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## **Acting on Climate Finance Pledges: Inter-Agency Dynamics and Relationships with Aid in Contributor States**

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### **Abstract**

Developed countries have relied heavily on aid budgets to fulfill their pledges to boost funding for addressing climate change in developing countries. However, little is known about how interaction between aid and other ministries has shaped contributors' diverse approaches to climate finance. This paper investigates intra-governmental dynamics in decision-making on climate finance in seven contributor countries (Australia, Denmark, Germany, Japan, Switzerland, the UK and the US). While aid agencies retained considerable control over implementation, environment and finance ministries have played an influential and often contrasting role on key policy issues, including distribution between mitigation and adaptation and among geographical regions.

## **Keywords**

Climate policy, climate finance, development assistance, bureaucratic politics

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## 1 INTRODUCTION

Longstanding contention over whether and how aid may support developing countries' efforts to address climate change has intensified since 2009, when developed countries initiated a marked shift in the ambition and form of their funding commitments. Under the Copenhagen Accord, developed countries promised to collectively provide "fast-start" climate finance approaching \$30 billion between 2010 and 2012, and to "mobiliz[e] jointly" US\$100 billion a year in climate finance by 2020 (UNFCCC, 2009). The scale of the long-term commitment is significant when compared with current Official Development Assistance (ODA<sup>1</sup>) flows of around \$134 billion in 2011 (OECD, 2013). This commitment reflected growing international recognition that an effective global response to climate change would require considerably greater funding for developing countries to limit or mitigate their growing share of global greenhouse gas emissions, as well as measures to enable them to adapt to the increasingly apparent impacts of climate change.

Since the adoption of the United Nations Framework Convention on Climate Change (UNFCCC, 1992), developing countries have insisted that any climate funding pledged by wealthy countries should be "additional" to commitments of aid, and that it should be delivered through separate institutional channels to demonstrate this. However, much climate finance is currently sourced from existing aid commitments and flows through a largely decentralized system dominated by a large number of bilateral aid agencies and a series of multilateral funds. As a result, channels under the UNFCCC have played a relatively marginal role so far. Both developed and developing countries have recognized that the existing institutional framework for managing financial flows requires substantial reform to cope with larger commitments (Ballesteros *et al.*, 2010). Over the long term, institutional innovations such as the UN's new flagship Green Climate Fund (GCF) may help reduce fragmentation in the governance of climate finance. However, recent UNFCCC decisions on finance vest individual contributing countries with significant discretion over how they deliver on their commitments. Consequently, in keeping with the more "bottom-up" (or nationally driven)

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<sup>1</sup> In this article we use the terms ODA, aid and development assistance interchangeably.

approach to climate change mitigation witnessed since Copenhagen (Keohane and Victor, 2011), the diverse approaches of contributing countries are likely to have a continuing role in shaping the landscape of climate finance. This stands in contrast to pledges made by OECD nations in 2005 to address the substantial “fragmentation” of aid (OECD, 2008).

What shapes this “landscape” (Buchner *et al.*, 2011, 2012) of climate finance? Climate finance represents a complex example of national decision-making, since it engages an array of ministries, departments and implementing agencies (which we will refer to generically as “ministries”) ranging from environment and climate change through to development, foreign affairs, and finance. Despite some comparative analysis of contributors’ positions on aspects of climate finance (e.g. Michaelowa and Michaelowa, 2011; Stadelmann *et al.*, 2011, 2012), little is known about variations in inter-agency configurations within individual contributing governments that may have influenced those positions. Nor—despite the fact that contributors count the bulk of their climate finance as aid—has existing research systematically identified the specific dimensions along which contributors’ climate finance and aid practices<sup>2</sup> align or differ. Analyzing how intra-governmental dynamics have influenced decision-making on climate finance so far is crucial for understanding how this area is likely to develop in the future, and how likely it is that recipients’ demands in this context will be met. In addition, comparative analysis of climate finance and aid practices informs scholarly understanding of how the involvement of non-development ministries in decision-making influences development practice.

In this article we seek to improve understanding about the dynamics of decision-making on climate finance in key contributor countries. We do this by describing (i) the differing views of ministries on key policy and implementation issues in climate finance; and (ii) the extent to which contributors’ practices on these issues differ from their practices on related aid issues. On this basis we develop preliminary insights that may explain why ministries’ views differ within individual countries; and why the relative influence of ministries within contributor governments may lead contributors’

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<sup>2</sup> We use the term “practices” to cover contributors’ approaches to both policy and implementation.

practices on climate finance to differ from both their own aid practices and the climate finance practices of other contributors. Our research is based on interviews with government officials from seven contributor states—Australia, Denmark, Germany, Japan, Switzerland, the United Kingdom, and the United States—and quantitative comparison of key indicators of climate finance and aid for these states.

The article is structured as follows. In Section 2 we outline the complex institutional architecture of climate finance and its relationship to aid against the backdrop of existing literature on climate finance. In Section 3 we set out a conceptual framework for analyzing inter-agency dynamics in the national governance of climate finance, drawing on literature from bureaucratic politics and development policy. Then in Section 4 we describe our methods, and report and compare the results of our interviews with government officials. In Section 5 we discuss the main insights emerging from our results, focusing on typical configurations of inter-agency dynamics that are identifiable across several countries and areas of greatest conflict and agreement, and offering preliminary explanations for our main findings. Section 6 concludes, proposing some directions that further inquiry in this new area of research might usefully take.

We find that disagreement among ministries has largely centered on the balance between mitigation and adaptation support and the criteria applicable to allocating funds among recipient countries. Key areas of disagreement appear to stem less from competition among ministries to maximize their own budgets, than from differences in these ministries' missions, with development agencies and ministries tending to prefer adaptation while others (notably environment and finance) have tended to emphasize mitigation. Despite contributors' climate finance practices displaying considerable similarities with their aid practices, some differences are notable. In particular, when compared with aid, a higher proportion of climate finance is channeled through multilateral organizations and a lower proportion channeled to Africa. Some of these differences may be attributable to the greater involvement of other ministries—and the consequent diminishing policy influence of development ministries and in some cases environment ministries—in policy-

making on climate finance as its monetary value and political importance has increased in recent years.

## 2 THE CONTESTED RISE OF CLIMATE FINANCE WITHIN A FRAGMENTED GOVERNANCE ARCHITECTURE

Although a substantial literature has emerged on national decision-making in international development assistance (as discussed in section 3 below), far less scholarly research has addressed climate finance (for significant collections see Stewart *et al.* (Eds.), 2009; Michaelowa (Ed.), 2012; and Haites (Ed.), 2013). None, as far as we know, investigates national decision-making in this area. Here we highlight two important and related dimensions that have characterized the emerging global architecture for climate finance: normative contestation between developed and developing countries regarding the relationship between climate finance and development assistance; and the fragmented nature of the global architecture for governing climate finance. As subsequent sections will show, these dimensions together provide considerable scope for varying approaches within and across governments of contributing countries.

