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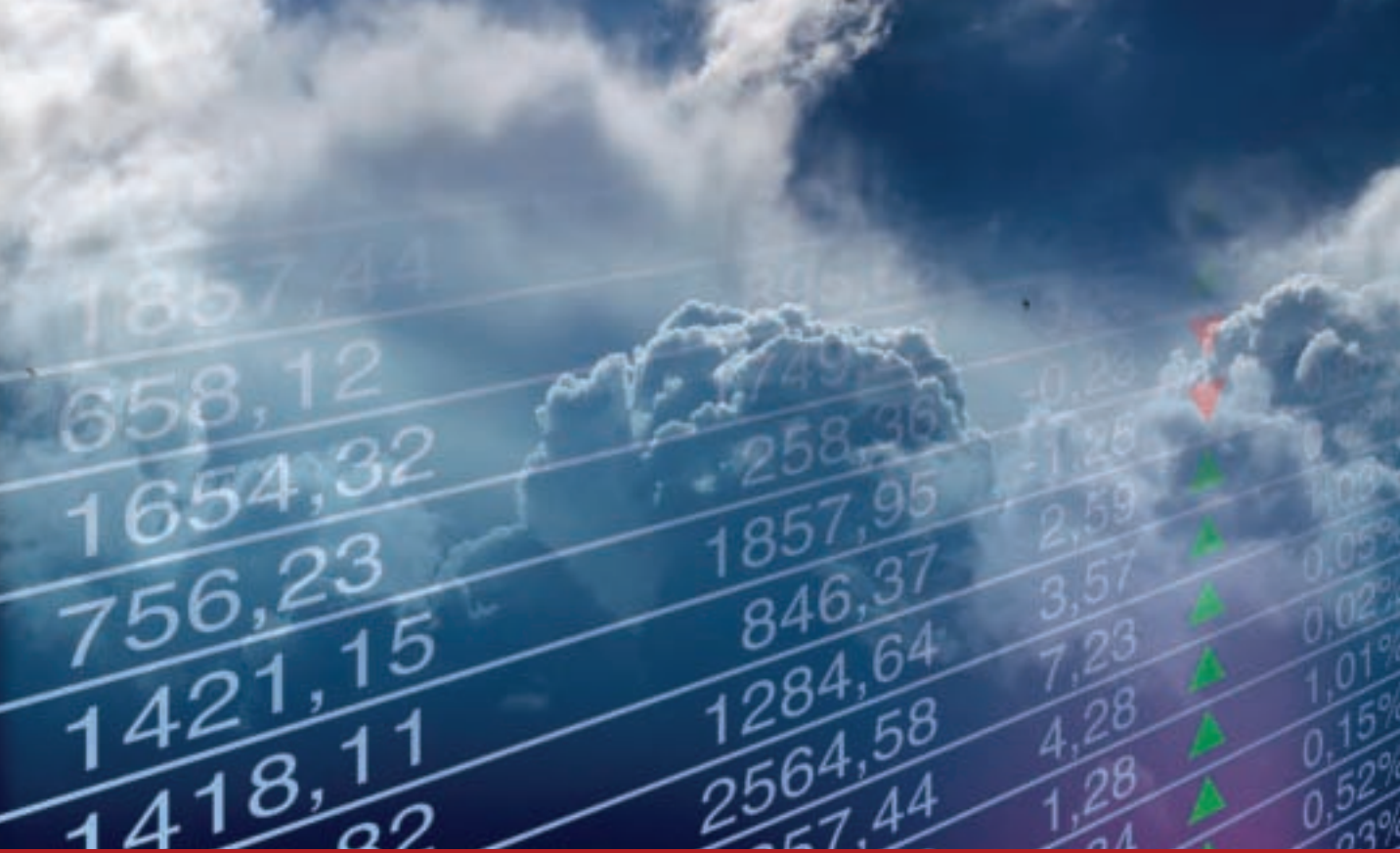
DEVELOPMENT AND CLIMATE CHANGE
MONITORING CLIMATE FINANCE AND ODA

(PREPARED BY THE WORLD BANK)



DEVELOPMENT AND CLIMATE CHANGE

Monitoring Climate Finance and ODA

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DEVELOPMENT AND CLIMATE CHANGE

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TABLE OF CONTENTS

Boxes

Figures

Tables

ACKNOWLEDGMENTS

This report has been prepared in response to the recommended actions of the World Bank Group's Strategic Framework for Development and Climate Change, Action Area 2: Mobilize additional concessional and innovative finance. It focuses on developing consistent and comprehensive monitoring and systematic reporting of financial flows to support developing countries' efforts in mitigation and adaptation, including the provision of new and additional financing for meeting the incremental costs imposed by climate change.

The World Bank team was led by Ari Huhtala, Senior Environmental Specialist, Environment Department, and included Stefano Curto, Senior Economist, Poverty Reduction and Economic Management Network, and Philippe Ambrosi, Environmental Economist, Environment Department.

Kseniya Lvovsky, Climate Change Program Manager, guided the team in both the process and content of the paper.

Peer reviewers at the concept and final draft level were Mehdi Akhlagi and Sudhir Sharma. Valuable comments were also received from the Organisation for Economic Co-operation and Development and the World Resources Institute and from the participants of a Brown Bag Lunch presentation and discussion, held on Monitoring Climate Finance and ODA on March 10, 2010.

EXECUTIVE SUMMARY

Mitigating and adapting to climate change increases the cost of development. Considerable resources are needed in addition to the present levels of official development assistance (ODA) to complement rather than undermine the efforts and progress toward the achievement of development objectives, including the Millennium Development Goals. The panoply of types and sources of financial flows is extremely broad and includes both new instruments established to address climate change as well as core development and investment finance shifting toward low-carbon solutions and adaptation. In this complex landscape, keeping track of financial support for adaptation and mitigation will be a challenge.

Following the mandate provided in the Strategic Framework for the World Bank Group (WBG) on Development and Climate Change, a discussion paper on the challenges related to monitoring such flows has been prepared by World Bank staff in consultation with the secretariat of the U.N. Framework Convention on Climate Change (UNFCCC) and the Organisation for Economic Co-operation and Development (OECD).

Following the Introduction, the first major part of this paper focuses on tracking, monitoring, and reporting various types of flows, primarily from ODA and other public sources but also from private sources. It briefly reviews available information on various current and upcoming financial and investment flows to support climate action in developing countries as a first step in assessing the challenges associated with monitoring such flows. It considers both climate finance (the amount of additional resources required to catalyze the shift of a much larger volume of public and private development investments to climate-friendlier options) and underlying finance (the almost 10 to 20 times larger amount of financial and investment flows in developing countries that must increasingly focus on climate action).

The next part of the paper focuses on possible ways of tracking additionality in ODA flows, with the aim of stimulating a discussion within the WBG and its partners on this issue. It describes the various perceptions of different groups of countries as well as possible baselines, benchmarks, and tools for tracking progress. It concludes that future technical solutions for monitoring official (ODA and non-ODA) finan-

cial flows toward climate action will most likely be a combination of current and improved OECD Development Assistance Committee Rio Markers, more consistent reporting by the multilateral development banks (MDBs), reporting by the UNFCCC on new funding through levies, and an increased capacity by recipient countries to track incoming flows, etc. Increasingly reliable, comprehensive, and transparent reporting is needed to demonstrate that new climate finance instruments are not introduced at the expense of those targeting other objectives.

The final section provides proposals for further action by industrial and developing countries, the U.N. system, and MDBs.

INTRODUCTION

As the final stage of the Millennium Development Goals (MDGs) cycle begins, leaders of the industrial and developing worlds will meet in New York in September 2010 at the high-level plenary meeting of the sixty-fifth session of the U.N. General Assembly to take stock of where the world stands on the MDGs and the mutual accountability framework laid out eight years ago in Monterrey. A critical pillar recognized in the Monterrey compact was the need for early commitment of additional aid that would help create and secure a virtuous circle by encouraging developing countries to undertake and sustain deeper reforms. Industrial countries that had not done so were urged to make concrete efforts to meet the target of 0.7 percent of gross national income (GNI) as official development assistance (ODA).[1] The deliberations in September will most likely emphasize the point that without extraordinary efforts from the development community, there is a risk that the achievements of recent years will be lost, as the development crisis is unfolding with potentially long-term consequences for the economic and social situation of the world's poor as well as for global security and prosperity more broadly.

