

Through the Paris Agreement, developed country Parties agreed to provide financial resources to assist developing country Parties with respect to both mitigation and adaptation, in continuation of their existing obligations under the Framework Convention on Climate Change. Other Parties are encouraged to provide or continue to provide such support voluntarily.

According to UNFCCC, global climate finance in all countries ranges from USD 340 to USD 650 billion per year. Precisely capturing climate finance is subject to definitional and methodological challenges. Despite limitations in existing data, different estimates suggest that climate mitigation and adaptation has increasingly become a focus of international public finance. The adoption of the Paris Agreement and the 2030 Agenda for Sustainable Development is expected to further boost public and private investments in climate mitigation and adaptation.

The emerging trends in international public finance for climate change reveal specific issues and challenges in deploying development cooperation to address climate change in the most vulnerable countries. This note is intended to provide a brief overview of the trends in international public finance for climate change and highlight some issues that warrant greater attention of development cooperation policy-makers and practitioners in relation to the themes of the DCF Belgium High-level Symposium.

Preparing for the 2030 Agenda and 2016 Development Cooperation Forum

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This policy brief intends to provide a brief overview of the trends in international public finance for climate change and highlight some issues that warrant greater attention of development cooperation policy-makers and practitioners in relation to the needs of the most vulnerable countries. The brief finds, inter alia, that the special needs of the most vulnerable countries should assume a more prominent space in the fora that address climate finance and development cooperation, to enable these different fora to benefit from each other's work and promote knowledge sharing and mutual learning.

This brief provides background for the DCF Belgium High-level Symposium, "Rethinking development cooperation for the SDGs: country level perspectives and lessons," to be held in Brussels from 6-8 April 2016. The Symposium is co-organized by the UNDESA and the Government of the Kingdom of Belgium, in advance of the 2016 High-level Meeting of the Development Cooperation Forum, to take place in New York from 21-22 July.

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1. Trends in international public finance for climate change

Climate finance from developed to developing countries (including public and private) is estimated to range between USD 40 billion and USD 175 billion per year. Climate finance flows from developed to developing countries through public institutions are estimated at between USD 35 and 50 billion in 2012, including finance provided through both multilateral and bilateral channels.

While concrete data is not available, the recent initiatives suggest the overall volume of climate-related South-South cooperation will continue to increase. It was estimated that South-South flows account for about 11% of overall climate finance flows. Public finance plays a pivotal role in South-South flows. Islamic Development Bank committed to increasing climate funding to USD 0.7 billion in 2013 whereas UAE provided an average of USD 0.6 billion during 2013-2014¹. Last September, China announced the establishment of "China South-South Climate Cooperation Fund" with USD 3.1 billion, to help other developing countries fight climate change.

Climate-related ODA accounts for a substantial part of total ODA. Despite the stagnation of overall ODA, climate-related ODA increases. In 2012, OECD/DAC members provided approximately USD 25.5 billion climate-related ODA, i.e. ODA committed for projects that have climate change mitigation or adaptation as a "principal" or "significant" objective. It includes both bilateral and multilateral commitments where available. This represents approximately 20% ODA provided by OECD/DAC member countries in 2012. Bilateral ODA for climate change was reported at USD 21.5 billion, a significant increase from USD 4 billion of 2007. Most recent data shows that 18% of bilateral ODA is climate-related.

ODA still plays a pivotal role in international development cooperation for climate change

In addition to climate-related ODA, DAC members also provide OOF such as loans that do not include a sufficient grant element to qualify as development assistance. For the period 2010 through 2012, partial reporting shows that total climate-related OOF averaged USD 843 million per year, mainly from Agence Française de Développement (AFD) and German Development Bank (KfW) of Germany.

A significant portion of the bilateral climate-related ODA is delivered by bilateral development banks. Climate Policy Initiative (CPI) estimated that climate finance committed to developing countries by bilateral development banks was USD 14 billion for 2012.

Some developed countries have established bilateral climate funds to deliver climate finance to developing countries. As of August 2014, these funds approved accumulatively about USD 3 billion.

Seven multi-lateral development banks (MDBs) reported climate finance commitments of about USD 26.8 billion in 2012 to developing countries and 13 EU economies in transition. Funding takes the form of grant, loan, guarantee, equity or performance-based instruments. Therefore, not all funds meet ODA criteria. Roughly 80% of the total funding was for mitigation.

Overall, climate finance accounts for 10-15% of the development assistance provided by multilateral institutions and 20-28% of the bilateral development assistance in 2012.

¹ Climate Finance in 2013-14 and the USD 100 billion goal - A report by the OECD in collaboration with Climate Policy Initiative (accessed through <http://www.oecd.org/env/cc/Climate-Finance-in-2013-14-and-the-USD-billion-goal.pdf>)

Concessional loans and grants are the two main instruments in public climate finance. The share of finance provided in the form of grants appears to range between 44% and 51% (the latter being in the case of multilateral). ODA loans have largely been used to finance revenue-generating mitigation investments.

