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POLICY BRIEF

"NEW AND ADDITIONAL" CLIMATE FINANCE: A CONTINUING LACK OF CLARITY

The 2015 Paris Climate Change Conference will provide a major opportunity for the international community to identify further tangible steps to adapt to the challenges posed by rising global temperatures. Climate finance will be a cornerstone of the implementation of the agreed outcomes of the Conference, and a coherent, robust and transparent financial structure will be central to achieving its agreed objectives.

Defining "additionality"

While a number of internationally agreed documents such as the Copenhagen Accord (2009) state that "new and additional" climate finance will be needed,[1] it still remains unclear what this actually means and how climate finance additionality should be defined and recorded in statistics on official development assistance (ODA). The Conference of the Parties of the United Nations Framework Convention on Climate Change has recognized in a number of its decisions that further work is necessary to clarify this concept. Defining and agreeing on additionality should be one of the priorities in the development debate, as the continuing lack of an internationally agreed definition makes data recording and policy analysis difficult.

There are a number of interpretations of what additional official flows for climate change and adaptation mean, summarized below (see also table 1):

- *Option No. 1: Funding above the 0.7 per cent ODA/gross national income target counts as additional.* The target to raise ODA to 0.7 per cent of donors' gross national income was first pledged in 1970,[2] at a time when the calculation of development aid did not include climate-related funding. In 2005, member countries of the European Union agreed to reach the 0.7 per cent target by 2015.[3] Under this definition, climate finance is considered additional if it is over and above the 0.7 per cent ODA/gross national income target, which was made before climate change was recognized and therefore did not factor in the additional finance needed to tackle climate change.
- *Option No. 2: Any increase over a predefined level of climate finance is additional.* This option sets the climate-related spending of a specific reference year as a baseline. The year 2009 is normally used as a reference year, as it marks the spending before the Copenhagen Accord. This definition implies that 2009 ODA disbursements should set the reference level for climate change finance.
- *Option No. 3: Calculating additionality in the context of rising ODA, which includes climate change finance.* This definition has been supported by the United Kingdom of Great Britain and Northern Ireland, suggesting that

1 This commitment was also made in the 1992 Kyoto Protocol, article 4; the 2007 Bali Action Plan, article 11.2 (a); and decision 1/CP 13, para. 1 (e) (i) of 2007.

2 A/RES/25/2626, para. 43, states: "In recognition of the special importance of the role that can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance. Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade."

3 Members of the Development Assistance Committee generally accepted the 0.7 per cent target for ODA, at least as a long-term objective, with some notable exceptions. Switzerland, which was not a member of the United Nations until 2002, did not adopt the target, and the United States of America stated that it did not subscribe to specific targets or timetables, although it supported the broader aims of General Assembly resolution 2626 (XXV). See http://www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm, accessed 7 December 2015.

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finance for climate change should be part of traditional aid spending but limited to 10 per cent of ODA. This option implies that other (non-ODA) sources of finance will be required to meet climate change needs.[4] The European Commission also suggested this option, referred to as additional to the level of ODA spending in nominal terms, without, however, the imperative of increasing overall ODA.[5]

- *Option No. 4: Only funding from new sources is additional.* This approach equally separates development and climate financing, but does so through the sources from which funds are raised. Under this definition, other alternative sources of finance would be used, such as international air transport levies, currency trading levies or auctioning of emission allowances.

Table 1: Definitions of additionality

Options	Definitions	Member States currently in support of options
Option 1	Funding above the 0.7 per cent ODA target	Denmark, developing countries, Luxembourg Netherlands, Norway, Sweden
Option 2	Increase in current levels of climate finance (reference year, 2009)	Austria, Estonia, Finland, Germany, Slovenia, Spain
Option 3	Funding additional to the level of ODA spending in nominal terms	Belgium, European Commission, Hungary, Latvia, Portugal, Slovak Republic, United Kingdom
Option 4	Increase in climate finance from new sources	Germany, Poland

Source: Adapted from I Knoke and M Duwe, 2012.

Do we know how much finance is devoted to climate?

The lack of a common definition of what is considered new and additional in discussions about ODA means it is increasingly difficult to disentangle official climate finance from traditional ODA flows, raising concerns related to the potential of double counting. To date, donor countries have expressed a range of views on what counts as new and additional climate finance. For example, some countries[6] consider funding to the Global Environment Facility to be part of their fast-start finance[7] pledges; others[8] count it partially, and yet others do not count it at all.[9] In the absence of a common definition on what counts as climate finance and of ways to categorize a project as being primarily climate or development focused, current rules of the Development Assistance Committee of the Organization for Economic Cooperation and Development allow donor countries to decide whether to classify a project as climate related.

As a result, some worrying trends have emerged. It has become a common practice to merge climate-related finance with ODA budgets. This is due to the overlap between development assistance and climate finance and to a broad definition of ODA, which allows such merging. In fact, most of the funding raised by Member States within fast-start finance, estimated at $35 billion, comes from ODA budgets.[10] Despite efforts to create reporting mechanisms to separate climate finance reporting,[11] double accounting and the distinction between climate change, and poverty reduction and development expenditures have posed problems. For example, there is still a debate as to whether high-efficiency coal-fired

4 J Brown, N Bird and L Schalatek, 2010, Climate finance additionality: Emerging definitions and their implications, Climate Finance Policy Brief No. 2, Overseas Development Institute.