While the development community faces renewed challenges in the fight against poverty, hunger, and other human deprivations, new global challenges have emerged that also require the attention of the global community. Some of these—such as climate change or dealing with communicable diseases—are quintessentially about "public goods," while others—such as food security, water management, migration, energy—have public-goods features but also pose complex challenges calling for global cooperation in order to find durable solutions.

Over the coming years, the international community will be confronted with a growing ambition to effectively support adequate progress on global public goods, particularly climate change, while maintaining its efforts to achieve the MDGs. The tension between developing countries' needs and the limited donor resources is increasingly becoming a concern for developing countries worried about the risk of crowding out of some development programs.

1 The commitment to 0.7 percent was first made in 1970 by the U.N. General Assembly.

The emerging and yet incomplete cost estimates—by public and private sources—of additional investments needed in developing countries to tackle climate change are on the order of hundreds of billions of dollars a year for several decades. These resources are needed in addition to the present levels of ODA so as to complement rather than undermine the efforts and progress toward achieving development objectives, including the MDGs.[2] Current climate-dedicated financial flows to developing countries, though growing, cover less than 5 percent of the estimated amounts that developing countries would need over several decades.

The Copenhagen Accord of December 2009 noted "the collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching $30 billion for the period 2010–12 with balanced allocation between adaptation and mitigation.... In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilizing jointly $100 billion a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."[3]

The panoply of types and sources of financial flows is extremely broad and includes both new instruments established to address climate change (various U.N. Framework Convention on Climate Change (UNFCCC) funds, the Climate Investment Funds (CIF), etc.) as well as core development and investment finance shifting toward low-carbon solutions and adaptation. In this complex, ramified landscape, keeping track of financial support to adaptation and mitigation will be a challenge. This is particularly the case in the context of measurable, reportable, and verifiable (MRV) support to climate action in developing countries. Challenges are multiple and encompass at least the following:

- Comprehensiveness of coverage (funds under UNFCCC, climate-specific funds under other agencies, other bilateral and multilateral assistance channels for public sector flows, and a multitude of private sector financial and investment flows)
- Consistency and harmonization of information across many channels with different degrees and levels of detail, frequency of reporting, review processes
- Relationship between financial flows to support climate action and the MDGs.

As background for this discussion, it is important to bear in mind the evolution of the ODA concept. ODA is currently defined as those flows to countries and territories on the Organisation for Economic Co-operation and Development's (OECD's) Development Assistance Committee (DAC) List of ODA Recipients and to multilateral development institutions, on the condition that they are:

> "i. provided by official agencies, including state and local governments, or by their executing agencies; and
> ii. each transaction of which
> a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
> b) is concessional in character and conveys a grant element of at least 25

2 See World Bank, *Development and Climate Change: A Strategic Framework for the World Bank Group* (Washington, DC: World Bank, 2008).

3 *Report of the Conference of the Parties on Its Fifteenth Session, Held in Copenhagen from 7 to 19 December 2009, Addendum. Part Two: Action Taken by the Conference of the Parties at Its Fifteenth Session*, at unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf#page=4.

percent (calculated at a discount rate of 10 percent)."[4]

The original concept was developed within the context of increasing income and productive assets. This context has changed over time to include other development concerns such as environmental sustainability. When recording ODA flows addressing mitigation or adaptation action, the challenge is to assess the incremental value of the contribution. Ways should be found to channel funds to meet these incremental needs (driven by efficiency, effectiveness, fairness, and equity concerns) and to report on financing allocated to meet these needs.

The question of the baseline for "new and additional" ODA financing (discussed later in this paper) and specific financing architecture will be subject to extensive debate between countries, and no agreement is likely to be achieved in the near future. Irrespective of the outcome of this political process, financial flows toward climate change need to be recorded and codified in a systematic and mutually agreed manner to allow substantive analysis and reporting, tracking progress made in implementing the Copenhagen and post-Copenhagen decisions.

Following the mandate provided in the Strategic Framework for the World Bank Group (WBG) on Development and Climate Change,[5] this paper focuses on the challenges related to monitoring such flows. The next section focuses on tracking, monitoring, and reporting various types of flows, primarily from ODA and other public sources but also from private sources. Then the following section looks at possible ways of tracking additionality in ODA flows, with the aim of stimulating a discussion within the World Bank Group and its partners on this issue.

This report will not attempt to provide quantitative information on financial flows, which will be done in separate future documents by UNFCCC, OECD DAC, and others.

4 Definition from www.oecd.org/dataoecd/26/14/26415658.PDF.

5 Action Area 2: "Mobilizing additional concessional and innovative finance," states that: "The WBG will address the need for better monitoring climate-related finance by working with the UNFCCC Secretariat, UNDP, the UN Statistical Division, and the Development Assistance Committee (DAC) of the OECD on developing consistent and comprehensive monitoring and systematic reporting of financial flows to support developing countries' efforts in mitigation and adaptation, including the provision of new and additional financing for meeting the incremental cost imposed by climate change. This work will build on and extend existing initiatives, such as the WBG's annual review of the carbon market and carbon revenue flows and the recent inclusion of DAC of markers for mitigation-related funding in its reporting of bilateral aid. Particular attention will be given to clarifying the sources and flows of adaptation-related financing."

2 CURRENT PRACTICES AND CHALLENGES IN MONITORING

This section briefly reviews available information on various current and upcoming financial and investment flows to support climate action in developing countries as a first step in assessing the challenges associated with monitoring such flows.[6] It considers both climate finance (the amount of additional resources required to catalyze the shift of a much larger volume of public and private development investments to climate-friendlier options) and underlying finance (the almost 10 to 20 times larger amount of financial and investment flows in developing countries that must increasingly focus on climate action).

Climate finance can be mobilized through a range of instruments from a variety of sources, both international and domestic, both public and private, such as primary Clean Development Mechanism (CDM) transactions (essentially private sector flows from industrial countries to developing ones through a market-based mechanism), Global Environment Facility (GEF) grants (multilateral concessional climate-change dedicated funding), or domestic resources that governments in developing countries are mobilizing (see announcement by Maldives of a daily tax on tourism, with proceeds earmarked for climate action). With respect to uses, climate finance can cover the additional costs and risks of climate-smart investments and development programs,[7] can facilitate enabling policies, regulatory frameworks, institutions, and markets in support of adaptation and mitigation, and can support research, development, and deployment of new technologies. Underlying finance relates to financial and investment flows in developing countries from multiple sources, both public and private,

6 Interested readers may consult J. Corfee-Morlot, B. Guay, and K. Larsen, Financing Climate Change: Toward a Framework for Measurement, Reporting and Verification of Mitigation (Paris: Organisation for Economic Co-operation and Development (OECD), International Energy Agency, 2009), which examines in depth the availability and quality of information on mitigation support (comprehensiveness, granularity, consistency, frequency of updating, reporting, and review process)—all specifications that are crucial in the context of the measurable, reportable, and verifiable discussion.

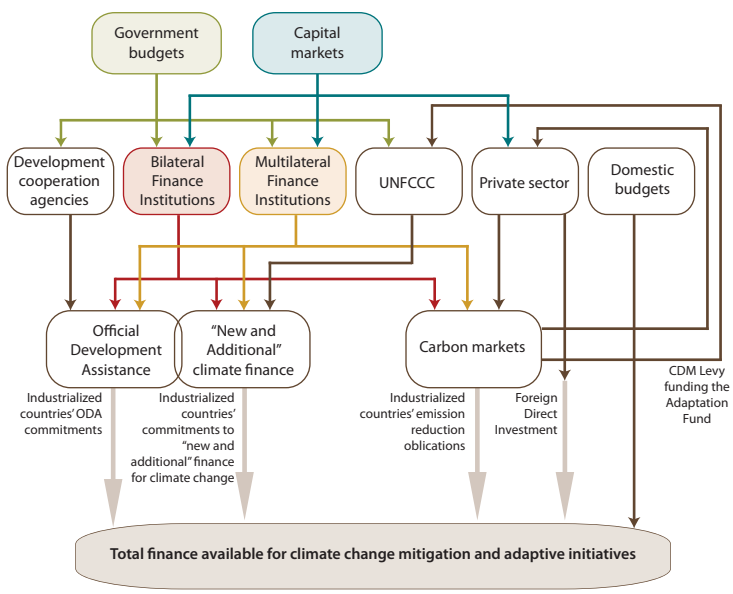
7 Additional needs in developing countries consistent with a +2° Celsius global climate stabilization target could reach $140–175 billion per year by 2030, with annual financing needs of $265–565 billion. In addition, about $75–100 billion could be required annually over the next 40 years to support adaptation to the inevitable amount of climate change that developing countries will experience.

both international and domestic (e.g., foreign and domestic private sector investment, national development budgets, and international development assistance), that are increasingly put to climate action.

