THE DEVELOPMENT ASSISTANCE COMMITTEE:
ENABLING EFFECTIVE DEVELOPMENT

The Role of Development Finance in Climate Action Post-2015

Tara Shine and Gisela Campillo

OECD DEVELOPMENT CO-OPERATION WORKING PAPER 31

Authorised for publication by Brenda Killen, Deputy Director, Development Co-operation Directorate

OECD
BETTER POLICIES FOR BETTER LIVES

December 2016

THE DEVELOPMENT ASSISTANCE COMMITTEE:
ENABLING EFFECTIVE DEVELOPMENT

OECD Development Co-operation Working Papers

Comments on the present Working Paper are welcomed and may be sent to Jan.corfee-morlot@oecd.org the Development Co-operation Directorate, OECD, 2 rue André-Pascal, 75775 Paris Cedex 16, France.

Please cite this paper as Shine, T. and G. Campillo (2016) "The Role of Development Finance in Climate Action Post-2015", OECD Development Co-operation Working Papers, No. 31 OECD Publishing, Paris.

THE ROLE OF DEVELOPMENT FINANCE IN CLIMATE ACTION POST-2015

Tara Shine and Gisela Campillo

ABSTRACT

This working paper reflects on the outcomes of the 2015 agreements on development and environment including the Sendai Framework, the Addis Ababa Action Agenda, the 2030 Agenda and the Sustainable Development Goals, and the Paris Agreement. It identifies common themes emerging from the international agreements and their implications for development co-operation providers and their partners. The paper outlines existing synergies between climate and development finance and proposes factors to improve coherence for sustainable development with a particular focus on the role of development co-operation providers in the post-2015 context. The paper contributes to the discussion about how the international community can successfully deliver on the commitments to sustainable development and climate action made in 2015.

Keywords: climate change, sustainable development, development co-operation, climate finance, development finance

JEL Classification: N5; O13; O19; P48; Q56.

ACKNOWLEDGEMENTS

This working paper was written by Tara Shine (external consultant, ENVIRONET Secretariat) and Gisela Campillo (Policy Analyst, ENVIRONET Secretariat) of the OECD under the guidance of Jan Corfee-Morlot, Head of the Climate Change, Environment and Development Team of the OECD. An earlier version of the paper was drafted to foster the discussion on the role of development co-operation providers in relation to climate and sustainable development finance during the annual meeting of the ENVIRONET on 1-2 March, 2016. The Secretariat received comments from several ENVIRONET members, which informed a subsequent draft, this time as an OECD working paper in order to reach a wider climate and development co-operation audience. The authors would like to thank all ENVIRONET members for their inputs and advice. In addition, the authors circulated the paper to several OECD colleagues for review, including Nadine Gbossa, Nicolina Lamhauge, Jane Ellis and Michael Mullan, Juan Casado Asensio, Taka Kato, Ebba Dohlman, Henri-Bernard Solignac-Lecomte. Mariana Mirabile provided invaluable support checking the data. All of the contributions received helped to inform and strengthen the final version of this paper.

TABLE OF CONTENTS

LIST OF ACRONYMS....5

EXECUTIVE SUMMARY....6

THE POST-2015 DEVELOPMENT LANDSCAPE....8

Background....8
Existing synergies between climate and development finance....11

IMPROVING COHERENCE BETWEEN CLIMATE AND DEVELOPMENT FINANCE IN THE POST-2015 ERA....17

i) Country ownership to enhance coherence and effectiveness of finance....18
ii) Greater mainstreaming of environment and climate in development co-operation....19
iii) Reducing fragmentation of climate finance....20
iv) Improving access to climate finance – especially for LDCs and SIDS....21
v) Defining climate finance and increasing transparency....22
vi) Increasing financial resources and pressure on ODA....23
vii) Improving predictability of financial support....24
viii) Competition between climate and development finance....24
ix) Prioritising public international climate finance for particularly vulnerable countries and people....26

IMPLICATIONS FOR DEVELOPMENT CO-OPERATION PROVIDERS AND ELEMENTS OF FUTURE WORK....29

REFERENCES....32

Tables

Table 1. Main outcomes and common themes emerging from the 2015 processes....9
Table 2. Summary of factors for improved coherence of climate finance and development finance..17

Figures

Figure 1. Share of gross ODA going to least developed countries (2000-2015)....12
Figure 2. ODA in 2014 segmented by country categories and type of financing flows....13
Figure 3. Trends in bilateral climate-related ODA from DAC members....14
Figure 4. Climate-related development finance by provider (2013-2014)....16
Figure 5. Climate objectives integrated into key sectors as a share of bilateral and multilateral ODA (2014)....20
Figure 6. Trends in bilateral climate change ODA and total ODA from DAC members (2005-2014). 26
Figure 7. Historical evolution of bilateral ODA dedicated to selected sectors as % of total bilateral ODA of DAC members (2005-2014)....26
Figure 8. Climate -related development finance by income group....28

Boxes

Box 1. Paris Agreement, Article 9.4....27

LIST OF ACRONYMS

GCF	Green Climate Fund
DAC	Development Assistance Committee
DRR	Disaster Risk Reduction
LDC	Least developed countries
MIC	Middle income countries
MDG	Millennium Development Goal
ODA	Official development assistance
SDG	Sustainable Development Goal
SIDS	Small island developing states
UNFCCC	United Nations Framework Convention for Climate Change
UNISDR	United Nations Office for Disaster Risk Reduction
USD	Unites States dollars

EXECUTIVE SUMMARY

2015 marked a year where sustainable development became the norm for both developed and developing countries. Four international agreements with direct repercussions for development and environmental policy were adopted, namely the 2030 Agenda for Sustainable Development (UN, 2015a), the Addis Ababa Action Agenda (AAAA) (UN, 2015b) , the Sendai Framework on Disaster Risk Reduction (2015-2030) and the Paris Climate Agreement (UNFCCC, 2015). This paper examines the implications of this new international policy landscape for development co-operation providers and their partners and proposes factors to strengthen coherence between climate and development finance. It builds on the reality that ending poverty and achieving sustainable development is not possible without stabilising the climate (UN, 2015a) and that progress on one agenda cannot be achieved without progress on the other.

The four agreements – Agenda 2030, AAAA, the Sendai Framework and the Paris Agreement -- signal a move towards greater coherence at the international policy level and recognise the roles that each of the four play in delivering sustainable development. Moreover, "enhancing policy coherence for sustainable development" is one of the SDG targets (17.14) and a key means of implementation for the SDGs. National level plans are now needed to translate these interlinked agendas into mainstream planning, including at the sector level. This paper reveals a number of themes such as equity, country ownership and protecting the most vulnerable, which are common to all four agreements, and argues that there is a need to move away from the siloed approaches and individual sector goals that characterised the MDGs to a more integrated and mutually interdependent post 2015 landscape. It also provides perspectives on how development co-operation practitioners can adopt coherent approaches in their agencies and in their support to partner countries.

Achieving the ambitious goals set out in these 2015 agreements will require a significant scaling up resources from public and private sources. ODA will continue to play an important role in the Least Developed Countries and in leveraging other sources of finance. Climate-related Official Development Assistance (ODA) has been increasing in absolute and relative terms since 2002. However, total ODA to the poorest countries is falling as their vulnerability to climate change increases. The Paris Agreement aims for a balance between adaptation and mitigation finance. To achieve this goal finance for adaptation will have to increase, as in the period 2013-2014, the majority of climate-related development finance targeted mitigation. The Paris Agreement also establishes an adaptation goal, raising the profile of adaptation and encouraging developed countries to increase support for adaptation, particularly amongst the most vulnerable developing countries.

Factors that can help to increase policy coherence at the national level and more effective use of finance for climate and sustainable development are proposed. These are closely related to the principles of the Busan Partnership for Effective Development Cooperation[1] and its global monitoring framework (Fourth High-Level Forum on Aid Effectiveness, 2011). The factors proposed are : i) country ownership ; ii) greater mainstreaming of environment and climate in development co-operation; (iii) reduced fragmentation of climate finance; (iv) improved access to climate finance-especially for LDCs and SIDS; (v) defining climate finance and increasing transparency; (vi) increasing flows and strategic use of ODA; (vii) greater predictability of financial support; (viii) clarity about any competition between climate and development finance and (ix) prioritising use of public international climate finance, in the form of ODA, for particularly vulnerable countries and people.

[1] Note that this paper was written before the Nairobi Outcome Document was adopted on the 1st December 2016 at the second High Level Meeting of the Global Partnership for Effective Development Cooperation.

Further work will be needed to assist the providers of development co-operation and their partners to capture opportunities for coherence between climate and development finance at the domestic level as plans are developed to implement the SDGs, the Addis Action Agenda, the Sendai Framework and the Paris Agreement. As part of this effort, the OECD as well as other relevant policy research partners can contribute to work under the UNFCCC to develop a transparency framework for climate finance. This could help to answer the vexed question of potential competition between climate and development finance which continues to cause a political divide between developed and developing countries. The development co-operation community could also consider further research in a number of areas including country level studies of financial flows to identify ways of maximising the effectiveness of finance for climate, development and disaster risk reduction. In addition, country level studies of the measures being taken to roll out the 2015 agendas in a coherent way at the national level would provide valuable insights and learning to share with development co-operation providers and partner governments.

THE POST-2015 DEVELOPMENT LANDSCAPE

Background

1. 2015 heralded a new era of development; with a universal approach to sustainable development enshrined in international agreements. The international community adopted four agreements in 2015 of major importance to development and environment. The 2030 Agenda for Sustainable Development (UN, 2015a) establishes out a new set of global goals to replace the Millennium Development Goals (MDGs) and seeks a balance between environmental, economic and social development in a way that 'leaves no one behind'. Agreement on the 2030 Agenda followed the Addis Ababa Action Agenda (UN, 2015b) on financing for development, proposes a comprehensive approach to financing sustainable development in order to achieve the ambitious 2030 Agenda. The Sendai Framework on Disaster Risk Reduction (2015-2030) sets out 7 global targets and 4 priorities for action to reduce disaster related risk, including improving resilience and protecting the environment (UNISDR, 2015). Finally the Paris Agreement on climate change (UNFCCC, 2015) set a new course on international co-operation to address climate change. The implications of these agreements go beyond development co-operation to shape policy making in all countries, developed and developing, sending signals to investors, business, local authorities and communities that a new, environmentally sustainable way of doing business is emerging.

2. When implemented, the 2015 international agreements will shape a new era of development co-operation, building on the experience of the past decades and reorienting development to address the drivers of poverty from inequality and climate change to resource degradation, conflict and over-consumption. These four agreements recognise the need to move towards greater coherence at the international policy level, as they all orient towards sustainable development and recognise the respective roles the other processes play in delivering this vision. The next challenge is to reflect this improved coherence at the national level through plans that integrate these interlinked agendas into mainstream planning at sectoral and sub-national level. Analysis of the four outcome documents reveals common themes (Table 1) and a move away from the siloed approaches and sector goals that characterised the MDGs (Weitz, et. al., 2014) to a more integrated and mutually interdependent post-2015 landscape. Likewise it is now understood that ending poverty and achieving sustainable development is not possible without stabilising the climate (UN, 2015) and that progress on one agenda cannot be achieved without progress on the other.

