

The Need for A Climate-related Official Development Assistance (CODA) Framework to Improve Climate Finance Status Quo

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Introduction

Official Development Assistance (ODA) is the flow of concessional financial and technical assistance from developed countries to developing countries. The Paris Agreement on Climate Change, the 2030 Agenda, the Sendai Disaster Risk Reduction Framework and the Addis Ababa Action Agenda have all recognized the importance of ODA in supporting sustainable development in developing countries.

While development assistance is an important priority, so are urgent climate actions. The global economy will need around \$4.1 trillion in incremental investment between 2015 to 2030 to keep the temperature rise below the internationally agreed limit of 2°C (World Bank, 2015). To limit global warming to 2°C (Two Degree Celsius), the world economy needs to decarbonize at a rate of 6.3 % every year (PwC UK, 2015). These urgent climate actions, particularly immediate adaptation actions, should be considered a priority and key measures to eradicate poverty and increase resilience (World Bank, 2016).

Climate finance is dedicated to supporting the mitigation and adaptation actions needed to address climate change. Climate finance can be delivered through a variety of mechanisms: 1) non-market approaches based on direct concessional transfers to recipient governments; 2) private sector initiatives using existing ODA mechanisms and 3) the use of market-based instruments, such as international emission trading (Buchner et al. 2011) or domestic emissions trading systems within the developing countries (Flachsland et al. 2009).

Developing country parties of the UN Framework Convention on Climate Change (UNFCCC) maintain that climate finance is the responsibility of developed countries. Without new and additional finance, many developing countries will not be able to meet their adaptation needs after 2020 (UNEP, 2016). Despite this, there is still no common agreement on what qualifies as adaptation finance or how it should be measured (UNFCCC, 2016). Only 16 percent of total climate finance (public and private) is currently being spent on adaptation (Oxfam, 2015). Without new and additional finance, many developing countries will not be able to meet adaptation need after 2020 (UNEP, 2016). Yet the majority of international climate finance is supporting climate mitigation (UNEP, 2014).

By 2014 there were 50 international public funds, 60 carbon markets, 6000 private equity funds (Vandeweerd, et al., 2014) as well as 99 multilateral & bilateral climate funds currently in operation (OECD 2015). Although this increase in climate finance sources has boosted funding opportunities, it has also contributed to the severe fragmentation of the existing climate financing landscape (Jakob et al., 2015). Dedicated climate funds account for only a small component of the global climate finance flows. Yet they are very important to ensure developing countries' access to current and

future climate finance (OECD, 2015c). Currently climate finance under the UNFCCC is delivered through the Green Climate Fund (GCF) and the Global Environment Facility (GEF), both of which serve as the operating entities of the Convention. The GCF is recognized as the primary climate finance instrument globally and is expected to be the major funder of future adaptation initiatives. Adaptation Fund (AF) is the only dedicated source of climate adaptation finance though it is not fully dependent on ODA. There are also funds that operate outside the UNFCCC such as the climate investment funds and national climate funds.

In response to the UNFCCC COP 15 decisions in 2009, developed countries pledged that, by 2020, they will mobilize at least \$100 billion per year climate finance from both public and private sources to help developing countries mitigate and adapt to climate change. According to Article 9 of the Paris Agreement, developed country parties will provide financial resources for continuing their existing obligations to support country-driven strategies to achieve balance between adaptation and mitigation. Furthermore, developed country parties must communicate quantitative and qualitative information biennially in regard to the levels of public financial resources that has been provided to developing countries.

Trends in climate change-related Official Development Assistance (ODA)

ODA that is dedicated to funding climate finance in developing countries could be labeled climate-related ODA. According to the OECD, 16 percent of the total global ODA budget was climate finance in 2012, 18 percent in 2013, and 20 percent in 2014. Japan, Germany, France and the EU have provided two-thirds of all climate finance from 2010–2015. Since 1998, the DAC has defined aid targeting the objectives of the Rio Conventions as climate-related ODA, and has been monitoring it through the Creditor Reporting System (CRS) using the ‘Rio markers’.

The Rio markers indicate climate finance objectives within every development cooperation activity. Such activities can be marked as either principal climate objective, a significant climate objective, or not targeting any climate objective. At least two-thirds (66%) of all bilateral climate financed marked principal purpose in the DAC has been offered through loans (Brian Tomlinson, 2017). Less than 25 percent of reported climate finance in 2013–14 was in the form of grants. Around 8.5% of climate-specific finance was channeled through the UNFCCC funds and multilateral climate funds in 2013-2014.

