

Separating climate finance and ODA

by Fiona Ryan

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World leaders at the 2015 UN Climate Change Conference (Credit: UN)

International cooperation on climate change has been dogged by **problems of who should pay** to mitigate greenhouse gas emissions and increase resilience against climate change. Suspicion reigns!

Under the 2015 Paris Agreement on climate change, the rich countries of the developed world committed to providing US \$100 billion annually by 2020 in climate finance to developing countries. Also, in 2015 developed countries once again pledged to provide 0.7% of GNI as official development assistance (ODA) to meet their commitments under the UN's 2030 Agenda for Sustainable Development. It seems developed countries have decided to achieve both targets with the same funds.

The **latest figures** from the OECD show that developed countries claim US \$54 billion in climate financing to developing countries. **Considerable doubt** has been thrown on the accuracy of OECD climate finance figures. Nevertheless, the amounts are clearly growing and significant.

Of course, developed countries claim their climate funding is “new and additional”. However, a statement from the Australian government reveals how it funds its climate finance. At the 2015 Paris climate change talks, Prime Minister Malcolm Turnbull **pledged AU \$1 billion** over the next five years, to be drawn from “our existing aid program.” Most other developed countries appear to take the same position, making climate finance a major claimant on the US \$147 billion given annually in ODA.

When finance began to be mandated under the UN climate agreements, developing countries had expected these funds to be “new and additional” as stipulated in Article 4.3 of the original **Rio Climate Convention** agreed in 1992. They did not **expect** it to come from existing ODA. They were also **dismayed** that the target could be met using private investments.

However, the definition of “new and additional” has never been widely agreed among countries. The Australian government **reported** that all its climate finance is new and additional because it must be approved by parliament every year. Every

cent the government spends, whether for joint strike fighters or mowing public lawns, is new and additional under this definition, rendering it meaningless.

The other part of the equation is who benefits from finance for climate change mitigation activities.

When a wind farm project is completed in a developing country, one would think the people who use the electricity in that country are the beneficiaries.

On the other hand, if that wind farm just replaces a fossil fuel project that was going to provide the same quality and quantity of electricity, then there is no net benefit to that community. If the climate finance provided is not actually “new and additional” – that is, if the funding is simply diverted from the existing ODA budget – this kind of trade-off is very likely.

In such cases, the major beneficiaries will be people all over the world who benefit from a more stable climate. Incidentally, this global benefit is the same whether the wind farm is built in a developed country like Australia or whether it is built in a developing country.

Economists say such renewable energy projects qualify as **global public goods** because no one anywhere can be excluded from the benefits of a stable climate. Finance for adaptation and increasing resilience to climate change does not qualify as a global public good because the benefits are usually local rather than global in nature. Nevertheless, if the finance for adaptation is not new and additional, then finance for adaptation also raises many equity issues, including concerns related to the historical responsibility for climate change.

Examination of the relevant OECD definitions reveal that climate-focused mitigation investments often stretch the limits of what qualifies as ODA. The OECD **definition** states that ODA must have “the economic development and welfare of developing countries as its main objective.”

If a project qualifies as “principally” about climate mitigation, which it needs to be under the **OECD Rio markers** to count as 100% climate finance, then it is hard to argue that the main objective is the economic development and welfare of that particular developing country. If the investment is not new and additional then the overall development outcome for the individual developing country would be lowered by shifting aid to climate finance, with the benefits now flowing abroad. The OECD has an escape clause (see **here**, paragraph 6), with projects counting as “significantly” about climate mitigation if this is “one of the principal reasons”. Perhaps the OECD believes that there could be numerous main objectives.

Aid agencies have **used the Rio markers** (which categorise aid projects as being “principally” or “significantly” about climate change) in creative ways to increase the volumes of climate mitigation projects they report.

One method is to rebadge projects – such as water, energy and health projects – as climate-related. In 2011, Axel Michaelowa and Katharina Michaelowa **found** that ODA projects were more likely to be coded as climate projects if the government was perceived to be supportive of climate change action. Conversely, **others found** that in 2014 – with a new Australian government known to be unfavourable to climate action – climate projects were rebranded as water or food security.

Another response is to focus on non-climate benefits of climate-related projects. There are many synergies with climate finance and other ODA sectors. Projects to save mangroves and other forests can have many co-benefits, such as improving land tenure and safeguarding livelihoods for indigenous people.

A recent review of the literature found numerous research papers detailing the social effects of projects on reducing emissions from deforestation and forest degradation (REDD+), but very few of these studies estimated CO₂ reductions achieved or areas of forest saved. The research community focused on measuring the net co-benefits rather than the climate change mitigation or forest conservation outcomes. The problem with multiple goals is that the principal objective may be de-emphasised.

There is a debate among development economists about whether climate finance should be excluded from being counted as ODA, as is currently the case with most in-country refugee costs and most military assistance.

Inge Kaul asserts that public finance for global public goods such as climate mitigation should not be counted as ODA. She argues that this will result in greater transparency and clarity and enable a clearer understanding by stakeholders of the nature and magnitude of the public resources required for effective climate action. Separating climate finance from ODA will also improve understanding of the public finance needed to achieve the development goals of developing countries.

Sir Nicholas Stern **believes** “additionality” is important. However, he claims there is too much complementarity with non-climate goals for climate projects to be excluded from ODA. The problem with this approach is that where countries meet both their climate mitigation and development assistance obligations with the same funding, many development stakeholders see it as creative accounting. Excluding climate finance from the definition of ODA is the simplest and clearest solution, optimising both the development and the climate mitigation outcomes of public

finance.

*This post is based on a **presentation** at the **2019 Australasian Aid Conference**.*

Author/s:

Fiona Ryan

Fiona Ryan is a climate, forests and development researcher and policy advisor based in Cairns. She was an accredited observer to five UNFCCC conferences and meetings between 2019 and 2024.

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