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Understanding the Main Elements for an Operational Definition of Climate Finance

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Abstract

An operational definition of climate finance could contribute to facilitating access of developing countries to needed public and private financial resources to support them on climate action required to face the climate crisis and its impacts. The climate finance definition adopted by the UNFCCC Standing Committee on Finance in 2014 aimed to clarify the goals of climate finance, but it has not solved the main questions about climate finance. Although agreeing on an operational definition of climate finance in the multilateral negotiations may facilitate the flows of climate finance, achieving an outcome still faces some obstacles.

It is urgent for developing countries' government officials and delegations to be aware of the different elements that need to be considered to achieve an appropriate definition. This policy brief analyses the different elements to be considered in the negotiation of an operational definition of climate finance, that can be effective in promoting developing countries' interests in the context of the current international framework to address climate change.

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Une définition opérationnelle du financement climatique pourrait contribuer à faciliter l'accès des pays en développement aux ressources financières publiques et privées nécessaires pour appuyer les efforts entrepris pour faire face à la crise climatique et à ses effets. La définition adoptée par le Comité permanent du financement de la Convention-cadre des Nations unies sur les changements climatiques (CCNUCC) en 2014 visait à clarifier les objectifs du financement climatique, mais elle n'a pas résolu les principales questions le concernant. Si le fait de s'entendre sur une définition opérationnelle du financement climatique dans le cadre des négociations multilatérales peut faciliter les flux de financement dans ce domaine, certains obstacles doivent encore être surmontés.

Il est urgent que les responsables gouvernementaux et les délégations des pays en développement soient conscients des différents éléments à prendre en considération pour parvenir à une définition adaptée du financement climatique. La présente note de synthèse propose une analyse des éléments susceptibles de promouvoir avec efficacité les intérêts des pays en développement au sein du cadre international actuel de lutte contre le réchauffement climatique.

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Una definición operacional de "financiación climática" podría contribuir a facilitar el acceso de los países en desarrollo a los recursos financieros públicos y privados que necesitan como apoyo para llevar a cabo la acción climática requerida para afrontar la crisis climática y sus repercusiones. Si bien es cierto que la definición de "financiación climática" adoptada por el Comité Permanente de Financiación de la CMNUCC en 2014 tenía por objeto aclarar los objetivos de la financiación climática, no ha solucionado las principales cuestiones acerca de dicha financiación. Aunque el hecho de acordar una definición operacional de "financiación climática" en las negociaciones multilaterales podrá facilitar los flujos de la financiación climática, el logro de resultados aún enfrenta ciertos obstáculos.

Urge que los funcionarios públicos y las delegaciones gubernamentales de los países en desarrollo conozcan los diferentes elementos que han de tenerse en cuenta para conseguir una definición que sea apropiada. En este informe de políticas se analizan los distintos elementos que deben considerarse en las negociaciones relativas a una definición operacional de "financiación climática" que pueda ser eficaz para promover los intereses de los países en desarrollo en el contexto del marco internacional actual a fin de abordar el cambio climático.

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Introduction

The 25th Conference of Parties (COP25) of the United Nations Framework Convention on Climate Change (UNFCCC) held in December 2019, through its Decision 11/CP.25, invited Parties to submit their views on the operational definition of climate finance. These would be considered by the Standing Committee on Finance (SCF) to enhance its technical work on this matter in preparation for the 2020 Biennial Assessment and Overview of Climate Finance Flows.[1] Further, at COP26 Decisions 8a/CP.26 and 8b/CP.26 (2021) mandated the SCF to continue its work on the definition of climate finance while also inviting Parties to make submissions. This work will continue during COP27.[2] The mandate for the continuation of the work on an operational climate finance definition was achieved thanks to the initiative from several developing countries and country groupings, such as the Group of 77 and China (G77), the Like-Minded Developing Countries (LMDCs) group, the Least Developed Countries (LDCs) and the African Group.[3]

Climate finance is an issue of the utmost importance for developing countries in the international legal architecture on climate change. It is needed to support them on climate action required to face the climate crisis and its impacts. Almost all developing countries are affected by extreme weather events, as we have seen recently in Pakistan, Kenya, China, and other developing countries. The disasters caused by such events can cost billions of US dollars in material damages, in addition to the loss of lives.[4] Meanwhile, developing countries struggle to get access to financial resources to face this crisis without increasing their already heavy debt burden. While those events occur in developed and developing countries alike, developing countries do not have enough resources for resilience building and to implement the needed adaptation and mitigation measures and to respond to the magnitude of the damage those events cause.

