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, 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, 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. 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...
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. 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.

- 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

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

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 consider
funding to the Global Environment Facility to be
part of their fast-start finance pledges; others count it partially, and yet others do not count it
at all. 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. Despite efforts to create
reporting mechanisms to separate climate
finance reporting, 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

6 Australia, Belgium, Norway, Spain, Sweden, Switzerland and the United States.
8 Canada, Finland, France, and the United Kingdom.
9 Denmark and Germany.
10 Knoke and M. Duwe, op.cit.
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>
<thead>
<tr>
<th>Thematic programmes</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment and climate change</td>
<td>27 per cent</td>
</tr>
<tr>
<td>Sustainable energy</td>
<td>12 per cent</td>
</tr>
<tr>
<td>Human development</td>
<td>25 per cent</td>
</tr>
<tr>
<td>Food and nutrition security</td>
<td>29 per cent</td>
</tr>
<tr>
<td>Migration and asylum</td>
<td>7 per cent</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>EUR 19 662 million</td>
</tr>
</tbody>
</table>


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 cooperate.
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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