Table 1. Main outcomes and common themes emerging from the 2015 processes

Theme	Sendai Framework	Addis Ababa Action Agenda	2030 Agenda for Sustainable Development	Paris Climate Agreement
Responsibility to implement	Universal – non-binding agreement endorsed by UN General Assembly	Universal – a global partnership	Universal – the SDGs apply to all countries	Universal - 197 countries
Sustainable development	Commitment to address DRR in the context of sustainable development	Creating an enabling environment for sustainable development	All development is sustainable development	Climate action in the context of sustainable development
Country ownership	Disaster risk reduction is a common concern for all States and each State has primary responsibility to prevent and reduce disaster risk.	Integrated national financing frameworks	Each country has primary responsibility for its own economic and social development. Each country develops its own plan to implement the SDGs	Country led climate action building on the national climate change plans already submitted by 160 parties representing 188 countries. National plans to be reviewed and strengthened every five years from 2020
Poverty eradication	Urgency to integrate disaster risk reduction and building resilience in the context of poverty eradication	Goal to end poverty and hunger	Aims to eradicate poverty in all its forms	Climate action in the context of poverty eradication
Equity	Recognises inequality as a driver of disaster risk.	Seeks an equitable global economic system	Combats inequality within and between countries SDG 10 on equality	Implementation of the agreement guided by the principles of equity and common but differentiated responsibility and respective capabilities (CBDR-RC) in the light of different national circumstances.
Domestic and international financial resources	Includes a target to substantially increase international co-operation to developing countries through adequate and sustainable support to complement national actions for implementation of the Sendai framework by 2030.	Strengthen domestic resource mobilisation Developed countries achieve 0.7% target	Focus on domestic public resources and national ownership. Commitment to international support for poor and vulnerable countries	Developed countries take the lead in mobilising climate finance from a wide variety of sources to support climate action in developing countries. USD100 billion / year to be achieved by 2020 and revised upwards in 2025. Developing countries encouraged to provide support voluntarily.
Special considerations for groups of countries	Highlights developing countries, in particular LDCs, SIDS, land locked developing countries, African countries and middle income countries.	Highlights countries in special situations – Africa, LDCs, SIDs, land locked developing countries and middle income countries Commitment to reverse decline in funding to LDCs	Highlights countries in special situations – Africa, LDCs, SIDS, land locked developing countries and middle income countries	Recognises the particular vulnerability of LDCs and SIDS in relation to reporting, finance (including simplified access and readiness support) and capacity building.
Protect the most vulnerable	Highlights poor people, people with disabilities, migrants, indigenous people, older people.	Focus on social protection – creates a new social compact	Leave no one behind	Recognises vulnerable communities, women, indigenous people, people with disabilities

Theme	Sendai Framework	Addis Ababa Action Agenda	2030 Agenda for Sustainable Development	Paris Climate Agreement
Mainstream climate change into development	Addresses climate change as a driver of disaster risk. Respects the mandate of the UNFCCC. Emphasises coherence between climate change and DRR policies and plans.	Importance of meeting commitments under international conventions including climate change	Integrate climate change measures into national policies, strategies and planning	All financial flows to be consistent with a low carbon, climate resilient pathway Climate action in the context of sustainable development and poverty eradication
Improve access to resources	Emphasises adequate, sustainable, and timely means of implementation in capacity-building, financial and technical assistance and technology transfer.	Improve effectiveness of development co-operation –transparency, reduced transaction costs, predictability, timely information…	Scaling up the revitalised global partnership will require adequate means of implementation	Simplified approval procedures and enhanced readiness support to improve access to climate funds
Human rights and gender equality	States the key role that women and persons with disabilities need to have the reconstruction and rebuilding activities, planning and design of rehabilitation and response and integration of equitable risk reduction efforts. Protecting human rights is a guiding principle of the implementation of the framework.	Achieving gender equality and the full realisation of rights are essential to growth and sustainable development	Human rights and gender equality critical to attainment of all SDGs.	Human rights and gender equality to guide climate actions
Nexus issues – water, food and energy	Coherence between DRR, food and sustainable development policies is a guiding principle. Resilience related to water is mentioned. No mention of energy.	Emphasises investment in public services and environmentally sound energy and water infrastructure. Commits to scaling up efforts to end hunger and malnutrition – including through investment and trade measures.	SDGs on food and agriculture, water and energy (goals 2, 6 & 7)	Recognises fundamental priority of food security and the impact of climate change on food security. Stresses the importance of ecosystems including oceans but no specific mention of water. Renewable energy in Africa mentioned in the preamble to the decision of adoption of the Paris Agreement.
Balance adaptation and mitigation	Only reference is to integrating DRR into development assistance related to adaptation.	Welcome Green Climate Fund objective of 50:50 balance adaptation and mitigation financing - and 50% floor for adaptation to LDCs, SIDS and Africa	New climate agreement to balance mitigation, adaptation, finance, technology transfer, capacity building and transparency.	Scaled up finance to achieve a balance between adaptation and mitigation Goal on adaptation creates parity with mitigation.
Transparency	Emphasis on DRR governance including improved transparency.	Need for transparent methodologies for reporting climate finance	Transparency is a guiding principle for the review of SDG progress	New transparency framework established to track climate action and support.
Role of Private sector	Private sector recognised as an important stakeholder in DRR.	Role of international and domestic private sector in mobilizing finance recognised	Role of the private sector in the Global Partnership for sustainable development emphasised	All forms of finance including private finance to be mobilised. Role of business and other non–state actors in climate action formally recognised.
Partnership	Emphasis on partnership as part of DRR governance. National platforms and the Global Platform for Disaster Risk Reduction are foci for partnership.	Refers to the global partnership for sustainable development and the need to create enabling environments and coherent policy frameworks	Establishes a new global partnership for sustainable development to implement the SDGs	Promotes international co-operation by Parties and other stakeholders, including civil society, the private sector, financial institutions, cities and other subnational authorities, local communities and indigenous people.

Source: authors analysis based on UN (2015a, 2015b), UNFCCC (2015) and UNISDR (2015).

3. There is evidence that it is possible to eradicate poverty, increase resilience and reduce greenhouse gas emissions in a mutually beneficial way (World Bank, 2016; Granoff, et al., 2015; Mary Robinson Foundation- Climate Justice, 2015). The World Bank Shockwaves Report (World Bank, 2016), for example, finds that climate change threatens the objective of poverty eradication. It also finds that the immediate emissions reductions policies required to combat climate change need not threaten short term progress on poverty reduction if they are well designed and if international support is available for poor countries. Neither ending poverty nor stabilising the climate can be achieved without progress on the other. However, debate exists regarding the potential competition between climate finance and development finance. An integrated strategy, such as that set out in the 2030 Agenda provides the opportunity to jointly increase resilience, reduce emissions and eradicate poverty. Such an integrated or nexus approach, for example, recognising the links between actions on energy, water and food, can maximise synergies and avoid progress in one area imposing constraints on another (Weitz, et al. 2014).

4. Table 1 illustrates these and other common themes across the 2015 outcomes (Sendai framework, 2030 Agenda, Addis Ababa Action Agenda and the Paris Agreement) that we can expect to inform development co-operation strategies and actions in the coming years. This analysis reveals that the four international agreements adopted in 2015 have a common emphasis on country-led action. They envision a bottom up system where countries set their own priorities, adapting the global agenda into nationally relevant actions and reporting on progress at the international level through enhanced transparency mechanisms. This provides an opportunity for greater coherence between policy agendas at the national level. All four processes also stress the need to protect the most vulnerable people and / or to 'leave no one behind' in the transition to low carbon, climate resilient sustainable development. The common emphasis on human rights and gender equality also speaks to this point on inclusion and the protection of the most vulnerable in society. Equity informs all four processes, building on lessons learned from the MDGs that progress to achieve development goals must be equitable if it is to be transformative and sustainable. Equity is also a cornerstone for climate action, recognising the differences of responsibility between developed and developing countries. Likewise all four processes emphasise the new global partnership needed to achieve their shared vision; a partnership between governments, business, communities and civil society. This partnership is needed to channel support to the countries with least capacity to meet their development goals and to ensure that that the collective action of all partners is well coordinated and complementary to achieve sustainable development.

5. The next section explores the synergies between climate and development finance to unpack the ways in which resources can flow to meet the interconnected goals of climate action and sustainable development.

Existing synergies between climate and development finance

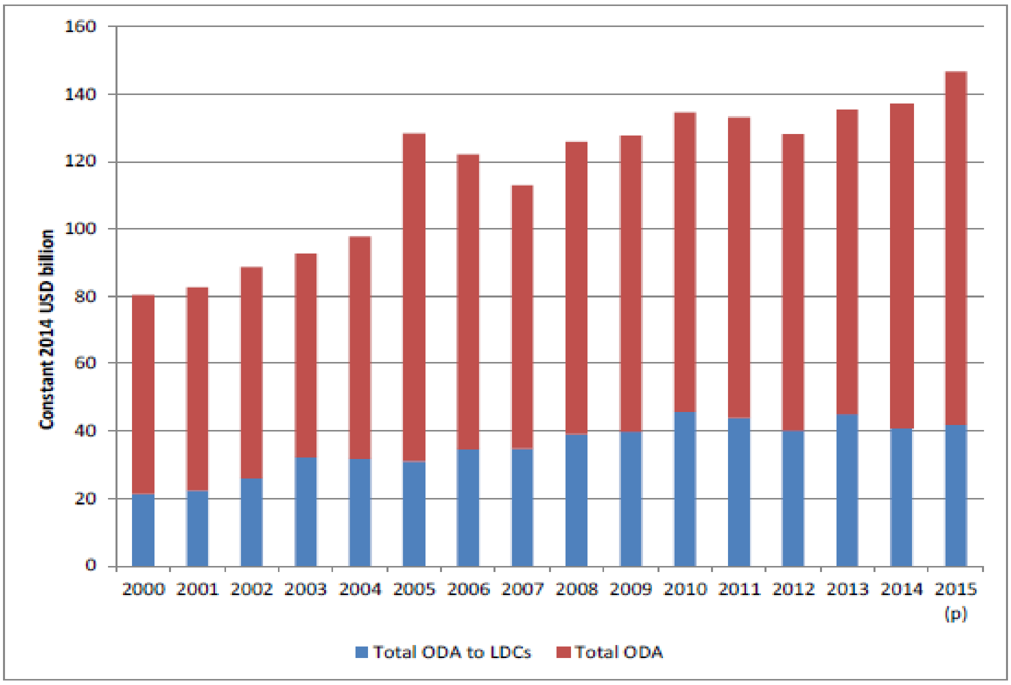
6. The post 2015 development agenda provides an unprecedented opportunity to break down the siloes between climate and development finance. The Paris Agreement includes in its purpose a goal to make all finance flows consistent with pathways towards low greenhouse gas and climate resilient development. Likewise the Addis Ababa Action Agenda commits to financing sustainable development across its three dimensions, economic, social and environmental. The agreements urge countries to develop and implement coherent plans to deliver sustainable development financed by climate and development finance from a mix of sources (OECD, 2016d). Climate finance has too often been treated independently from development finance, failing to capitalise on the synergies for sustainable development, despite the fact that much climate finance qualifies as ODA (Brown et al, 2010). However, the lack of clarity about the distinction between climate change and development is one of the factors that has led to distrust between developed and developing countries, fuelled by concerns about additionality and the potential for competition between climate finance and development finance for a limited amount of international public finance.

