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The Future of Climate and Development Finance: Balancing Separate Accounting with Integrated Policy Responses

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Summary

With the first Global Stocktake to be presented at the 28th Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change (UNFCCC) in Dubai, the question of inadequate levels of climate finance for developing countries will again take centre stage. Ongoing efforts to reform climate finance include the negotiation of a New Collective Quantified Goal (NCQG) by the end of 2024; the structural reform of Multilateral Development Banks (MDBs) to provide more climate finance and to lower the cost of capital; and the setting-up and integration of the new funding stream for loss and damage. Yet, there are other longstanding issues in international climate finance that likewise need to be addressed as part of these ongoing efforts, which are mainly related to the disentanglement of the development and climate finance regimes. Official Development Assistance (ODA), per definition, aims to promote the economic development and welfare of developing countries, and at the same time plays an increasing role in the global climate finance landscape. However, sourcing climate finance from ODA is already leading to a "crowding out" of limited ODA resources for its original purposes. Moreover, the current system of reporting on and accounting for climate finance provided through ODA has significant pitfalls and weaknesses.

This paper discusses some of the key challenges caused by the blurring of the development assistance and climate finance regimes and argues that the NCQG process and the integration of loss and damage into the climate finance system must go hand in hand with a separation of climate and development finance accounting mechanisms whilst ensuring integrated policy responses.

We address these issues in two parts: first we focus on the current system of reporting and accounting for international climate finance (as ODA); and second on the role of ODA to finance mitigation, adaptation, and loss and damage. We argue that there is a political necessity for distinguishing between ODA and climate finance (for transparency and credibility), which contrasts with the operational reality where co-benefits of projects and development finance must be achieved by integrating climate and non-climate objectives.

In this regard, the paper analyses the implications of on-going negotiations under the UNFCCC around the NCQG and loss and damage for a necessary ODA reform. In particular, we make the following recommendations:

(1) **Align the accounting and reporting system of the OECD** (Organisation for Economic Co-operation and Development) **with the NCQG**: one should separate climate and development finance; reduce over-reporting; and establish triangulation of climate finance data reported by donors.

(2) **Introduce qualitative frameworks** for monitoring and assessment of the impact of climate-related interventions; and define "fit-for-purpose" instruments and channels for the provision of climate finance.

Looking ahead, we expect discussions on a potential enlargement of the contributor base of climate finance to give new impetus to climate finance reform.

Introduction

Much of the political and public debate ahead of the 28th Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change (UNFCCC) in Dubai centres on where the world stands with regard to the commitments made under the 2015 Paris Agreement on climate change. The first Global Stocktake provides a comprehensive assessment of progress and gaps in this respect. One key question in this stocktake is whether developing countries – which have historically contributed the least to climate change but are disproportionately impacted by its effects – **have received and continue to receive adequate financial support from those countries that are historically responsible for the majority of CO2 emissions**. In 2009, at COP15 in Copenhagen, developed countries committed to the collective goal of mobilising USD 100 billion of public and private climate finance in developing countries per year. While this spending target has not yet been achieved, **the target line is already being shifted much further with a new global climate finance goal to be determined by the end of 2024 at COP29** – the New Collective Quantified Goal (NCQG). The NCQG aims to define a new collective finance goal based on the foundation of the USD 100 billion goal to address developing countries' needs and priorities. Current discussions in technical expert dialogues (TEDs) in preparation of the NCQG focus on both: a new quantum, and a renewed focus on climate finance quality. Furthermore, the Global Goal on Adaptation (GGA) and the new funding stream for loss and damage (agreed at COP27), which are currently being negotiated, will have to be incorporated into the existing system of climate finance.