As widely recognized, developed countries' model of carbon-intensive development has been the major driver for the current climate crisis. The UNFCCC rightly places the historical responsibilities on industrialised countries for their major contributions to emissions of greenhouse gases (GHGs).[5]

Since the adoption of the UNFCCC and later the Paris Agreement (PA), developing countries have emphasised that to face the impacts of climate change and to contribute to the implementation of the Convention and the PA, they needed financial support from their developed country counterparts.[6] At the core of these demands is the need for having an agreed operational definition of climate finance. Many developing countries,[7] joined by civil society organizations and international experts[8] have raised their concerns on this matter, as the lack of a shared definition creates uncertainty and affects their ability to track and assess climate finance. This scenario prevents developing countries from having the right information to take appropriate decisions for climate action.

The climate finance definition adopted by the Standing Committee on Finance (SCF) in 2014 aimed to clarify the goals of climate finance, but it does not solve the main questions about *what is climate finance and what it should do* in the climate change framework; thus, it has not solved the problem.[9]

The past discussions on the matter show that agreeing on an operational definition of climate finance in multilateral negotiations faces many obstacles. Since it will be negotiated (aiming to reach an agreement) during COP27, it is urgent for developing countries' government officials and delegations to analyse the different elements needed to achieve an appropriate definition.

This policy brief therefore analyses the different elements to be considered in the negotiation of an operational definition of climate finance, that can be effective in promoting developing countries' interests in the context of the current international framework to address climate change.

What does operational definition mean?

Etkin and Evcan[10] in their contribution to understand the multi-definitional problems of concepts in international relations, pointed out that there is no universal definition and no single meaning of such concepts. These are themselves human constructs meant to find solutions. The meaning of concepts changes depending on how we perceive the underlying realities.[11] In international relations, many definitions have been constructed through negotiating processes.

A multilateral negotiation is, in many senses, a joint construction involving States, non-state actors, and international organizations that may seek different objectives and look for different definitions on the same concept. Thus, definitions emerging from international negotiations may not be as accurate as scientific conceptualizations but are the result of political agreements and compromises.

One interesting example of the international community agreeing on an operational definition to find a solution in a complex negotiation is the General Agreement on Trade in Services (GATS) at the World Trade Organization (WTO). In 1995, more than 100 countries agreed that:

> *"For the purposes of this Agreement, trade in services is defined as the supply of a service:*
>
> *a) from one territory of one Member into a territory of any other Member;*
>
> *b) in the territory of a Member to the service consumer of any other Member;*
>
> *c) by a service supplier of one Member, through commercial presence in the territory of any other Member;*
>
> *d) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other*

Member."[12]

The above text is an interesting example of an operational definition. It is not a definition *per se* of what a service is, but countries at the WTO agreed on a breakdown definition to create a legal framework to promote the international trade in services. In the words of Etkin and Evcan, this could be an example of a human construct agreed to solve a problem based on an operational definition.

Understanding the major parameters for an operational definition of climate finance

The UNFCCC and the PA are the primary legal sources for an operational definition of climate finance. In this section, the analysis focuses on the provisions from these legal instruments, having in view as well other sources of information, relevant for elaborating an operational definition of climate finance. The intention is not to dig into the types of financial instruments for climate finance such as commercial loans, credits, green bonds, debt swaps, insurances etc., or even domestic tools for climate finance but to delineate a general concept that can embrace different modalities of climate finance.

Any definition of climate finance should consider the following issues:

The common but differentiated responsibilities of developed countries

The third paragraph of the UNFCCC[13] recognizes the responsibilities of developed countries in the current and historical global emissions of GHGs. The Convention also establishes that under the principles of equity and Common But Differentiated Responsibilities (CBDR), the developed country Parties should take the lead in combating climate change and the adverse effects thereof (Art. 3.1).

Further, Articles 4.3 and 4.5 of the UNFCCC establish that developed countries must provide financial resources to developing countries. Likewise, the Paris Agreement states that developed countries must take the lead in providing funding for developing countries' mitigation and adaptation needs. (PA Articles 9.1 and 9.3).