Development finance

7. Development finance in the form of Official Development Assistance (ODA) increased steadily from the end of the 1990s up to 2010. In 2015, net official development assistance (ODA) flows from member countries of the Development Assistance Committee (DAC) of the OECD totalled USD 131.6 billion. Adjusting for inflation and the appreciation of the US dollar, this represents an increase of 6.9% in real terms, the highest level ever achieved for net ODA. Net ODA as a share of gross national income (GNI) was 0.30%, on a par with 2014. Figure 1 shows the trends in ODA, including ODA to the Least Developed Countries (LDCs) since the year 2000.

8. Bilateral aid to the group of Least Developed Countries in 2015 was USD 25 billion, an increase of 4% in real terms compared to 2014, marking a slight rebound in aid after several years of diminishing flows to this group of countries (OECD 2016a). While the growth in private finance has reduced the relative importance of aid in many countries, the capacity of LDCs in particular to attract flows beyond aid remains limited. For these countries, concessional finance continues to represent the bulk of external financial resources, accounting for 72% of total external finance supplied by OECD countries in 2013. By contrast, in other countries, concessional finance represents only 11% of total external finance (OECD, 2015e).

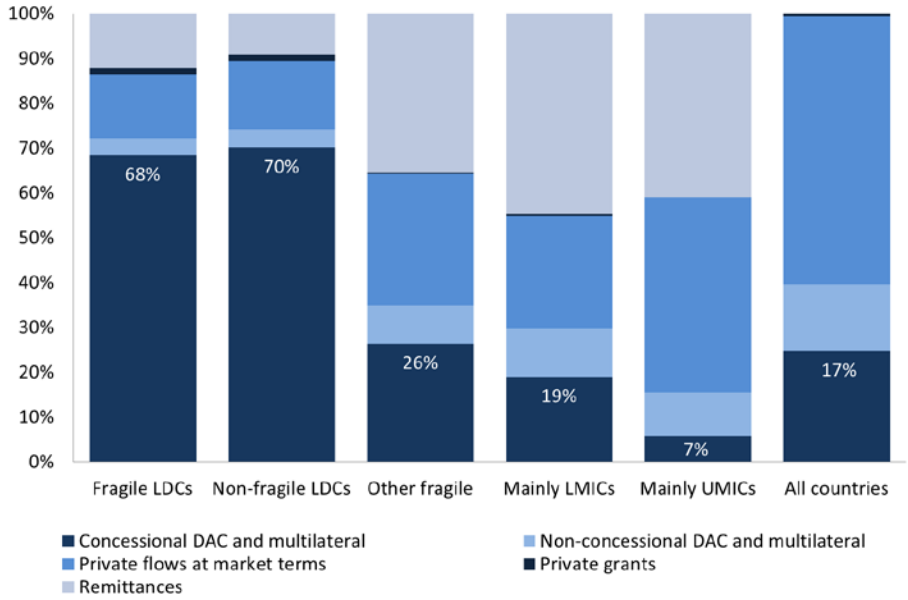
Figure 1. Share of gross ODA going to least developed countries (2000-2015)



Source: OECD (2016a).

9. Figure 2 shows that concessional finance continues to represent the bulk of external financial resources for fragile and non-fragile LDCs, accounting for 68% to 70% of total external finance. By contrast, in all countries, concessional finance represents only 17% of total external finance. According to the same data, ODA represented the equivalent of 77% of tax revenue in fragile LDCs and 55% in non-fragile LDCs. In order for LDCs, in particular, to realise the SDGs, concessional finance needs to be targeted strategically and help to leverage additional domestic and international resources.

Figure 2. ODA in 2014 segmented by country categories and type of financing flows



Source: OECD DAC Statistics. Note that the group "Mainly LMICs" actually refers to other IDA-eligible countries that are not LDCs or fragile. Regarding the group "Mainly UMICs" Angola and Equatorial Guinea have been included in this group since they are currently graduating from the LDC category.

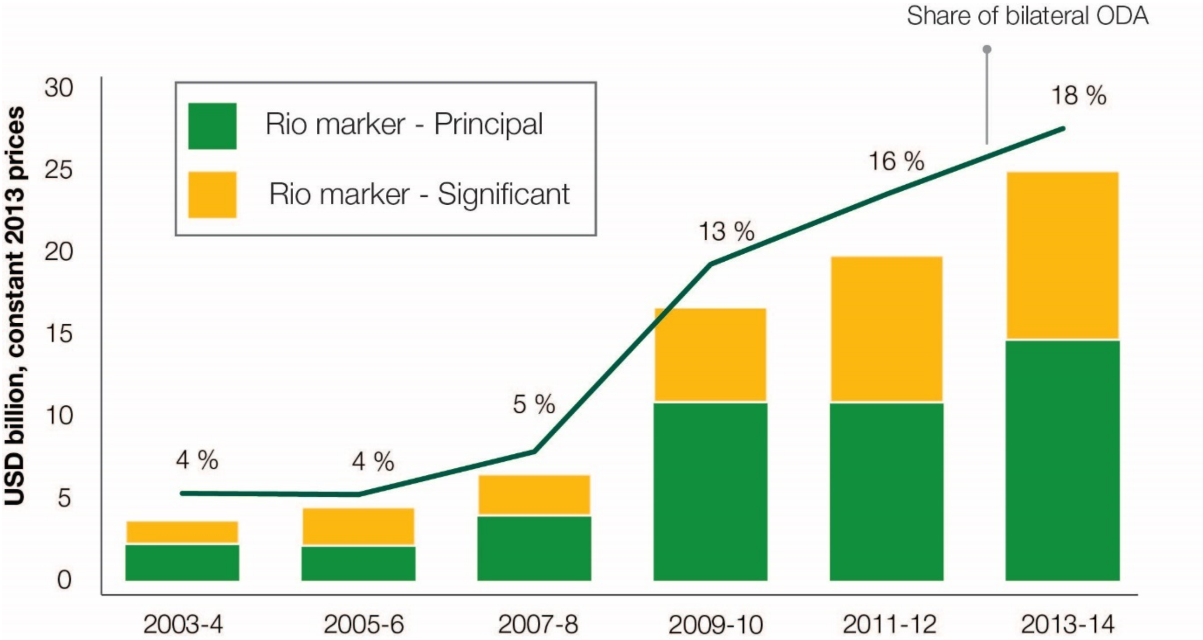
Climate finance

10. Climate-related ODA levels have been increasing in absolute and relative terms since 2002. OECD Statistics (OECD, 2015f) show that official bilateral climate-related development finance from DAC members amounted to USD 25 billion on average in 2013-2014[2] (see Figure 3). Another source of data on climate finance flows is the Biennial Reports submitted by developed country Parties to the UNFCCC[3]. The Paris Agreement provides the latest guidance to countries and multilateral development banks on climate finance and the need for financial flows to developing countries to support climate action. Decision 1/CP.21 which accompanies the Paris Agreement recommits developed countries to mobilising USD 100 billion/year by 2020 from public and private sources to support climate action in developing countries, with a new higher target to be agreed by 2025.

[2] Note the range describes lower and upper bounds of climate-related development finance as accounted for in the DAC system. The lower bound accounts for activities targeting climate change as the "principal" objective; the upper bound accounts for efforts to mainstream climate change into ongoing activities as well as "principal" activities.

[3] see http://unfccc.int/national_reports/biennial_reports_and_iar/submitted_biennial_reports/items/7550.php accessed 20 July 2016.

Figure 3. Trends in bilateral climate-related ODA from DAC members



Source: OECD DAC. Two-year averages, 2014 data are provisional. Reporting on the mitigation marker became mandatory in 2007, and the adaptation marker was introduced only in 2010; thus data on earlier years is under-estimated. The Rio markers are descriptive, allowing for approximate quantification of financial flows. Not all climate-related ODA is reported to the UNFCCC as climate finance: out of total bilateral climate-related ODA in 2013-2014 (USD 25.1 billion on average per year), only a share is reported as climate-finance (preliminary estimate: USD 19.1 billion on average per year). This reflects how Party reporting to UNFCCC, whilst often based on, is not directly comparable to the DAC climate-related development finance statistics.

11. The information on climate-related development finance presented in this paper is derived from the analysis of data contained in the DAC Credit Reporting System (CRS) database, using the Rio marker methodology. The Rio Conventions were established in 1992 on Climate Change, Biological Diversity and Desertification. Developed country Parties committed to assist developing countries in the implementation of these Conventions. The Rio markers use a scoring system of three values, in which development co-operation activities are "marked" as targeting the environment or the Rio Conventions as the "principal" objective or a "significant" objective, or as not targeting the objective. There are two climate-related Rio markers: the mitigation marker (established in 1998) and the adaptation Rio marker (since 2010). The Rio Markers are an important tool in increasing transparency and accountability in relation to climate finance. The markers have been used by some OECD countries as the basis for their climate finance reporting to the UNFCCC and in this way can assist in tracking progress towards delivering the commitment by developed countries to provide the USD 100 billion per year in climate finance to developing countries by 2020.

12. From this analysis, the level of ODA targeting climate change adaptation and/or mitigation as a principal objective was USD 15.2 billion in 2013-2014 (60% of the total), representing 18% of bilateral ODA, reflecting projects that primarily focus on climate change and representing what can be considered a "lower bound" of climate-related ODA (Figure 4). For the remaining 40% (USD 10.4 billion), climate change considerations are a significant objective, indicating the mainstreaming of climate objectives into development co-operation portfolios.

13. Based on 2013-2014 figures, the majority of climate-related development finance targets mitigation (75%, including projects that target both mitigation and adaptation), while adaptation lags behind with 37% of the resources. Meanwhile, 12% of climate- related development finance is flowing to projects that target both adaptation and mitigation. Thus, activities that encompass only mitigation

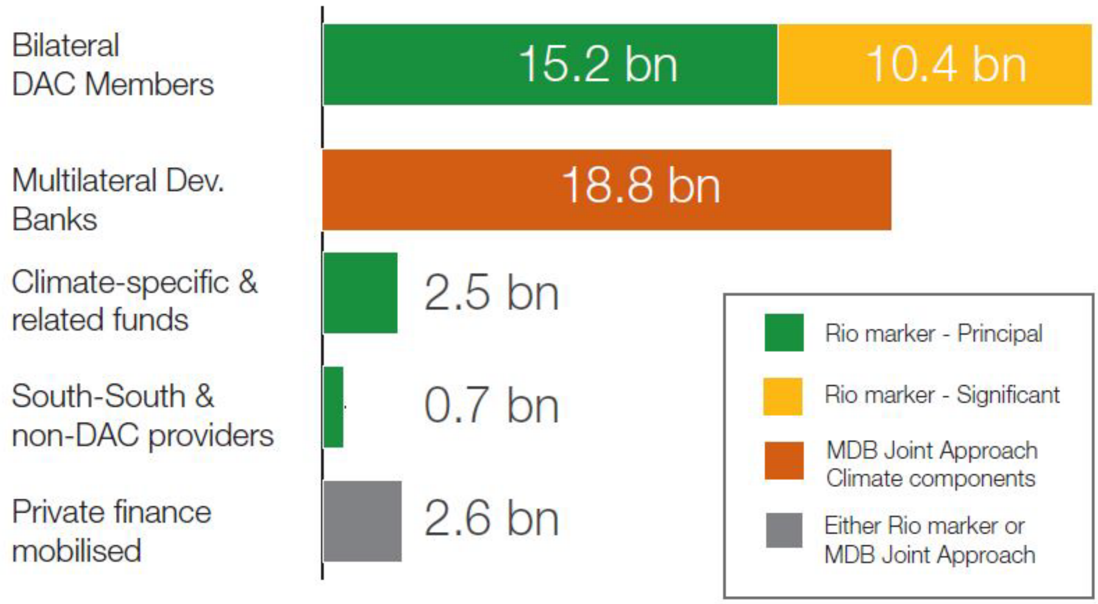
objectives amount to 63% of the total flows, while projects that target adaptation only add up to 25% of climate-related development finance. The Paris Agreement calls for a balance between adaptation and mitigation finance and establishes an Adaptation Goal, raising the profile of adaptation and encouraging developed countries to increase support for adaptation, particularly amongst the most vulnerable developing countries. This emphasis on LDCs and SIDS is a recognition of the needs of countries that are particularly vulnerable to the impacts of climate change.