In the long term, the information on climate change financial flows should gradually capture the following—from the more specific flows of climate finance to the broader, more ramified flows of underlying finance and to lower degrees of concessionality:

1. Climate-specific additional resources under the aegis of UNFCCC (GEF, Adaptation Fund (AF), etc.)
2. Resources from the carbon market
3. Concessional funding (ODA) from the DAC community specifically for mitigation and adaptation (including through the multilateral development banks (MDBs))
4. Non-climate-specific assistance from the DAC community (including through MDBs)
5. Non-DAC donor support
6. Philanthropic support
7. Resources mobilized in developing countries through internal reform (e.g., putting resources aside out of core budget or fiscal or pricing reform)
8. Non-concessional financial and investment flows in public and private sectors

FIGURE 1 FINANCIAL AND INVESTMENT FLOWS FOR CLIMATE ACTION IN DEVELOPING COUNTRIES



Source: A. Atteridge and others, *Bilateral Finance Institutions and Climate Change: A Mapping of Climate Portfolios* (Stockholm: Stockholm Environment Institute, 2009).

The complexity of these flows can be seen from Figure 1, which maps financial and investment flows for climate action in developing countries, highlighting the diversity of sources, channels, and types of flows. Given the multiplicity of types of flows and their ramifications and information gaps, this section examines both sources and endpoints as needed. It concludes that getting a full view of climate-related financial and investment flows would be a formidable challenge, given possible inconsistencies across existing reporting systems, the many data gaps (with notably the challenge of identifying the contributions of underlying finance to mitigation and adaptation, which unlike specific climate finance is not reported as such), and the complex web of flows (with the possibility of double counting).

This section recommends moving forward on harmonization and consistency of monitoring, with the Rio Marker initiative as a useful start. It also recommends a dual tracking system (on both sources and endpoints). Both will require continued efforts to strengthen the statistical capacity of developing countries. Getting a full view of climate-specific and climate-related financial and investment flows could undoubtedly help build trust and accountability, as recipient countries could monitor how assistance is delivered in line with commitments. In addition to identifying and quantifying climate-related financial and investment flows, this may also help monitor progress and facilitate the implementation of domestic climate-related development priorities, as measuring success in attracting climate finance and leveraging underlying finance is crucial in evaluating which instruments are or may be most appropriate in this regard.

CLIMATE-SPECIFIC ADDITIONAL RESOURCES UNDER THE AEGIS OF UNFCCC

Under this heading are regrouped resources of the GEF (under the Climate Change focal area, as the financial mechanism of the UNFCCC), the UNFCCC GEF-administered Least Developed Country Fund (LDCF) and Special Climate Change Fund (SCCF), and the Adaptation Fund (AF). These funds (with the exception of the AF) depend on voluntary contributions and are counted as ODA in OECD DAC countries. More details on these funds are provided in Annex 1.

The GEF Trust Fund currently devotes about $250 million per year to climate change over 2007–10 (GEF-4); since its inception, the GEF has invested $2.7 billion to support climate change projects in developing countries and economies in transition, with another $17.2 billion in co-financing.[8] As the largest source of grant financing for mitigation,[9] GEF funding is meant to address the additional costs of climate action and thereby steer the transformation of much larger amounts of development finance to climate-smart outcomes by focusing on market transformation (e.g., barriers removal, risks mitigation, technological innovation, and demonstration). UNFCCC special funds (about $270 million altogether) are critical to pilot adaptation projects and generate lessons to scale up climate-resilient growth as resources become available. For GEF projects, information includes recipient

8 The Global Environment Facility (GEF) addresses the incremental costs of projects with global environmental benefits; it is essentially a co-financing source.

9 Most of GEF support is for mitigation, except the Strategic Priority to Pilot an Operational Approach on Adaptation, a funding allocation within the GEF Trust Fund of $50 million until 2010.

country, size of grant and total project cost (leverage), and objective (adaptation or mitigation, sector of action).

The main source of funding of the Adaptation Fund comes from a 2 percent share of proceeds on certified emissions reductions (CERs) issued to CDM projects. Depending on CDM project performance and price, the AF could manage between $300 million and $600 million by 2012, which will not be sufficient to meet all the needs for adaptation action in developing countries. Hence, other climate-specific funds need to provide windows for adaptation, and core development activities need to take climate resilience more into consideration. The AF Board approved the Guidelines for Accepting Donations, which outlines the modalities for receiving donor funding in the AF Trust Fund in addition to the monetization of CERs. The Adaptation Fund Operational Policies and Guidelines outlines the monitoring and reporting modalities at the project level, while a Results Based Management and evaluation system is being developed for portfolio-level monitoring and reporting.

RESOURCES FROM THE CARBON MARKET

These resources involve transactions of emission reductions from projects based in developing countries. So far, the Clean Development Mechanism has been a major catalyst of low-carbon investment in developing countries, potentially channeling a large flow of new and additional resources. Over 2002–08, about 1,900 million CERs were transacted on the primary market for an approximate value of $23 billion, and some $106 billion in low-carbon investment (of which, $95 billion was in clean energy investment) benefited from CDM transactions over the same period.[10] More generally, it is estimated that active projects that entered the CDM pipeline over 2002–08 could represent an investment of more than $150 million, should they materialize. In comparison, sustainable energy investment in developing countries totaled approximately $80 billion over 2002–08.[11]

Monitoring potential financial flows through CDM by host countries and technologies (project types) is a challenging task, since the number of primary CDM transactions together with the diversity of players involved is increasing dramatically. In addition, volumes, prices, and other specifics of transactions (like risk-sharing provisions) are confidential in a more and more competitive market. Last, a vast majority of CDM transactions on the primary market are forward purchase agreements, with payment on delivery of emission reductions: depending on project registration and performance, the amount and schedule of payments may prove quite different.[12] Similarly, it is difficult to get an accurate picture of investments in CDM projects: while their status along the CDM project cycle is public, it is unclear which projects have reached

10 Source for both numbers: K. Capoor and P. Ambrosi, State and Trends of the Carbon Market 2009 (Washington, DC: World Bank, 2009). Global investment estimate is obtained by extrapolating World Bank Clean Development Mechanism (CDM) leverage ratio to estimated global CDM primary transactions. More than half of underlying investment is of domestic origin.

11 Source: U.N. Environment Programme (UNEP) Sustainable Energy Finance Initiative and New Energy Finance (SEFI), Global Trends in Sustainable Energy Investment 2009 (Nairobi: UNEP, 2009). Estimates of clean energy investments that benefit from CDM tend to be higher than actual sustainable energy investment in developing countries, since many CDM projects are at an early stage (not operational nor commissioned or even at financial closure) when certified emissions reductions are transacted.

12 It is estimated that actual financial flows through the CDM primary market totaled only $1.55 billion over 2002–08 (or about 7 percent of commitments under Emission Reduction Purchase Agreements). N. Girishankar, Innovating Development Finance: From Financing Sources to Financial Solutions, CFP Working Paper Series No. 1 (Washington, DC: World Bank, 2009).

financial closure and are operational (except for those who have already been issued CERs). The lack of transparency of the primary project-based market (which is virtually over-the-counter only) is one of the main reasons for State and Trends of the Carbon Market, an annual report prepared by the World Bank with a focus on project-based transactions.

While some public buyers (i.e., governments for their procurement programs—including funds and participation in funds—and international organizations for the funds and facilities under their management) achieve a certain degree of transparency (releasing information on the size of their carbon procurement programs, what has been committed so far by country or technology), these disclosures tend to be more the exception than the rule. Most buyers are not disclosing anything about their carbon portfolio for reasons of confidentiality and competitiveness. In addition, however much information there is on CER transactions, it does not give any idea of the actual payment flows (often contingent on credits delivery).