### (a) *Normative contestation over climate finance and aid*

The current climate finance architecture has emerged against the backdrop of longstanding differences between developed and developing countries over the nature of climate finance and its relationship to aid. Here we highlight two notable points of difference: the objectives and obligations underlying each type of funding; and attitudes towards funding for global public goods or local needs.

First, developing countries have persistently argued that climate finance should be treated differently from development assistance, since it is based on a distinct obligation flowing from developed countries' disproportionate contribution to climate change, whereas aid is based

primarily on the responsibility of the wealthy to assist the poor (for theoretical support for this position, see Roberts, 2009). For these reasons, developing countries have argued that climate finance should be: generated according to effort-sharing arrangements different from those for aid; “additional” to existing aid commitments (Stadelmann, *et al.*, 2011); delivered through channels separate from aid; and delivered in a way that reflects their “entitlement” to funds, that is, with minimal conditions attached and preferably in the form of grants rather than loans (Werksman, 2009; Schalatek, 2012). Developed countries have argued for a more integrated approach to climate finance and aid, often emphasizing the complementarities between addressing climate change and promoting development (Michaelowa and Michaelowa, 2007). Developed countries have also placed more emphasis on the idea that climate finance forms part of a bargain between developed and developing countries that will enable the latter to increase their mitigation efforts. Indeed the 2020 financing commitment was made conditional on such efforts (UNFCCC, 2009, Paragraph 8). Pragmatic considerations have no doubt also influenced these contrasting positions, with developing countries seeking to maximize the resources available to them, and developed countries seeking to minimize the fiscal impacts of their international financing commitments.

Second, developed and developing countries differ over the type of climate finance that they see as most important. Many developing countries have called for an even split between mitigation and adaptation finance, while developed countries have generally expressed a stronger interest in contributing mitigation finance (Stadelmann *et al.*, 2012, p. 134). A prominent reason for this difference is that adaptation finance primarily provides local or regional private or public goods to recipient countries, while mitigation finance provides a global public good (in the form of a safe climate) that benefits contributors and recipients alike (Rübelke, 2011). While some conventional aid also provides international public goods—such as infectious disease control and development of new crop varieties—its justification for doing so is contested, and such funding is typically seen to be competing with funding that is primarily or exclusively oriented towards beneficiaries in developing countries (Kaul and Goulven, 2003).

(b) *Navigating vague and contested commitments within a fragmented institutional architecture*

Until the mid-2000s the delivery of climate finance was arguably less fragmented than that of aid since a large proportion of climate finance flowed through the Global Environment Facility (Greene, 2004). However, in recent years it appears that the degree of fragmentation of climate finance has increased to resemble that of aid. As noted above (and explored in greater detail in section 4(f)), a wide range of bilateral, multilateral, philanthropic and commercial actors are currently involved in delivering climate finance (Stadelmann *et al.*, 2012; Buchner *et al.*, 2011, 2012). The fast-start finance package was assembled relatively rapidly, with the result that contributors relied heavily on existing aid institutions for its delivery. Indeterminate language in UNFCCC decisions on a range of contested issues—to the extent that parties have not even agreed on a clear definition of climate finance—has tended to entrench fragmentation (Streck and Chagas, 2011, p. 351).

On some other issues where developed and developing countries have reached agreement in principle, they remain divided over how applicable principles should be implemented, including the requirements that climate finance be “new and additional” (as discussed above), “balanced” between adaptation and mitigation, and generated “from a range of sources” over the longer term (UNFCCC, 2009, Paragraph 8). On the latter point, for example, there is broad consensus that the majority of long-term finance will rely upon financial instruments beyond traditional aid, including innovative public sources and private sector investments (UN Secretariat, 2010; Bowen, 2011). However, due to the normative differences outlined above as well as practical impediments to institutional reform, there remains considerable disagreement about the preferable mix and design of these sources. In the interim, aid is likely to represent a substantial source of short- to medium-term climate finance while innovative sources are being designed. Even once the Green Climate Fund is operational (which will be no earlier than 2014), contributors intend to rely on other channels for a substantial share of overall climate financing (Ciplet *et al.*, 2013). Thus, over the short to medium term, governance of climate finance is likely to remain largely decentralized (Ballesteros *et al.*, 2010, p.268).

In this regard, the multifaceted institutional structure of climate finance largely mirrors the intermediate degree of fragmentation prevalent in what Keohane and Victor characterize as the

overall “regime complex” for global climate policy (Keohane and Victor, 2011). Keohane and Victor (2011, p. 8) identify diversity of interests among parties as a major driver of fragmentation, and it is plausible to expect that differences between and within countries over aspects of climate finance have contributed to fragmentation in this area.

The fragmented architecture yields two implications for the national decision-making processes we will study in this article. First, the current degree of fragmentation has left considerable discretion to *contributor countries* as to how to implement climate finance, and in particular how to interpret issues that are contested in the negotiations. Second, the discretion given to contributors in turn allows considerable scope for individual *ministries* to influence the outcome of decisions on climate finance. We now turn to this second aspect in more detail.

### 3 INTER-AGENCY DYNAMICS IN GOVERNING INTERNATIONAL FUNDING COMMITMENTS

#### (a) *National decision-making on climate finance: an overview*

The scant literature on contributor nations’ approaches to climate finance mostly seeks to map and compare existing policies and programs, either for climate finance as a whole (Stadelmann, 2012; Buchner *et al.*, 2011, 2012), or on particular policy issues faced by contributors such as additionality (Stadelmann *et al.*, 2011) and methods for classifying aid activities as climate-related (Michaelowa & Michaelowa, 2011). The literature highlights 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 this research does not seek to explain such variations, but some analysis points to the relevance of internal political factors. Michaelowa and Michaelowa (2011), for example, argue that the tendency of contributors to miscode aid activities as climate-related (which on average tends to overestimate the climate-related share of their aid

budgets) might be due to internal factors within each contributor state, such as aid ministries' responsiveness to public interest in the issue of climate change. Halimanjaya and Papyrakis (2012) find that countries with higher domestic environmental expenditure and higher aid budgets tend to supply more climate finance.

The literature surveyed so far 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 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, which tends not to enable a more fine-grained analysis of inter-agency dynamics. Second, to the extent that the literature discusses the relationship between climate finance and aid, little is known about how dynamics between the ministries that respectively govern these two types of funding inform that relationship. In the remainder of this section we discuss how the literature on bureaucratic politics can help to address these gaps.

(b) *The influence of bureaucratic politics on policy outcomes*

The public choice literature on government decision-making has underscored the interests of bureaucratic entities in maximizing their discretionary power through increasing the size of their budgets (Müller, 2003, pp. 359-385). But in order to explain the more complex range of interests that bureaucracies appear to pursue in practice, public policy scholars have stressed the importance of organizational culture, particularly how officials from different institutions perceive policy problems in varying ways and influence policy processes accordingly (Drezner, 2000; Kingdon, 2003). According to this view, each ministry acts to pursue its specific "mission". At times its mission may point in the same direction as budget maximization but at other times may not. Importantly, this strand of the bureaucratic politics literature emphasizes that organizational culture encompasses not only overarching values that shape the ministry's perspective on what is desirable, but also beliefs about the salient features of specific policy issues and the causal relations underpinning them (March & Olsen, 1989, p. 124; Martinsen & Jørgensen, 2010, p. 744).