14. In the case of Small Island Developing States (SIDS), strong growth has been registered in the volume of official climate-related development finance received over the past decade, reaching an all-time high of 15% of total ODA they received in 2013 (OECD, 2015g). The share of climate finance targeting adaptation activities – which support many key development challenges facing SIDS – has progressively increased as well. However, support for mitigation activities – including developing green energy sources and enhancing energy efficiency – lags behind. Although these countries are not significant contributors to GHG emissions at the global level, they require additional funding to pursue low carbon development. Support to improve access to sustainable energy and energy independence and to increase energy security is critical to achieving the low carbon future envisaged by many SIDS (Pacific Island Forum, 2013).

15. For LDCs, climate change ODA has more than doubled from 2010 to 2013, mostly due to a continuous increase in adaptation-related development finance (USD3.2 billion to USD 6.4 billion (OECD, 2016b)), but more dramatically due to a tripling of the resources dedicated to climate change mitigation in 2013 compared with the previous year. This increase was due to large (over USD150 million) loans and grants for the energy sector in Afghanistan, Bangladesh, Malawi and Myanmar. However, adaptation remains the main focus of climate-related support to LDCs.

16. Within countries there are also efforts underway to ensure that the people most vulnerable to climate change, for example, women, children, the elderly and the marginalised, benefit from climate-related development finance. Analysis conducted by the OECD DAC network on gender equality (GENDERNET) as an input to COP21 reveals that 3% of bilateral climate- related development assistance targeted gender equality as a principal objective while 26% targeted gender equality as a significant objective (OECD, 2015f). Of climate -related ODA focused on gender equality, 46% targeted adaptation and 19% targeted mitigation. Support for gender equality in climate change interventions has increased rapidly in recent years from USD 4.4 billion in 2010 to USD 6.9 billion in 2013 for DAC members. The analysis reveals that while gender is well integrated into climate- related activities such as agriculture and water it is poorly addressed in economic infrastructure sectors like energy and transport. This highlights the need to increase attention to gender equality in low carbon development to ensure that women's opportunities to participate in the green economy are fully captured. It is also in keeping with the emphasis placed in the Paris Agreement on protecting and respecting the human rights of vulnerable segments of the population when taking climate action (see preamble to the Paris Agreement).

Figure 4. Climate-related development finance by provider (2013-2014)



Source: OECD DAC. 2013-14 average, USD constant 2013 prices, 2014 data are provisional. DAC statistics capture data on climate-related development finance, from DAC members, MDBs, international organisations and increasingly from non-DAC providers. Private finance estimates are from OECD DAC Survey on mobilisation. Data recorded in DAC statistics is not equivalent to that reported as climate finance towards the USD 100bn goal, and is not comparable to the recent estimates in the OECD study Climate Finance in 2013-14 and the USD 100 billion goal in collaboration with CPI (see http://www.oecd.org/env/cc/oecd-cpi-climate-finance-report.htm).

IMPROVING COHERENCE BETWEEN CLIMATE AND DEVELOPMENT FINANCE IN THE POST-2015 ERA

17. This section outlines some of the underling factors that will determine the level of coherence between development finance and climate finance. It explores the ways in which development co-operation providers and their partners can be better prepared to exploit synergies between the different international processes outlined in this paper and maximise effectiveness at the country level.

18. Nine factors are listed below which can influence the extent to which coherence between climate and development financing can be achieved in the overall pursuit of sustainable development (Table 2). The factors are informed by the principles of aid effectiveness, development financing and climate finance as set out in the Busan Partnership, the Addis Ababa Action Agenda, Agenda 2030 and the UNFCCC, including the Paris Agreement. Many of the factors are linked and progress in one area can help progress in another. These factors are offered for consideration by development co-operation providers as they determine how to fulfil their mandates in a post 2015 development and climate policy landscape. Table 2 below summarise the factors.

Table 2. Summary of factors for improved coherence of climate finance and development finance

Factors	Role of development cooperation providers
Enhance Country ownership	Consistently apply development effectiveness principles in activities
Greater mainstreaming of climate and environment in development cooperation	Develop and share tools to increase mainstreaming
Reduce fragmentation of climate finance	Strengthen accountability and transparency in climate finance reporting
Improve access to finance	Support climate finance readiness in partner countries, especially LDCs and SIDS
Define climate finance and increase transparency	Contribute to an agreed definition of climate finance and increase transparency and accountability of support
Increase financial resources	Increase resources and target them to where they are most needed and can have greatest impact
Improve predictability of financial support	Report on planned contributions in a timely and reliable manner

Competition between climate and development finance	Strengthen understanding of the potential for competition at a national level and ensure that resilience concepts are integrated across sectors to maximise climate and development outcomes
Prioritise public international climate finance or most vulnerable	Address imbalances between adaptation and mitigation finance and target support to most vulnerable countries

i) Country ownership to enhance coherence and effectiveness of finance

19. Country ownership is a principle of the Busan Partnership for Effective Development Co-operation building on the Paris Declaration and the Accra Agenda for Action. While the past 15 years have tended to separate development finance to achieve the MDGs from climate finance to achieve the goals of the UNFCCC, Agenda 2030 and the Paris Agreement place climate action into the context of sustainable development. In addition, the emphasis in all the 2015 outcomes on country ownership provides an opportunity to increase coherence at national level, especially if partner countries are supported to strengthen human and institutional capacity. As a result of the Busan Declaration, the Global Partnership for Effective Development Co-operation (GPDEC) was created in 2012. Several initiatives exist in the framework of the GPDEC that are committed to advance specific commitments for effective development co-operation, including the Partnership on Climate Finance and Development. This voluntary initiative fosters country-level actions by promoting good practice and knowledge sharing on mainstreaming climate finance into development planning and more effective ways to use climate finance. The partnership has emphasised the importance of country strategies for aligning climate finance with domestic resources and development objectives (OECD, 2015h). Bringing the climate and development agendas together can also reduce competition for resources and minimise the risk of resources being taken from one agenda to meet another.

20. The task of developing strategies to achieve the SDGs and Nationally Determined Contributions (NDCs) to promote climate action, including National Adaptation Plans and long term low greenhouse gas emission development strategies,[4] will be conducted at the country level. This this is an opportunity for countries to shape their own priorities, to capture common themes, to avoid inconsistencies, and to maximise synergies between the SDGs. Then, the extent to which this is possible will depend on leadership at the highest levels of government, as well as the availability of human and financial capacity at the country level. These efforts should of course be consistent with any strategies to eradicate poverty and national development plan(s) or planning. Planning, monitoring and reporting at scale will also be required at the national level demanding new data collection analysis and additional resources for this including relevant expertise in government.

21. The work of development co-operation providers on development effectiveness to date (including the Paris Declaration and the Busan Partnership agreement) will be critical to support partner countries in the transition to sustainable development and to maximise the transformative nature of climate finance. While the application of aid effectiveness principles was not initially consistently applied to climate finance, principles such as country ownership, transparency and partnership are now normative aspects of the Climate Convention’s work.[5] As the SDGs are rolled out from 2016 they can play an important role

[4] Article 4.19 of the Paris Agreement

[5] As demonstrated in the Paris Agreement and other decisions under the Framework Convention

alongside the provisions of the UNFCCC[6] in pre-2020 climate action and in creating best practice for the scaling up of climate action post 2020. Maximising the effectiveness of sustainable development finance, including climate finance, will be critical to meeting the targets set out under the SDGs.

ii) Greater mainstreaming of environment and climate in development co-operation

22. Environment and climate change mainstreaming has been a practice of OECD DAC members for over a decade (see for example ENVIRONET publications on mainstreaming adaptation into development cooperation, OECD 2009) and the UNFCCC stresses the importance of integrating climate change adaptation into mainstream decision making (see for example LDC Expert Group, 2012). Providers of development co-operation have experience in mainstreaming environment and climate activities in their development co-operation portfolios. The need to improve the sustainability of all development activities will necessarily imply an opportunity to integrate environment and climate into all activities. Among OECD DAC members, the majority have defined environment or climate change as basic pillars of their development strategies. Some countries have chosen to set specific targets for "green sectors" [7]. Others have adopted a range of climate-proofing approaches; applying standardised environmental screening and scoping, assessing environmental and social risks of projects financed; adopting green procurement guidelines, developing and mandating green guidance notes for staff working in the agency.

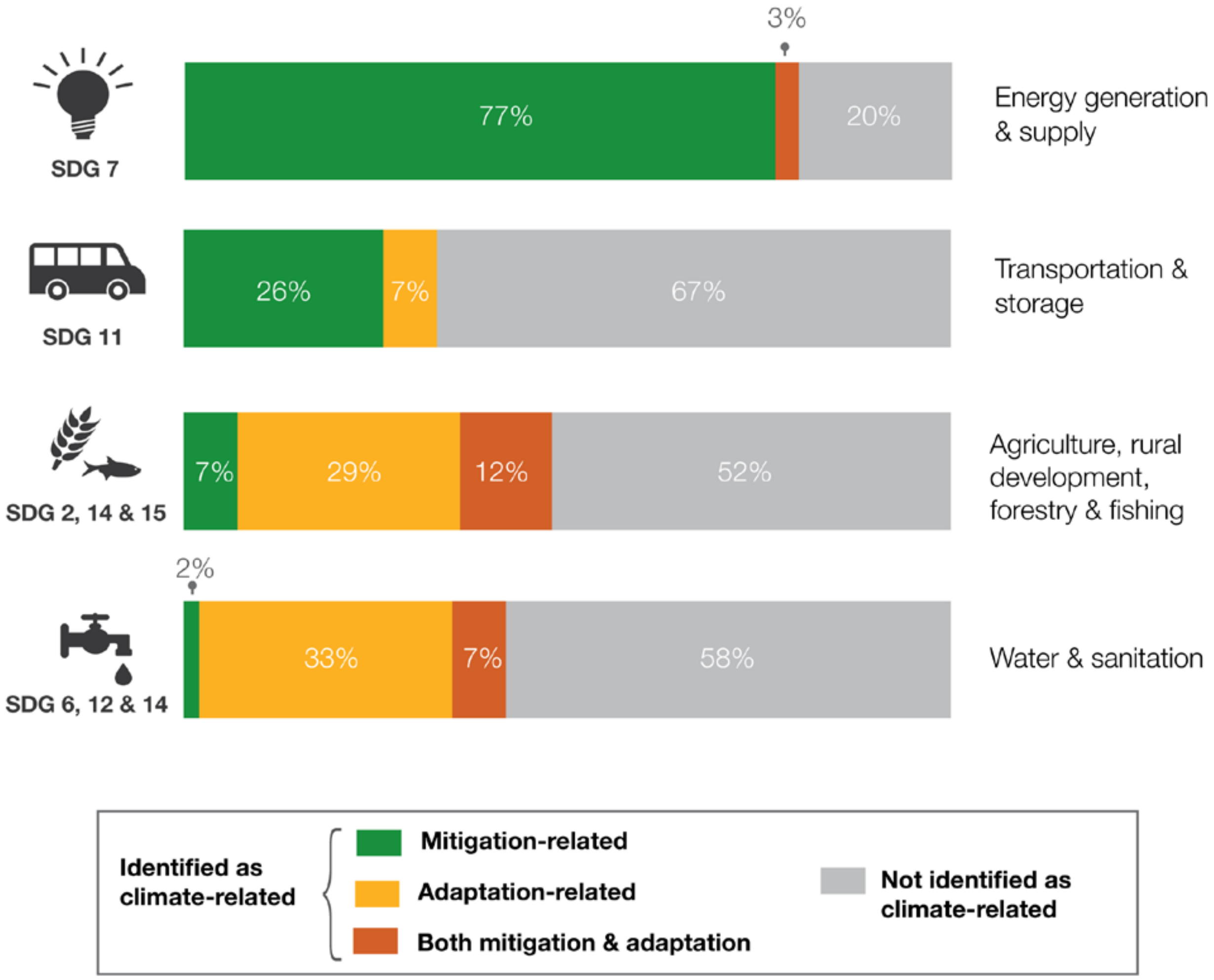
23. A recent analysis of the share of climate-related development finance supporting key sectors (see Figure 5) show potential for greater mainstreaming. The graph also shows how SDGs are related to different economic sectors. While the energy sector performs well in terms of development finance targeting mitigation, further measures could be taken to increase the resilience of this sector to climate impacts through adaptation. Agriculture is starting to reveal the potential for actions that address both adaptation and mitigation through climate smart agriculture (12% of ODA address both adaptation and mitigation). By comparison, there is room for increased emphasis on reducing emissions in the water sector and in increasing resilience in the transport sector. Overall, Figure 5 reveals the potential for a 'nexus' approach with actions in energy, water and agriculture, for example, being mutually supportive in terms of development and climate outcomes. When it comes to less traditional sectors for climate action, such as health, education or access to basic services, the share of climate change finance is much smaller (reaching a mere 1% in 2014). This further supports the point that there is potential to further improve climate change mainstreaming in development co-operation.