Provision of new and additional resources

Pursuant to Article 4.3 of the UNFCCC, one of the most critical elements of the climate finance definition should take into account that the developed countries "shall *provide new and additional* financial resources" (emphasis added) to developing countries in order to support them to meet their commitments under the Convention. The funding also must cover *the incremental cost* of implementing measures listed in paragraph 1 of Article 4 and the requirements of information listed in paragraph 1 of Article 12 of the UNFCCC. The Kyoto protocol, in its Article 11 confirmed the commitments of Article 4 of the Convention. Some examples of the Articles 4.1 and 12.1 requirements are:

All parties shall:

- Develop, update, publish and make available to the COP, national inventories of anthropogenic emissions by sources and removals by sinks,
- Formulate, implement, publish and update national programmes containing mitigation measures,
- Promote sustainable management of sinks and reservoirs,
- Cooperate in preparing adaptation to the impacts of climate change,
- Take into account climate change considerations in their social, environmental policies and actions,
- Communicate to the COP national inventory of anthropogenic emissions by sources and removals by sinks using comparable methodologies to be agreed by the COP,
- Communicate any other information that the Party considers relevant to the achievement of the objectives of the UNFCCC, including material relevant for the calculation of global emissions trends.

The financial support, in accordance with article 9.1 of the PA, should also be directed to support developing countries to meet the provisions of Article 6 (mitigation) and Article 7 (adaptation).

In addition, paragraph 4.4 of the Convention confirms the obligations of developed countries, stating that they "shall assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects". Further, the PA's Article 9.1 provides that, "Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention."

The UNFCCC Article 4.7 establishes that the extent to which developing countries will implement their commitments is contingent upon the financial support provided by developed countries. An almost similar condition appears in Article 4.5 of the PA regarding the level of ambition of developing countries' Nationally Determined Contributions, stating that:

> *"Support shall be provided to developing country Parties for the implementation of this Article, in accordance with Articles 9, 10 and 11, recognizing that enhanced support for developing country Parties will allow for higher ambition in their actions."*

The new and additional clause (Article 4.3 UNFCCC and Kyoto Protocol Art. 11.2(a)) clearly indicates that climate finance must be *in addition to* the funding provided by developed countries as part of the Official Development Assistance (ODA). This has been repeatedly underlined by developing countries[14] and the G77[15].

Predictability and progressivity

The criterion of *predictability* is also an important condition under Article 4.3 of the UNFCCC which specifies that, "The implementation of these commitments shall take into account the *need for adequacy and predictability* in the flow of funds and the importance of appropriate burden sharing among the developed country Parties" (emphasis added). Moreover, Article 9.3 of the PA reaffirms the need for *progressivity* in the provision of climate finance while Article 9.4 asserts that "the provision of *scaled up* financial resources should aim to achieve a balance between adaptation and mitigation…" (emphasis added).

Predictability and progressivity in the provision of funds are important parameters to consider in any operational definition of climate finance, in line with the relevant international legal instruments on climate change.

The nature of the financial instruments

The UNFCCC and the PA do not define the nature of the financial instruments; however, several provisions indicate that the financial resources to be provided to developing countries should be in the **form of grants or loans or any other financial instrument on concessional terms**. Thus, Article 11.1 of the Convention, when defining a financial mechanism, emphasizes that resources are "*on a grant or concessional basis*".[16] In the same vein, the grant feature of the resources is stated in Article 9.4 of PA, which when referring to the scaling up of financial resources says, *"…considering the need for public and grant-based resources for adaptation."*[17]

Furthermore, as stated in the preamble of the UNFCCC, developing countries will implement their commitments in a coordinated manner with their social and economic priorities while avoiding adverse impacts on policy responses and taking into full account the legitimate priority needs for the achievement of sustained economic growth and the eradication of poverty.[18] That means that poverty alleviation/eradication being one of the priorities of developing countries, the instruments used to fund climate action should not negatively affect this overriding goal.[19] Moreover, climate finance should not cause them to increase their sovereign debt burdens that have dramatically increased as a result of the COVID-19 pandemic.[20]

Against this backdrop, it can be concluded that the provision of climate-related funding should be in terms of grants, loans or guarantees, and of other similar financial instruments, on concessional terms.[21] As stated in the report of the climate finance workshop of 2020 organised by the UNFCCC secretariat, the type of funding should be analysed based on its grant-equivalent reporting in order to enhance comparability of reporting and improve the analysis of the climate finance effectively provided by developed countries.[22]

Loans on commercial or semi-concessional terms are not 'climate finance'. They must be reported and registered, but they should not be added to the climate finance support, otherwise the borrowers (developing countries) may end up paying for climate change disasters, which is contrary to the principles and provisions of the UNFCCC and the PA.