Consequently, disagreements among ministries can be harder to solve according to this perspective than according to the public choice literature, which defines such overlaps in terms of distributive games.

Importantly, the responsibilities of different ministries often overlap on specific policy issues. Particularly new issues—of which climate finance is one—may provoke contestation regarding how the issue should be addressed and by which agency (Kingdon, 2003). Scholars of bureaucratic politics widely agree that the institutional avenues for accommodating ministries' varying preferences may have a significant influence on policy outcomes, including: which agency holds responsibility for steering the policy; which ministries are involved in decision-making and what roles they play; the extent to which decision-making processes are centralized among one or a few ministries or fragmented among many; and whether decision-making processes and power relations are hierarchical or collegial between ministries (Kaarbo, 1998; Egeberg, 2012).

Of all institutional configurations that could provide analogies with the bureaucratic politics of climate finance, aid is arguably the most relevant. Surprisingly, however, very little has been written about aid—as opposed to other areas of foreign policy—from a bureaucratic politics perspective (compare Halperin and Clapp, 2006; Drezner, 2000 and Lundsgaarde, 2013 represent partial exceptions). Moreover, while the predominantly quantitative literature on determinants of aid allocation has analyzed a range of domestic political factors (compare Thérien and Noel, 2000; Tingley, 2010), the way in which aid policy and implementation is organized within government bureaucracy has received much less attention, possibly due to the difficulty of formulating corresponding quantitative variables (Faust, 2008). Nevertheless, it is plausible to think that organizational factors are likely to play as significant an influence on aid policy outcomes as on other policy outcomes studied in the bureaucratic politics literature. As Carol Lancaster 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 (Lancaster, 2007, p. 7).

In the remaining sections we draw on findings from the literature on bureaucratic politics and aid to develop hypotheses for climate finance on two areas: (a) the substantive positions that ministries are likely to adopt; and (b) the relative influence of different ministries on policy outcomes.

### (c) *Theorizing agencies' positions*

In the sub-field of bureaucratic politics research relating to budgetary politics it is common to draw a distinction between ministries that are “guardians” of public revenue and those that are “advocates” of spending (Wildavsky, 1986). Finance ministries (and sometimes other central ministries) typically play the role of guardians, whereas other ministries with specific missions—such as aid agencies, whose primary avowed mission is typically to promote international development and reduce poverty—tend to play the role of advocates for expenditure on their respective missions (t’Hart & Wille, 2012, p. 371). Aid donors vary significantly in the extent to which their aid programs in general and their environmental aid in particular pursue altruistic (developmental) rather than self-interested (diplomatic or commercial) purposes (Lewis, 2003; Berthélemy, 2006; Hicks *et al.*, 2008). This variation may be attributable not only to differences in the relative power of aid agencies across countries (as discussed below) but also to the different ways in which aid agencies themselves interpret the mission they advocate.

In the area of climate finance, bilateral development agencies have traditionally played a pivotal role in implementation, but more recently other ministries (notably environment and finance) have increasingly taken a stronger interest in this area (Skovgaard, 2012). We hypothesize the missions of different ministries on climate finance as follows:

- (i) Both *aid* and *environment* ministries are likely to play the role of advocates of spending on climate finance, since climate finance may help to promote each agencies’ respective missions of international development and environmental protection.

However, differences in agencies' missions are likely to influence the type of spending they are likely to advocate:

- (ii) The development-oriented mission of *aid ministries* is likely to predispose them more than other ministries towards adaptation finance (which primarily benefits recipient countries) and the positions of recipient countries on policy and implementation issues.

The mission of environment ministries, by contrast, encompasses both domestic and international environmental protection objectives. In addition, many environment ministries lead their national delegations in the UNFCCC negotiations. Thus:

- (iii) *Environment ministries* are likely to seek to use climate finance as a bargaining chip to achieve their environmental mission (preventing dangerous climate change), with a preference for mitigation finance (which generates domestic as well as global benefits).

Finally, as Skovgaard (2012) notes, finance ministries involved in climate policy may either aim to minimize short-term costs to the state budget or to minimize long-term costs to the economy as a whole. Both positions would be consistent with a broad understanding of their role as guardians of the treasury. Accordingly:

- (iv) *Finance ministries'* mission to limit public expenditure and optimize long-term growth will lead them to seek either to minimize the amount spent on climate finance, or to prioritize mitigation over adaptation.

#### (d) *Power dynamics and inter-agency configurations*

Lancaster's qualitative study on the domestic politics of foreign aid, which includes five major donor countries covered in our analysis (Denmark, Germany, Japan, UK and the US), highlights a considerable degree of variation in the institutional configurations and relative influence of key

ministries involved in aid policy and implementation (Lancaster, 2007).<sup>3</sup> Lancaster concludes that the extent to which donors pursue developmental (rather than self-interested) purposes depends on whether the aid ministry is represented independently at ministerial or cabinet level (as in the UK and Germany), and whether decision-making is fragmented among many actors (as in Japan and the US). However, she finds that an aid program may still pursue a strongly developmental purpose even if integrated within another ministry (such as Foreign Affairs, as in the case of Denmark) provided that the ministry's own mission is similarly development-oriented (Lancaster, 2007, p. 220).

Accordingly, in the area of climate finance we expect that:

- (v) *Central agencies* (in particular finance and foreign affairs ministries), and aid and environment ministries with *ministerial or cabinet level representation*, will have greater influence over climate finance *policy* than other ministries.

While this characterization is likely to apply to policy decisions, less powerful implementing agencies may nevertheless be able to use their expertise to retain decision-making power over technical and implementation decisions (Kaarbo, 1998, p. 83). For these reasons, we may expect that:

- (vi) Regardless of their status in the hierarchy of bureaucratic policy-making, aid ministries will retain considerable influence over the *implementation* of climate finance.

Our final set of hypotheses addresses the degree of similarity between climate finance and aid within contributor countries. Following from (ii) and (v), we may expect that:

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<sup>3</sup> A more recent study by Erik Lundsgaarde, which includes three of our case study countries (Denmark, Switzerland and the US) makes a similar finding (see Lundsgaarde, 2013).

- (vii) A contributor's climate finance and aid *policies* are likely to diverge as ministries whose missions strongly differ from those of aid ministries become more involved in decision-making on climate finance than they are on aid.

Thus we may expect that aid and climate finance policies will be more closely aligned in countries where foreign policy priorities already substantially inform aid, whether those priorities display a greater orientation towards national interests (as in Japan, the US and to some extent Australia) or towards development (such as Denmark). Finally, following from (vi), we may expect with regard to implementation that:

- (viii) A contributor's institutional practices for *implementing* climate finance will reflect those that it adopts for aid generally.

