



DEVELOPMENT • CLIMATE • AND FINANCE

Monitoring Climate Finance and ODA

May 2010

ISSUES BRIEF #1

This *Issues Brief* examines the challenges of monitoring financial flows related to climate change. The first part focuses on tracking, monitoring, and reporting various types of flows, primarily from official development assistance (ODA) and other public sources but also from private sources. The second part explores possible ways of tracking additionality in ODA flows, with the aim of stimulating global discussion on this issue. A more comprehensive support document on this topic can be found on the World Bank website at beta.worldbank.org/climatechange.



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INTRODUCTION

Low-carbon investment in developing countries consistent with a +2° Celsius climate stabilization target could cost \$139–175 billion a year by 2030. In addition, some \$75–100 billion could be required annually over the next 40 years to support adaptation to the inevitable impacts of climate change on developing countries. The resources that have been committed so far to address mitigation and adaptation in these countries cover just 5 percent of the needs. Combating climate change will require tremendous efforts and ingenuity to mobilize sufficient resources without delay. It is important that efforts in mobilizing climate finance not erode current development assistance. In the Copenhagen Accord, developed countries committed themselves to mobilizing “new and additional resources” for climate investments approaching \$30 billion for 2010–12 and \$100 billion a year by 2020.

The types and sources of financial flows are extremely broad and include both new instruments to address climate change as well as shifts in core development and investment finance toward low-carbon and climate-resilient solutions. In this complex landscape, keeping track of financial support for adaptation and mitigation will be a challenge. This is particularly the case in the context of *measurable, reportable, and verifiable support to climate action in developing countries*.

As a background for this discussion, it is important to bear in mind the *evolution of the ODA concept*. 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 that address climate change mitigation or adaptation, the challenge is to assess the *incremental* value of the contribution concerned. Ways should be found to:

- *Channel funds* to meet these incremental needs (driven by efficiency, effectiveness, fairness, and equity concerns)
- *Report* on financing allocated to meet these incremental needs.

CURRENT PRACTICES AND CHALLENGES IN MONITORING

The complexity of the financial and investment flows to support climate action in developing countries can be seen in Figure 1, which highlights the diversity of sources, channels, and types. In light of ongoing discussions on monitoring and additionality, these can be grouped into two streams (see Figure 2):

- *Climate finance*—the resources to catalyze the climate-smart transformation of development trajectories by covering the additional costs and risks of climate action, creating an enabling environment and building capacity in support of adaptation and mitigation as well as encouraging research, development, and deployment of new technologies. Climate finance can be mobilized through a range of instruments from a variety of sources, international and domestic, 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

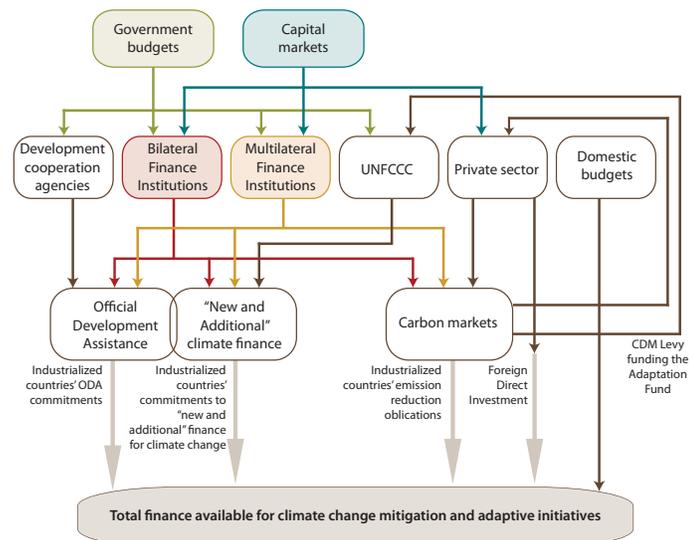
ODA is currently defined as the flows to countries and territories on the Organization for Economic Co-operation and Development's (OECD's) Development Assistance Committee (DAC) List of ODA Recipients and to multilateral development institutions, on the condition that they are:

- Provided by official agencies, including state and local governments, or by their executing agencies; and
- 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 percent (calculated at a discount rate of 10 percent).

mechanism), Global Environment Facility (GEF) grants (multilateral concessional climate-change dedicated funding), and domestic resources that governments in developing countries are mobilizing (such as the announcement by the Maldives of a daily tax on tourism, with proceeds earmarked for climate action).