With the major dynamics around climate finance under the umbrella of the UNFCCC, **the question remains how development finance will adapt to these processes**. The increasing share of climate finance that is provided as ODA at the expense of reduced finance for other development priorities goes against the commitments made at the Paris Summit for a New Global Financing Pact, namely that "addressing new, global, challenges would not be done at the expense of the fight against global poverty" (Présidence de la Republique, 2023, p. 2). The question of the (dis)integration of the climate and development regimes is thus critical in order to make development cooperation fit for the climate crisis whilst ensuring adequate financing for poverty reduction and socio-economic development in low-income countries. In this context, proposals have been made, mostly in policy papers, to **separate climate finance and development assistance more clearly** and to exclude mitigation-related finance from ODA (see, for example, Mélonio, Naudet, & Rioux, 2022). Others highlight **the complementarity and indivisibility of development and climate** (see, for instance, IPCC, 2022) that necessitate **stronger additionality and transparency**.

Against this background, this Policy Brief discusses some of the key challenges in the blurring of the development assistance and climate finance regimes. It argues that, **while there is a political necessity for distinguishing between ODA and climate finance, achieving climate-resilient pathways requires even more integrated policy frameworks** – a key challenge to the future of ODA. To this end, the NCQG and GGA processes, and the development of a new loss and damage finance framework under the UN climate regime must go hand in hand with further reforms to disentangle climate and development finance accounting mechanisms whilst ensuring integrated policy responses.

What is reported as climate finance and how?

When climate finance began to be included under the UN climate agreements, developing countries had expected these funds to be **"new and additional"** to existing ODA as stipulated in Article 4.3 of the original Rio Climate Convention agreed in 1992. While "new and additional" has not been defined in this context – giving space for various interpretations by different donors – the lowest

denominator in any definition would be that climate finance is not sourced or diverted from other existing financing mechanisms such as ODA. Yet, **most of the public climate finance from bilateral donors under the UNFCCC regime is not additional but is in fact drawn from existing ODA budgets**. In 2021, members of the OECD Development Assistance Committee (DAC) allocated 27.6 per cent of bilateral allocable ODA to climate objectives (OECD/DAC, 2023a).

Why is that a problem? For one, there is **the issue of credibility and trust**, with the OECD/DAC ODA provided by its members averaging around 0.3 per cent of their respective GNI (gross national income) levels (despite pledges to provide 0.7 per cent), and the fact that the 100 billion in climate finance has also not yet been reached. In particular, the climate negotiations under the UNFCCC have become increasingly strained due to a lack of trust among developing countries that rich countries will deliver what is needed regarding mitigation, adaptation and the new stream of loss and damage finance.

In addition, **the current system of reporting and accounting for international climate finance has significant pitfalls and weaknesses** conditioned to some extent by the lack of a politically settled robust accounting framework under the UNFCCC. For one, no internationally agreed definition of climate finance exists and, as a result, a plethora of accounting and reporting practices have emerged. This makes it challenging to assess the results and the current amount of international climate finance provided (Weikmans & Roberts, 2017; Michaelowa & Namhata , 2022). Key issues in this respect range from "what counts" as climate finance (no formulation of grants-to-loans ratio), to legitimacy issues and controversy over the competency to define "international climate finance" (OECD versus UNFCCC), transparency (as compliance with UNFCCC transparency provisions vary greatly), the open question of how to define "new and additional", and the lack of concrete sub-targets (Weikmans & Roberts, 2017).

Developing countries have also **long criticised the climate finance data presented by the OECD** not only as unreliable and out of proportion, but also the very legitimacy of OECD countries to define for all UNFCCC signatories what should and should not count as climate finance. Since then, efforts to define and frame climate finance have moved closer to processes under the UNFCCC framework (such as the ongoing NCQG process). Nevertheless, the data for international climate finance is still sourced mainly from the OECD/DAC and reforms thereof discussed solely among donors.