## 4 DATA COLLECTION METHODOLOGY

By examining a series of seven national case studies, we seek to assess the nature and extent of different ministries' influence on national climate finance policy in order to test the hypotheses outlined above. Reflecting the need for qualitative analysis to address these hypotheses, our methods included a review of the secondary literature on climate finance, key informant interviews in each country, and a review of national reporting on climate finance, including fast-start finance reports. The qualitative analysis is supplemented by and triangulated against a snapshot of key quantitative indicators on climate finance and aid for each country (Table 2).

We sought to capture most of the main contributors to climate finance, especially to fast-start finance, but we also wished to compare some smaller contributors and to capitalize upon the authors' professional contacts with officials. 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 policy importance domestically or

internationally to those of a more technical or implementation nature; and (ii) enabled a comparison of practices between climate finance and aid.

We conducted a total of 29 interviews, primarily between August 2012 and January 2013.<sup>4</sup> In all countries we interviewed personnel from the lead ministry on climate finance policy, in addition to personnel from other ministries involved in policy and/or implementation. For the interviews we developed a 21-question interview script organized around seven general themes spanning the governance, generation and delivery of funds. Theme (a) addressed overall *governance arrangements*, including how different agencies interacted, which agency led the charge on climate finance, and their degree of impact. Themes (b) and (c) addressed the *generation* of funds, focusing on (b) ministries' views about what their country's "fair share" of collective financing commitments would be, and (c) in what sense ministries considered their pledges to be "new and additional". The remaining four themes addressed a range of choices about the *delivery* of funds, including: (d) the balance between mitigation and adaptation funding; (e) whether funding should be channeled through bilateral agencies or through multilateral funds; (f) how funding was allocated among different recipient countries; and (g) how agencies decided on funding modalities, including whether funding would be delivered as grants or loans. We report our findings on each of these areas in turn.

## 5 RESULTS

### (a) *Inter-agency configurations*

Table 1 provides an overview of the ministries responsible for national governance of climate financing and aid. Some aspects of the configuration for climate finance were similar across the countries we analyzed. In all countries, ministries responsible for environment, development (either

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<sup>4</sup> We also drew on two interviews conducted for related research in late 2010.

independently or represented by the foreign affairs ministry) and finance / economic affairs were involved in policy decisions. In general the lead decision-making role lay with the environment and/or development ministry, with the finance ministry playing a less directly active role. Whereas development ministries often held primary responsibility for implementation, environment ministries generally played a greater role in overall policy-making and international climate negotiations.

However, within these broad parameters there was considerable variation. In some countries (Denmark, Switzerland and the UK) there was a more or less institutionalized split of responsibilities, with the development ministry focusing on adaptation funding and another ministry (environment or economic affairs) focusing on mitigation funding. In Japan and the US, implementation was also split between multilateral and bilateral climate finance, with the foreign affairs ministry leading on the former and development agencies on the latter.

In comparing organizational arrangements for climate finance and aid, it is apparent that a substantially larger range of ministries are closely involved in climate finance policy than in overall aid policy (although the extent of involvement of other ministries in specific aid sectors may vary). However, subject to the exceptions noted above, development ministries predominate in the implementation of both climate finance and aid.

Table 1. *Inter-agency configurations for climate finance and aid in case study countries*

		Australia	Denmark	Germany	Japan	Switzerland	UK	USA
Climate finance <sup>5</sup>	Policy	<b>En*</b> (negotiations) <b>D</b> (multilat funds) F; FA	<b>En*</b> (M) <b>D*</b> (A) F; P	<b>En*</b> (negotiations, M) <b>D</b> ministry (A) F	<b>FA*</b> (oversight) <b>Ec*</b> (M) <b>En*</b> (A) <b>AFF*</b> (REDD+) F (IFIs)	<b>En*</b> D; Ec*	<b>En*</b> [climate / energy] (M) <b>D*</b> (A) <b>En</b> [env't] (REDD+)	<b>FA*</b> P
	Implementation	<b>D</b> En	<b>D</b>	<b>En</b> D agencies*	<b>D*</b> ( <b>ODA and other flows</b> ) FA* (ODA grants and multilat UN) F (multilat IFIs) Ec*; En*; AFF*	<b>D</b> Ec*	As above	<b>F*</b> (multilat) <b>D</b> agency (bilat) Overseas Private Investment Corp*; En*
Aid	Policy	<b>D</b> FA; F	<b>D</b>	<b>D</b> ministry	<b>FA</b> (bilat / multilat UN) F (bilat / multilat IFIs) Ec; P	<b>D</b> Ec	<b>D</b> FA	<b>FA</b>
	Implementation	<b>D</b>	<b>D</b>	<b>D</b> agencies	<b>D</b>	<b>D</b> Ec	<b>D</b>	<b>D</b> (bilat) <b>FA</b> (multilat) <b>F</b> (IFIs)
Configuration of aid organization(s)		Agency within FA portfolio	Activities integrated within FA ministry; D minister	Cabinet-level ministry; implementing agencies	Implementing agencies for aid and other official flows	Activities integrated within FA and Ec ministries	Cabinet- level ministry	Implementing agencies for aid and other official flows

<sup>5</sup> Asterisks show organizations interviewed in this study. Bold text shows lead agency/agencies. Other organizations are listed only where prominently involved in policy and/or implementation. Organizations involved in other (non-aid-eligible) official flows for development are listed only for countries with non-aid-eligible climate finance flows. *Abbreviations for organizations*: D= Development; F=Finance / Treasury; FA= Foreign affairs; En= Environment/climate change, P= prime minister's / president's office; Ec = Economic affairs; AFF = Agriculture, forestry and fisheries; IFIs = international financial institutions. *Other abbreviations*: M =mitigation; A=adaptation. Information current as at August 2013 (note that Australia's aid program has subsequently been integrated with the foreign affairs ministry following a change of government in September 2013).

(b) *Effort-sharing*

Effort-sharing arrangements varied considerably, with a few contributors (notably Japan, US and EU members collectively) making up the large bulk of fast-start finance. In most cases, countries' share of the climate finance effort was somewhat lower than their share of overall aid, due in large measure to Japan's large fast-start pledge (accounting for around half of the total) far outweighing its share of global aid (see Table 2, row i).

Participants reported relatively little disagreement among ministries about principles for effort-sharing, but views on effort-sharing nevertheless showed considerable divergences across countries. In the absence of specified effort-sharing arrangements in the Copenhagen Accord or subsequent UNFCCC decisions, participants reported that their share of 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 and respective capabilities" (CBDR&RC) (UNFCCC, 1992, Article 3; see also European Commission, 2011). Both the US and Australia placed greater emphasis on burden-sharing measures in other international organizations such as the UN or the World Bank as a reference point for climate finance contributions (see also Jotzo et al, 2011). Indeed, the US explicitly chose not to base its share of fast-start finance on a quantified measure of CBDR&RC. The ability of the US to announce an overall multi-year share of fast-start finance was constrained also by its congressional budgetary processes and decentralized budgeting across the diverse agencies involved, which tend to permit only year-by-year and post hoc budget announcements.