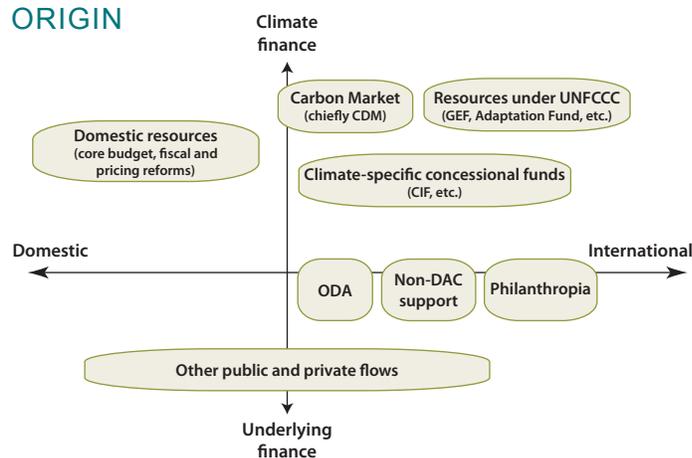
- *Underlying finance*—the almost 10–20 times larger amount of financial and investment flows in developing countries that are increasingly directed to climate action. These flows come from multiple sources, public and private, international and domestic (such

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).

FIGURE 2 MAPPING CLIMATE FINANCE, BY ORIGIN



as foreign and domestic private sector investment, national development budgets, and international development assistance).

In this complex landscape, getting a full view of climate-related financial and investment flows is a formidable challenge, given the possible inconsistencies across existing reporting systems, the many data gaps (with notably the challenge to identify 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). Table 1 summarizes the major monitoring issues along the main categories identified in Figure 2. (More detailed information, including on amount, is available in the support document on the website.)

Going forward, improving monitoring of financial and investment flows for climate action will entail progress on harmonization and consistency of reporting systems. It will also necessitate adopting a dual-tracking system (on both sources and endpoints), in particular as the many flows branch out. 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 priorities. Measuring success in attracting climate finance and leveraging underlying finance is crucial for evaluating which instruments are or may be most appropriate to stimulate climate action.

TABLE 1 MAIN MONITORING ISSUES

Type of flow	Amount (\$bln p.a.) climate	Amount (\$bln p.a.) non-climate	Monitoring issues
Carbon markets (avg. 2006-08)	6.6	–	<ul style="list-style-type: none"> Multiple and confidential primary transactions Actual payment and investment flows unknown
Resources under UNFCCC (avg)	0.4	–	–
Climate-specific concessional funds (avg.)	~ 4	–	<ul style="list-style-type: none"> Consistency and double-counting issues (multiple contributors and channels) Additionality
ODA (avg. 2005–07)	3.6	105.0	<ul style="list-style-type: none"> Co-benefits of development activities, notably for adaptation MDBs do not report yet, in a consistent manner
Non-DAC donor support (2007)	?	~ 7	<ul style="list-style-type: none"> Non exhaustive coverage (both sources and recipients) Purposes unclear
Philanthropy (2007)	?	~ 49	<ul style="list-style-type: none"> Non exhaustive coverage (both sources and recipients) Purposes unclear
Domestic resources (core budget, fiscal and pricing reforms)	?	?	<ul style="list-style-type: none"> Very scarce information, not harmonized
Underlying finance (2007)	?	3,990	<ul style="list-style-type: none"> Non exhaustive coverage Purposes unclear
GFCF	?	522	
FDI	?		

TRACKING PROGRESS — PERCEPTIONS, BASELINES, BENCHMARKS, AND TOOLS

Numerous papers provide different views on the question of how to measure additionality of climate change relative to ODA. 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. Whichever method for monitoring is adopted, it is critical that public financing sources for achieving the Millennium Development Goals (MDGs) and climate change action are scaled up hand in hand.

TO WHAT EXTENT DOES ODA SUPPORT CLIMATE ACTION? INSIGHTS WITH THE RIO MARKERS

In addition to specific bilateral and multilateral donor support, which has been critical to mobilizing resources for climate action over the last 18 months, ODA can also deliver climate co-benefits (for instance, energy efficiency improvements and natural resources management).