Sources of funding

The UNFCCC does not say anything about the sources for climate finance. The PA (Art. 9.3) states that mobilizing climate finance should consider a wide variety of sources, instruments and channels noting the significant role of *public finance*. All of these sources should consider the needs and priorities of developing countries and also be consistent with the main tenets of the UNFCCC and the PA, that is, prioritizing grants and other instruments on a concessional basis as well as adaptation.[23]

The PA Article 9.3, referring to the mobilization of climate finance from a wide variety of sources, instruments and channels, is broad enough to include private sector's participation. This is also consistent with the Cancun outcomes which state that, "…*funds provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources*".[24]

Public and private sources are welcome to fight against the climate crisis, provided that they are aligned with the needs and priorities of developing countries, and that they are consistent with the transparency mechanisms of the UNFCCC. All developing countries want to benefit from the different funding sources. However, they should be vigilant of the quality of the information and data provided, as well as of the quality of the reporting. It is crucial to give governments the opportunity to make informed decisions about the type of funding they are getting and from whom.

Provision vs mobilization

Developing countries have raised questions about "provision" and "mobilization" of climate finance.[25] The mobilization element was included in UNFCCC Article 7.2(h) as part of the tasks mandated to the Conference of Parties, where Parties shall "*[s]eek to mobilize financial resources in accordance with Article 4, paragraphs 3, 4 and 5, and Article 11*". Also, the Kyoto Protocol Article 13.4 (g) requested the Meeting of the Parties to *"[s]eek to mobilise additional financial resources in accordance with article 11.2 of the Protocol*". Later on, the mobilization element was included in Article 9.3 of the PA, stating that *"Parties should continue to take the lead in mobilizing climate finance…"* Since then, many countries have used 'mobilization' almost interchangeably with climate finance, suggesting that provision and mobilization of funds are equivalent. Thus, the Organisation for Economic Co-operation and Development (OECD) 2020 Report on Climate Finance[26] uses both words as synonyms.

However, as highlighted by Kenya's submission to the SCF, there are differences in the meaning of "provision" and "mobilisation".[27] Accordingly, an operational definition of climate finance should make a clear distinction between finance provided (that should be from public sources) and climate finance mobilised (which could include other sources and instruments).[28]

While using 'provision' or 'mobilization' in the definition, as appropriate, climate finance should not lead developing countries to increase their sovereign debt to address the climate crisis they face. In this regard, the climate finance definition has to contribute to create legal certainty and offer a framework that delivers clear and transparent information to developing countries, avoiding ambiguities in the climate finance framework.

Balance between mitigation and adaptation

It is well known that there is a significant bias in climate finance in favour of mitigation.[29] But it is also well known that adaptation finance is a critical issue for developing countries, together with loss and damage.[30] Therefore, a climate finance definition should correct the bias of climate finance flows towards mitigation.

The UNFCCC Art. 4.4 states that the developed country Parties shall assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation to those adverse effects. The PA Article 9.4 clearly points out that the *provision* of scaled up financial resources should aim to achieve a balance between adaptation and mitigation.

The burden of administrative or reporting cost

Under the international legal architecture on climate change, many obligations have been adopted that are applicable to developing countries (e.g., Articles 4, 5, 6, 12, among others of the UNFCCC, and Articles 3, 4, 5, 7, 13 of the PA). However, most developing countries lack the necessary resources and sometimes suffer capacity constraints to implement those obligations. That is why the UNFCCC Article 4 and PA Article 9 contain provisions clarifying that the cost of the administration and implementation requirements must be supported by developed countries.

Least developed countries' special needs and situation

Both the UNFCCC and the PA contain specific commitments and considerations for the LDCs. Paragraph 4.9 of the Convention clearly states that Parties shall take *full* account of the specific needs and situation of the LDCs as regards to funding and transfer of technology. This situation also has been reflected in the Preamble of the PA. In addition, Article 9.4 of the PA highlights that the provision of scaled up financial resources should take into account the priorities and needs of developing countries, especially "*those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States*".