24. The range of tools and experience available to providers of development co-operation in climate and environment mainstreaming, plus the experience partner countries have in mainstreaming through national and sector plans, means that there is a wealth of know-how to capitalise on and to enable more effective mainstreaming. There is a broad understanding, captured in the 2030 Agenda, that the SDGs are linked and that progress on climate change cannot be achieved without progress on sustainable energy, agriculture, water, cities and consumption and production. Development co-operation providers have a wealth of tools (OECD, 2012) and experience to ensure this integrated approach is implemented, and the OECD has published policy guidance documents to supports its members in these efforts (OECD, 2016e). This includes tools to for mainstreaming gender equality and pro-poor and rights-based approaches so that the people most vulnerable to the impacts of climate change reap the benefits of the new era of sustainable development. For example, GENDERNET makes available a series of tools to integrate gender in development cooperation, also specifically targeting issues such as conflict situations or climate change (OECD, 2013) , and USAID has published guidance on climate change and conflict (USAID, 2015).

[6] as set out in Decision 1/CP21

[7] Green sectors are defined on a case by case basis but include renewable energy, biodiversity and energy efficiency, among others.

Figure 5. Climate objectives integrated into key sectors as a share of bilateral and multilateral ODA (2014)



Source: OECD DAC, 2014 USD. The bar represents total ODA per sector and the climate-related share within that total.

iii) Reducing fragmentation of climate finance

25. The fragmented nature of the global climate finance landscape increases the challenges associated with accessing finance and reduces overall efficiencies (OECD, 2014, Sachs & Schmidt-Traub, 2013). While country ownership reduces the risk of fragmentation at the national level, steps also need to be taken at the international level to reduce the fragmentation of funding sources in order to improve access to resources. A diversity of funds can have advantages, allowing for specialisation, for example, by focusing on LDCs or on aspects of climate action such as technology. It has also facilitated mainstreaming as climate-related ODA also flows through bilateral and multilateral development programmes. At present climate finance under the UNFCCC is delivered through funds that serve as the Financial Mechanism of the Convention. The Green Climate Fund and the Global Environment Facility are the operating entities of the Convention. The Least Developed Countries Fund and the Special Climate Change Fund, administered

by the GEF, also serve the Convention. There are also funds that operate outside the Convention like the Climate Investment Funds or national funds like the UK's International Climate Fund[8].

26. The Green Climate Fund (GCF) is the only stand-alone multilateral financing entity whose sole mandate is to serve the Convention and which aims to deliver equal amounts of funding to adaptation and mitigation (GCF, 2015). It is envisaged the GCF will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance, both public and private, and at the international and national levels (Decision 3/CP.17). The GCF seeks to catalyse funds, multiplying the effect of its initial financing by opening markets to new investments (GCF, n.d.).

27. There is an expectation amongst some actors that the Green Climate Fund will over time become the main vehicle for climate finance under the Convention reducing some of this fragmentation (Amin & Jaramillo, 2015). However this is dependent on the GCF becoming a transformative fund attractive to both donors and recipients and operating at scale (UNFCCC, 2011). It may take time for the GCF to emerge as the central driver of a coherent climate financing system, so it will be important in the interim to ensure that the various funds work well together and that country systems and country plans are the central drivers of climate and development action (Amin et al, 2014). It will also be important to learn from the specialisation of the various funds so that lessons learned and expertise gained informs any new model of international climate finance. The governing instrument for the Green Climate Fund sets out the Fund's role in relation to complementarity and coherence, stating that "*The Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacitie*s" (Decision 3/CP.17). It also emphasises coherence at the national level; "*The Fund will promote coherence in programming at the national level through appropriate mechanisms*" (Ibid).

28. Climate finance will need to be delivered in line with national strategies and plans if it is to avoid competing with or distorting development priorities. The explicit inclusion of climate action as one of the SDGs (Goal 13) is likely to promote this alignment. International financial flows will need to be complementary to domestic climate finance, which remains the most important source of funds. More than 75% of the climate investment in the developing world originates domestically (Buchner et al, 2013); this is only likely to grow, as more national development banks increase their climate finance (Westphal, M , 2014). Development co-operation providers can assist this process by supporting partner countries to improve revenue capture and by strengthening accountability and transparency in their own systems to avoid any risk of double counting and to increase confidence in climate finance reporting.

iv) Improving access to climate finance – especially for LDCs and SIDS

29. The existing climate funds have been criticised by some developing countries for their complex and differing procedures which make access to funds difficult, in particular for countries with capacity constraints (ODI, 2014). The Paris Agreement instructs the financial mechanism of the Convention to simplify approval processes and enhance readiness support to improve access for developing countries in particular LDCs and SIDS (Article 9.9). Progress on reducing fragmentation of climate funds over time could also help to reduce the complexity of the climate finance landscape, recognising however that dedicated climate funds only account for a small component of the overall climate finance flows. In the short term, while the GCF gets to scale, continued support to the Least Developed Countries Fund, the Special Climate Change Fund and the Adaptation Fund is one way of ensuring there is no gap between current provisions and a future streamlined financing landscape (OECD, 2015g). LDCs are accessing the LDCF for adaptation and advocated for it to serve the Paris Agreement to ensure continued access to

[8] see www.climatefundsupdate.org or www.climatefinancelandscape.org for more information on climate funds

support for urgent adaptation needs. The continuation of the LDCF as mandated by Article 9.8 provides opportunities to continue to learn lessons to inform the GCF and make to improvements on access for countries with high levels of vulnerability and capacity constraints.

30. While the Paris Agreement emphasises the need for support, in particular in the form of grants, for vulnerable countries for adaptation (Article 9.4), it is important to note that vulnerable countries also need to be able to access finance for low carbon development. If not, they will have no alternative but to pursue carbon intensive development. It is challenging for LDCs and SIDs to compete for mitigation finance with other developing countries as they have low emissions reduction potential and required scale will be small, raising the transaction costs of working with these countries. Therefore, targeted approaches to ensuring access for LDCs and SIDS to mitigation or low carbon development finance may be needed.

31. The model of direct access pioneered by the Adaptation Fund, to allow accredited developing country governments and civil society organisations to receive funds directly rather than via a UN intermediary or implementing agency, is a positive contribution to improving access. The direct access model has also been endorsed by the GCF and readiness support is assisting countries to identify ministries or other entities to become accredited entities. However, progress in approving accredited entities to the GCF is relatively slow (in May 2016 there were 33 accredited entities and the majority of these were international or regional institutions) and there are still many countries that need readiness support to assist them with this process (by May 2016 42 countries had received readiness support from the GCF) (GCF, 2016b). A recent analysis of the lessons learned from direct access to the Adaptation Fund and the GCF reveals that although the time to get accredited varies widely among the different countries (from 5 months for Uruguay to 30 months for Namibia and Kenya); however, countries report that the process was "beneficial in the long run" (Masullo et al, 2015). Development co-operation providers can continue to invest in readiness support for partner countries so that they can access climate finance at scale and use it to implement transformative actions to address climate change and achieve sustainable development.

v) Defining climate finance and increasing transparency

32. The absence of a common definition of what constitutes climate finance is a continuing point of contention between developed and developing countries (Clapp et al. 2012). It is one of the reasons why some developing countries queried the findings of the OECD - CPI study 'Climate Finance in 2013-14 and the USD 100 Billion Goal' (OECD, 2015c). In addition, there are several inconsistencies and gaps in the current UNFCCC reporting framework for climate finance (Ellis and Moarif, 2015). The UNFCCC Standing Committee on Finance has been mandated to work on rules and procedures for tracking climate finance (UNFCCC, 2006) and this work will be intensified and carried forward post Paris. The Conference of the Parties has mandated the Subsidiary Body for Science and Technological Advice (SBSTA) to develop modalities by November 2018 for accounting of financial resources provided and mobilised through public interventions (Decision 1/CP.21, paragraph 58). In the coming years SBSTA and the Ad Hoc Working Group on the Paris Agreement will develop the modalities, procedures and guidelines to enable greater transparency of both climate action and support. This will include tracking the USD 100 billion / year commitment and the additional resources that will be needed to fulfil the ambition of the Paris Agreement.

33. The OECD's work on the Rio markers since the 1990s could provide inputs into the work of the Ad Hoc Working Group on the Paris Agreement along with other inputs from elsewhere in the OECD (e.g. the Research Collaborative on Tracking Climate Finance). Since the adoption of the Rio marker system, the information on support to the environment, including climate, desertification and biodiversity has incrementally improved. A revised definition of the climate markers and a guidance table to improve scoring, have been included in the revised Converged Statistical Reporting Directives of the OECD (OECD, 2016c). The OECD methodologies for tracking climate-related development finance and for

estimating the role of public finance used to leverage private finance could be useful as an input to the transparency framework bring established under the Paris Agreement. Overall, the new transparency framework for climate finance and the commitment to greater transparency of financing for sustainable development (UN, 2015a; UN, 2015b) will play an important role in enabling countries to hold each other to account, and in enabling citizens and communities around the world to hold their governments to account. The Rio Marker's qualitative approach can provide a useful starting point for international efforts to improve the transparency and tracking of climate finance.

vi) Increasing financial resources and pressure on ODA

34. Financing the SDGs will require trillions rather than billions of dollars of investment from public and private sources due to the expanded scope of the SDGs (Multilateral Development Finance Development Committee, 2015). In addition the costs of adaptation are set to rise as temperatures rise. The IPCC estimates the costs of adaptation to be between 70-100 billion per year (Chambwera, et al, 2014). However, the UNEP Adaptation Gap Report 2015 (UNEP, 2016) estimates that the costs of adaptation are likely to be two-to-three times higher than current global estimates of adaptation costs by 2030, and potentially four-to-five times higher than current estimates by 2050. The Paris Agreement notes that the scale of the adaptation challenge and its associated costs are linked to progress on mitigation, i.e. less progress on mitigation will increase the need for and the costs of adaptation, while more mitigation will reduce the need to adapt and make adaptation less costly (article 7.4). The INDCs submitted by countries in advance of the Paris Agreement give another signal of the domestic and international resources needed to make the transition to low carbon, climate resilient development. Many developing countries have indicated that some of the actions outlined in their INDCs are conditional on the receipt of support from the international community.