In this context, a solution to improve the quality of information could be sought on the seller's side through designated national authorities (DNAs), which have to approve CDM projects with regard to their sustainable development priorities. In a handful of host countries (notably China), DNAs play an active role in the CDM cycle and have a good overview of how the instrument can help achieve some national priorities and how sustainable investment is likely to benefit from CDM. Building on this experience, DNAs could record data on the status of CDM transactions and progress of CDM investments (provided they receive adequate capacity and support) and could disclose this information in an aggregate manner to preserve the confidentiality of these figures. This could include information on potential financial flows through the carbon market and the amount and origin (foreign direct or domestic) of investment in CDM projects.[13]

CONCESSIONAL FUNDING FROM THE DAC COMMUNITY SPECIFICALLY FOR MITIGATION AND ADAPTATION

Donor support through bilateral and multilateral funds and initiatives has been critical for mobilizing resources for climate action over the last two years, in particular for adaptation.

Approved in July 2008, the Climate Investment Funds (CIF)[14] is a balanced partnership of contributor and recipient countries implementing innovative climate financing through the MDBs to bridge the financing and learning gap between now and a new global climate change financial architecture. The CIF brings together a number of emerging initiatives to address climate change, thus providing coherence and avoiding proliferation of multiple smaller initiatives while increasing impact (and leverage on other sources). With over $6 billion in pledges from 13 donors, all recorded as ODA, the CIF consists of the Clean Technology Fund (CTF), which finances scaled-up demonstration, deployment, and transfer of low-carbon technology for significant greenhouse gas (GHG) reductions, and the Strategic Climate Fund, which finances targeted programs in developing countries to pilot new climate or sectoral approaches with scaling-up potential (so far, climate resilience, forestry, and renewable energy

13 This would not be possible for projects developed along voluntary market standards, which are not regulated by a sovereign entity.

14 More details on the funds are provided in Annex 1.

in low-income countries). Climate-specific funds through MDBs have an important role to play in leveraging substantial amounts of financing from other sources: for instance, 13 investment plans have been endorsed under the CTF, with CTF funding of over $4.4 billion, leveraging over $36 billion in co-financing in the coming years.

In parallel, donors have established other bilateral or multilateral initiatives, which can be delivered through MDBs or other executing agencies. Major examples include the Cool Earth Partnership (Japan, $10 billion), the Environmental Transformation Fund–International Window (UK, $1.6 billion), the International Climate Initiative (Germany, $180 million a year), the Climate and Forest Initiative (Norway, $580 million), two initiatives by Australia (totaling $315 million), and the U.N. Development Programme (UNDP)-Spain MDG Achievement Fund ($100+ million).[15]

As these are dedicated initiatives (i.e., the chief purpose is to address climate change) and in a limited number, keeping track of the projects and programs they support is reasonably easy. Reporting may not be fully consistent across sources, however, given the diversity of donors and the variety of delivery channels. In addition, for a number of bilateral initiatives, part of the funds will be distributed through multilateral initiatives, making it difficult to draw an accurate picture of upcoming climate change resources in developing countries.

NON-CLIMATE-SPECIFIC ASSISTANCE FROM THE DAC COMMUNITY

This category encompasses a large range of activities funded through grants or concessional lending of bilateral agencies in OECD DAC countries and through their contributions to MDBs, including:

- Technical assistance (e.g., analytical work—such as assessment of potential impacts of climate change for a given sector/region and options for climate-resilient investments or identification of mitigation opportunities and possible financing sources and of mechanisms to address additional costs of low-carbon growth—or capacity building activities such as awareness raising and training around carbon finance potentials)
- Support to climate-friendly projects (e.g., wind farms or insurance schemes against current climate variability), including through the provision of guarantees and export credits
- Budgetary support (e.g., support to sectoral or regional development programs that take climate change into consideration).

Given that many development projects or programs do deliver climate (co-)benefits (e.g., energy efficiency improvements, natural resources management), tracking ODA contributions to climate action in full is by definition difficult, with the exception of targeted funds and initiatives as discussed above. In addition, as ODA (as well as other forms of development finance) is increasingly delivered at a programmatic, strategic level (with low-carbon growth or climate resilience as one outcome), matching downstream results to specific upstream support is not an easy task (e.g., it is hoped that a policy and institutional reform in solid waste management with

15 See Annex 1.

ODA support translates into better practices and additional investment in more-sustainable waste management, with mitigation benefits, but it is unclear how these benefits can be quantified or attributed specifically to upstream policy and institutional reform).

To what extent, then, does other than climate-specific bilateral ODA already support mitigation?[16] The Rio Marker for climate change can provide a qualitative answer by identifying aid activities that contribute to the objective of the UNFCCC[17] by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration. The Rio Marker (effectively for mitigation) also provides an estimate of corresponding funding.[18] In June 2008 (at the end of the 2005–07 trial period), the OECD DAC Working Party on Statistics approved the inclusion of the Rio Markers as permanent items of the Creditor Reporting System data collection system. Partial data (see Table 1) indicate that over the past few years DAC donors have allocated $3–4 billion per year for climate-change-related aid (about 3–4 percent of total ODA).

As they report their aid activities to the OECD Creditor Reporting System database, DAC members also indicate the policy objective of aid activities (in this case, mitigation) and score its relevance with three values: 0–Not targeted, 1–Significant objective, or 2–Principal objective. Not all DAC members report on the Rio Marker for climate change, leaving some data gaps. In addition, there is no percentage of aid activity amount associated with these scores: typically, activities marked as "significant objectives" do not address mitigation in their entirety. Therefore, for those who do report, the Rio Marker for climate change provides an upper bound of mitigation support. OECD has embarked on a process of assessing and improving the quality of these markers.

The Joint OECD DAC ENVIRONET and WP-STAT Task Team has also developed a similar marker to track adaptation-related activities in bilateral ODA. The World Bank has been a participant in this process. (Also see Box 1.) The Adaptation Marker was introduced in 2010. Consequently, trends revealed by the applications of these markers cannot be meaningfully measured until 2014–15.

So far the Rio Marker is the most advanced initiative on measurable, reportable, and verifiable financial and investment flows across a range of countries (on both ends) and sectors. Relatively simple and transparent to apply, the mandatory application of Rio Markers by all OECD countries in reporting their ODA could be a source of inspiration in the MRV debate. Those adaptation or mitigation projects marked with score 2 (principal objective) can be interpreted as being fully dedicated to climate action. However, those marked with score 1 (significant objective) can have several other thematic objectives as well, and it is not possible to assess the comparative importance of adaptation and mitigation in overall project objectives. Thus no quantitative assessment is possible, and overall the Rio Markers can only provide information on trends and orders of magnitude. Double counting with other policy

16 If a country on the Development Assistance Committee's list receives sovereign funding on concessional terms to promote development, then this can be counted as official development assistance (ODA). Mitigation should logically not be counted as ODA since it covers a global public good and not development. However, GEF contributions are considered ODA, so other donor funding for mitigation, such as the Clean Technology Fund, is also considered ODA.

17 The objective is stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate change system.

18 There are two other similar Rio Markers, for desertification and biodiversity. The marker system emphasizes the policy objective of an intervention as opposed to a sector code that identifies "the specific area of the recipient's economic or social structure which the transfer is intended to foster." An activity can have more than one policy objective.