On a more technical note, the widespread use of the Rio marker methodology by the OECD/DAC, employed by many bilateral donors as a base for their financial reporting to the UNFCCC, also has significant weaknesses. Donors can report projects with a "principal" objective, if climate change adaptation or mitigation is the primary objective of a given project; a "significant" objective, if it has climate change as a secondary objective; or use a third category "0" if the activity does not target climate change at all. While this reporting was originally designed to track the mainstreaming of the Rio Conventions (since 2012) and not to monitor financial pledges, the key issue with the Rio marker methodology is that it lacks granularity (full cost versus only a component of the project counts as climate finance) and that developed countries' self-reporting is prone to overestimations and "over-coding" (Roberts et al., 2021; Michaelowa & Michaelowa, 2011). **As aid projects can be reported as targeting several Rio markers, this often results in double, triple or even quadruple counting towards different financial pledges** made under the Rio Conventions (Weikmans & Roberts, 2017). More recent analysis of bilateral donor and the World Bank's climate portfolio comes to similar results, with many projects labelled as either mitigation- or adaptation-related (full cost or parts of the project) where a serious link to climate change could not be established (Núnez-Mujica, Ramachandran, & Morris, 2023).

What is more, due to the pressure to meet both targets, **donors have felt incentivised to count everything in**, ranging from including domestic refugee costs in ODA to including investments in climate finance, which have arguably nothing or little to do with climate change (Rumney et al., 2023). Perhaps most significant is that by being accounted through the same system, **competition is created between climate change and socio-economic development**, as climate finance leads to a crowding out of limited ODA resources. Recent estimates show that, with the emergence of climate finance, other types of ODA have been reduced and that climate finance clearly runs at the expense of other development priorities, as total volumes have not increased accordingly (Michaelowa & Nahmhata, 2022). These weaknesses of the current accounting and reporting system undermine both a realistic overview of the quantity of climate finance and create disincentives for a better quality thereof.

Do climate and development finance serve the same purposes?

Next is the question whether climate finance should be provided through ODA at all? The ultimate global goal is to achieve climate-resilient development, defined as development "that successfully integrates mitigation and adaptation actions to advance sustainable development" based on the principles of equity and justice (IPCC, 2022, p. 28). The **notion that climate action and sustainable development are inextricably linked** is also reflected in the guiding principle of "just transitions" which aims to ensure that the transformations of economies to become climate-neutral leave no one behind and reduce poverty and inequalities as part of this process (see Malerba, 2022). Yet, to ensure just transitions and national socio-economic development, it is important to address not only the co-benefits between socio-economic development and climate action but also the potential trade-offs.

Climate change mitigation

As mitigation – and thus the global reduction of CO2 emissions – is largely of a Global Public Good (GPG) character, it is increasingly disputed to what extent it should be continued to be funded through ODA given the **fundamental conceptual difference vis-à-vis the principles of ODA** (which stress the national welfare of developing countries). There are several concerns in this respect: The first relates to the recipients, as most mitigation finance goes to (large) middle-income countries (MICs). From an emission-reduction perspective, this makes a lot of sense, as poorer countries tend to emit lower amounts of CO2 than rising economies such as China, India, Indonesia, or South Africa. Given the GPG character of mitigation activities, it is even beneficial for poorer countries if emissions are reduced effectively where they are greatest or rapidly growing. Yet, as current low-income countries are unlikely to play a significant part in global mitigation efforts in the short and medium term, the current system is to their disadvantage as it diverts scarce ODA resources to finance emission reduction in richer middle-income countries. What matters for both – poorer developing countries and rising middle-income countries – is to **access and receive adequate finance for emission-reduction plans and Nationally Determined Contributions** (NDCs).

This became very visible at the preparatory meetings in Bonn during the 58th session of the Subsidiary Bodies (SB 58) to the UNFCCC ahead of COP28 in Dubai. Agreeing on adequate financing of national mitigation plans as an agenda item delayed and soured the negotiations and led to significant controversies between the rich bloc and developing countries.

It has been calculated that, in 2022, the mitigation-related activities highlighted by countries' NDCs require financial support in the trillions (roughly USD 2.7 trillion) (Fransen, O'Connor, Alayza, & Caldwell, 2022). A main focus, most notably at the Paris Summit for a New Global Financial Pact, is thus on leveraging additional public (taxes) and

private sources of capital to be able to come anywhere near this sum. With a total of USD 204 billion in 2022 (OECD, 2023), **ODA can only make meaningful contributions to a country's mitigation agenda where there are obvious developmental and local co-benefits.** At the same time, potential trade-offs of mitigation projects for development also exist, such as potentially negative effects on poverty and social security (Michaelowa & Namhata, 2022). An example would be the case of resettlement of local populations for the construction of large hydropower plants, which have not yet been systematically addressed or integrated into most development projects.

