FERDI
FONDATION POUR LES ÉTUDES ET RECHERCHES SUR LE DÉVELOPPEMENT INTERNATIONAL

CHAIR
International Architecture
of Development Finance

Monitoring International Funding for the Fight Against Climate Change: A System Yet to Be Built

Serge Tomasi

LA FERDI EST UNE FONDATION RECONNUE D'UTILITÉ PUBLIQUE.
CETTE PUBLICATION A BÉNÉFICIÉ D'UNE AIDE DE L'ÉTAT FRANCAIS AU TITRE
DU PLAN D'INVESTISSEMENT FRANCE 2030 PORTANT LA RÉFÉRENCE ANR-16-IDEX-0001.

Serge Tomasi, former Ambassador, former Director of Global Economy and Development Strategies at the Ministry of Europe and Foreign Affairs.

The fight against climate change is an emblematic public good that has been at the top of the international agenda for many years. Since 1992, the United Nations Conferences of the Parties (COPs) have laid down principles to guide international action and have approved commitments, particularly of a financial nature. These principles include the additionality of climate finance to official development assistance (ODA), the common but differentiated responsibilities of the States party to the Convention, and the "polluter pays" rule. A key element in getting developing countries to sign up to the climate agreements, particularly low-income countries (LICs) and small island developing states (SIDS), has been the commitment to annual financial transfers from industrialised countries to developing countries (DCs) to offset the additional costs incurred by the ecological transition.

policy brief
275
November 2024
note brève

.../... In 2009, at COP 15 in Copenhagen, this commitment to solidarity was quantified, with the industrialised countries collectively undertaking to mobilise USD 100 billion a year by 2020. This commitment, confirmed by the Paris Agreement in 2015, is complemented by the decision to double the volume of financing mobilised more specifically for adaptation by 2025, compared with the level reached in 2019. Lastly, the Paris Agreement stipulates that a new collective quantified financing objective (NCQG) will have to be set for the post-2025 period. This new target should therefore be set in December 2024 at COP 29 in Baku.

However, to date, there is no effective and transparent system for monitoring these financial commitments, even though there are two reports that periodically track the results of the mobilisation of international climate finance: the first is drawn up by the Standing Committee on Finance of the United Nations Framework Convention on Climate Change (UNFCCC)[1], and the other by the OECD (Environment Directorate). These two reports differ on a number of points: for example, their frequency (the OECD report is published annually with N-2 data, whereas the SFC (Shareholders for Change) report is published every two years with N-2 and N-3 data) or the methods used to define the lists of contributor and beneficiary countries (see next session).

Given what is at stake - quite simply the future of life on planet Earth - and the collective energy expended over so many years to build a fragile consensus on shared objectives, the weaknesses of the system for monitoring financial commitments in the climate field are striking, particularly in the light of the experience gained in monitoring development financing[2]. In order to restore confidence between the partners, particularly with a view to setting new financial commitments for the post-2025 period, it seems essential to build a stronger, more reliable and more accurate system of accountability. Below are seven proposals for action to put such a system in place.

Clarify the Concept of "International Climate Finance" and Establish Real Guidelines for the Preparation of Declarations by Contributors

In order to be able to measure international climate finance effectively, we must first agree on a clear and exhaustive definition of climate finance, along the lines of what has existed since 1972 for ODA (see note referenced above). The very idea of a precise definition of climate finance is sometimes contested by some stakeholders, on the grounds that it could hinder innovation by discouraging some new actions that do not exactly correspond to the approved definition. Others point to Goodhart's law, according to which as soon as a quantified objective is established, its achievement tends to take precedence over the desired operational result, with the operational effectiveness of the policies pursued taking second place to the display of resources mobilised. These fears cannot justify inaction, because it is possible to guard against them: definitions can be sufficiently broad and inclusive so as not to exclude a priori innovative actions; a very general objective can also be broken down into specific sub-objectives to ensure that the core targets are not neglected (for example, the setting of a general objective

1. Better known by its acronym SFC (Standing Finance Committee). "The Standing Finance Committee (SFC) assists the Conference of the Parties (COP) in fulfilling its functions in relation to the financial mechanism of the UNFCCC, in terms of improving coherence and coordination in the provision of climate finance, streamlining the financial mechanism, mobilising financial resources and measuring, reporting and verifying support to developing Parties". Cf. https ://www4.unfccc.int/sites/NWPStaging/Pages/Standing-Committee-on-Finance.aspx

2. See Tomasi S. (2024) "Monitoring Development Financing: a First Assessment of the 2018 Reform. One More Effort?", FERDI *Policy Brief* B274; and Tomasi S. (2024) "Public Funding for Development and Global Public Goods: How to Measure it?", FERDI Report, 60 p.

for climate financing has been usefully supplemented by a specific objective for adaptation). As is the case with the Rio markers, we can distinguish between actions that have the fight against climate change as their main objective, while also listing those that only make a significant contribution, even though they may pursue other goals as their main objective. Finally, following the example of the climate conventions, we can set precise objectives for action, over and above mere financial targets, particularly in terms of emissions reductions.