35. At the same time, the pressures on ODA are increasing due to ever more frequent and severe humanitarian crises, including for example the conflict in Syria and the impacts of the El Niño induced drought in 2015 / 2016. It simply will not be possible to meet the multiple demands on ODA without achieving the commitment renewed in the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development, where developed countries agree to provide 0.7% of gross national income for ODA (ODA / GNI) and ensure that 0.15 to 0.2% of ODA / GNI goes to LDCs (UN, 2015a; UN, 2015b). Given the pressures on public finance it will also be critical to develop new, innovative financing mechanisms[9] to ensure predictability and adequacy of support. This is because 0.7% commitment alone will be insufficient to deal with the scale of the global challenge. The Paris Agreement, the 2030 Agenda and the Addis Ababa Action Agenda all recognise the important role that sources of finance other than ODA will play in delivering sustainable development to all, including domestic resources and private sector. Yet they also highlight the particular role ODA can play in least developed countries and Small Island Developing States and in leveraging other types of resources, including private investment.

36. ODA remains an important and stable source of support for countries' development initiatives; however, domestic resource mobilisation and growing investment now far outstrip global aid resources. Increasing the tax take in developing countries by one percentage point would yield roughly an additional USD 300 billion, which is more than double of the amount of global aid today. Global capital markets are estimated at USD 218 trillion, so even a small shift in resource allocation could have an enormous impact. And while for most Low Income Countries and Least Developed Countries, ODA still accounts for the majority share of external finance and will remain essential, a tendency to take advantage of the full range of development finance flows is becoming evident (UN, 2015b).

[9] for examples see https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/3401.pdf accessed 20 July 2016

37. The Paris Agreement stresses the important role played by public finance in supporting climate action and stresses the need for public and grant based resources for adaptation in LDCs and SIDS (Article 9.4). Decision 1/CP.21 also invites all UN agencies and international, regional and national financial institutions to report on how their development assistance and climate finance programmes are climate proofed and made more resilient. Maximising the effectiveness and transformative potential of international public finance and using it to leverage funds from other sources will be critical to implementing the Sustainable Development Goals and the Paris Agreement. In a context of scarce public resources for both development and climate action, it will be important to allocate public climate-related development finance where it is most needed and can be most effective and to use it in a catalytic way to leverage further public (domestic) and private sector investment to promote sustainable development. International public finance can increase private sector engagement, for example through use of risk guarantee instruments or blended finance arrangements.

vii) Improving predictability of financial support

38. Development co-operation providers agreed to increase predictability and transparency of aid as part of the Busan Partnership. Predictability of support for climate and sustainable development can provide greater clarity and certainty, enabling longer term planning at the national level. Unfortunately public funds for climate and development have been quite unpredictable in recent years due to the global economic downturn. Agreeing credible pathways to deliver on the commitments made by developed countries to provide 0.7% of GDP as development assistance, as reaffirmed in the Addis Ababa Action Agenda, and mobilising the USD 100 billion / year by 2020 for climate action in developing countries made under the UNFCCC, will help to improve predictability. The Global Stocktake mandated by the Paris Agreement also aims to review the adequacy of support and the means of implementation of the Agreement starting in 2023 (Article 14). Another opportunity is to look at innovative sources of climate and development finance, such as a global transaction tax or the redirecting of fossil fuel subsidies to fund renewables and resilience building.

39. Decision 1/ CP 21 which accompanies the Paris Agreement (UNFCCC, 2015) signals an increase in the climate finance to be mobilised by developed countries by 2025, from a floor of USD 100 billion per year by 2020. It also states in Article 9.5 that developed country Parties shall biennially communicate indicative quantitative and qualitative information on projected levels of public financial resources, as available. It will be important for developed countries to signal clear and transparent pathways to achieving the USD 100 billion goal in order to give confidence to developing countries and to enable medium to long term planning.

40. The annual DAC Survey on Donors' Forward Spending Plans (OECD, 2015i) aims to improve the effectiveness and efficiency of collective aid allocations by providing a global perspective on future aid flows, highlighting the prospects for meeting aid commitments, and identifying potential gaps in aid provision. The survey contributes to better informed decisions on future aid allocations by individual donors and for partner countries, and reveals opportunities for improved co-ordination among development actors. It is considered an important tool for international accountability and improved predictability (OECD, 2014). The survey could also be designed to collect information on predicted shares of ODA targeting climate change.

viii) Competition between climate and development finance

41. In recent years, bilateral ODA has levelled off while the proportion of climate-related ODA has steadily increased (Figure 6). Recent data from 2014 show a slight decrease in the level of bilateral ODA from 2013 compared to an increase in the share of climate-related ODA in the same period. This is a cause for concern amongst developing countries as they fear that ODA is being diverted from essential services

to pay for climate actions (IIED, 2015; Bird, 2014). This concern is compounded by difficulties in defining the new and additional nature of climate finance and its relationship to aid (Stadelmann, et. al., 2011). At the country level, research signals that in some cases developing countries appear to be at risk of diverting funds from essential services such and health and education to pay for adaptation to climate change (Bird, 2014). However, the fact that an increasing portion of ODA is being "climate-proofed" shows increased mainstreaming of climate action into other sectors. The share of climate-related ODA has grown from 4% of total bilateral ODA in 2005 to 19% in 2014 (OECD, 2016b).

42. Research carried out for this report drawing on data for bilateral ODA commitments, finds that it is very difficult to prove or disprove that the increasing volume of climate-related aid is reducing the volumes of aid available for other activities (see Figure 7). DAC statistics allow for a comparison between the percentage of climate-related ODA as part of total ODA and the percentage of ODA dedicated to sectors that belong to the category of social infrastructure and services[10]. Figure 7 also includes ODA for general environmental protection and energy in order to allow for a comparison with sectors that are generally linked with higher shares of climate ODA. This shows that while the share of climate-related ODA remains relatively stable since the introduction of the climate adaptation marker in 2010, the select key basic social services and infrastructure sectors have changed slightly during that time. Education decreased from 8% of total ODA in 2010 and 2011 to 7% in 2013, while health and water supply and sanitation have increased one percentage point in the same period. There has been a noticeable decline in support to governments and civil society, down from 14% in 2011 to just under 12% in 2014, although it is not possible to connect this to the increase in climate-related ODA. The category general environmental protection, closely linked with ODA to climate change, has decreased in the same period and may account for some of the growth in climate- related ODA.

43. It is also important to note that investment in essential services such as health, education and social protection can build resilience. Well-functioning health care systems and a well-educated population results in increased adaptive capacity. Similarly climate-proofed infrastructure will reduce the risks posed by climate hazards such as floods and extreme heat, thereby enabling children to go to school, people to work and supply lines to flow. Nevertheless the issue of competition between development and climate finance is a contentious and highly political aspect of climate and development financing and leads to continued calls in the UNFCCC negotiations for climate finance to be new and additional to ODA. Given the limitations of an analysis of the data at the global level, further studies are needed at the national level to have an accurate assessment of the situation. Likewise improved reporting and transparency of support given and received, as envisaged under the Transparency Framework of the Paris Agreement (UNFCCC, 2015), will shed more light on the situation at the country level.

[10] Defined as ODA from DAC members targeted to the sector social infrastructure and services, CRS purpose code 100, including education, health, water supply and sanitation, government and civil society, reproductive health policies and programs, and other social infrastructure and services.

Figure 6. Trends in bilateral climate change ODA and total ODA from DAC members (2005-2014)

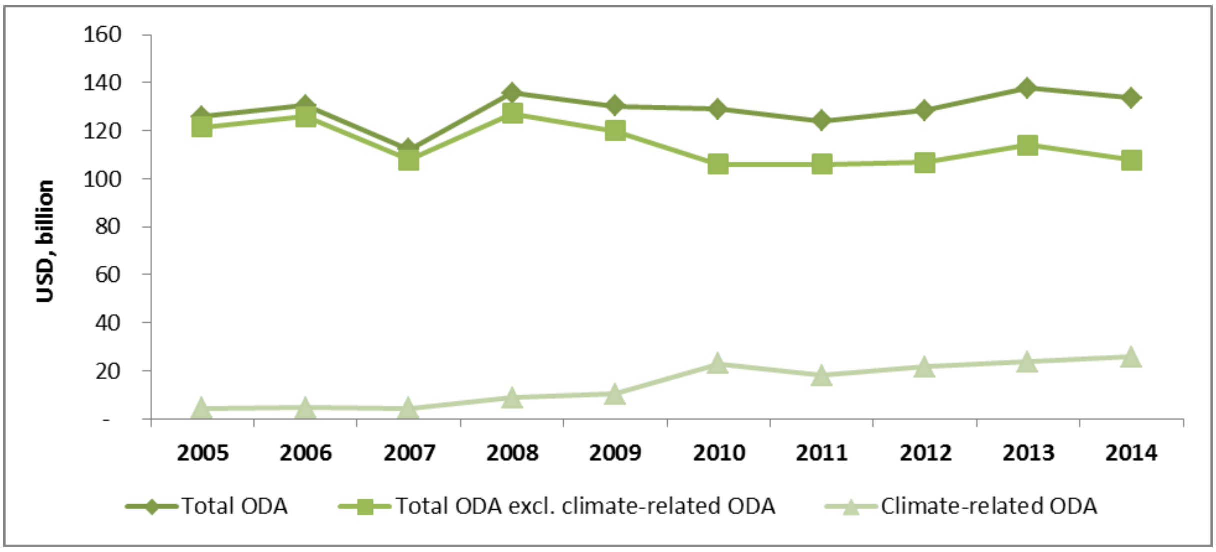
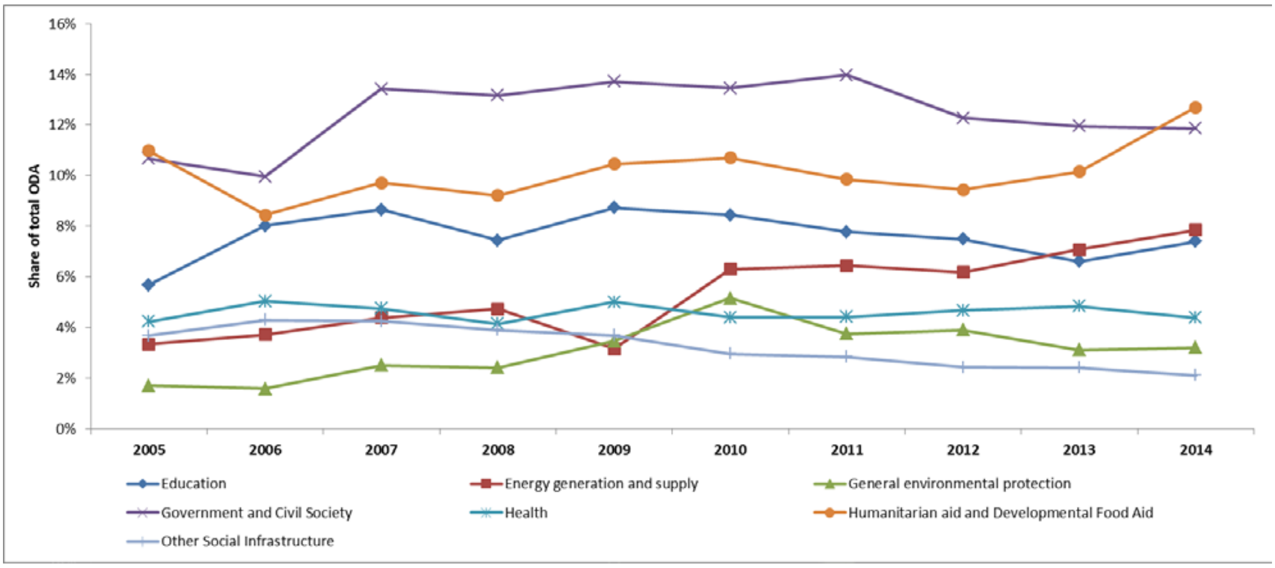