The future role of mitigation in the ODA system thus poses several open questions. Proposals have been made to exclude mitigation activities from ODA and replace them with other sources of public and, in particular, private funds (market mechanisms) (see, for example, Mélonio, Naudet, & Rioux, 2022). Yet, mitigation remains a key interest of DAC donors**,** not least given the growing focus on "just transitions" and related Just Energy Transition Partnerships (JETPs). In addition, a clear-cut separation overlooks the potential co-benefits of development and mitigation through measures such as forest restoration, green infrastructure developments, sustainable electrification, and so on. At the same time, it is precisely those co-benefits (under the "significant objective" marker of the OECD/DAC) which are currently captured very differently by donors, and where figures in reports are the least reliable. In addition, the intended developmental but also climate-related objectives of projects and financing are not queried under the current system. Reforming this system not only requires a more stringent separation when accounting mitigation and development activities; it also **requires a stronger focus on granularity and on counting only those components of mitigation projects as ODA where developmental and local co-benefits are expected ex-ante and critically evaluated ex-post.**

Climate change adaptation

From 2020 to 2021, adaptation-related ODA surpassed mitigation-related ODA (of all climate-related ODA activities: 42 per cent of the total ODA expenditure addressed adaptation, 33 per cent mitigation, and 24 per cent both objectives (OECD, 2023a)). In contrast to mitigation, adaptation tends to be mainstreamed into development interventions with a smaller share of projects having adaptation as a principal objective (OECD, 2023b). **Arguably, there are complementarities and interlinkages between adaptation and development**. For example, using ODA for the provision of adaptation finance allows one to achieve higher effectiveness and sustainability, considering that integrating climate risk into development is critical.

Nevertheless, there are a **number of challenges with ODA as adaptation finance**. First, ODA is typically understood as centring on the notion of solidarity and the responsibility of wealthy nations to provide aid and assistance to poor countries, whereas adaptation finance relates to donor countries' *historical* responsibility for climate change (the damage caused by global pollution and the "polluter pays" principle) (see Weikmanns, 2023). Second, with the increase in adaptation funding over the last years, **there is a tendency to rebrand traditional development projects as adaptation on the basis that they target climate-sensitive sectors**, which often leads to maladaptive outcomes because the root causes of vulnerability to climate change are not understood and considered (see, for instance, Eriksen et al., 2021; Schipper, Tanner, Dube, Adams, & Huq, 2020). Third, funding adaptation through ODA is problematic in terms of just allocation of climate finance and accounting for additionality under the UNFCCC. Empirical literature on whether donors prioritise the most vulnerable countries remains inconclusive (Robinson, Roberts, Weikmans, & Falzon, 2023). For example, a recent assessment of the adaptation portfolio of German Development Cooperation (a leading bilateral adaptation finance provider) shows that, while adaptation support is directed towards vulnerable countries, the level of

vulnerability does not determine the level of support; rather this depends on other factors such as the active presence of other donors (Noltze Köngeter, Mank, Moull, & Rauschenbach, 2023). The analysis further reveals that allocation of adaptation-related ODA is determined only to a partial degree by the priority sectors for adaptation of partner countries (Noltze et al., 2023). Fourth, adaptation – also including that through ODA – is largely incremental, project-based and fragmented, while the monitoring of adaptation centres on planning and implementation rather than on assessment of impact and effectiveness (IPCC, 2022), which conditions the risk of maladaptive outcomes.

In sum, while adaptation generally fits better with the definition and narrative of ODA than mitigation-related activities, funding adaptation through ODA requires a transformation of the current system. The GGA is expected to frame targets that capture key sectors and elements of the adaptation policy cycle (impact, vulnerability, and risk assessments; planning; implementation; and monitoring, evaluation, and learning). Since the GGA will have an essential role in reporting under the UNFCCC, it should also be used as the metrics for reporting ODA-related adaptation finance in the future.