An operational definition of climate finance - Proposal from members

As per Decision 11/CP.25[31], state Parties made submissions to the SCF for the continuation of its work. The SCF will present its inputs for consideration by COP27 in November 2021. In this regard, some Parties submitted proposals which are publicly available.[32] These proposals provide a number of relevant justifications and arguments for an operational definition on climate finance. All proposals have been included in Annex 1. A summary of the proposals is presented below[33]:

Bolivia on Behalf of the Like-Minded Developing Countries:

The definition proposed by the LMDCs is as follows:

1) Climate Finance is the new and additional funding provided by Annex II/ developed countries to non-Annex-II/developing countries to meet:

(a) the agreed full costs of the obligations of non-Annex-II/developing countries under Article 12.1 of the Convention as well as Article 13.14 of the PA; and

(b) the agreed full incremental costs, of meeting the obligations of non-Annex-II/ developing countries as detailed in Article 4.1 of the Convention as well as their nationally determined contributions as set out in Articles 3 and 9.1 of the PA

More specifically, such agreed incremental costs relate to defined actions/projects/programs undertaken or outlays proposed/incurred, by non-Annex-II/developing countries, towards mitigation, adaptation, technology transfer, capacity building, addressing adverse impacts or damage caused by climate change, loss incurred as a result of response measures that address climate change, and any transition to defined low emission pathway/(s) and climate resilient development. Such incremental costs must also include cost of insurance and the cost of raising and servicing the funds provided by Annex-II/developed countries.

2) It must prioritize public financial resources, on a grant or concessional basis, from developed country Parties and other developed Parties included in Annex II of the UNFCCC to developing country Parties only. These resources shall represent a progression from previous efforts and would be used for the purposes of:

a) supporting developing country Parties in reporting on their climate change actions under the UNFCCC and its Paris Agreement, including reporting on the implementation of their NDCs;

b) supporting developing country Parties in implementing mitigation and adaptation actions under the UNFCCC and its Paris Agreement, particularly those included in their NDCs as well as actions to address loss and damage;

c) supporting technology development and transfer, capacity building, and cross-cutting support, to the *developing country Parties concerning (a) and/or (b) above.*[34]

India

Climate finance refers to the mandatory supply under the UNFCCC and its Paris Agreement of new and additional financial resources, including public financial resources, on a grant or concessional basis, from developed country Parties and other developed Parties included in Annex II of the UNFCCC to developing country Parties only. These resources shall represent a progression from previous efforts and would be used for the purposes of:

a) supporting developing country Parties in reporting on their climate change actions under the UNFCCC and its Paris Agreement, including reporting on the implementation of their NDCs;

b) supporting developing country Parties in implementing mitigation and adaptation actions under the UNFCCC and its Paris Agreement, such as those included in their NDCs as well as actions to address loss and damage;

c) supporting technology development and transfer, capacity building, and cross-cutting support, to the developing country Parties concerning (a) and/or (b) above.[35]

Philippines

Philippines' submission does not provide a textual suggestion of a climate definition but it considers that:

"…funding from whatever source can only be considered if they are new and additional resources over and above the Overseas Development Assistance (ODA); and they correspond to the needs of developing countries to meet their agreed full costs for their obligations under the UNFCCC and its Protocols (reporting, GHG inventory, and capacity building) and agreed full incremental costs of implementing mitigation and adaptation measures that would enable them to shift as soon as possible to a climate benign technological base and adapt to climate change impacts in an anticipatory manner, to progressively lessen losses and damages from climate hazards".[36]

Submission by Senegal on behalf of the Least Developed Countries

The LDC group elaborated its proposal on the basis of the SCF's operational definition mentioned in its Biennial Assessment of 2014[37]:

"Climate finance is funding that is new and additional to overseas development assistance (ODA), aiming at: (1) reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts; (2) reducing emissions, and enhancing sinks, of greenhouse gases and (3); averting, minimizing and addressing loss and damage to impacts of climate change".

It further states:

"Amount, accessibility, and quality of funding should be key minimum elements for setting criteria to implement and assess adequate and scaled -up climate finance that takes into account the needs and priorities of developing countries."[38]

Kenya

The submission of Kenya does not elaborate on an operational definition as such but highlights the main components that it a should contain. Elements such as the purpose, source, scope, needs of developing countries and channels should be captured by the definition. Its submission contains several issues of high interest for developing countries, such as the need to differentiate climate finance provision and mobilization, and that the resources should be new and additional to ODA, among other things.