Some participants noted the potential influence on effort-sharing measures of broadening the pool of contributor countries. Countries such as Australia have made increasing the pool of participating countries a broader focus of their negotiating stance on mitigation as well as on finance. This was

one of the few areas where other participants reported a divergence of views among ministries. One finance ministry reportedly saw considerable value in encouraging major emerging economies to contribute finance, whereas other ministries also acknowledged the considerable domestic investments in mitigation already being made by these economies, and that taking such a position would have a negative impact on negotiations.

Table 2. Overview of key fast-start finance (FSF) and aid indicators for case study countries<sup>6</sup>

	Indicators	Australia	Denmark	Germany	Japan	Switzerland	UK	USA
<b>i. Effort-sharing</b>	% of total FSF pledged	2	0.6	5	43	0.4	7	22
	% of total DAC donors' ODA, 2011	4	2	11	8	2	10	23
<b>ii. Additionality</b>	Robustness of FSF interpretation	Moderate	High	Moderate	Low	Moderate	Moderate	Low
	ODA/GNI ratio (2011 vs 2009)	Moderate, increasing	High, declining	Moderate, increasing	Low, steady	Moderate, increasing	Moderate / high, increasing	Low, declining
<b>iii. Mitigation / adaptation balance</b>	% of FSF for adaptation	52	36	28	<10	39	33	16
	% of ODA for global public goods (2010) <sup>7</sup>	9	20	21	13	8	13	30
<b>iv. Funding through multilateral channels</b>	% of FSF	30	67	47	11	42	91	18
	% of ODA (2011)	14	27	38	39	23	39	12

<sup>6</sup> Sources for FSF indicators (average, 2010-12 unless otherwise specified): (i): WRI, 2012 ; (ii): Ciplet *et al.*, 2012 (except for Denmark, Germany, UK); other indicators: Germany: Nakhooda *et al.*, 2013; Japan: Kuramochi *et al.*, 2012; UK: Nakhooda *et al.*, 2012 (data for financial years 2010/11 and 2011/12); US: Fransen *et al.*, 2012 (data for financial years 2010 and 2011); Australia: Australia, 2010, 2012; Switzerland: Ciplet *et al.*, 2012 (iii, vi); authors' calculations (iv); Switzerland, 2013 (v); Denmark: Stadelmann *et al.*, 2011 (ii); interviews (iii-vi). Sources for aid indicators: OECD, 2013 (i, ii, iv-vi); Kharas and Rogerson, 2012 (iii). In accordance with reporting practices for available data, climate finance figures refer to commitments, while aid figures refer to disbursements.

<sup>7</sup> Goods covered include (among others) protection of transboundary environmental resources, infectious disease control, research and security.

	Indicators	Australia	Denmark	Germany	Japan	Switzerland	UK	USA
<b>v. Recipient countries</b>	% of FSF to Africa <sup>8</sup>	15	20	34	≈10	>19	44	26
	% of ODA to Sub-Saharan Africa (2010-11)	13	55	37	37	43	54	43
<b>vi. Financing and access modalities</b>	Bilateral grants (% of FSF)	100	100	71	13	100	81 <sup>9</sup>	61
	Bilateral grants (% of gross ODA, 2011)	85	72	48	41	74	59	88

<sup>8</sup> Includes funding channeled to Africa via contributions to multilateral funds, except for Denmark, Switzerland and the US (for which only data for bilateral contributions to Africa was available). Data for Germany, Japan, UK and US based on UN regional definition (including North Africa); regional definition unspecified for other countries.

<sup>9</sup> Also includes grant equivalent (75%) of capital contributions.

### (c) *New and additional finance*

While contributors agreed to report annually to the UNFCCC on the progress of their fast-start pledges, by the end of the fast-start period they had not set agreed standards for how “new and additional” climate finance should be measured in relation either to aid or to innovative sources of finance (Stadelmann *et al.* 2011). Thus, it is not surprising that different understandings of additionality exist among countries as well as individual ministries (see Table 2, row ii).

On the additionality of aid, while some officials were skeptical about the practical relevance of the issue, all participants claimed that their government’s climate finance was new and additional in at least some sense of the phrase. This was either because their overall level of aid had been increasing (Australia and Switzerland), above 0.7 per cent of Gross National Income (Denmark), and/or because specific additional budgetary resources had been earmarked for climate aid compared to previous levels (UK, Germany, Japan, and Switzerland). US officials claimed that each annual budgetary amount dedicated to climate finance should be counted as new and additional, since they have to vie for climate finance resources each budget year. Finally, some participants confirmed previous findings (Michaelowa & Michaelowa, 2011) that donor countries have at times relabeled existing aid as climate-related in order to count it towards their climate finance portfolio. In general, the robustness of a country’s definition of aid additionality was correlated with the size of its aid budget (as a share of Gross National Income) and whether the aid budget was increasing during the fast-start period (see Table 2, row ii).

Within most countries ministries seemed to share a common view on the interpretation of additionality, but there were divergent views within one administration on whether the 2020 commitment must strictly be “new and additional”, since the Copenhagen Accord and subsequent decisions only explicitly mention this requirement in relation to fast-start finance. In Australia, the aid agency was primarily responsible for initiating discussions about a definition of additionality, due to its concern that aid could be diverted from existing development priorities to meet climate finance commitments.

On new and additional finance generated through other sources (which most analysts consider to provide greater assurance of additionality: Bowen, 2011; Stadelmann *et al.*, 2011), Germany was unique in drawing on an innovative source of public funding to meet its fast-start commitment: revenue raised from auctioning allowances under the EU Emissions Trading Scheme. Japan was alone among major contributors in including a substantial proportion of private finance (around a quarter) in its \$15 billion fast-start pledge (Kuramochi *et al.*, 2012). Some of this funding includes export credits and insurance to domestic companies doing business in developing countries. The US also included a limited portion of private finance in its later fast-start finance reports (United States, 2012).

We found some evidence of inter-agency debate over innovative sources. In Australia, for example, ministries such as the Treasury and the Department of Foreign Affairs and Trade expressed concerns about proposals such as a multilateral levy on international transport (relating to competitiveness impacts, uniform treatment of developed and developing competitors, and domestic control over revenue raised) and a financial transaction tax (relating to impacts on the efficiency of financial markets). These findings are consistent with other analysis suggesting that finance ministries have been reluctant to embrace innovative sources that earmark revenue for climate purposes (Müller, 2009).