TABLE 1 CLIMATE-CHANGE-RELATED MITIGATION AID BY DAC MEMBERS (ANNUAL COMMITMENTS, CURRENT MILLION DOLLARS)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Australia	10	15	14	2	3	3	-	20	21	73
Austria	1	..	3	4	3	1	9	13	24	10
Belgium	6	2	5	1	1	0	3	14	23	48
Canada	23	10	22	62	79	65	27	2	42	42
Denmark	18	1	4	85	76	71	100	216	93	191
Finland	38	17	14	7	3	2	..	..	..	39
France	64	10	14	19	5	9	19	200	327	481
Germany	491	847	224	148	202	596	610	870	1,095	..
Greece	..	..	..	..	1	1	1	1	1	12
Ireland	-	-	0	1	1	1	1	..	..	29
Italy	..	..	..	..	..	..	..	..	14	24
Japan	1,373	1,783	1,750	1,087	954	2,293	1,921	2,223	1,407	1,332
Luxembourg	..	..	..	..	..	..	..	..	..	..
Netherlands	46	38	62	153	128	97	265	175	228	..
New Zealand	1	0	0	..	1	1	2	8	13	3
Norway	62	71	42	66	41	57	..	..	..	..
Portugal	-	-	12	0	0	0	40	2	1	1
Spain	2	12	25	6	3	4	..	27	32	93
Sweden	29	18	13	2	7	9	8	3	22	7
Switzerland	4	5	5	5	13	18	..	..	20	33
United Kingdom	106	205	49	-	1	2	-	0	58	51
United States	171	224	168	98	75	119	114	34	31	56
EC	..	..	..	..	..	124	117	150	480	320
Total (partial)	**2,444**	**3,254**	**2,424**	**1,745**	**1,597**	**3,472**	**3,236**	**3,959**	**3,931**	**2,844**
Percent of ODA	5%	6%	5%	3%	3%	5%	4%	4%	4%	3%
Total biodiversity (partial)	**1126.1**	**1048.0**	**890.3**	**1432.7**	**1476.2**	**2085.4**	**1963.4**	**2561.6**	**2834.9**	**3127.1**
Total desertification (partial)	**953.2**	**679.8**	**554.2**	**912.2**	**842.7**	**1065.3**	**1362.8**	**1463.6**	**1780.5**	**1032.3**

Note: Grey-shaded cells indicate where only partial information is available.
Source: http://www.oecd.org/document/11/0,3343,en_2649_34447_11396811_1_1_1_1,00.html.

objectives is also not excluded. Some donor institutions (e.g., the development agency in Belgium) are testing systems that attempt to capture a higher degree of detail either through a larger number of scores or through percentages. No such methodology has so far reached global

BOX 1 MDB MONITORING SYSTEMS

Drawing on their experience in providing economy-wide support for sustainable development and emerging climate finance instruments, MDBs have been responding to growing demand for climate-smart investments and for institutional and policy measures. They are a large source of development assistance with significant climate benefits, and also an important channel of climate finance (GEF, carbon finance, CIF). Over 2006–07, the MDBs put an estimated $4.2 billion annually into low-carbon investment, with an approximate leverage factor of 3.8—in other words, activity volumes that compare with bilateral ODA.

MDBs do not, however, report their activity in any consistent manner across institutions, and information on adaptation is often scarce. Discrepancies, for instance, relate to the classification of sectors/categories or to engagement figures that combine own resources with climate-specific resources and instruments (e.g., GEF or carbon finance). In addition, similarly to bilateral ODA activities marked with mitigation as a "significant objective," there is no indication of a specific share of their own resources (be it ODA or not) that is dedicated to climate action. MDBs are actively improving their monitoring systems in this respect, in particular with regard to consistency across agencies.

application. The challenge of improving the Rio Markers in the long run is addressed later in this report.

NON-DAC DONOR SUPPORT

Aid from non-DAC donors continued on a strong upward trend in 2007, reaching $5.6 billion (for countries reporting to DAC), with Saudi Arabia accounting for close to 40 percent.[19] Among other major emerging non-OECD donors, India's development cooperation expenditure was about $1 billion, Brazil's was $437 million, and Russia's $210 million. Official numbers are not available for China, but estimates place this number at $1.4 billion.[20] South-South cooperation is beginning to provide larger amounts of resources for development, particularly in the productive sectors and infrastructure—two areas with potentially large impacts on future GHG emission trajectories and vulnerability to climate change. The rise in non-DAC ODA makes even more timely the efforts to improve the monitoring of information about these flows, in particular in achieving greater comprehensiveness (magnitude of engagement and sources and recipients) and consistency (how ODA serves a number of purposes, notably climate action).

PHILANTHROPIC SUPPORT

Private actors, most notably foundations and private companies, are becoming increasingly important players in development finance. Along with growing resources, their participation can emulate innovative partnerships in fundraising

19 Source: OECD, Development Co-operation Report 2009 (Paris: OECD).

20 All data from World Bank, Global Monitoring Report 2009 (Washington, DC: World Bank).

(e.g., using new information technologies to mobilize resources and reach new partners) and financial solutions to development. Private financial contributions for international purposes, as reported to the OECD, climbed to $18.5 billion in 2007 (up 25 percent over 2006 levels), with the United States being the largest source (66 percent).[21] These numbers, however, do not capture the full extent of private giving, as reporting is neither exhaustive nor comprehensive (not all DAC countries do report, and beyond DAC, little information is available).[22] Estimates indicate that private financial contributions could have been as high as $49.1 billion in 2007 (47 percent of ODA that year), with the United States accounting for 75 percent.[23]

Much less is known about recipient countries and purposes (whether for climate-related activities or more broadly in climate-relevant sectors). Recent data indicate that U.S. foundation giving for climate change for international purposes reached about $338 million in 2007, or about 6 percent of those foundations' estimated international giving.[24] One-quarter of these flows funded policy work. Non-DAC countries received about $327 million, with global programs leading (39 percent). Data for other OECD countries and beyond are even more fragile. To conclude, though information is scarce, scattered, and hardly comparable, philanthropic flows to support climate action in developing countries compare to certain official multilateral flows in the same area, such as GEF or UNFCCC funds so far. This reinforces their importance and the need to better coordinate and intensify partnerships to maximize the impact of assistance.

21 OECD database, aggregate "net private grants."

22 Center for Global Prosperity, The Index of Global Philanthropy and Remittances 2009 (Washington, DC: Hudson Institute, 2009), reports recent examples of the rise of philanthropy in emerging economies, and data from the Gallup World Poll confirm this trend. The exact scope (domestic or international solidarity) is unclear, though.

23 Center for Global Prosperity, op. cit. note 22.

24 Foundation Center, International Grantmaking IV: An Update on U.S. Foundation Trends (New York: 2008); see specific focus on climate change.

RESOURCES MOBILIZED IN DEVELOPING COUNTRIES

A number of developing countries have put resources aside from their core budgets or instituted fiscal or pricing reform both to advance development and to limit growth of GHG emissions or improve climate resilience. Brazil, for instance, invested heavily in the use of biofuels (also for energy security purposes); Thailand has invested in energy efficiency programs. A number of countries are also increasingly factoring climate change considerations into their natural disaster management strategies.

As they are experiencing the first impacts of climate change, developing countries are assessing potential and needs, defining measures, setting goals, and mobilizing finance. For example, Bangladesh and the Maldives have directed their own resources to protect their coastal regions from rising waters, and several countries have introduced budget allocations for energy efficiency and renewable energy programs. Although important to consider in the context of policies aimed at shifting investment toward a more climate-friendly outcome, very little information at MRV standards is available on energy subsidies or agricultural support, two important sectors for climate action. It is crucial to better quantify the resources that governments in developing countries are mobilizing for climate action, in particular to leverage those with other international instruments of climate finance.

NON-CONCESSIONAL FINANCIAL AND INVESTMENT FLOWS IN PUBLIC AND PRIVATE SECTORS

These are the very large flows of "underlying finance." Gross fixed capital formation (GFCF) in developing countries totaled about $3.99 trillion in 2007, essentially from domestic sources. Foreign direct investment (FDI) was one order of magnitude lower ($522 billion, or 13 percent of GFCF), as was financing via international capital markets, at $718 billion—both of which are not exclusively used for new investment. At $105 billion, aid (ODA and other official aid)—a large part of which facilitates but does not directly finance new investment—was almost two orders of magnitude below (3.3 percent of GFCF).[25]

Current climate-specific flows to developing countries (between $10 billion and $20 billion, as highlighted above) represent only a tiny fraction (0.25–0.5 percent) of GFCF in developing countries, while expected additional investment needs (about $200 billion by 2020, ramping up to around $400 billion 10 years later) represent about 5–10 percent of current GFCF in developing countries (which will presumably and hopefully grow with time). This re-emphasizes the catalytic role of "climate finance": to cover additional costs and risks of climate-friendlier investments and development programs and to create an enabling regulatory, market, and technology environment to make low-carbon and climate-resilient options commercially attractive to investors.