Common elements and concerns raised by developing countries

All the proposals and elaborations from developing countries on the operational definition of climate finance are coincident in many aspects. The common elements, with nuances include the new and additional character of financial resources (not affecting the level of ODA), progression in the provision of the financial resources, the grant and concessional character of resources and the scope of the definition (including adaptation, mitigation, implementation, reporting, capacity building and transfer of technology). Some of the submissions also highlighted the need to include loss and damage.

Since the referred to operational definition may decisively influence the nature, modalities and level of climate finance for a long period, the best strategy for developing countries to achieve a positive outcome on this subject would be to align themselves with the most complete proposal submitted. That could be the proposal submitted by the LMDCs, that includes all the elements analysed above and included in other developing countries' submissions, for example:

- New and additional resources to be provided by Annex II developed countries
- Cover the full cost of the obligations of non-Annex II developing countries
- Cover the full incremental cost of meeting the obligations of developing countries for mitigation, adaptation, loss and damages, transfer of technology, capacity building
- The incremental cost of insurance, raising and servicing the funds provided by developed countries
- The financial resources must prioritise public sources and grants or concessional bases
- Support reporting of developing countries on climate actions
- Supporting developing countries in implementing mitigation and adaptation actions.

- Supporting technology transfer and capacity building

This strategy of supporting the most complete proposal may allow developing countries to reach a favourable outcome in this critical area.

Many developing countries have expressed concerns about the reallocation of resources from ODA to climate finance. Currently, the diversity of accounting and reporting methodologies makes it challenging to assess and compare climate finance flows and differentiate them from ODA. This therefore creates uncertainty about the level of these flows.[39] This uncertainty is one of the issues that an operational definition of climate finance needs to overcome.[40]

Indeed, the reason behind the emphasis of developing countries on the "new and additional" character of climate finance is that many experts have been alerting that developed countries are diverting resources from ODA towards climate change.[41] This would mean that, in a context of uncertainty, without a clear operational definition of climate finance, the current trends "might push a further shift of development cooperation resources away from support of nationally identified development priorities towards development cooperation in support of the provision of climate change mitigation (and less to adaptation) as a global public good."[42]

The reporting accuracy is another issue highlighted by developing countries and many organizations. The climate finance reporting made by the SCF and the information provided by the Development Assistance Committee (DAC) Creditor Reporting System (CRS) of the OECD and the biennial report of the SCF are not as accurate as required to monitor and assess financial flows.[43] The OXFAM "Shadow Report 2020" raised queries about the reporting on climate finance and made the following constructive suggestions that should be considered by UNFCCC and PA Parties:

- Report the full project lists.
- Report the grant equivalent of climate finance. For donor countries, this requires a column for the grant equivalent of climate finance in the new reporting framework (known as the Common Tabular Format).
- Where climate change is part of a broader development project, report the full project value as well as the estimated value of activities specifically targeting climate change.
- Do not count non-concessional instruments addressing UNFCCC climate finance obligations.
- Disclose the terms of loans and other instruments used to provide climate finance.
- Report the share of climate finance they are contributing to LDCs and Small Island Developing States (SIDS).

One of the most challenging issues for developing countries is sovereign debt. Many developing countries are getting more indebted because they have to respond to climate related problems.[44] Developing countries must be provided with enough resources to address climate change and their development needs. In 2021 developed countries did not provide the agreed upon U$ 100 billion per year.[45]

The governments' need to obtain comprehensive and accurate information to make informed decisions will grow in relevance in the coming years. Currently, the main reporting is the DAC from OECD which is not a United Nations (UN) body. However, the reports of developed countries have been found unclear and opaque. According to Oxfam's last publication, the provision/mobilization reported by developed countries in the amount of $83.3bn in 2020 is flawed. Oxfam estimates the actual value of climate assistance provided to developing countries to have been only one-third of that – around $21 –24.5bn.[46] In this regard, a UN specialized body with recognised capacity, such as the UN Conference on Trade and Development (UNCTAD) could be an excellent solution for the reporting and transparency problem within the UN system. UNCTAD should be given the responsibility to coordinate and prepare the climate finance reporting.[47]

Conclusions

Developed countries must comply with their commitments in providing financial resources for climate change mitigation and adaptation, and the operational definition of climate finance should help to monitor them. The resources to be provided in accordance with Article 4.3 UNFCCC and Kyoto Protocol Art. 11.2 (a) must be in addition to the funding provided under ODA, as developing countries have repeatedly underlined.