(d) *Mitigation and adaptation*

Adaptation accounted for around 20 per cent of overall fast-start finance, with the large bulk of the remainder being allocated to mitigation (Ciplet *et al.*, 2012; Stadelmann *et al.*, 2012). However, there was considerable variation among individual contributors (see Table 2, row iii). Most interviewed officials indicated that the requirement in the Copenhagen Accord to achieve “balanced allocation between adaptation and mitigation” (UNFCCC, 2009, Paragraph 8) was important in guiding their funding decisions. However, countries adopted different interpretations of “balance”. Of the countries surveyed, only Australia achieved a roughly equal split between mitigation and adaptation (the interpretation preferred by developing countries), reflecting the strong focus of

Australia's aid program on Pacific island countries, for whom adaptation (especially to rising sea levels and increased storm intensity) is a high priority. The UK set an equal split as a non-binding target but did not achieve it during the fast-start period. Japan's focus on mitigation reflected the government's aid strategy, which prioritized growth-oriented infrastructure lending to industrializing countries (Kim, 2012). US officials described balance between three programs: adaptation, energy efficiency and mitigation, and aid for "sustainable landscapes," which includes efforts to reduce tropical deforestation (and which counts as mitigation). As Table 2 illustrates, there was no discernible link between the proportion of mitigation finance that each country committed and its proportion of aid for other global public goods. This may be due to the diversity of objectives (many non-environmental in nature) that aid for global public goods supports, and the associated diversity in the incentives that countries have to supply those goods (Barrett, 2007).

The different interests and views of ministries played a major role in informing debates about thematic balance. While development ministries generally favored more adaptation funding given the close links between promoting adaptation and development objectives, other ministries (particularly those responsible for environment) called for a focus on mitigation, which they justified on the basis of their own expertise and the interest of industrialized countries in reduced emissions in developing countries. While some countries split the institutional responsibilities for delivering mitigation and adaptation funding (as noted above), in most countries most ministries remained involved in both areas.

#### *(e) Multilateral and bilateral channels*

On average contributors have preferred bilateral channels for climate finance and aid over multilateral ones, with around half of fast-start finance and 70 per cent of aid flowing through bilateral mechanisms (Stadelmann *et al.*, 2012, p. 125; OECD, 2013). To the extent that contributors have relied on multilateral funds for channeling climate finance, they have overwhelmingly preferred channels outside the UNFCCC (notably the Climate Investment Funds, with whose operations the World Bank and other multilateral development banks are closely

involved), with only two per cent of pledged fast-start finance flowing through UNFCCC-related funds (Ciplet *et al.*, 2012).

Beyond these two broad trends, the mix of channels varies significantly among contributors (see Table 2). At one end of the spectrum, the UK relied almost totally on multilateral channels, while, at the other, Japan and the US acted mostly through bilateral agencies (Kuramochi *et al.*, 2012; Fransen *et al.*, 2012; Ciplet *et al.*, 2012). Germany's parliamentary budget commission decided to treat climate finance as general aid, thus obliging the government to spend at least two-thirds of its climate finance through bilateral channels (BMZ, 2012). While Germany's development ministry exhibited a preference for practices of the World Bank Group, its environment ministry was more favorably inclined towards UNFCCC-related institutions. Other countries occupied a middle ground with between one-third and two-thirds of their funding flowing through multilateral channels (Table 2, row iv). German and Swiss participants reported that their approach to selecting channels for climate finance was essentially the same as for aid. Japan was the only country whose multilateral share of climate finance was substantially lower than its multilateral share of aid. This trend accords with Japan's emphasis on mitigation and private finance, for which its existing bilateral loan program provided a ready means for delivery (Japan 2013).

Participants generally justified their choice of intermediaries on the basis of their efficiency and effectiveness. The UK explained its overwhelming emphasis on multilateral channels on the basis of their capacity to pool and scale up different sources of finance into more ambitious programs, as well as the limited availability of human resources within its development ministry for managing a large bilateral climate finance portfolio. Despite the fact that responsibilities for multilateral and bilateral climate finance were split across ministries in Japan and the US (see section 5(a) above), we did not find evidence that this led to substantial disagreement among agencies in these or other countries about the share of funding that should flow through each type of channel. One US official described how multilateral and bilateral agencies "do different things" and are "complementary" to one another.

(f) *Recipient countries*

Participants reported that allocation of fast-start finance to recipient countries followed similar patterns to development assistance. Contributors such as Denmark and Japan sought to strengthen partnerships with countries that were a priority for their existing aid programs. However, for both adaptation and mitigation funding some divergence from the geographic distribution of aid was notable.

The Copenhagen Accord calls for parties to prioritize fast-start adaptation funding towards “the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa” (UNFCCC, 2009, Paragraph 8). A number of participants reported that, relative to their aid program, their climate finance gave higher priority to low-income countries (most contributors), Africa (US) and Small Island Developing States (US and Australia). The Copenhagen Accord does not single out high-priority regions for mitigation finance. However, most contributors focused a larger share of their mitigation funding on rapidly growing middle-income or high-emitting countries, with the UK specifically drawing on assessments of recipient countries’ mitigation potential to inform allocations of mitigation finance. Similarly, the US and Australia allocated funds for reducing emissions from deforestation (REDD+) to countries with large areas of forest cover at risk. More generally, however, US officials described allocation of funding through the US aid agency as extremely decentralized, with country programs deciding which projects to fund and project managers deciding whether to classify projects as climate-related for international reporting purposes.

While a detailed quantitative comparison of allocation practices in climate finance and aid is beyond the scope of this article, Table 2 (row v) shows that for most contributors, the proportion of climate finance flowing to Africa was lower than the proportion of their aid for Africa. This suggests that even if countries may have prioritized Africa in their *adaptation* programming, the high proportion of mitigation in *overall* fast-start finance tended to divert funding away from the poorest

countries. This finding is consistent with modeling conducted by others (Michaelowa and Michaelowa, 2007; Brown *et al.*, 2010).

More broadly, in reaching allocation decisions some contributors took into account factors that could be seen as facilitating trust or leverage in the climate negotiations. Japan made some loans conditional on host country agreement with specific policy and greenhouse gas emissions reduction goals. In Switzerland, ministries differed as to the role of negotiating factors in allocation. Whereas the development and economic ministries sought to focus funding on existing aid recipient countries, the environment ministry preferred a more targeted allocation towards cooperative as well as vulnerable countries. In some countries (e.g. Denmark and Germany), the foreign affairs ministry had some oversight role in assessing whether funding was in line with the country's overall foreign policy goals.

#### *(g) Financing modalities*

The final issue we 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 aid when delivering climate finance; and (ii) whether the financial instruments employed in their climate finance portfolio differ from those used in their traditional aid programs.

On the first aspect, participants broadly agreed that, since their fast-start finance programs were integrated within aid budgets and institutions, agencies sought to follow intergovernmental guidelines and standards applicable to aid (see e.g. OECD, 2008). A Swiss official noted that the current application of aid effectiveness principles to climate finance is related to the dominant role of development agencies in implementation of climate finance. On the second aspect, grants represented around two-thirds of overall fast-start finance, with loans comprising the bulk of the remainder (Stadelmann *et al.*, 2012, p. 125). Participants confirmed existing findings that climate finance has adopted similar financial instruments to general aid (Stadelmann *et al.*, 2012). With the exceptions of Japan and the US, the proportion of grants for climate finance was considerably higher than the proportion of grants for aid (see Table 2, row vi).