5 I Knoke and M Duwe, 2012, Climate change financing: The concept of additionality in the light of the Commission proposal for a development cooperation instrument (DCI) for 2014–2020, European Parliament Briefing, Directorate-General for External Policies of the Union.

6 Australia, Belgium, Norway, Spain, Sweden, Switzerland and the United States.

7 See http://unfccc.int/cooperation_support/financial_mechanism/fast_start_finance/items/5646.php, accessed 7 December 2015.

8 Canada, Finland, France, and the United Kingdom.

9 Denmark and Germany.

10 Knoke and M. Duwe, op.cit.

11 H Kharas, Aid and Climate Finance, Brookings Institution, available at http://www.brookings.edu/~/media/Research/Files/Reports/2015/11/16-paris-climate-talks/aid-climate-finance-kharas.pdf?la=en, accessed 8 December 2015.

power generation should be considered climate finance or traditional development finance. If this trend persists, which is not implausible considering the pressure arising from climate financing and ODA commitments, there is a real danger of more ODA finance being diverted to climate change financing. According to the Organization for Economic Cooperation and Development, estimates suggest that the average annual upper bound for climate-related aid reached $21.5 billion per year between 2010 and 2012, representing 16 per cent of total ODA. As suggested in the table below, the share of ODA dedicated to climate finance is likely to increase in the coming years.

Table 2: Financing instrument for development cooperation: Indicative financial allocation for the period 2014–2020

Thematic programmes	
1. Environment and climate change	27 per cent
2. Sustainable energy	12 per cent
3. Human development	25 per cent
4. Food and nutrition security	29 per cent
5. Migration and asylum	7 per cent
Total	**EUR 19 662 million**

Source: Regulation (European Union) No. 233/2014 of the European Parliament and of the Council of 11 March 2014, annex IV.

Linking climate change mitigation and adaptation objectives with development goals is a pattern that can also be observed in the European Union Agenda for Change (2011), the Sustainable Development Goals, the 2030 Agenda for Sustainable Development and the 2015 Addis Ababa Action Agenda. Combating climate change and its impacts is now a Sustainable Development Goal. The merging of climate change and development agendas might have its merits in terms of creating an integrated donor strategy for recipient countries, but it does increase the risks of diversion of ODA to climate change financing, especially since a robust reporting and tracking system of climate finance is still lacking. Despite growing efforts to monitor climate finance by major data providers such as the Organization for Economic Cooperation and Development, vast uncertainties concerning the level of climate-related spending remain. This is primarily due to a lack of an internationally agreed definition of additionality, but also because of a lack of accurate, consistent and comparable data made available through robust reporting and tracking systems.

Recent efforts have been made have been made, notably under the United Nations Framework Convention on Climate Change and the Development Assistance Committee of the Organization for Economic Cooperation and Development, to refine the Rio markers and introduce new reporting practices and methodologies in order to better capture climate finance flows. But without a precise and consistent definition of what constitutes climate finance, it will be difficult to know the exact amount of climate finance available and what precisely to track, report and monitor.

Policy recommendations

The original commitment by donors to reach 0.7 per cent of gross national income for development finance should be preserved as a separate financial goal to meet development needs, while additional funds to deal with climate change and adaptation will be required to deal with global warming. The danger of diverting financial aid for the adaptation to and mitigation of climate change at the expense of better health care, education and infrastructure in developing countries would be a step backwards in helping them reach development goals such as improved health care and education, and would run counter to poverty reduction and growth commitments in the Sustainable Development Goals.

There is a need for an open and in-depth debate under the auspices of the United Nations to clarify whether additional finance is additional to prior commitments, additional to existing ODA disbursements, or something in between. Precedence for such a discussion can be found in the negotiations on the original 0.7 per cent target that took place in UNCTAD in the 1960s and led to the adoption in 1970 of the target set in General Assembly resolution 2626 (XXV). Although the United Nations Framework Convention on Climate Change, through its technical work, is trying to encourage countries to reach an agreement on the definition of additionality, a broader effort is needed to energize the debate and make this a central issue of development finance.

Considering the high diversity of definitions among Member States on what constitutes climate finance as opposed to development finance, a uniform reporting methodology should be adopted to ensure adequate monitoring of financial flows and avoid double counting. The present situation does not allow for a proper analysis of disbursements and is detrimental to informed policymaking in both donor and recipient countries.

The current trends in the allocation of fast-start finance as well as private flows of finance for climate, which are skewed towards higher productivity in developing countries, raise concerns that least developed countries might not be receiving sufficient funding for climate adaptation and mitigation. If donor countries try to compensate for this shortfall from existing ODA funds, a substitution of development finance in favour of climate finance will occur, leaving a number of development projects underfunded.

A similar issue is occurring in multilateral development banks, which do not currently have an adequate methodology for allocating funds, while taking into account special needs of countries with respect to climate risk. This means that two countries with similar development indicators but different risk exposure to climate events might be receiving the same funding, while their climate change adaptation and mitigation costs will be substantially different. To meet its commitments agreed in the outcome document of the Third International Conference on Financing for Development (A/RES/69/313) and to deliver on the ambitious targets set in the Sustainable Development Goals, the international financial community must address these issues early on, as the development effects of the inadequate allocation of funds among developing countries will be cumulative over time.

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