So far, the contribution of financial and investment flows of underlying finance to climate-smart development is even more difficult to quantify than financial and investment flows of climate finance. In particular, when available (e.g., investment in energy infrastructure in country X), data do not systematically indicate the share of climate-friendly investment. Getting a better picture of underlying finance is critical, however, in order to monitor the extent of this shift toward greener options—notably, to assess the success of climate finance instruments in mobilizing resources to climate-friendly options.

The U.N. Conference on Trade and Development (UNCTAD), for instance, publishes annually the World Investment Report, which covers global FDI trends and analyzes in depth one selected topic related to foreign direct investment and development. However, even though information is available at a reasonable level of sectoral detail (although not for every country), it is not possible to know to what extent these investments contribute to less carbon-intensive and more climate-resilient development. The same would apply to other international flows (e.g., international private debt or export credits) or domestic investment per sector.[26] A few sources provide information on some of the green investment (endpoint), as in the case of sustainable energy (UNEP SEFI/New Energy Finance), but the level of disaggregation is not satisfactory.

25 All data from World Bank, World Development Indicators (Washington, DC: World Bank, 2009).

26 See discussion in Corfee-Morlot, Guay, and Larsen, op. cit. note 6.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3 RELATIONSHIP BETWEEN ODA AND NEW AND ADDITIONAL FINANCING

There are different views on the question of how to measure additionality of climate change relative to official development assistance. While a number of international financing mechanisms currently under discussion could be regarded as additional and reportable under ODA, for a large part of financial flows addressing mitigation or adaptation action this distinction remains challenging. This section discusses the various perceptions of different groups of countries as well as possible baselines, benchmarks, and tools for tracking progress, bearing in mind that whichever method for monitoring is adopted, it is critical to ensure that the scaling up of public financing sources for achieving Millennium Development Goals and climate change action takes place hand in hand.

DIFFERING VIEWS

Most developing countries consider climate change financing as entitlement and not aid. Accordingly, it should be considered as an obligation for those who caused the emissions historically and should not be structured as repayable loans. ODA is meant to help developing countries achieve the MDGs, and the global commitment of OECD countries is to allocate 0.7 percent of their GDPs to this end by 2015. Funds addressing climate change are not a part of this commitment. Several developing countries have also already taken measures to minimize GHG emissions without jeopardizing the goals of economic growth and poverty alleviation. These efforts need to be accelerated and scaled up by additional funds from industrial countries.

Many OECD countries have expressed the view that climate financing and development financing are closely linked at the project level and difficult to separate. Therefore all concessional aid irrespective of its use should be recorded as a part of their ODA. Some countries also see climate finance as part of their ODA contribution to support the MDGs related to environment.

The UNFCCC makes clear that industrial countries have to support developing countries in their efforts to mitigate GHGs. Specifically, Articles 4.3 and 4.5 of the treaty call for industrial countries listed in Annex II to provide “new and additional” financial resources to meet the “agreed

incremental cost" of developing country implementation of other measures under Article 4.1.

There are strongly divergent views on the links between the ODA commitments and targets and the climate finance of OECD countries. The countries that have reached the 0.7 percent of GNP can easily consider all climate finance as additional. For those countries still below the commitment or without explicit targets, however, this will be more complicated. The complexity and possible options are discussed in the following two sections.

COMPLEXITY

In many situations, it is indeed difficult to separate climate action from development action, particularly in the case of adaptation. For instance, as can be seen in Table 2, building a seawall against rising waters is clearly an adaptation action, whereas climate-resilient road construction has also strong developmental implications.

The complexity of the separation between traditional ODA and additional resources is further illustrated by the examples in Box 2.

TERMINOLOGY

There are incremental costs due to mitigation and adaptation to climate change that should not be an extra burden on developing countries and should therefore be covered by additional funding. However, new funds are not necessarily additional if they result in a decrease of (other) ODA. The following definitions could be used:

- New climate finance relates to sources from which they are raised or channels through which they flow
- Additional climate funds are those that exceed existing targets or flows.

Funds accumulated from internationally agreed levies (such as the Adaptation Fund from CDM or possible flows from taxes on aviation, maritime transportation, or currency transactions) can be considered new funding as they are raised in

TABLE 2 STRENGTHENING CLIMATE RESILIENCE IN COUNTRY-LED DEVELOPMENT PROCESSES

Action	Financing	Examples
Core Development	Domestic Budgets plus ODA	Investments in education & health, income-generation programs; etc.
Climate Resilient Development	Increased ODA plus Additional Climate Finance	Accelerated agricultural diversification; climate resilient road construction & irrigation systems, climate forecasting; capacity building, etc.
Adaptation	New & Additional Climate Finance	Seawalls; dikes; additional shelters & water-storage

Note: Adaptation is a priority for developing countries. Synergies between climate finance and development finance and win-win opportunities can help enable most effective and efficient adaptation.

Source: World Bank. "How Will the World Finance Climate Action?", Bali Brunch, April 2009.

BOX 2 EXAMPLES OF COMPLEX CONNECTIONS BETWEEN ODA AND RESOURCES FOR ADAPTATION TO CLIMATE CHANGE

Technical assistance to plan for shifts and optimization of investments in existing and new energy and transport facilities (through incentives and support schemes) can be considered ODA, whereas the resulting actual investments are a capital flow. All these funds have a developmental impact and the concessional part is in that sense ODA. How should the additional element be measured in the sense that these interventions respond to climate change?

Technical assistance to identify the scope and methods to expand the carbon market—to stimulate investment in clean technologies, etc. and possibly result in concessional investments—can be considered either ODA or additional resources as it responds to the challenge of climate change and would not necessarily be considered developmental without that challenge.

An activity that must be taken only to reduce vulnerability to climate change is not a development investment. Although integration is an effective approach for putting adaptation into practice, adaptation financing needs to reflect that it is responding to the additional burden posed by climate change, quite distinct from the aggregate flow of resources toward overall economic goals (UNFCCC/TP/2008/7 para 97). However, integrating adaptation into national development plans will be more cost-effective if available resources for adaptation and development can be pooled and if existing development processes and mechanisms can be strengthened. Additionality will be difficult to measure in such integrated approaches (hence the scoring system of Rio Markers suggested to provide information on the trends and order of magnitude in ODA flows of OECD DAC countries).

Climate change funds under the GEF are only used to meet a project's incremental costs of implementing measures covered by Article 4.1 of the UNFCCC. The remaining costs (of national and local benefit) are borne by the recipient country, including through support by other bilateral and multilateral donors. Although the incremental cost principle does not apply to the LDCF or to the adaptation window of the SCCF, a similar principle is applied in that these funds are only available for meeting the additional costs of adapting to climate change. The technology window of the SCCF covers another type of full incremental costs, which the GEF defines as "simply the programmatic costs of removing the barriers so that the markets will become established and operate more efficiently." Thus, flows from these GEF-administered funds can be considered additional, but countries contributing to them still record their pledges in their ODA.

direct response to the climate change challenge. Such funds are not a part of the discussion on additionality with regard to ODA. For example, a paper by the UNFCCC Secretariat on financing states: "In the light of the large disparity between requirements for funding to address climate change and the level of resources currently available to meet those requirements, the Bali Action Plan reiterates the need for the generation of new and additional resources. Funds sourced internationally through market-based mechanisms and taxation are, by definition, new and additional. Whether national contributions are new and additional depends on whether they are drawn from conventional fiscal revenue, and possibly count towards a country's ODA commitment, or

whether they constitute new revenue from taxes on fossil fuels or GHG emissions."[27]

However, should it happen that OECD countries for some reason cut their ODA contributions while such complementary climate funds grow, in total there would not be an additional effect.

CURRENT MONITORING METHODS

The Rio Markers are an important initiative to improve the monitoring of climate finance flows. They have their shortcomings, as noted earlier, but they do provide an indication of trends and orders of magnitude that can be compared in a time span. They may lead to double counting with other development objectives. Although the Rio Markers for mitigation have been applied on a trial basis from 2005 and on an institutional basis from 2008, their use has become compulsory only recently. The Rio Marker for adaptation is being applied from 2010. This means that it will take several years before there are data with sufficient coverage to allow meaningful analysis of all ODA contributors. In the meantime, tests with more comprehensive scoring or marking systems by some donor agencies may yield positive results that lead to a further refinement of the currently applied Rio Marker system to provide more quantitative data.