An operational definition of climate finance should contribute to facilitate access of developing countries to the needed public and private financial sources, having in view that a critical priority for developing countries in achieving the Sustainable Development Goals (SDGs) is poverty alleviation/eradication.

The provision of funding should be in terms of grants, loans or guarantees and other similar financial instruments, on concessional terms. The instruments should be analysed based on their grant-equivalent reporting to enhance comparability of reporting and improve the analysis of climate finance provided by developed countries.

Loans on commercial or semi-concessional terms are not climate finance. They must be reported and registered, but they should not be added to the climate finance target; otherwise, the borrowers (developing countries) will end up paying for climate change disasters, which is contrary to the principles and provisions of the UNFCCC and the PA. Climate finance should not cause developing countries to increase their sovereign debt.

To achieve an acceptable outcome in the discussions on the operational definition of climate finance, developing countries should align themselves with the most complete proposal submitted by the LMDCs.

Given the growing importance of information for climate finance in the coming years, in order to assist developing countries in making informed decisions, a UN specialized body with recognized capacity, such as UNCTAD, should be entitled to coordinate and prepare the climate finance reporting.

Endnotes:

[1] UNFCCC, Decision 11/CP.25, document FCCC/CP/2019/13/Add.2, page 10, paragraph 10.

[2] UNFCCC, Decision 8a/CP.26 (Long-Term Climate Finance (LTF)) paragraph 12, and UNFCCC, Decision 8b/CP.26 (SCF) paragraphs 6,7,8.

[3] Third World Network (TWN), "Madrid Climate News Updates" (December 2019), pages xiv and 77. Available from https://www.twn.my/title2/climate/fullpdf/madrid2019_dec.pdf (last accessed 12/09/2022).

[4] For instance, the recent floods in Pakistan have caused losses exceeding $30 billion. See: https://www.bloomberg.com/news/articles/2022-09-09/un-chief-seeks-aid-as-pakistan-flood-losses-exceed-30-billion.

[5] UNFCCC preambular paragraph 3

[6] G77 and China Statement, "COP 9 Ministerial Round Table 3: Assessment of Progress in the national, regional and international levels to fulfill the promise and the objective enshrined in the climate change agreements, including the scientific, information, policy and financial aspects". Available from https://www.g77.org/Speeches/121003.htm.

[7] TWN, "Madrid Climate News Updates (December 2019)", page 77. Available from https://www.twn.my/title2/climate/fullpdf/madrid2019_dec.pdf.

[8] UNFCCC, *Summary by the Standing Committee on Finance of the Fourth (2020) Biennial Assessment and Overview of Climate Finance Flows*, page 3.

[9] "*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.*" UNFCCC, Report of the Standing Committee on Finance to the Conference of the Parties, Document FCCC/CP/2014/5, page 17.

[10] Cagil T. Etkin, Nusret Sinan Evcan, "Analyzing Multi-Definitional Problems of Concepts in International Relations: Re-Conceptualizing Change", *SAGE Open Journal*, Vol. 11, No. 4. Available from https://journals.sagepub.com/doi/full/10.1177/21582440211050402.

[11] Ibid.

[12] General Agreement on Trade in Services, Article 1

[13] Paragraphs in the preamble of the UNFCCC are not numbered; therefore the counting in this section is made in the order of the paragraphs' appearance.

[14] See submissions of Like-Minded Developing Countries, India, Kenya to the Standing Committee on Finance at https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[15] See G77 and China statements: https://www.g77.org/statement/getstatement.php?id=220602, also here: https://unfccc.int/sites/default/files/g77_and_china_proposed_texts_to_the_note_by_the_co.pdf.

[16] UNFCCC, Article 11.

[17] Paris Agreement, Article 9.4.

[18] UNFCCC Preamble

[19] UNFCCC, Article 4.7.

[20] Statement by Dr. Carlos Correa, Executive Director of The South Centre, to the Ministers and Governors Meeting of the Intergovernmental Group of Twenty-Four (G24). See https://www.southcentre.int/sc-statement-to-the-g24-11-october-2022/.

[21] The level of concessionality of a loan is a core criterion for its eligibility to qualify as ODA. Concessionality is assessed through the "grant element" calculation, i.e. an assessment of the financial terms that takes into account four factors: the interest rate, the grace period, the maturity, and the discount rate. See Organisation for Economic Co-operation and Development (OECD), *Climate Finance Provided and Mobilised by Developed Countries in 2013-18,* page 18.