Figure 7. Historical evolution of bilateral ODA dedicated to select sectors as % of total bilateral ODA of DAC members (2005-2014)



Source: authors with data from OECD CRS (OECD 2016b)

ix) Prioritising public international climate finance for particularly vulnerable countries and people

44. The role of international public finance versus other forms of climate finance will be an important consideration in the coming years. The Paris Agreement emphasises the role of public finance for adaptation in LDCs and SIDS. It also stresses the need to balance adaptation and mitigation finance. The Addis Ababa Action Agenda welcomes the steps taken by the Green Climate Fund to aim for a 50:50 balance adaptation and mitigation financing and the establishment of a 50% floor for funding for adaptation to LDCs, SIDS and Africa.

45. As it stands the majority of climate-related development finance supports mitigation action, primarily in middle income countries as this is where significant emissions reductions can be made

(OECD, 2015d). As shown in Figure 8, 80% of mitigation finance flows goes to middle income countries. This imbalance in climate related ODA has come under scrutiny by some commentators (Steele, 2015; Sachs and Schmidt-Traub, 2013). Meanwhile, adaptation receives 25% of climate-related development finance, with 39% of these resources targeted towards least-developed and low income countries. The challenge for all providers of climate finance to address this imbalance in line with the commitments made in the Paris Agreement.

46. The ongoing OECD DAC process to modernise the definition of ODA will create new incentives to shift a larger share of concessional funding to poorer countries. This will provide a backdrop for consideration of how to restructure climate-related development finance to achieve a balance between mitigation and adaptation financing while prioritising public finance to LDCs and SIDS as envisaged in the Paris Agreement. It may also provide an opportunity to consider how to address any competition for international public finance between development and climate priorities in low-income countries. For example, by looking at ways to use other forms of climate-related development finance or more limited, "smarter" use of ODA to leverage and catalyse investment into mitigation action in middle-income countries (e.g. through greater use of guarantee instruments). This could in turn enable public finance to provide more targeted support through grants for low carbon, climate resilient development in LDCs.

Box 1. Paris Agreement, Article 9.4

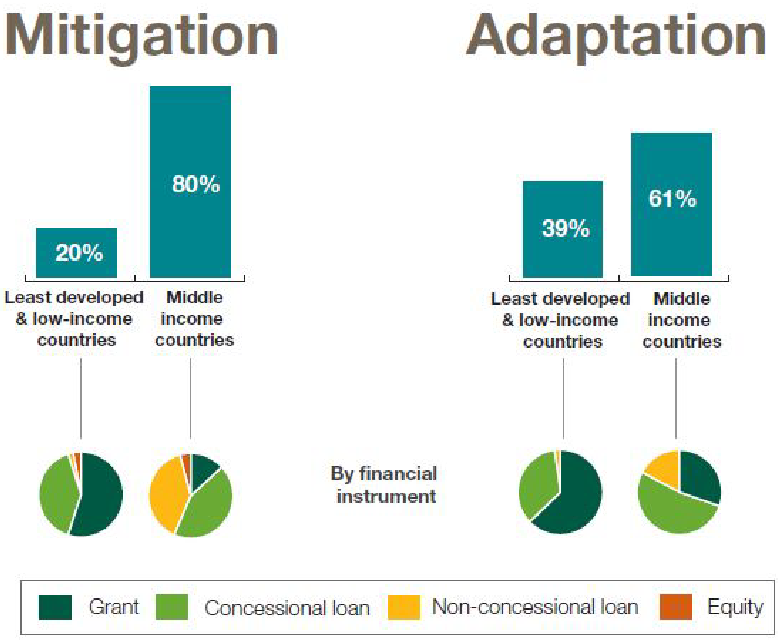
The provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing states, considering the need for public and grant-based resources for adaptation

Source: UNFCCC (2015), Adoption of the Paris Agreement.

47. Finally the guidance given by the 2015 agreements on prioritising people in vulnerable situations and making sure they reap the benefits of the transition to sustainable development should inform the work of development providers. This guidance suggests the need to increase the emphasis on gender mainstreaming and pro-poor, human rights-based approaches to development and climate action. Likewise, the role of social protection systems in safeguarding poor people from both the negative impacts of climate change and climate responses (e.g. rising energy or food costs) will also be a focus as the SDGs and climate policies are implemented.

Figure 8. Climate -related development finance by income group

2013-14 average, USD constant 2013 prices



Source: OECD (2015d).

IMPLICATIONS FOR DEVELOPMENT CO-OPERATION PROVIDERS AND ELEMENTS OF FUTURE WORK

48. The 2015 agreements have direct implications for the work of development co-operation providers and for the use of development finance. It is clear that the scope of the 2030 Agenda for Sustainable Development is greater than the Millennium Development Goals, increasing the number of goals from 8 to 17 to include many new action areas, from protection of oceans and access to sustainable energy, to sustainable cities and climate change. In addition, while the MDGs had a single goal on environmental sustainability, the Sustainable Development Goals mainstream environment into all of the 17 goals. These changes are significant for a number of reasons;

1. the SDGs increase the number of issues development co-operation providers may have to engage with as they support partner countries to plan for and implement nationally owned strategies to achieve all 17 goals[11];

2. environmental sustainability has moved from one single MDG to become an element of every single SDG; and

3. the greater ambition of the SDGs will require more resources and more finance to flow from a wide range of sources, as recognised in the Addis Ababa Action Agenda.

49. The Addis Ababa Action Agenda acknowledges the scale of implementing the 2030 Agenda and stresses the need to draw on public and private finance in all its forms to realise the SDGs, both domestic and international. The Agenda recognises the changing role that ODA will play in the future, as domestic resources play a greater role in in most countries; in other cases ODA may primarily be used to create the conditions necessary to attract private finance. Private finance already accounts for the lion's share of capital inflows to developing countries, however, in many low-income countries, private investment has yet to reach critical levels in order to scale-up projects and allow countries to take full advantage of the potential of the private sector as a key partner. In addition, private investments focus on delivering a financial return and are not always designed to bring sustainable development benefits (OECD, 2015a).

50. In many developing countries, and especially the least developed countries, development assistance will continue to play an important role. It will need to be allocated where it can be most effective and used as a catalyst to leverage further public and domestic resources as well as private sector investments to promote sustainable gisela development. Development assistance can also reduce risk for investors by pioneering risk sharing instruments and blended finance arrangements. Likewise development assistance can support the strengthening of domestic tax collection to provide governments with sustainable revenue sources to finance the Sustainable Development Goals and invest in development, relieve poverty and deliver public services (OECD, 2015b). It can also support capacity development and provide technical assistance to strengthen local institutions and contribute to domestic resource mobilisation and the engagement of the private sector.

51. SDG planning and implementation will be country led and context specific – so that the emphasis on one SDG over another will vary from country to country according to national circumstances. The tailoring of the SDGs to the national context offers opportunities for integration so that the linkages

[11] It is not assumed that individual countries or development co-operation partners will address all 17 goals. The emphasis on different goals will be based on national circumstances. Nevertheless, the SDGs do increase the overall scope of issue development co-operation will play a role in.

between the goals can be realised and so that progress on one goal reinforces progress on the others (Weitz, et al., 2014). It also offers potential to improve coherence at the national level and to better capture the synergies between the different 2015 agendas as they are implemented. Meanwhile, the increased scope of the goals will increase pressure on human resources and capacity in development agencies as the prioritisation of goals at the national level may not always be a good match with the expertise development partners have at their disposal. Assessing this expertise will need to be a priority for providers.

52. The principles and tools that have informed development practice in the past decades, ranging from the Paris Principles and the Busan Partnership Agreement[12], to tools on environmental mainstreaming and the Rio Markers, will provide a shared framework for action in equipping development partners for the challenge ahead. This will range from expertise in mainstreaming and policy coherence to good practices in transparency and mutual accountability.

53. Decision 1/CP.21, which accompanies the Paris Agreement, recommits developed countries to mobilising USD 100 billion per year by 2020 for climate action in developing countries from public and private sources. The recent OECD/CPI report (OECD, 2015c) estimated that public and private finance mobilised were estimated at USD 62 billion in 2014, up from USD 52 billion in 2013 and making an average of USD 57 billion annually over the 2013-14 period. There will be an increase in funding from this floor of USD 100 billion by 2020 to be decided by 2025. Whether these resources originate and 'flow' along the same or parallel channels to development assistance, their ultimate destination will be to support climate action in the context of sustainable development and poverty eradication at the country level[13]. To maximise effectiveness, climate and development action will need to be planned and implemented together, resourced by a mix of climate and sustainable development finance, to deliver benefits for both the planet and people. Financing for sustainable development will play a key role in helping developing countries transition to the low carbon, climate-resilient and sustainable pathways needed to achieve the SDGs.

54. This paper outlines the changes expected in the field of development co-operation post-2015 as development is recast as sustainable development and coherence between policies at the international level is expected to improve. From 2016 onwards, the focus is on implementing these new agreements and shaping coherent and effective domestic policies and plans in all countries. The role of development finance is changing as domestic resources and private finance play a larger role and the links between finance for sustainable development and climate finance become more evident. The paper presents key factors that can strengthen coherence between development finance and climate finance and explores the role that development co-operation providers and their partners can play in this process. The factors presented include strengthening country ownership, greater mainstreaming of environment and climate change in development co-operation, less fragmentation of climate funds and improved access to finance for LDCs and SIDS. The need to define climate finance, enhance transparency and increase the amount and predictability of resources are also considered. Other factors include the need to monitor and manage possible competition and enhance synergies between climate and other development finance objectives, as

[12] The Paris Declaration on Aid Effectiveness (2005) and the Busan Outcome Document (2011) aim at improving the effectiveness of development co-operation and are based on the principles of increased coherence, transparency and predictability of development co-operation; country ownership; alignment with national priorities; harmonisation of efforts; building partnerships and a focus on managing for results, as well as a recognition of the need for mutual accountability.