Tracking these contributions to climate action in full is difficult, with the exception of targeted funds and initiatives (such as the Climate Investment Funds). As ODA is also increasingly delivered at a programmatic, strategic level (with low-carbon growth or climate resilience as one of the outcomes), matching downstream results to specific upstream support is not an easy task. For instance, it can be hoped that a policy and institutional reform in solid waste management with ODA support translates into better practices and additional investment in more-sustainable waste management with mitigation benefits. The question is, How to quantify these benefits and how to attribute them specifically to upstream policy and institutional reform?

To what extent does other than climate-specific bilateral ODA already support climate action? OECD DAC introduced a system of monitoring aid that targets the objectives of the Rio Conventions (the so-called Rio Markers) in 2008 for mitigation and in 2010 for adaptation. The markers can provide a qualitative answer by identifying aid activities that contribute to the objectives of the United Nations Framework Convention on Climate Change

(UNFCCC) by promoting efforts to reduce or limit greenhouse gas (GHG) emissions or enhance GHG sequestration. Partial data indicate that over the past few years DAC donors have allocated \$3–4 billion per year for mitigation-change-related aid (about 3–4 percent of total ODA). As the application of the Rio Markers by donor countries reporting to DAC was not mandatory until recently, trends revealed by them cannot be meaningfully measured until 2013–14.

DIFFERING VIEWS

Most developing countries consider climate change financing as entitlement rather than aid. They think that 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 gross domestic product (GDP) to this end by 2015. Funds addressing climate change are not part of this commitment. Several developing countries have 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 with 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 it clear that industrial countries have to support developing countries in their efforts to mitigate GHGs. Specifically, Articles 4.3 and 4.5 of the Convention call for developed 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.

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 one of three values: “0—not targeted,” “1—significant objective,” or “2—principal objective.”

Monitoring by multilateral development banks (MDBs): Drawing on their experience in providing economy-wide support for sustainable development and emerging climate finance instruments, MDBs have been responding to growing demand in “climate-smart” investments and in institutional and policy measures. They are a large source of development assistance with significant climate benefits, and they are engaged in sectors that are critical for climate action. It is estimated that over 2006–07 MDBs invested about \$4.2 billion annually in low-carbon activities, with an approximate leverage factor of 3.8—that is, activity volumes that compare with bilateral ODA.

MDBs do not, however, report their activities in a consistent manner across institutions, and information on adaptation is often scarce. Discrepancies relate to the classification of sectors and categories or to investment figures that combine their own resources with climate-specific resources and instruments (for example, GEF or carbon finance). In addition, similarly to bilateral ODA marked under the OECD DAC reporting system as a “significant objective,” there is no indication of a specific share of an MDB’s 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.

There are strongly divergent views on the links between the ODA commitments and targets and the climate finance of OECD countries. Those that have reached the 0.7 percent of GDP can easily consider all climate finance as additional. But for those countries still below the commitments or without explicit targets, this will be more complicated.

- *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 direct response to the climate change challenge. *Such funds are not a part of the discussion on additionality with regard to ODA.*

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

COMPLEXITY

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

Terminology

There are *incremental costs* due to mitigation and adaptation to climate change that should not be an extra burden to 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:

Current monitoring methods

So far, the Rio Markers system is the most advanced initiative to monitor, report, and verify financial and investment flows across a range of countries at both ends and in sectors. Relatively simple and transparent to apply, the mandatory application of Rio Markers by all OECD countries in reporting their ODA is a step in the right

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

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.

direction. Those adaptation or mitigation projects marked with score 2 can be interpreted as being fully dedicated to climate action. However, those marked with score 1 can have several other thematic objectives, as double counting with other policy objectives is not excluded. It will still take some years before there are data with sufficient coverage to allow meaningful analysis of all ODA contributions. In the meantime, tests with more comprehensive scoring or marking systems by some agencies will, it is hoped, yield

positive results that lead to a further refinement of the Rio Marker system to provide more quantitative data.

Before systematic data are available from Rio Markers or similar systems, several agencies (including the World Bank) have embarked on portfolio review exercises (or will do so soon) 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 the 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 offers some topics for consideration in 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 place 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.