[22] UNFCCC, In-session workshop in long term finance 2020, Summary Report presented by the Secretariat, FCCC/CP/2021/6, paragraph 31.

[23] As provided in Article 11.1 of the UNFCCC and Article 9.1 and 9.4 of the Paris Agreement.

[24] UNFCCC, Decision 1/CP.16, paragraph 99, page 17.

[25] See developing countries' submissions to the SCF at https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[26] See OECD, *Climate Finance Provided and Mobilised by Developed Countries in 2013-18* (Paris, OECD Publishing, 2020), p. 17. Available from https://doi.org/10.1787/f0773d55-en.

[27] Kenya's submission on the Matters Relating to the Standing Committee on Finance: Common Definition and Understanding of Climate Finance. See https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[28] Ibid.

[29] See Oxfam International, *Climate Finance Shadow Report 2020: Assessing progress towards the $100 billion commitment* (Oxford, Oxfam International Publishing, 2020), p. 17. Available from https://www.oxfam.org/en/research/climate-finance-shadow-report-2020.

[30] See South Centre Policy Brief 26 (October 2021) at https://www.southcentre.int/climate-policy-brief-26-october-2021/.

[31] UNFCCC, SCF, Background paper on work on definitions of climate finance, Doc. SCF/2022/28/4.

[32] This Policy Brief reviewed the submissions made by Parties until the 7th of October 2022. See

https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[33] The US also made a submission stating that the climate finance operational definition identified by the SCF in 2014 is enough.

[34] Proposal by the LMDCs on Definition of Climate Finance for the consideration of the Standing Committee on Finance. See https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[35] Proposal by India on Definition of Climate Finance for the consideration of the Standing Committee on Finance. See https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[36] Philippines, UNFCCC Standing Committee on Finance, Inputs to the Operational Definition of Climate Finance. See https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[37] 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", SCF 2014 Biennial Assessment Report.

[38] Submission by the Republic of Senegal on behalf of the Least Developed Countries (LDCs) Group on views on the Operational Definitions of Climate Finance. See https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6.

[39] UNFCCC, In-session workshop in long term finance 2020, Summary Report presented by the Secretariat, FCCC/CP/2021/, paragraph 41, page 7.

[40] UNFCCC, In-session workshop in long term finance 2020, Summary Report presented by the Secretariat, FCCC/CP/2021/, paragraph 41, page 7.

[41] Fiona Ryan, "Separating climate finance and ODA", DevPolicyBlog, 24 April 2019. Available from https://devpolicy.org/separating-climate-finance-and-oda-20190424/. See also Independent Expert Group on Climate Finance, *Delivering on the $100 billion climate finance commitment and transforming climate finance* (December 2020), p. 31. Available from https://www.un.org/sites/un2.un.org/files/2020/12/100_billion_climate_finance_report.pdf.

[42] Stephan Klingebiel, "Development Cooperation and Climate Change: The quest for orientation in a challenging context", *Development Cooperation Review*, Vol. 5, No 1 (January-March 2022).

[43] Independent Expert Group on Climate Finance, *Delivering on the $100 billion climate finance commitment and transforming climate finance* (December 2020), p. 31. Available from https://www.un.org/sites/un2.un.org/files/2020/12/100_billion_climate_finance_report.pdf.

[44] Rachid Bouhia, "Greening international Debt Data", UNCTAD, 7 December 2021. Available from https://unctad.org/news/blog-greening-international-debt-data. See also UNCTAD, *Trade and Environment Review 2021: Trade Climate Readiness for Developing Countries*.

[45] UNFCCC, Glasgow Climate Pact, FCCC/PA/CMA/2021/L.16, Paragraph 44.

[46] Oxfam, *Climate Finance Short-Changed. The real value of the $100 billion commitment in 2019–20* (October 2022). Available from https://www.oxfamamerica.org/explore/research-publications/climate-finance-short-changed-the-real-value-of-the-100-billion-commitment-in-20192020/.

[47] This idea was suggested by OXFAM in its Shadow Report on Climate Finance 2020. See https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621066/bp-climate-finance-shadow-report-2020-201020-en.pdf.

SOUTH CENTRE

The South Centre is the intergovernmental organization of developing countries that helps developing countries to combine their efforts and expertise to promote their common interests in the international arena. The South Centre was established by an Intergovernmental Agreement which came into force on 31 July 1995. Its headquarters is in Geneva, Switzerland.

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