Loss and damage

Loss and damage will inevitably become the third pillar in climate finance next to mitigation and adaptation. Considering loss and damage in the negotiations under the UNFCCC dates back to the early 1990s in relation to compensating the impacts of sea-level rise demanded by the Alliance of Small Islands States. However, the COP recognised the issue formally for the first time in 2013 with the establishment of the Warsaw International Mechanism on Loss and Damage (WIM). The adoption of the Paris Agreement in 2015 with a separate article on loss and damage (Article 8) was followed by the breakthrough agreement for establishing new loss and damage funding arrangements, including a new fund at COP27 in 2022. A Transitional Committee (TC) was tasked with making recommendations for consideration and adoption at COP28, such as elements of the new funding arrangements, and the governance, institutional design and sources of funding of the new fund. Importantly, the COP27 Decision reiterates that various institutions – including developed country parties, and bilateral and multilateral organisations among others – are "urged to provide enhanced and additional support for activities addressing loss and damage" (UNFCCC, 2022, p. 15).

To date, loss and damage-related finance is characterised by critical risk and impact coverage gaps (for instance, for intangible losses) and structural challenges such as dominance of debt instruments and exclusive eligibility criteria (such as in the case of middle-income countries) (TC, 2023a). In their submission to the TC, developing countries are calling for support "based on the principle of Common but Differentiated Responsibilities and Respective Capabilities in light of national circumstances (CBDR-RC), and historical responsibility" and "grant-based resources, that are distinct and separate from adaptation, development and humanitarian assistance resources" (UNFCCC, 2023b, p.2).

There is a normative mismatch between loss and damage finance and ODA where the issue of compensation and liability is perhaps even more profound than in the case of adaptation. However, compensation under the UN climate change regime is currently not feasible (for example, Decision 1/CP21 (UNFCCC, 2015) restricts any legal basis for liability or compensation) and is strongly opposed by developed countries. Therefore, proposals for loss and damage funding mechanisms based on the principles of solidarity and "polluters pay" seem more viable.

Despite these normative differences, loss and damage and development are interwoven, not least since existing funding relevant to addressing loss and damage through ODA channels spans adaptation finance, humanitarian aid, and insurance mechanisms (TC, 2023a). Furthermore,

the text for operationalisation of the new loss and damage fund agreed by the TC, makes explicit reference to the importance of promoting development co-benefits (TC, 2023b).

Beyond the status quo, the issue of loss and damage has major implications for the future of ODA and these necessitate respective reforms. First, **accounting for "new and additional" finance for loss and damage is paramount if trust in development cooperation is to be built and sustained, and competition with limited ODA funds avoided**. However, separating loss and damage from development, adaptation (especially as regards slow-onset gradual climate impacts) and humanitarian finance flows will be challenging. For instance, tracking loss and damage-related ODA is currently limited, due to a lack of systematic reporting on loss and damage including that under the existing UNFCCC, ODA and MDB climate finance reporting frameworks (even though some ODA finance flows can be relevant to addressing loss and damage). Second, as in the case of adaptation, major issues in the discussions on loss and damage funding arrangements relate to the need for sustained long-term finance beyond fragmented and project-based support, which would require the strengthening of coordination and coherence along with new models of support by donors. Third, loss and damage would likely have implications for the distribution and effectiveness of ODA. On the one hand, the residual negative impacts of climate change undermine economic development and welfare with implications for ODA effectiveness, which necessitates an increased understanding of observed and projected loss and damage**.** On the other hand, risk assessments and projections for irreversible loss and damage may create disincentives for ODA support to high-risk locations in the future, impeding development and justice.