Climate-related ODA has been increasing since 2002 (Shine and Campillo, 2016). The number of countries that received climate-related ODA increased in 2012 to 114, from 41 in 2002. Climate-related ODA targeting mitigation was officially introduced in 2002 while climate-related ODA targeting adaptation began in 2010. Climate-related ODA is primarily focused on mitigation (OECD, 2011). During the period 2013–2014 (OECD, 2015b), only 16 percent of climate-related ODA was allocated to adaptation, 67 percent to mitigation and 17 percent was cross-cutting. Mitigation is the main focus of climate-related ODA in the energy, transport and storage sectors. Adaptation finance is more prominent in the agriculture, forestry and fishing, general environmental protection, and water supply and sanitation sectors. In 2014-2015, the energy sector received the largest share (29%) of climate-related

ODA, followed by the transport and storage (16%) as well as the agriculture, forestry and fishing (11%) sectors. Across all sectors, the highest share of climate-related ODA was delivered through loans (69%) in 2014-2015 (OECD, 2016a).

In 2014-15, Least Developed and other Low Income Countries (LDCs and other LICs) received around 8% of total mitigation-related climate finance and 29% of total adaptation-related climate finance, while Lower Middle Income Countries (LMICs) received 32% of total adaptation-related climate finance. In 2013–2014 only 18 percent of climate-related ODA went to LDCs(OECD, 2015b).

Between 1998 and 2000, bilateral climate-related ODA was \$2.7 billion (OECD/DAC 2002), which reached \$29.0 billion per year in 2014-15 (OECD 2016). In the last five years, bilateral climate-related ODA targeting adaptation has increased 6% while the share of finance allocated to mitigation has decreased 9%. The share of activities that address both adaptation and mitigation has increased 3% in the last five years. Gender equality was targeted as principal objective in 3% of bilateral climate-related development assistance while 26% targeted it as a significant objective (OECD, 2015b).

Support for gender equality in climate-related ODA has increased from \$4.4 billion in 2010 to \$6.9 billion in 2013. Of climate-related ODA focused on gender equality, 46% targeted adaptation and 19% targeted mitigation. Gender equality is poorly addressed in economic infrastructure sectors such as energy and transport. The public climate finance is expected to grow to \$67 billion in 2020 with the level of mobilized private climate finance for the year 2020 estimated to stand at \$24.2 Billion (OECD 2016).

Understanding the challenges linked with climate-related ODA

Climate change can hamper development results and development choices can also change the Earth's climate by controlling or releasing the carbon emissions in the atmosphere. The international community has been facing many issues in managing climate change, while also pushing to achieve the Sustainable Development Goals by 2030. The fragmented nature of the global climate finance landscape increases the challenges associated with accessing finance and reduces overall efficiencies (Sachs & Schmidt-Traub, 2013).

While a number of internationally agreed documents and treaties use the terms climate finance, there is still no internationally agreed definition of climate finance, even within the OECD DAC. This lack of rules provides room for each developed country to define climate-related ODA in their own way and according to their interests. While discussions are underway within the OECD, the legitimacy of the OECD in defining "climate finance," largely in the absence of developing countries, has been widely questioned (Kowalzig, 2015). Methods are still to be developed for reporting on climate finance or climate-related ODA (Kharas, 2015). The inadequate clarity in regards to the different definitions of climate finance limits comparability of data (UNFCCC, 2016).

Most developed countries use the OECD DAC Rio marker methodology to report to the UNFCCC Secretariat on their financial commitments to developing countries. However, this methodology was not originally intended to monitor financial flows, but rather overall purposes of different ODA flows (OECD, 2012). Projects marked significant are counted at their full budget, even though only one objective may relate to climate adaptation or mitigation. Because the Rio marker system relies exclusively on developed countries' self-reporting, climate-related ODA can be prone to overestimations (Weikmans et al., 2017). A modified or even cancelled aid project can appear as unchanged in the Rio marker system if the DAC countries have not reported this project (OECD, 2013). OECD DAC members are not required to remove projects that were listed in one year but cancelled in subsequent years (Tirpak et.al., 2010).