Loans are commonly used for mitigation investments while grants for adaptation efforts

The use of instruments varies across purposes, regions or recipient country contexts, reflecting differing financial requirements. A wider range of instruments appears to be used for mitigation, although there is a strong reliance on loans as well as to lesser extent grants. Adaptation activities are largely financed through grants and concessional loans so far. Loan finance is concentrated in larger countries in Asia, while sub-Saharan African countries have largely received grants.

The largest share of climate finance has supported mitigation. Between 2010 and 2012, 57% of bilateral climate-related ODA was committed to mitigation while 25% went to adaptation, with the remaining carrying multiple objectives. Most recent data shows that some 66% of bilateral ODA goes to mitigation whereas 25% goes to adaptation. In the case of MDBs, 80% of climate finance targeted mitigation and 20% targeted adaptation. An overwhelming focus on mitigation seems to be the trend across all delivery channels.

The majority of climate finance goes to mitigation activities

This pattern varies across regions and priority countries. Countries in the Middle East and North African and Sub-Saharan African regions have received more adaptation finance, reflecting the vulnerabilities.

Delivery channels have become increasingly diversified

Bilateral and multilateral financial institutions play a key role in distributing climate finance. Most finance is not distributed directly by governments to end-users but through government agencies and development banks. Bilateral development agencies mostly rely on public money, while development banks typically leverage public money with debt financing. Bilateral institutions distribute almost the same level of climate finance as multilateral agencies. Dedicated climate funds, typically managed by bilateral and multilateral institutions, channel a small but growing portion of finance.

Since 1992 when UNFCCC was negotiated, a large number of climate funds have been created. Today, there are around 100 international public funds, including the Global Environment Facility (GEF), the Adaptation Fund, the Climate Investment Fund and most recently the Green Climate Fund. A substantial volume of climate finance has been channeled through institutions not linked to the UNFCCC. These funds tend to cover different areas and work at different scales (international, regional and national). In addition to multilateral funds, there are also bilateral funds and initiatives. The diversity of the funds offers both contributors and recipients the choice and the flexibility. However, the proliferation of funds also poses significant challenges, in particular for countries that have limited access to international development finance and administrative capacity to process the funds.

2. Issues

Ensuring “additionality” benefits the most vulnerable countries

At Copenhagen in 2009, developed country Parties to the UNFCCC committed to the goal of mobilizing jointly \$100 billion a year by 2020 from public and private sources to support climate action in developing countries.

The Paris Agreement did not establish a new numeric target. However, developed country parties agreed to continue to take the lead in mobilizing climate finance from a wide variety of sources, noting the significant role of public funds. Developed country parties also agreed to provide, on a biennial basis, transparent and consistent information on support for developing country Parties provided and mobilized through public interventions.

Such reporting obligation set out in a legally binding agreement can be a catalyst for developed country parties to mobilize additional public resources. There have been strong calls on developed countries to meet their commitment by raising the current level of support rather than redistributing within what is already available. Given the great divergence in reporting methodologies used by different parties, there is a need to work further on a common methodology for reporting on climate finance.

Recent trends in ODA allocation have not been favourable to the most vulnerable countries, in particular the LDCs and small island developing states (SIDS). For example, overall ODA to LDCs have stalled since 2010 and have fallen by USD 4.2 billion from 2013 to 2014, to USD 43.1 billion (31% of total ODA). Likewise, since 2010, the aid to SIDS has decreased and the recent estimates² suggest a continued stagnation through 2018. More analysis is needed to capture the trends of climate-related ODA to these most vulnerable countries. But, given that climate-related ODA forms a significant part of total ODA, the recent ODA trends could also suggest a stagnation of climate-related ODA to LDCs and SIDS. Special attention and measures should be accorded to incentivise allocating more ODA going forward towards these countries. The Least Developed Countries Fund could play an important role in this regard. Despite the dramatic decline in contributions to the LDCF following the fast-start period, during COP21, the LDCF, the GEF-hosted climate fund for the most vulnerable countries, received over USD 250 million in new financing.

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It is important to ensure that additional climate finance mobilized is sensitive to the needs of the most vulnerable countries. Studies show that national GHG emissions are one of the main drivers of project flow as they represent a proxy for mitigation potential. Low national emissions in Africa and LDCs correlate with low investment levels. An analysis of Fast-Start Finance (FSF)³ for adaptation finds that funding has not been highly correlated with the vulnerability of recipient countries.

² For more information, see: <http://www.oecd.org/dac/aid-architecture/2015%20FSS%20Survey%20flyer.pdf>

³ During the Conference of the Parties (COP15) held in December 2009 in Copenhagen developed countries pledged to provide new and additional resources, including forestry and investments, approaching USD 30 billion for the period 2010 - 2012 and with balanced allocation between mitigation and adaptation. This collective commitment has come to be known as ‘fast-start finance’.