Importantly, **the ongoing negotiations on the governance and design of the new loss and damage fund have been particularly contentious around the question of eligibility and allocation of support**, and the role of vulnerability in the prioritisation of recipient countries. The UN climate regime has established a context for vulnerability-based allocation through a reference in the 1992 Convention and follow up decisions to "particularly vulnerable" or "most vulnerable developing countries". The draft decision text agreed at the last TC meeting stipulates that "developing countries that are particularly vulnerable to the adverse impacts of climate change" would be eligible to receive support from the new Fund (TC, 2023b). However, there is no agreed definition of vulnerability at the UN level and in scientific literature as acknowledged in the IPCC glossary (Anisimov & Vallejo, 2023). Overall, development status and geographic characteristics are key elements of vulnerability under the UNFCCC legal framework and funding mechanisms with main reference to SIDS (Small Island Developing States), LDCs (Least Developed Countries) and African countries (Anisimov & Vallejo, 2023). Yet, many developing country parties which do not fall into these categories have raised concerns about the use of vulnerability metrics to determine access to finance. Moreover, there are critical issues related to equity and justice, which require **a more nuanced and careful consideration of vulnerability as an approach to allocation of finance for loss and damage** (for example, accounting for structural vulnerabilities and factors such as colonialism) (Anisimov & Vallejo, 2023; Robinson et al., 2023).

The way ahead – incremental or transformational reforms?

At COP27, **the parties recognised the need for transforming the global financial system** in response to the urgency to scale-up climate finance, the growing indebtedness of countries vulnerable to climate change, and the necessity of improving the effectiveness of existing finance mechanisms. Since then, several summits and reform efforts have taken place to address these issues, such as the recent reform of the World Bank at the annual meeting in Marrakech in October, the first African climate summit in Nairobi in September or the summit for a new Global

Financial Pact hosted by France in June. The World Bank addresses a "green" expansion of the Bank's mission to add "a liveable planet" to the historic goals of poverty eradication and shared prosperity. The recent summit for a New Global Financial Pact, hosted by France, resulted in proposals to alleviate the debt burden; for the development of a common framework for multi-dimensional vulnerability as part of the eligibility criteria by MDBs; and for new metrics of ODA to better integrate climate issues and improve accountability and effectiveness. The Paris Summit's outcome document thus asks the High-level meeting of the DAC in November 2023 to propose a "new narrative and vision for development […] to better integrate climate, biodiversity and water issues, […] as a basis for more coherent and effective action by official donors, while completing their mandate (Présidence de la Republique, 2023, p. 5).

Such **a new narrative** is not only needed to better account for the broad spectrum of goals that ODA aims to tackle, but also to breathe new life into the development finance debate around the 0.7 per cent GNI goal, which has not only never been achieved but which has also lost significant political appeal since it was introduced in 1970.

The ongoing process to define an NCQG by the end of 2024 creates an open window to better define and frame climate finance and to separate it more clearly from development assistance. The NCQG seeks to strengthen transparency (and a transparent system for tracking, monitoring and reporting progress), address methodological issues in accounting and assessment, better define what counts and what does not count as climate finance (from both public and private sources), as well as strengthen the outcome-based focus of climate finance and investments (qualitative elements of the goal such as access, distribution, impact). Proposals further relate to the introduction of sub-goals for mitigation, adaptation, and loss and damage. At the level of the OECD/DAC, the process of defining an NCQG should be seized in order to establish the necessary reforms for more effective accounting metrics for tracking climate finance and separating it from ODA. In the following, we derive a few specific recommendations for this reform process:

(1) Align the accounting and reporting system of the OECD with the NCQG

Most developed countries (with the notable exception of the United Kingdom and the United States) base their reporting to the UNFCCC Secretariat on data collected using the OECD DAC Rio marker methodology. The NCQG process at the UNFCCC level thus needs to be closely aligned with reforms at the OECD/DAC level as a joined attempt to provide more accurate and reliable climate finance data. A continuation of the use of the Rio marker system in its current form would otherwise lead to unreliable reporting to the UNFCCC's NCQG. To this end, reforms should aim at:

- **Separating climate and development finance:** The introduction of a separate climate finance stream (outside ODA) should in particular capture projects with "primary" climate objectives, which can be reported as 100 per cent climate finance to the UNFCCC. To allow for the mainstreaming of climate into development projects and vice versa, reporting "mitigation significant" or "adaptation significant" activities by introducing stronger granularity would imply that under the significant marker only for instance 30 or 50 per cent of projects can be reported as climate finance to the UNFCCC whereas the rest count as development finance. A similar approach could be used in the future to capture loss and damage-related support within development interventions. This approach would also enable the implementation of the additionality principle by separately tracking development and climate finance. Based on the new quantum of the NCQG and the amount that is envisioned and agreed upon to be financed through public concessional finance, the 0.7 per cent ODA/GNI target would be topped up by an own figure for climate finance.