Before systematic data are available from Rio Markers or similar applications, several agencies (including the World Bank) will embark on portfolio review exercises that will provide results on ex-post analysis of their core grant or lending programs. Such ad hoc research coupled with regular data on flows to climate-specific funds will help to monitor implementation of agreements.

POSSIBLE OPTIONS

To make headway in understanding the complexities in monitoring climate finance flows, in improving the accuracy of tracking them, and in addressing the issue of additionality in relation to ODA, this section considers several options that are currently part of the international discussion on this issue.

REDEFINING ODA OR COINING NEW TERMS?

Although the context for ODA has expanded from economic development and welfare to include environmental sustainability, redefining ODA would make the monitoring of long-term trends prohibitively difficult and cause a considerable burden on the reporting institutions. For the sake of transparency and comparability of data, it is advisable to seek other ways to track climate and non-climate contributions within the existing definition. Moreover, all international commitments are based on the current definition and might need to be renegotiated to take changes in the definition into account. Thus, the end result might not be different after all.

A second way to address the issue of additionality via the composition of ODA is to maintain the current definition and work on a system to measure the trend of specific ODA components. OECD countries report resources provided to other countries as ODA if they meet specific criteria (see definition in the Introduction) and not based on the channels through which they are provided, as climate change is increasingly considered necessary in the promotion of sustain-

27 UNFCCC, "Investment and Financial Flows to Address Climate Change: An Update," FCCC/TP/2008/7 (Bonn: 2008).

able economic development and welfare. Recognizing this inevitability and aiming at improving tracking climate finance also within ODA, the flows for development purposes (as understood) could be called "ODA Classic." A part of voluntary concessional contributions by OECD DAC countries for climate action will continue to be recorded as ODA. To make a distinction from "ODA Classic," such flows could be called "ODA Climate."

Mitigation will often be linked to measurable GHG targets and commitments, making it easier to monitor progress and trends in both action and financing. Thus finding ways to distinguish and track mitigation action as "ODA Climate" will be relatively straightforward.

On the other hand, assistance to developing countries with adaptation to climate change is closely intertwined with actions targeting other development objectives, and tracking the share of "ODA Climate" in these cases will not be equally accurate. Determining the incrementality of climate action in development programs and projects will remain a challenge (see the Possible Methods section below).

For monitoring "ODA Climate" flows, the same baselines as for ODA could be used. Within this context, it is important to demonstrate a trend in development assistance that grows in the direction agreed to in international negotiations and that does not have a negative impact on ODA directed toward MDGs. (See Figure 2.)

DEALING WITH LEVEL OF ODA — BENCHMARKING?

Members of the European Union have set interim targets for their ODA growth before reaching the collective target of 0.7 percent of GDP by 2015. EU Members are aiming to reach a collective total of 0.56 percent of GNI in net ODA with a minimum country target of 0.51 percent in 2010. Such targets could provide a baseline for measuring the change in the contributions of such countries also with regard to climate financing.

FIGURE 2. "ODA CLIMATE" IN RELATION TO "ODA CLASSIC"

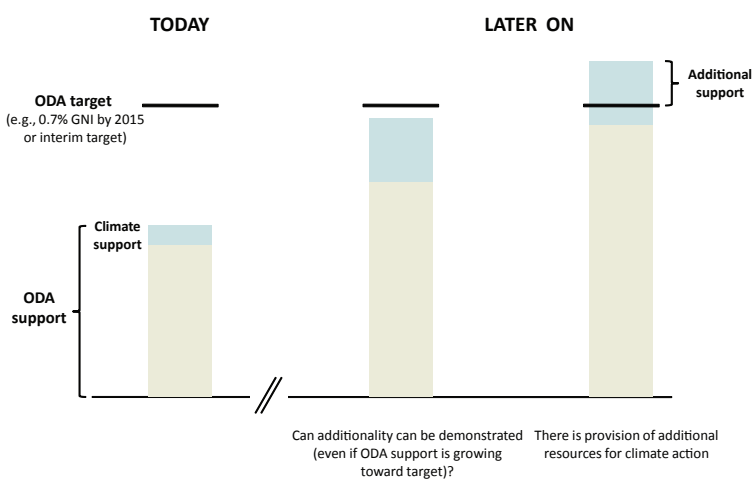

Table 3 provides a snapshot of the latest information on DAC members' commitments set in 2005 in Gleneagles. The first column provides ODA in 2004 (baseline). The second column gives the 2010 targets set in 2005. The third column provides the 2010 targets as revised in 2009 to take into account the impact of the global recession on GNP. The fourth column provides the current forecasts on ODA flows. The difference between the fourth and the third columns indi-

TABLE 3 DAC MEMBERS' COMMITMENTS AND PERFORMANCE — SUMMARY TABLE OF OECD SECRETARIAT PROJECTIONS (APRIL 2010)

		Net ODA (2004 USDm)			ODA/GNI		
Country	Actual ODA 2004	2005 projection for 2010	Growth-adjusted 2005 projection for 2010	Current projection for 2010	Actual 2004 (percent)	2005 projection for 2010 (percent)	Current projection for 2010 (percent)
Austria	678	1,673	1,621	1,178	0.23	0.51	0.37
Belgium	1,463	2,807	2,706	2,706	0.41	0.70	0.70
Denmark	2,037	2,185	2,213	2,299	0.85	0.80	0.83
Finland	680	1,475	1,379	1,112	0.37	0.70	0.56
France	8,473	14,110	13,474	10,130	0.41	0.61	0.46
Germany	7,534	15,509	14,906	11,691	0.28	0.51	0.40
Greece	321	1,196	1,275	525	0.16	0.51	0.21
Ireland	607	1,121	951	824	0.39	0.60	0.52
Italy	2,462	9,262	8,892	3,426	0.15	0.51	0.20
Luxembourg	236	328	304	304	0.79	1.00	1.00
Netherlands	4,204	5,070	5,323	5,323	0.73	0.80	0.80
Portugal	1,031	933	912	608	0.63	0.51	0.34
Spain	2,437	6,925	6,552	5,652	0.24	0.59	0.51
Sweden	2,722	4,025	3,865	3,915	0.78	1.00	1.01
United Kingdom	7,905	14,600	13,873	14,185	0.36	0.59	0.60
DAC EU members, total	**42,789**	**81,221**	**78,245**	**63,877**	**0.35**	**0.59**	**0.48**
Australia	1,460	2,460	2,518	2,460	0.25	0.36	0.35
Canada	2,599	3,648	3,648	3,542	0.27	0.33	0.33
Japan	8,922	11,906	11,906	8,501	0.19	0.22	0.18
New Zealand	212	289	282	324	0.23	0.28	0.32
Norway	2,199	2,876	2,849	2,849	0.87	1.00	1.00
Switzerland	1,545	1,728	1,646	1,881	0.40	0.41	0.47
United States	19,705	24,000	24,705	24,705	0.17	0.18	0.19
DAC members, total	**79,432**	**128,128**	**125,799**	**108,139**	**0.26**	**0.36**	**0.32**

cates the gap against their commitments or provides an indication of the level above commitments.

However, interim targets until 2015 might be politically sensitive, as countries with ambitious interim targets may be penalized by such an ambition. Benchmarking vis-à-vis the 0.7 percent of GNP will be more politically feasible, as it is universal and applicable to all countries, but it is technically challenged as many countries are below the target today. The expected ODA level for 2010 is $108 billion (in 2004 dollars), an increase of $28 billion—or 35 percent in real terms—over 2004, with the ODA/GNP ratio rising from 0.26 percent in 2004 to an estimated 0.34 percent in 2010. Despite this strong performance, ODA for 2010 is expected to fall short of $18 billion (in 2004 dollars) against aggregate commitments even after adjustment for the lower than expected GNP. A second challenge is that the 0.7 percent of GNP has a 2015 deadline attached. Therefore, benchmarking vis-a-vis that target may only make sense after that date.