Participants reported some inter-agency differences on the choice of financing instruments. For instance, Australia's aid agency has traditionally focused overwhelmingly on grant-based funding, but one participant from the climate change ministry 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 Switzerland, the development agency appeared to show stronger support than other agencies for direct access to funding by recipient countries.

## 6 DISCUSSION

### (a) Overview

In this sub-section we begin by summarizing major areas of agreement and disagreement from the findings above. In section 6(b) we assess agencies' positions on key issues against the corresponding hypotheses about ministries' missions set out in section 3(c). In doing so, we summarize outcomes emerging from areas of disagreement and compare them with outcomes on related areas of aid. Then in section 6(c) we discuss the extent to which those outcomes reflect the influence of inter-agency configurations and power dynamics hypothesized in section 3(d).

At a very broad level our results on the seven themes confirm the findings of other research (e.g. Stadelmann *et al.*, 2012; Ciplet *et al.*, 2012) that there is significant variation among contributors on major policy issues relating to climate finance. Our analysis found that inter-agency differences have been salient regarding some but not all themes. Themes characterized by the greatest degree of inter-agency disagreement have been (d) the balance between climate change adaptation and mitigation; and (f) which recipient countries should be targeted. A moderate degree of disagreement arose in relation to: (c) how "new and additional" finance should be understood. Areas commanding the greatest level of agreement were (b) effort-sharing; (e) the balance between multilateral and bilateral channels; and (g) financing and access modalities.

Disagreements were generally more significant at the beginning of the fast-start period. One possible reason for this is that development ministries with pre-existing responsibilities for climate-related aid feared they would be sidelined by institutions with little understanding of and appreciation for poverty reduction and development. Over time, a number of these disagreements have subsided as cooperation has become more institutionalized, for instance through splitting responsibilities for adaptation and mitigation funding.

(b) *Characterizing agencies' positions*

Our findings that the mitigation-adaptation balance and choice of recipient countries represented the most intense areas of disagreement are consistent with our hypotheses that while both development and environment ministries play the role of “advocates” of climate finance spending (hypothesis i), their missions lead them to advocate different spending priorities. Development ministries tended to prefer greater spending on adaptation activities more akin to their development missions (hypothesis ii), whereas environment ministries preferred spending on mitigation aimed at achieving national interests in environmental protection (hypothesis iii). Different views about the priority of each objective were mirrored in disagreements about geographic prioritization, with development ministries generally showing a preference for targeting existing aid recipients and the most vulnerable countries, while environment ministries often factored in the potential for decisions about allocation to influence trust and leverage in negotiations and to secure large-scale impacts from investing in energy efficiency and renewable energy.

Our finding regarding a lower level of disagreement on the issue of additionality seems at first inconsistent with this characterization of development ministries’ missions. If we expect development ministries to be vigilant advocates of their existing development missions, we may expect them to express stronger concerns about aid diversion than other ministries. But while this occurred in some countries, cross-country variation on additionality was greater than inter-agency disagreement. One possible reason for agreement within most countries is that development ministries saw the scale-up of climate finance simultaneously as an opportunity (to consolidate their

involvement in an area with a rising political profile) and a threat (that environment ministries would gain control over spending diverted from the overall aid budget). Accordingly, development ministries may have considered it prudent to realign their own priorities to better accommodate climate finance. A further possible reason is that development ministries recognized that they would have little chance of using climate finance as a lever for increasing the overall aid budget given the difficult fiscal situation that many countries faced during the fast-start period.

These findings point to a broader difference between the views of development and environment ministries on the relationship between climate finance and aid. Owing to their pre-existing involvement in delivering climate finance, many development ministries saw climate finance fundamentally as a kind of aid, but one that was re-branded and attracted the interest of other ministries as its political salience grew. According to the mission espoused by most environment ministries, the objectives of climate finance are fundamentally different from those of development aid, leading to a perception among some environment ministries that development ministries were encroaching on their turf.

Our findings on finance ministries suggest that it would be simplistic to characterize them in this context solely as guardians of short-term spending (hypothesis iv). There was some evidence of caution on the part of finance ministries about raising earmarked finance from innovative sources. However, most finance ministries supported some expenditure on climate finance while emphasizing (like environment ministries) the importance of mitigation funding. This finding is consistent with research indicating that while finance ministries' interest in minimizing short-term spending has traditionally been dominant, their role as cautious advocates of mitigation financing has become increasingly prominent, particularly since major policy analyses such as the Stern Review provided more solid economic credentials to the case for early action on climate change (Skovgaard, 2012). The fact that ministries generally agreed to draw fast-start finance from existing aid commitments sidestepped the need for new short-term fiscal commitments that finance ministries may have otherwise been inclined to challenge.

(c) *The influence of inter-agency dynamics on contributors' practices: preliminary observations*

While a comprehensive explanation of policy outcomes on climate finance is beyond the scope of this article, two strands of evidence presented in the article can help to begin building a picture of the relative influence of inter-agency dynamics on policy outcomes: (i) comparison between agencies' positions and contributors' actual practices on climate finance; and (ii) comparison between practices in key aspects of climate finance and aid.

First, on areas of policy disagreement such as the mitigation-adaptation balance and choice of recipient countries, our results suggest that in most cases no single ministry consistently prevailed, and that outcomes generally diverged somewhat from aid ministries' preferences. Nor could we conclude that aid programs with ministerial or cabinet level representation were consistently more successful in ensuring their preferences were reflected in decision-making. In this regard, Australia's focus on adaptation in the Asia-Pacific region represents a notable case where disagreement over these two areas was minimal and where practices arguably reflected the aid agency's priorities most closely, despite the agency not having its own minister at the time. However, in this case a strong emphasis on adaptation in the Pacific was consistent with the Australian government's national interest given strong public sensitivity to the threat of sea level rise, as well as its focus on building relationships with Pacific countries in the climate negotiations (Australia, 2009). Thus, rather than an individual ministry prevailing in this case, it is more likely that different ministries' interests aligned with one another.

What of the other areas on which ministries generally agreed? Choices about funding channels and financing instruments, while not devoid of political ramifications for climate negotiations, are more closely tied to questions of implementation than the other policy issues discussed above. A likely explanation for the low level of disagreement is that these decisions were largely delegated to implementing agencies (typically development agencies) on the basis of their technical expertise (consistent with hypothesis vi and Kaarbo's (1998) findings outlined above). In some cases, however, the decision to split mitigation and adaptation responsibilities between agencies suggests

that development expertise alone was an insufficient reason for development agencies to retain responsibilities for implementing mitigation activities.