The Standing Committee on Finance of the UNFCCC has undertaken a review of the main definitions used by the States Parties for their individual statements in the context of the biannual report it publishes on climate finance. It found that more than 21 States Parties to the UNFCCC had submitted their own definitions, sometimes with significant discrepancies. This situation inevitably weakens the credibility of the reporting system. In the light of this review of the various definitions of climate finance used by the States Parties and the "operational definitions" used in particular by the SFC[3], it seems essential to take the process one step further and propose a general definition that should be agreed by all the States Parties to the UNFCCC or, failing that, at least by the "donor" countries[4]. In particular, this definition should make it possible to decide on key points such as: 1) the public nature of the funding and whether private funding raised through the mobilisation of public instruments should be taken into account; 2) the type of objectives approved (adaptation, mitigation, remediation, mixed programmes, etc.) and the eligible activities/sectors; 3) finally, the delicate question of the degree to which the programme contributes to the fight against climate change: should it be an exclusive, essential, significant/substantial or even secondary contribution?

This definition must then be supplemented by precise, standardised guidelines to govern the declarations made by contributors. At present, there are no guidelines that are as binding as those in force for ODA or TOSSD. The Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement (Decision 18CMA1) did adopt "Modalities, Procedures and Guidelines" (MPGs) for the preparation of declarations by States Parties, a revised version of which came into force in 2024: the "Enhanced Transparency Framework". However, apart from the fact that it goes well beyond issues of financial transfers by de facto aiming to monitor all the commitments made under the Paris Agreement (including emission reduction targets), this text, in its paragraphs devoted to monitoring financial commitments, is not sufficiently prescriptive and detailed: it aims more to ensure the transparency of the data provided than to establish standardised and precise methodological rules for drawing up contributors' declarations. Given this situation, the multilateral development banks and the IDFC (International Development Finance Club, which brings together bilateral and regional development banks) have published their own guidelines, distinguishing between adaptation and mitigation programmes, to provide methodological assistance to their members and promote a degree of harmonisation of practices. While this work is to be commended, it concerns only some of the players

3. In its report, the SFC first reiterates the operational definition it has used to date: "Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts." "Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, strengthening adaptability, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts, and includes the financing of activities likely to produce measurable results in achieving the goals of the Paris Agreement and the objective of the convention."
4. As in the case of the definition of ODA, which was drawn up and approved by the DAC member states in 1969, at the invitation of the United Nations General Assembly (UNGA), which intended to set a quantified target that was finally approved by the UNGA in 1971. On this point, it is worth noting the "wisdom" of the UNGA at the time, which invited the DAC to draw up a definition and a reporting system for ODA (Guidelines) before setting the target figure of 0.7% of GNI, leaving it up to the States party to this commitment to specify its metric.

in climate finance and remains the work of the operators—who are therefore both judge and judged.

Proposition 1

A working group has been convened, involving the SFC and the OECD, to develop a clear definition of international climate finance and detailed guidelines for the preparation by States Parties and international organisations of their statements on their financial contributions to achieving the USD 100 billion target. The endorsement of any new target (NCQG) should be conditional on agreement on this definition of international climate finance and the approval of such guidelines.

Updating the List of Contributors and Beneficiaries of International Climate Finance

While development financing is based on the idea of international solidarity between rich and poor countries, climate finance has from the outset emphasised the principles of "common but differentiated responsibility" and "polluter pays". The collective commitment of the industrialised countries to mobilise USD 100 billion in annual funding from 2020 to support the ecological transition in the South is therefore not based primarily on their level of income, but rather on their historical and current responsibility for the level of emissions, and consequently for the current climate disruption. Consequently, the lists of countries contributing to ODA, on the one hand, and to climate finance, on the other, naturally diverge, as do the lists of countries eligible for these two sources of funding.

The countries that must contribute to the overall financing of the USD 100 billion allocated to the ecological transition in developing countries are identified in Annex 1 of the UNFCCC, and not in the list of DAC member countries. This annex to the UNFCCC is therefore a central element of the system, as it makes it possible to distinguish between contributor countries, according to their responsibilities, and beneficiary countries (known as "non-annex 1"), mainly because of their vulnerability to climate change rather than their low income. The situation of SIDS, which include many upper-middle income countries, is a perfect illustration of this dichotomy, since they are clearly identified as the main targets of climate finance, not because of their level of poverty but because of their particular environmental vulnerability.