When OECD DAC countries report to the UNFCCC on climate finance, some countries only include a share of significant-purpose climate-related finance. As a result, in the cases of Austria, Finland, Luxembourg, New Zealand, and Spain, the amount of the bilateral ODA climate finance reported to OECD was higher than the amount reported to the UNFCCC. In their reports the majority of ODA donors apply a flat percentage to determine the amount of climate finance, ranging from 20 percent to 100 percent for significant purpose projects. The Climate Finance Shadow Report 2018 by Oxfam highlighted that the current practices of many donors either overvalue the net amount of money transferred to recipient countries or overestimate the "climate finance" element.

Donors tend to mobilize a significant portion of their climate finance contributions outside the UNFCCC financial mechanisms (Buchner et. al., 2017) to serve their own interests and visibility (De Sépibus, 2015). Developing countries within the UNFCCC perceive climate adaptation finance as compensation for damage caused by developed countries in their industrialization process. Conversely, developed countries can consider adaptation financing as a business opportunity (Nafo 2012). Poland, Australia, South Korea and Japan are promoting the idea that new, high-efficiency, coal-fired power plants are realistic and effective approaches to address climate change. Japan allocates most of its climate-related ODA to funding coal projects in Asia.

International negotiations are struggling to define the expanded nature of climate finance and its relationship to aid (Stadelmann, et. al., 2011) in scaling up international climate finance. There is still no consensus on the methods for reporting new and additional climate finance and financial instruments (Donner et al., 2016). Consequently, OECD DAC members have defined new and additional climate finance as they see fit. Australia, Belgium, Norway, Spain, Sweden, Switzerland, and the United States consider funding to the Global Environment Facility (GEF) as part of new climate-related financial flow, whereas Canada, Finland, France, and the United Kingdom count their flows to GEF as partially new and additional. Denmark and Germany do not consider their contribution to GEF as something new or as an additional part of climate finance (Szabó, 2016).

Many developing countries have expressed concern that ODA is increasingly being diverted from essential services to pay for climate actions (IIED, 2015; Bird, 2014). The share of climate-related ODA has grown from 4% of total bilateral ODA in 2005 to 19% in 2014 (OECD, 2016a). If the share of climate-finance in ODA continues to rise and be directed to middle income countries, then low-income countries

may well see a reduction in their ODA. Over the last decade, the amount of the annual climate-related ODA has increased significantly; from around \$5 billion in 2003–2004 to \$25 billion in 2013– 2014. Although climate finance goes to a wide range of governmental, private and non-governmental entities in recipient countries, reporting on recipient institutions has been incomplete.

In recent years, increasing attention has focused on private climate finance. The US\$100 billion roadmap by developed countries makes it clear that one-third (33%) of mobilized climate finance will come from the private sector by 2020. CSOs worry that public climate finance to leverage private sector investments in developing countries will give priority to incentivizing private finance, rather than funding for real climate action. Private investments center on delivering a financial return and thus are not always designed to bring sustainable development benefits (OECD, 2015a).

According to the Global Climate Fund (GCF), developing countries will need to demonstrate their “readiness” for direct access to the climate funds. To be “ready”, a country has to demonstrate capacity for planning, managing, delivering, monitoring and reporting climate finance expenditures. Readiness is becoming a pre-requisite for access to predictable and quality climate finance, a move that may create a divergence from the original objective of climate finance under the UNFCCC. The readiness approach narrowly focuses on the readiness of the institutions, not the readiness of the country (Jale and Jeremy, 2018). Effective access to climate finance cannot be achieved just by concentrating on improving readiness, because access to climate related ODA is highly influenced by donor interests.

The quest for a new Climate-related Official Development Assistance (CODA) Framework

Climate finance has been a central element of the UNFCCC negotiations since 1992 (Hicks et.al., 2008). Climate finance plays a pivotal role in the implementation of the Paris Agreement. ODA is increasingly devoted to funding climate change mitigation in developing countries (OECD 2011), rather than supporting vulnerable communities’ adaptation to the negative effects of climate change (Ayers and Huq 2009). To enhance adaptation finance in developing countries as well as to contribute to the implementation of the Paris Agreement through ODA, a dedicated Climate-related Official Development Assistance (CODA) Framework is required. Since UNFCCC has yet to develop a robust accounting framework for climate finance (Romain& Roberts, 2017), the CODA could also contribute in this area.