Turning to the second strand of evidence, the quantitative indicators in Table 2 suggest that outcomes on climate finance diverge from those on aid across most themes (notably effort-sharing, recipient countries, multilateral channels and financial instruments). However, two patterns are noticeable. First, for several indicators the *average divergence between climate finance and aid* was consistently in the same direction. Thus, for example, in all countries except Japan the share of fast-start finance through multilateral channels was considerably higher than overall aid through multilateral channels. The reverse was true for the share of funding to Africa, where in all countries except Australia the share of fast-start finance to Africa was lower than the corresponding share of aid. Second, *variations between individual countries* tended to follow a similar pattern for both climate finance and aid. Thus those countries with a high (low) proportion of grant-based aid funding tended to have (with the exception of the US) a high (low) proportion of grant-based fast-start finance. A similar pattern across most countries was discernible for funding to Africa and through multilaterals.

In seeking to explain the first pattern, divergences between climate finance and aid on some themes—particularly on geographic allocation, where we reported a relatively high level of disagreement—could be attributable to the role of other ministries in attenuating the influence of development ministries. However, other factors could be at play as well. For despite many donors having policies that apply uniformly across their aid programs (e.g. untying of aid procurement from domestic suppliers), key aid indicators differ considerably across individual sectors, even where development agencies have the lead role in decision-making. Consider, for example, the high proportion of grants for humanitarian assistance, or the geographic targeting of health funding to areas with high prevalence of specific diseases. In these cases, sector-specific divergences may be due largely to the nature of the development challenges in the sector rather than the relative influence of other ministries vis-à-vis the aid ministries within that sector. In practice climate finance cuts across a range of sectors, particularly since aid agencies frequently integrate a substantial

amount of adaptation funding into existing sectors such as health, agriculture and infrastructure. Nevertheless it is possible that the specific development challenges associated with climate finance could prompt aid agencies to prefer practices that differ from the rest of their aid program. This explanation could go some way towards reconciling divergences between the quantitative data and the frequently expressed view among participants that implementation of climate finance was closely integrated with development agencies' practices. It also helps to explain why hypothesis (viii) (similarity between contributors' practices in implementing climate finance and aid) may be difficult to sustain even though hypothesis (vi) (aid agencies' retention of control over implementation) largely holds.

In relation to the second pattern, the consistency across countries in their rankings on some indicators of both aid and climate finance (i.e. countries with a relatively high share of multilateral funding in aid showing a relatively high share thereof in fast-start finance, and vice versa) could be explained either by the influence of development agencies on climate finance outcomes, or by the influence of factors common to both climate finance and aid (e.g. overall economic conditions, the influence of domestic interest groups and so on). However, with the available evidence we cannot rule out either possibility. Since this divergence occurred in countries with both more and less tightly linked aid and foreign policy missions, we find limited evidence to support hypothesis (vii) regarding the influence of inter-agency dynamics on policy divergence.

## 7 CONCLUSIONS

In this article we have sought to address the important knowledge gap regarding how contributor countries reach decisions on climate finance, with a particular focus on inter-agency dynamics—particularly among development, environment and finance ministries—as a potentially influential factor. 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; the balance between mitigation and adaptation; multi- versus bilateral finance; targeting recipient countries; and financing and access modalities.

On the basis of these interviews, we may conclude that ministries were largely in agreement on effort-sharing, multi- versus bilateral finance, financing and access modalities, and (to a moderate degree) understandings of new and additional finance. There were also significant issues on which ministries disagreed, namely the mitigation-adaptation balance and the choice of recipient countries. However, regarding all challenges the variation between countries remained more significant than the disagreement between ministries. There is also considerable variation regarding how interaction between the different ministries has been institutionalized in the seven countries. In some countries, responsibilities were split between ministries, with the development ministry handling adaptation and the environment ministry handling mitigation, whereas others have chosen more centralized models with one lead ministry, and some using a hybrid model with close cooperation among relevant ministries.

Our findings are largely consistent with the theoretical framework and hypotheses outlined above, but with some important qualifications and amplifications. First, while both development and environment agencies have played the role of spending “advocates”, their different missions gave rise to disagreements about spending priorities. Meanwhile, finance ministries were not solely “guardians” of short-term spending but were supportive of national interest-oriented mitigation finance. Second, our results are consistent with the expectation that minority development agencies were in most cases able to retain significant decision-making influence over implementation decisions, but that their influence over broader policy decisions was much more mixed.

Given the limited scope of this study, any broad implications of our findings for global climate negotiations or future national decision-making must inevitably remain tentative. Nevertheless, we note three preliminary observations on these aspects. First, our analysis suggests that the diversity

of views about climate finance evident in the climate negotiations is not reducible to differences between developed and developing countries, but also extends to differences within the governments of developed countries. Development ministries' views appear closer to those of developing countries on some issues (such as the adaptation-mitigation balance and geographic allocation) but remain at arm's length on others (such as interpretations of additionality and financing modalities). The fact that disagreements occurred at domestic as well as international levels—and potentially reinforced one another—may in turn have contributed to the ambiguity and fragmentation in the overall financing architecture that we observed above.

A second, related observation follows from our finding that even though current climate finance may be counted as aid for ODA reporting purposes, it differs in practice from traditional aid in a number of important respects. This suggests on the one hand that contributors could address some concerns raised by developing countries about the distinct nature of climate finance even without needing to enact a clinical institutional separation of climate finance from aid. But on the other hand, assuming that other ministries will remain involved in climate finance policy (whether or not it climate finance continues to be classed as aid), institutional separation may not necessarily shift contributors' climate finance practices more closely towards developing countries' preferences. A substantial shift in this regard may only become more likely if greater control over decision-making is vested in multilateral organizations whose representation of developed and developing countries' interests is more balanced.

Third, it appears that the ability to draw fast-start finance from aid budgets has enabled ministries to circumvent—if only temporarily—potentially divisive inter-agency and external debates about redirecting or increasing domestic expenditure in order to meet growing commitments. In the case of the US, bilateral funding delivered through the development agency's budget was less conspicuous to Congressional staffers hostile to climate funding than large budgetary appropriations for multilateral funds. However, given that (as noted above) fulfilling longer-term finance commitments will require harnessing a broader range of sources, it is plausible to expect

that this task may exacerbate inter-agency tensions and trigger wider public debate in the coming years.

Further research is needed to answer some of the outstanding questions that our analysis raises. The first—and arguably most important—group of questions concerns explaining the relationship between cross-country variation and intra-governmental dynamics. Further quantitative and qualitative analysis encompassing a greater number of countries and aspects of climate finance practice could help to estimate the influence that different ministries may have over the themes covered in our analysis. In particular, analysis could incorporate other domestic factors that may influence policy outcomes (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) as well as cross-country influences (such as the influence of more or less powerful countries in climate change negotiations, as well as international learning and policy diffusion between agencies of the same type). In addition, longitudinal analysis may enable more in-depth analysis of whether and how the roles of different ministries have changed over time. As noted above, 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 (Skovgaard, 2012). Second, and likewise important, further analysis could compare the effectiveness of different inter-agency configurations in delivering on national and internationally agreed objectives. Finally, building on scholarship in international relations on domestic-international dynamics (e.g. Putnam, 1988, Downie, 2013), research could explore the influence of intra-governmental interactions on the parameters and outcomes of international negotiations on climate finance.

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