A second way to address the issue of additionality via the composition of ODA is to maintain the current definition but work on a system to measure specific ODA components. OECD countries report resources provided to other countries as ODA if they meet specific criteria rather than being based on channels through which they are provided, as climate change is increasingly considered necessary in the promotion of sustainable economic development and welfare. Recognizing this inevitability and aiming at improving the tracking of climate finance within ODA, the flows for development purposes 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, thus making it easier to monitor progress and trends in both action and financing. Finding ways to distinguish and track mitigation action as ODA Climate will be relatively straightforward.

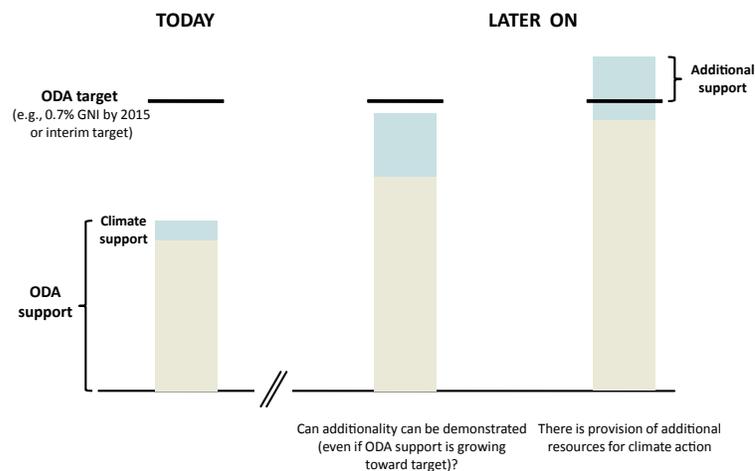
On the other hand, assistance to developing countries for adaptation to climate change is closely intertwined with actions targeting other development objectives, and tracking the share of ODA Climate in these cases will not be equally accurate. Determining what is incremental in climate action in development programs and projects will remain a challenge.

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 in international negotiations and that does not have a negative impact on ODA directed toward MDGs (see Figure 3).

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 with regard to climate financing as well. Interim targets until 2015 might be politically sensitive, as countries with ambitious interim targets may be penalized for such an ambition. Benchmarking vis-à-vis the 0.7 percent of GDP will be more politically feasible, as it is universal and applicable to all countries, but 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/GDP ratio rising from 0.26 percent in 2004 to an estimated 0.32 percent in 2010. Despite this strong performance, ODA for 2010 is expected to fall \$18 billion

FIGURE 3 “ODA CLIMATE” IN RELATION TO “ODA CLASSIC”



short (in 2004 dollars) against aggregate commitments even after adjustment for the lower than expected GDP. A second challenge is that the 0.7 percent of GDP has a 2015 deadline attached. Therefore, only at that date would benchmarking vis-a-vis that target make sense.

Possible methods

Contributions to climate change in ODA flows to core multilateral funds and bilateral programs will remain an approximation. Over a period of time, the Rio Markers introduced to OECD DAC reporting on ODA will provide a basis for comparing trends in overall contributions on the one hand and trends in climate financing on the other. The mandatory and consistent application of Rio Markers by all OECD countries in reporting their ODA could advance the process of distinguishing and tracking contributions to emerging climate-specific funds as ODA Climate before more-accurate tracking methods can be agreed upon.

Also, contributor, recipient country, or sector-specific portfolio analysis can provide useful indications of 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 use 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 in ODA in general and in 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.

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

- Current and improved Rio Markers
- More consistent reporting by MDBs
- Reporting by the UNFCCC on new funding through levies and so on.

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 proving the incremental costs related to climate action while maintaining the environmental integrity of projects 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 ODA: sustainable development outcomes.

NEXT STEPS

The development community can directly or indirectly contribute to improving the monitoring of and access to climate finance through, for instance, the following activities:

- Make the use of *Rio Markers* for both mitigation and adaptation compulsory and consistent in reporting on all ODA flows by OECD DAC countries.
- *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.
- Build capacity in *developing countries* to assess the magnitude of the public DAC and the non-DAC and private sector flows related to climate action.
- Development agencies such as the U.N. Development Programme (UNDP), the U.N. Environment Programme, and 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 actions 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) would help any future assessments of progress made.
- The UNDP/World Bank joint *Climate Finance Knowledge Platform*, complementing the UNFCCC-led Financing Platform, will be launched in 2010 to improve developing countries' access to information on sources of finance for climate action, best practices, and tools for investment decision making.

D E V E L O P M E N T • C L I M A T E • A N D F I N A N C E

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