Prior to 2009, ODA did not distinguish between adaptation and mitigation (Brown et. al., 2010). Since that time donors have distinguished mitigation and adaptation finance in their reporting to the DAC. The share of climate-related bilateral ODA has been dramatically increasing, but mainly for mitigation purposes. On the other hand, the non-climate related share of ODA has been rising very slowly and ODA for LDCs has been falling since 2010 (Steele, 2015).

While climate-related ODA may accelerate the mainstreaming of climate change into the development agenda (Klein et al. 2005), it can also divert ODA from its original objective of halving world poverty (particularly mitigation finance) (Michaelowa and Michaelowa 2007). If climate-related ODA rises faster

than overall ODA budgets, it could squeeze other critical areas of ODA spending. Developed country parties have agreed on mobilizing at least 100 billion USD annually for climate actions in developing countries beginning in 2020. However welcome this initiative, there is still the worry that donors will take several years to fulfill this commitment, as has often been the case with other funding pledges in the past. Climate change adaptation requires urgent and immediate public finance. The CODA Framework could play a catalytic role in providing momentum for donors' commitments.

As a framework for climate aid, CODA could be seen as part of developed countries' acknowledgement of their responsibility for contributing to the vast majority of greenhouse gas emissions that have been affecting the planet's climate over the past 150 years. For the least developed countries, climate finance is primarily about climate change adaptation. Private sources of climate finance can be used for mitigation to supplement public finance under strict regulations (BCSF, 2011).

The current Rio marker system helps OECD DAC members to judge whether assistance contributes to climate-related or development-related issues. Because of this they tend to interpret originally development-related ODA as climate-related ODA according to their individual policies and best interests. To stop such a DIY (Do-It-Yourself) approach, a new CODA Framework within the OECD DAC system is necessary.

To date, many developed countries have failed to be either transparent or complete in their reporting to the UNFCCC (UNFCCC, 2017). The Paris Agreement stresses the important role of public finance in supporting climate action and stresses the need for public and grant based resources for adaptation in LDCs and SIDS (Article 9.4). CODA could directly contribute to the implementation of the Paris Agreement by developing a baseline of climate related ODA. In principle, CODA could draw on climate finance to meet UNFCCC obligations as new ODA commitments from 2020 and onwards.

Country systems and country plans are the central drivers of climate-related development action (Amin et al, 2014). However, international political economy continues to drive decisions about climate finance (Stewart et. al., 2009). CODA should integrate recipient country strategies for utilizing climate aid. By acknowledging climate change as a common concern of all humankind, CODA would be consistent with international agreements on finance, gender equality, human rights, disability and environmental sustainability. CODA would also include the option to channel climate finance through civil society organizations (CSOs) to address urgent climate issues identified by vulnerable populations that require immediate action.

The principal purpose of CODA would be to deliver climate aid for urgent actions to address negative climate change impacts in developing countries. In the CODA framework, adaptation finance would aim to increase the resilience of human and ecological systems while mitigation finance would focus on reducing emissions and enhancing sinks of greenhouse gases.

Conclusion

Climate finance should be treated differently than normal ODA. Climate related development needs and opportunities must be consistent with climate science for mitigation and on the ground evidence for adaptation. The Climate-related Official Development Assistance Framework should mobilize new and additional ODA for climate finance.

Developed countries have been ignoring the UNFCCC's call to provide new, additional, adequate and predictable climate finance to developing countries. The OECD DAC & UNFCCC should work together to create mutually agreed guidelines for the definition of climate finance, additional climate finance as well as the reporting of CODA.

Loans are a significant modality for the delivery of climate finance through ODA. Given UNFCCC's commitment to differentiated responsibilities and country capacities, climate finance for the poorest countries, and in particular adaptation finance, should be provided as grants. OECD DAC members should only report grant equivalent transfers to developing countries as part of their UNFCCC obligations.

Although there has been a continual increase in the volume of climate related ODA since 2011, adaptation's share of overall climate finance has remain more or less the same. CODA should provide grant-based support for adaptation in vulnerable countries. Mitigation aid is also important for low carbon development in vulnerable countries that are not in a position to compete for mitigation finance with other countries. Climate-related ODA should exclude coal and other fossil fuels that are responsible for global warming. Although it is challenging for the international community to rearrange the current ODA system to include CODA, it should be done to build a transparent and efficient climate finance regime. Consistent, comparable and transparent statistics on climate-related finance through the proposed CODA approach could deliver greater accountability and results.

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