[13] Article 2 of the Paris Agreement, UN, 2015c

well as the need to prioritise international public funds targeting climate change, especially ODA, for particularly vulnerable people and countries.[14]

55. Further work will be needed by providers of development co-operation and their partners to capture these opportunities at the domestic level as national plans are developed to implement the SDGs, the Addis Action Agenda, the Sendai Framework and the Paris Agreement. The OECD, working alongside other key research and policy partners, can play a role by contributing to work under the UNFCCC to develop a transparency framework for climate finance. This could help to answer the vexed question of the potential for competition between climate and development finance, which continues to cause a political divide between developed and developing countries. The development co-operation community could also consider further research in a number of areas including country level studies of financial flows to identify ways of maximising the effectiveness of finance for climate, development and disaster risk reduction. In addition, country level studies of the measures being taken to roll out the 2015 agendas in a coherent way at the national level would provide valuable insights and learning to share with development co-operation providers and partner governments. The Global Partnership for Effective Development Co-operation (GPEDC) tracks progress on Busan commitments through 10 indicators that partially overlap with the factors described in the paper. Development cooperation providers can engage with the monitoring framework and explore synergies with climate finance to improve performance in areas such as transparency and country ownership.

[14] This view is anchored in the Paris Agreement, for example where Article 4.4 refers to LDCs and SIDS, and their needs for public and grant based resources for adaptation.

REFERENCES

Amin, A-L & Jaramillo (2015), "Towards an effective international financial ecosystem for climate finance", E3G, Briefing Paper, May 2015.

Amin and Jaramillo, E3G & Tirpak, D, Brown, L. & Ronquillo-Ballesteros, A. (2014) "Monitoring Climate Finance in Developing Countries: Challenges and Next Steps", Working Paper, WRI.

Bird, 2014 Fair share: climate finance to vulnerable countries

https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9164.pdf

Brown et al, (2010)., "Climate Finance Policy Brief No.2 Climate finance additionality: emerging definitions and their implications". Overseas Development Institute. London. https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6032.pdf

Buchner et al. (2013). "The Global Landscape of Climate Finance 2013". Climate Policy Institute. Venice.

Chambwera, Met al (2014). "Economics of adaptation. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part A: Global and Sectoral Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change", Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 945-977.http://ipcc-wg2.gov/AR5/images/uploads/WGIIAR5-Chap17_FINAL.pdf

Clapp, C et al (2012). "Tracking Climate Finance: What and How?" Organisation for Economic Co-operation and Development / International Energy Agency. Paris. http://www.oecd.org/environment/climatechange/50293494.pdf.

Ellis, J. and S. Moarif (2015), "Identifying and addressing gaps in the UNFCCC reporting framework", *OECD/IEA Climate Change Expert Group Papers*, No. 2015/07, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5jm56w6f918n-en

GCF (2016a). Accredited entities, (accessed 2 February 2016). http://www.gcfund.org/fileadmin/00_customer/documents/Press/release_GCF_2015_07_07_accreditation_entities.pdf

GCF (2016b), "Status of readiness support". (accessed 20 May 2016) http://www.greenclimate.fund/ventures/readiness/fine-print

Green Climate Fund (2015). "3 Minute Brief of the Green Climate Fund for Negotiators". GCF, 2015.

GCF (n.d). https://www.greenclimate.fund/ventures/portfolio/bold-ideas

Granoff, I, et al (2015)."Zero poverty, zero emissions: eradicating extreme poverty in the climate crisis". ODI Research reports and studies. September 2015. London

IIED 2015 Climate finance from the aid budget must also deliver on poverty. Available at: http://www.iied.org/climate-finance-aid-budget-must-also-deliver-on-poverty

LDC Expert Group (2012) NATIONAL ADAPTATION PLANS: Technical guidelines for the national adaptation plan process. UNFCCC, December 2012. http://unfccc.int/resource/docs/publications/publication_ldc_nap_techguidelines.pdf

Mary Robinson Foundation - Climate Justice. (2015) Zero Carbon Zero Poverty the Climate Justice Way: Achieving an equitable phase-out of carbon emissions by 2050 while protecting human rights (2015). Mary Robinson Foundation –Climate Justice. Report 1 2015 V1 FEB, Dublin.

Masullo, L. et al.. (2015). "'Direct Access' to Climate Finance: Lessons Learned by National Institutions." Working Paper. Washington, DC: World Resources Institute.http://www.wri.org/sites/default/files/22DIRECT_ACCESS_TO_CLIMATE_FINANCE_LESSONS_LEARNED_BY_NATIONAL_INSTITUTIONS.pdf

Multilateral Development Finance Development Committee, (2015). Discussion Note "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance". Prepared jointly by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European InvestmFfent Bank, the Inter-American Development Bank, the International Monetary Fund, and the World Bank Group - April 18, 2015 Development Committee meeting. http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf

ODI (2014). "Climate finance: is it making a difference? A review of the effectiveness of Multilateral Climate Funds". Overseas development Institute. London. https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9359.pdf

OECD (2016a)., "2015 Preliminary ODA Figures". https://www.oecd.org/dac/stats/ODA-2015-detailed-summary.pdf

OECD (2016b), "Project-level data for every climate-related development finance project in 2013-14". Accessed January 2016. http://www.oecd.org/dac/stats/climate-change.htm

OECD (2016c), Converged Statistical Reporting Directives. http://www.oecd.org/dac/stats/methodology.htm

OECD (2016d), "*Better Policies for Sustainable Development 2016: A New Framework for Policy Coherence*", OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264256996-en

OECD (2016e), ENVIRONMENT'S Policy work to date on integrating environment and development (DCD/DAC/ENV/RD(2016)2)

OECD (2015a), "Investment for Sustainable Development. OECD and Post-2015 reflections. *Element 11, paper 3."* http://www.oecd.org/dac/Post%202015%20Investment%20for%20sustainable%20development.pdf

OECD (2015b), "Strengthening Tax Systems to Mobilise Domestic Resources in the Post-2015 Development Agenda.OECD and Post-2015 reflections". *Element 11, paper 2.* https://www.oecd.org/dac/Post%202015%20Domestic%20Resource%20Mobilisation.pdf

OECD (2015c), "Climate finance in 2013-14 and the USD 100 billion goal", a report by the Organisation for Economic Co-operation and Development (OECD) in collaboration with Climate Policy Initiative (CPI). http://www.oecd.org/environment/cc/OECD-CPI-Climate-Finance-Report.htm

OECD (2015d), "Detailed final 2014 aid figures released by OECD/DAC". http://www.oecd.org/dac/stats/final2014oda.htm

OECD (2015e), "Taking stock of development finance to least developed countries (LDCs)". http://www.oecd.org/dac/environment-development/Development%20finance%20to%20least%20developed%20countries.pdf

OECD (2015e), "Development Co-operation Report 2015. Making Partnerships Effective Coalitions for Action". OECD Publishing, Paris. http://www.oecd-ilibrary.org/development/development-co-operation-report-2015_dcr-2015-en

OECD (2015f), "Climate-related development finance in 2013-14".

http://issuu.com/oecd-dcd/docs/flyercop21_30112015

OECD (2015g), "Climate-related Development Finance for SIDS and LDCs". DAC-Senior Level Meeting side event: Breakfast Session on Climate-related Development Finance for SIDS and LDCs. 20 October 2015. www.oecd.org/dac/environment- development/FORMATTED_ Climate%20finance%20LDCs%20SIDS%20summary_final%20rev2.pdf

OECD (2015h), "Partnership for Climate Finance and development brochure". http://www.oecd.org/dac/environment-development/Partnership%20for%20Climate%20Finance%20and%20Development%202015.pdf

OECD (2015i). "2014 Global Outlook on Aid Results of the 2014 DAC Survey on Donors' Forward Spending Plans and Prospects for Improving Aid Predictability". Organisation for Economic Co-operatio and Development. Paris. http://www.oecd.org/dac/aid-architecture/GlobalOutlookAid-web.pdf

OECD (2015j), Making climate finance work for women: Overview of the integration of gender equality in aid to climate change. OECD.

OECD (2014a), DAC High Level Meeting Communique. Available in: www.oecd.org/dac/OECD%20DAC%20HLM%20Communique.pdf

OECD (2014b), Kato, T., Ellis, J. & Clapp, C. The Role of the 2015 Agreement in Mobilising Climate Finance. COM\ENV\EPOC\IEA\SLT(2014)7

OECD (2013), Gender and Statebuilding in Fragile and Conflict-affected States, Conflict and Fragility, OECD Publishing. http://dx.doi.org/10.1787/9789264202061-en

OECD (2012), "The DAC's work to integrate environment and development", in OECD, *Development Co-operation Report 2012: Lessons in Linking Sustainability and Development*, OECD Publishing, Paris. http://dx.doi.org/10.1787/dcr-2012-9-en

OECD (2009), *Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance*, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264054950-en

OECD/UNDP (2016), Making Development Co-operation More Effective: 2016 Progress Report, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264266261-en

Sachs, J. & Schmidt-Traub, G. (2013). "Financing for development and climate change post-2015. Draft for Discussion". Sustainable Development Solutions Network.

Stadelmann, M., Timmons Roberts, J, Michaelowa, A. (2011), "New and additional to what? Assessing options for baselines to assess climate finance pledges". *Climate and Development. 3* (2011) 175–192 doi:10.1080/17565529.2011.599550

Steele, P. (2015), "Development finance and climate finance: achieving zero poverty and zero emissions". Discussion Paper. IIED.

UNFCCC (2016b), "Measurement, Reporting and Verification of Support Beyond the Biennial Assessment and Overview of Climate Finance Flows" Accessed (February 2, 2016). http://unfccc.int/cooperation_and_support/financial_mechanism/items/8892.php

UNISDR (2015)." Sendai Framework for Disaster Risk Reduction". United Nations Office for Disaster Risk Reduction. http://www.unisdr.org/we/inform/publications/43291

UN (2015a), 2030 transforming our world: the 2030 Agenda for Sustainable Development. (accessed 27 January 2016. https://sustainabledevelopment.un.org/post2015/transformingourworld

UN (2015b), "Addis Ababa Action Agenda of the Third International Conference on Financing for Development". Addis Ababa. July 2015.

UNEP (2016), "The Adaptation Gap Report 2016". United Nations Environment Program. http://web.unep.org/adaptationgapreport/sites/unep.org.adaptationgapreport/files/documents/agr2016.pdf

UNFCCC (2015), "Adoption of the Paris Agreement". FCCC/CP/2015/L.9/Rev.1.

UNFCCC (2011), "Transformational Role of the Green Climate Fund: Opportunities and Challenges". Meeting of the Transitional Committee. Geneva, Switzerland, 11 September 2011

USAID (2015). Climate change and Conflict: an annex to USAID resilient development framework. USAID, Washington, DC. https://www.usaid.gov/sites/default/files/documents/1866/ClimateChangeConflictAnnex_2015%2002%2025,%20Final%20with%20date%20for%20Web.pdf

Weitz, N., Nilsson, M. & Davis, M. (2014), "A Nexus Approach to the Post 2015- Agenda: Formulating Integrated Water, Energy and Food SDGs", SAIS Review, Vol. XXXIV no. 2 (Summer-Fall 2014)

Westphal, M. (2014)." Lessons Learned from Climate Finance for Post-2015 Sustainable Development", World Resources Institute. www.irf2015.org/sites/default/files/publications/Retreat%20%234_BP_5_WRI_Final.pdf

World Bank (2016). "Shockwaves: Managing the impacts of climate change on poverty. Overview booklet, Climate change and development series". World Bank, Washington DC

BETTER POLICIES FOR BETTER LIVES