The current situation is unsatisfactory because it introduces bias into the climate finance accountability system. The two existing reports on the monitoring of climate finance differ somewhat in their approach. While the SFC report is based on the UNFCCC lists, the report published by the OECD is based on the DAC list of countries eligible for ODA, supplemented by "non-Annex 1" UNFCCC countries when they are not on the DAC list of countries. This creates a statistical bias. For example, France has chosen in its declarations, unlike others, not to include climate financing for countries such as Ukraine or Turkey, even though they are on the DAC list of eligible countries, because they are also on the UNFCCC list of Annex 1 countries. The effect is not neutral because, for France, this exclusion reduces AFD's contribution by almost 1 billion euros in 2023 (out of a total of 6 billion).

Above all, as the list of "Annex 1" countries has never been revised since 1992, it is now obsolete and no longer reflects reality: countries such as China and the Gulf States are still not considered contributors, despite their relative weight in global emissions. This situation is leading to growing tensions in the negotiations, which could be exacerbated at the next COP in Baku,

when a new post-2025 financial commitment will be negotiated.

Proposition 2

Convene a working group to establish objective criteria for revising the current list of contributors (known as "Annex 1"); draw up a list of beneficiary countries; and provide for a system of periodic graduation of beneficiary countries. Any agreement on a new quantified commitment should be conditional on the setting up of such a working group, or even on an agreement approving the revision of these two lists.

Putting an End to the Debate on the Additionality of Climate Finance

According to the well-known rhetoric of UN negotiations, any negotiation at the UNFCCC must repeat the "agreed language" since 1992, according to which international climate finance is "additional" to ODA.

The errors of the additionality debate, or the "unbearable lightness of being"

The parties to the UNFCCC have never been able to specify how the additional nature of climate finance is assessed and measured, leading to widespread mistrust: in relation to ODA mobilised on a given date? but, in this case, which date should be chosen: 1992, 2009, 2015? Finally, what objective methodology can be used to distinguish between development finance and climate finance, particularly for projects in low-income countries that perfectly meet the eligibility criteria for ODA? In the same vein, how can the additional costs associated with the use of low-carbon technologies be calculated into the overall cost of a project in a developing country, and for how long should this type of calculation be carried out at a time when the international community adopted a "sustainable development" agenda nearly ten years ago?

The UNFCCC's guidelines (MPGs) on monitoring commitments under the Paris agreements are a perfect illustration of the unease with this notion of additionality. They simply ask States Parties to specify in their statements on their financial contributions "the elements that lead them to consider that the financing of a project is additional". Given that there is no objective, agreed method for measuring additionality, we are leaving it up to each country to define its own method, and it's simply up to the country to explain it...

The challenge of giving substance to this principle of additionality has been further strengthened by the adoption in 2015 of the Sustainable Development Agenda and the Sustainable Development Goals (SDGs), which in a way merge the development agenda and the environmental protection agenda to promote "sustainable development", with a central focus on limiting global warming and preserving biodiversity. Today, any project to develop energy or manufacturing production capacity, transport infrastructure or agricultural production must incorporate environmental standards and objectives if it is to be approved and implemented in a developing country with donor funding.

Reinstate the principle of additionality

The issue of additionality in climate finance is central to developing countries' commitment to the climate transition agenda and must therefore be properly addressed. In our view, there are two possible ways of restoring confidence and giving substance to this commitment to additionality, and they are not mutually exclusive.

The first approach aims to set ambitious targets for development financing alongside the financial commitments for the climate, to give concrete ex-

pression to the idea that the fight against climate change will not be achieved at the cost of sacrificing the development of poor countries.

Today, public climate finance is largely concentrated in middle-income countries (70% of the total, including 40% for PRITIs and 30% for PRITS), with low-income countries mobilising only 10% of the total (see the latest OECD report published in May 2024). This observation is compounded by the fact that, according to the OECD report, a substantial part of this climate finance, including for mitigation projects in PRIs, is made up of concessional resources. There is therefore a very real risk, on a constant budget, that a portion of development financing will be diverted to climate finance in the MICs, to the detriment of low-income countries, and in particular the LDCs (the risk is less for SIDS, which receive substantial amounts of climate finance per capita).

In our view, this observation should lead the international community to substantially raise the specific ODA mobilisation target for LDCs, which has been set for decades at 0.15% of donor countries' GNI. This seems all the more justified given that, in addition to their low share of climate finance, most of these countries are largely excluded from financial markets and receive only a very small share of the private foreign direct investment allocated to developing countries. It is therefore in these countries that ODA has the highest marginal effectiveness.

