For more editions, and for a free online subscription, visit www.css.ethz.ch/publications/PolicyPerspectives

© 2014 Center for Security Studies (CSS), ETH Zurich www.css.ethz.ch

ISSN: 2296-6471