POSSIBLE METHODS

Contributions to climate change in ODA flows to core multilateral funds and bilateral programs will remain an approximation. The Rio Markers introduced to OECD DAC reporting on official development assistance will provide a basis for comparing trends over a period of time in overall contributions on the one hand and trends in climate financing on the other hand. This will, however, require that they be applied by all donors in a consistent manner. It will still take several years before such consistent data are available. Also, as noted earlier, Rio Marker 1 (Significant objective) does not give information on the comparative importance of climate action and therefore does not give an accurate picture of the relative share of additional resources. In the coming years, an increasing share of ODA will qualify for Rio Marker 1. However, the mandatory and consistent application of Rio Markers by all OECD countries in reporting ODA could advance the process of distinguishing and tracking contributions to emerging climate-specific funds as "ODA Climate."

In addition, contributor, recipient country, or sector-specific portfolio analysis can provide useful indications on trends in the implementation of international commitments.

As there is currently no universal agreement on ODA targets, one possible option could be to design and introduce voluntary guidelines for appropriate levels of additional climate finance based on agreed criteria (mixing ability to pay and emissions record) and then apply them to track trends by country.

CONCLUSIONS

As this process continues, somewhere between 2013 and 2015 it will be possible to assess how OECD countries have met their commitments on ODA in general and on climate finance in particular. At that time, the issue of baselines and targets can be revisited. An assessment of the usefulness of the Rio Markers and the introduction of a well-tested, more refined, and comprehensive system should be considered then too.

In summary, the technical solutions for monitoring official (ODA and non-ODA) financial flows toward climate action will most likely involve a combination of:

- Current and improved Rio Markers
- More-consistent reporting by MDBs

- Reporting by UNFCCC on new funding through levies, etc.

Increasingly reliable, comprehensive, and transparent reporting is needed to demonstrate that new climate finance instruments are not introduced at the expense of those targeting other objectives.

Providing exact and comparable figures on additional contributions to fund incremental expenses resulting from adaptation to and mitigation of climate change is extremely complex and probably not possible in an aggregated fashion. Experience with the GEF and carbon finance has demonstrated that while maintaining the environmental integrity of projects, proving the incremental costs related to climate action remains a challenge. In this context, while improving the monitoring of inputs and development of climate finance flows, it is crucial not to lose sight of the key objective of all official development assistance: sustainable development outcomes.

4 NEXT STEPS

The development community can directly or indirectly contribute to improving the monitoring of and access to climate finance through several key activities.

The use of Rio Markers for both mitigation and adaptation needs to be compulsory and consistent in reporting on all ODA flows by OECD DAC countries. These markers should be refined in 2015 at the latest, following experience gained in their application and alternative, more detailed (preferably quantitative) systems tested by a number of donor institutions.

Non-DAC donors may wish to consider establishing systems that record and report on their ODA in a way comparable to that of OECD DAC countries.

In addition to monitoring and reporting on the flows at the global level by OECD DAC, UNCTAD, MDBs, and others, it is important that developing countries themselves be in a position to assess the magnitude of the public (DAC and non-DAC) and private sector flows related to climate action. Building this capacity will take time and resources and should be part of broader programs to track bilateral and non-climate specific flows, particularly in the poorest countries. This could be linked with the process of improving the quality of National Communications to make them more transparent. Through their extensive presence in most countries, access to a range of financial instruments, and expertise, the World Bank, other MDBs, and UNDP can play an important role in continuing to build the capacity of their partners to integrate such monitoring tools into their development plans and to participate in global discussions on climate finance issues.

Development agencies such as UNDP, the U.N. Environment Programme, and the MDBs should continue to strengthen the capacity of CDM designated national authorities to record data on the status of CDM transactions and progress on CDM investments in developing countries.

MDBs should improve the monitoring and reporting on mitigation and adaptation action in their own portfolios in a manner consistent with, but not restricted to, methodologies adopted by OECD DAC.

Monitoring non-ODA climate financing flows (especially non-DAC countries concessional funds and private non-concessional flows) will be an interesting challenge and would help any future assessments of progress made. This should be kept in mind when discussing the role of various institutions, including those in developing countries, in reporting on such flows.

To support developing countries in getting access to both climate-specific and core funds available from various multilateral and bilateral sources, UNDP and the World Bank are working on a joint knowledge platform on the Internet to complement the UNFCCC-led Financing Platform. This will be launched in 2010 and gradually build capacity in providing the following:

- A harmonized description of types of funds available, gradually attempting to cover an increasing number of sources
- Examples of successful cases of bundling different types of grant and concessional funds and of enabling environments to leverage commercial funds
- Tools and documents supporting more-informed investment decisions
- New tested methods to track climate finance flows at the source and end point (dual tracking).

ANNEX I
MAIN INSTRUMENTS FOR FINANCING CLIMATE ACTION
(A=ADAPTATION; M=MITIGATION)

Climate-specific additional resources under the aegis of UNFCCC		
Adaptation Fund $300-600 million by 2012 adaptation-fund.org	A	Funding mainly comes from a 2 percent levy on Certified Emission Reductions (CERs) issuance. Adaptation Fund Board (AFB) as operating entity served by a secretariat (GEF) and a trustee (WB).
Global Environment Facility (GEF) $1 billion over 2007–10 gefweb.org	M (A)	Largest source of grant-financed mitigation resources. There is a funding allocation within the GEF TF to support pilot and demonstration projects that address local adaptation needs and generate global environmental benefits in all GEF focal areas.
UNFCCC GEF-administered Special Funds $270 million gefweb.org	A	Least Developed Countries Fund (LDCF): helps in the preparation and financing of implementation of National Adaptation Programs of Action to address the most urgent adaptation needs in the least developed countries. Special Climate Change Fund (SCCF): supports adaptation and mitigation projects in all developing countries, with a large emphasis on adaptation.
Resources from the carbon market		
	M	Primary CDM transactions: $6.5 billion (2008), $22.9 billion (2002–08) Voluntary market (OTC): $54 million (2008), $260 million (2002–08) Size of Carbon funds and facilities: $16.1 billion.[28]
Dedicated concessional funding (ODA) from the DAC community		
Climate Investment Funds $6.3 billion climateinvestmentfunds.org	M A M	The Clean Technology Fund: to finance scaled-up demonstration, deployment, and transfer of low-carbon technologies. The Strategic Climate Fund: Pilot Program for Climate Resilience to help build climate resilience in core development, Forest Investment Program, Program to Scale up Renewable Energy for Low Income Countries.

Notes:
28 Environmental Finance and Carbon Finance, *Carbon Funds* 2009/10 (London: Environmental Finance Publications, 2009).

(*continued*)

$10 billion	M&A	Cool Earth Partnership (Japan)
$1.6 billion	M&A	Environmental Transformation Fund – International Window (UK)
$180 million p.a.	M&A	International Climate Initiative (Germany)
$580 million	M&A	Climate and Forest Initiative (Norway)
$180 million	M&A	International Forest Carbon Initiative (Australia)
$160 million	A	Global Climate Change Alliance (European Commission)
$135 million	M&A	International climate Change Adaptation Initiative (Australia)
$100 million	M	UNDP-Spain MDG Achievement Fund
$52 million		UN Collaborative Program on Reduced Emissions from Deforestation and Forest Degradation[29]

Examples of non climate-specific support from Donors and MDBs

Global Facility for Disaster Reduction and Recovery $15 million for adaptation	A	Partnership within the UN International Strategy for Disaster Reduction, focusing on building capacities to enhance disaster resilience and adaptive capacities in changing climate. In addition, there are specific instruments for climate risk management.
Trust Funds and Partnerships; Guarantees	M A	Grant financing for knowledge products, capacity building, upstream project work/pilots, such as the MDTF for Strategic Framework for Development and Climate Change (under design); partial risk guarantees to support development / adoption / application of clean energy technologies, including those not fully commercialized, in client countries.

Notes:

28 See additional information: www.mofa.go.jp/policy/economy/wef/2008/mechanism.html;

www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/lc_business/env_trans_fund/env_trans_fund.aspx;
www.bmu.de/english/climate_initiative/international_climate_initiative/doc/43517.php;

www.regjeringen.no/en/dep/md/Selected-topics/climate/the-government-of-norways-international-.html?id=548491;

www.climatechange.gov.au/government/initiatives/international-forest-carbon-initiative.aspx;

www.europa.eu/legislation_summaries/development/sectoral_development_policies/r13016_en.htm;

www.climatechange.gov.au/government/initiatives/international-climate-change-adaptation-initiative.aspx;

www.undp.org/mdgf/environment.shtml.

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