It is advisable to discuss the allocation of climate-related ODA at UNFCCC mechanisms as well as other regional and global fora addressing development cooperation issues. In order for better targeting of both climate and development finance, it is vital to ensure they are well aligned, coherent and synergistic at all levels. In this connection, the role of development cooperation in the SDG era remains central in enhancing the interlinkages of both agendas and streams of work.

Achieving greater balance between mitigation and adaptation

Experience suggests that demand for adaption finance in developing countries, especially those that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, is growing rapidly. Countries are demonstrating increasing levels of readiness to access and effectively deploy such financing.

Public finance plays a unique role in adaptation. Private investments in adaptation in vulnerable countries are seen to entail high up-front costs, while providing uncertain and limited returns. Public finance is well positioned to support adaptation but needs to be scaled up. Development cooperation, with its unique pro-development orientation, has catalytic roles to play in leveraging more private finance towards adaptation efforts.

Existing public and private investments primarily focus on mitigation. Mitigation accounts for approximately 95% of the global total climate finance, an average of USD 337 billion for 2011-2012. In 2012, 75% of OECD/DAC members' bilateral ODA with climate change as principle objective focuses on mitigation only whereas 11% focused on adaptation. MDBs climate spending also demonstrate a similar pattern.

Beyond the imbalance between financing towards mitigation and adaptation, incomplete country-level strategies and policies is another barrier to accessing finance for adaptation. There is also lack of accurate, timely and accessible data and information on climate change impacts, vulnerability and adaptation options.

Some developed country parties have already made efforts to secure adaptation funding. For example, the UK's International Climate Fund aims for a 50:50 split between mitigation and adaptation finance. Several initiatives are already underway to assist developing countries in preparing national development plans and strengthening national capacities for accessing, managing and coordinating financing for adaptation.

There is a need to learn from national experiences and international initiatives to support a more balanced approach towards adaptation.

Learning from national experiences and international initiatives is crucial to support a more balanced approach towards adaptation.

Reducing the fragmentation in the climate finance landscape

Climate funds are under various frameworks with different provisions and missions. Proliferation of climate funds may result in a lack of a clear, coherent overarching approach, imbalanced distribution of finance and therefore over-competition for limited resources in some cases.

With the proliferation of different national, bilateral and multilateral funds for adaption, developing countries, in particular those most vulnerable ones often struggle with multiple, overlapping

planning frameworks with different time horizons, as well as the diversity and complexity of policies, procedures and reporting requirements.

The Parties to the Paris Conference encouraged the coordination of support from public, private, bilateral and multilateral sources. They also decided to assess how to increase synergies through cooperation and avoid duplication among existing bodies established under the Convention that implement capacity-building activities, including through collaborating with institutions under and outside the Convention. There is a need to strengthen coherence across multilateral and bilateral delivery channels and programmes and implement a common, country-level planning process and tracking system. This could be done by improving transparency, reporting and communication of multilateral funds so that recipient countries understand how the funds are operated.

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Strong national ownership can also bring different streams of finance behind a coherent national framework. Experience shows that when countries do not define their own priorities, they are replaced by the priorities from the funds. Exercises of prioritization coordinated by national focal points could be a way forward.

There is potential to simplify funds' procedures and enhance transparency to and communication with contributors and recipient countries. More broadly, enhanced dialogue and collaboration between climate funds should also facilitate access to resources by developing countries and more effective and efficient use of resources for both recipient and contributor countries. These efforts should build on the lessons learned from the existing global joint cooperation strategies as well as the development management and coordination frameworks established at country level and utilize and harmonize the relevant capacities and partnerships where relevant.

Increase coherent decision-making on climate change at national level

Policy and operational decision making on climate finance at national level can be more complex than usual development cooperation. Compared to traditional development cooperation, where there is usually an anchor institution, the anchor institution for climate finance is not always clear-cut.

In some countries, national development banks are the main channel for climate finance, whereas in others development agencies carry out the main responsibilities. In terms of policy-making, development cooperation authorities are not always the main policy maker. Line ministries that deal with environment, energy or other sectors have a pivotal role and in some cases are the main decision-maker and manager on climate finance.

This raises the issue of coherence between traditional development aid and climate finance. It is

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ultimately national governments that ensure the synergy. But, incoherence can cause significant costs on the part of recipients. Countries may already have successful experiences in ensuring coherence. Sharing experience in this regard can help other countries and should be facilitated.

In conclusion, the current trends in international public climate finance point to the need to pay special attention to the most vulnerable countries and their efforts towards climate resilience and adaptation. Climate finance is an integral part of development cooperation, although the two have been addressed at different fora for historical reasons. Moving forward, the special needs of the most vulnerable countries should assume a more prominent space in the fora that address climate finance. Policy fora that address development cooperation and climate finance should work together at both technical and political levels, so that they can benefit each other's work and avoid duplication, promoting knowledge sharing and mutual learning.

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