Proposition 3

Raise the funding target for LDCs as a percentage of donor countries' GNI to 0.25%.

Recently, the monitoring of development financing has taken a major step forward by going beyond the measurement of ODA alone to establish a process for monitoring all development financing (TOSSD or Total Official Financing for Sustainable Development). The aim is to create a new, more exhaustive indicator, making it possible to measure all financing, whether concessional or not, allocated specifically to the development of poor countries (pillar 1) or mobilised to support the financing of global public goods (climate, biodiversity, communicable diseases, preservation of peace).

In the same vein, the additional nature of climate finance could be ensured by establishing a global financial commitment for Pillar 1 of the new indicator for monitoring development finance, the TOSSD[5].

Proposition 4

Set a global development funding target (pillar 1 of the TOSSD).

In this way, the additionality of climate finance would not be achieved through haphazard attempts to develop a methodology to measure the intrinsic additionality of climate finance allocated to specific projects, but by setting ambitious development finance commitments, in parallel with the establishment of specific climate finance commitments.

The second approach aims to account for mitigation projects only in climate finance.

In the TOSSD categorisation, which distinguishes between development financing in developing countries (pillar 1) and financing for global public goods (GPGs) (pillar 2), only adaptation projects would remain included in development financing. Mitigation projects would henceforth be considered as "financing of GPGs" and therefore monitored through this specific categorisation, in the TOSSD (pillar 2). In fact, the purpose of mitigation programmes (to help slow global warming) and the quality of the final beneficiaries (a world population well beyond the inhab-

5. For more information, see Ferdi B274, *op. cit*.

itants of the developing country where the project is located) justify this distinction. By making a distinction between adaptation and mitigation, the latter being excluded from the measurement of development finance, we could achieve the objective of additionality in climate finance, with mitigation finance being additional, and therefore tracked in a separate category, because it is primarily motivated by the climate agenda and targeted at countries (the vast majority of which are MICs) where their marginal effectiveness is at its highest.

Proposition 5

Classify financing allocated to mitigation as climate financing, distinguishing it from development financing.

Publish the Individual Contributions of the States Parties to the Collective Financial Commitment in Order to Establish a Measure of their Real Efforts

Today, the States Parties to the UNFCCC have collectively committed to a global financing target of USD 100 billion for developing countries. The OECD report presents the overall amount mobilised on an annual basis, but does not publish results by contributing country or by beneficiary. For the latter, only a breakdown by country category (LDCs, LICs, MICs, SIDS) is provided. This monitoring system is highly inadequate, as it does not allow any international comparison to measure the relative efforts of contributors, nor any precise analysis of the distribution of funding between countries in relation to their needs (measured by per capita income, population or vulnerability). As a result, there is no way of assessing the fairness and effectiveness of the system.

It therefore seems essential to us that, as a first step, data by country should be published, both for contributors ("Annex 1" countries) and for recipient countries ("non-Annex 1" countries). In the case of contributing countries in particular, the overall volume of their climate financing for developing countries could usefully be related to their wealth (GNI), population and level of emissions (on a historical or current basis). This data would make it possible to assess the level of their efforts in relation to their capacity to contribute and/or their responsibility, in line with the principles of common but differentiated responsibility and polluter pays.

Proposition 6

Publish data by country so that the relative efforts of contributors can be assessed in the light of their respective contribution capacities and responsibilities, as well as the fairness and effectiveness of the allocation of funding.

This effort would be a minimum first step in improving transparency and ensuring genuine accountability. It would also make it possible, at the level of beneficiaries, to check that no one is being left by the wayside and to identify any flaws in the climate finance allocation system. This data exists for development, and it would be hard to understand why it is not published for the climate and for other global public goods (protection of biodiversity, etc.).

Eventually, we could go further and assess countries' ability to contribute on the basis of objective criteria. Such a composite indicator could be constructed on the basis of their level of income (GNI) and their level of responsibility for emissions (amount of historical emissions accumulated over a long period and/or recent emissions). At the very least, such a system would make it possible to assess each country's efforts in relation to a theoretical capacity to

contribute, and even to move towards setting individual financing targets.

Proposition 7

Propose a composite indicator assessing each country's ability to contribute in terms of its level of income and emissions, or its relative share of world GNI and global emissions.

Créée en 2003, la **Fondation pour les études et recherches sur le développement international** vise à favoriser la compréhension du développement économique international et des politiques qui l'influencent.

Contact
www.ferdi.fr
contact@ferdi.fr
+33 (0)4 43 97 64 60

n° ISSN : 2275-5055

Directeur de la publication : Patrick Guillaumont