- **Reducing over-reporting:** The practice that one project can be marked as targeting several Rio conventions (be it for the "significant" or the "principal" marker) leads to multiple counting of the same money and needs to be discontinued by donors, as has been requested by the OECD/DAC Secretariat for some time. Stronger granularity with regard to the significant marker can also provide disaggregated data for projects with multiple Rio markers.
- **Establishing triangulation of climate finance data reported by donors and receiving governments and third parties through the UNFCCC Standing Committee on Finance (SCF):** Such triangulation will also help to re-establish trust in the numbers provided by donor countries and pave the ground for stronger alliances between developed and developing countries in climate negotiations.

(2) From quantity to quality

Importantly, the well-justified focus on "more" climate finance must go hand in hand with an increased ambition to define liable strategies that guarantee a better quality of the finances provided to promote climate-resilient development and "just transitions". In this regard, we list below some entry points for reforming the current system:

- **Introduce qualitative frameworks for the monitoring and assessment of the impact of climate-related interventions:** Currently, there is a lack of knowledge related to how climate-related ODA actually contributes to reduced emissions or improved resilience, mainly as this information is not part of project designs or reporting exercises: For projects with mitigation contributions, a new addition needs to capture the envisioned emission reduction in order to better assess its impact. The same goes for adaptation-related projects where donors should be tasked with providing qualitative assessments as to how improved resilience to climate change will be achieved. For this purpose, climate finance data should be mandatorily provided at project- rather than aggregate-level, something only a few developed countries have done so far (for instance, France, Germany, Sweden and the United Kingdom).
- **Define fit-for-purpose instruments and channels for the provision of climate finance especially for adaptation, and loss and damage:** Ongoing reforms should take into consideration the types of instruments and channels for provision of climate finance. Climate finance effectiveness underperforms vis-à-vis other forms of ODA, for instance, lower disbursement rates, higher proliferation of climate finance providers and smaller projects sizes, and lower use of developing countries' own institutions (Chichocka & Mitchell, 2022). Debt sustainability is also a key concern as loans, including both concessional and non-concessional loans, have accounted for the majority of bilateral and multilateral public climate finance to developing countries (at least two-thirds of the total in each year between 2016 and 2020) (OECD, 2023a). Lastly, adaptation, and loss and damage require solutions that span regions, sectors, and time scales. Therefore, reforms should envision pathways for the establishment of mechanisms for coherent and coordinated support at the OECD level aligned with the needs of recipient countries and the UN climate change frameworks; and a shift to long-term, programme-based approaches (such as placing ODA into the broader context of national climate finance landscapes).

Along with these ODA reform needs, there is an additional debate related to a **greater involvement of the "Global South"** in determining the future direction of climate finance. The critical stance of developing countries to the proposal for the new loss and damage fund to be hosted by the World Bank demonstrated during the TC meetings reveals their general mistrust in existing "Western" institutions to manage climate funding. A similarly **polarising issue relates to the contributor base of climate finance** as the World has seen significant changes since the 1992 Rio Conventions. Since then, the industrialisation processes of many emerging economies have not only led them to climb the ladder of economic development but

also to become major CO2 emitters. While the question of who should provide climate finance has been raised regularly during climate negotiations over the years, a new momentum has been created in the negotiations on funding loss and damage, and now the NCQG. With regard to the latter, the European Union (EU) advocates for "a discussion on expanding the contributor base for the new collective quantified goal, reflecting the dynamic nature of capabilities" in its recent initial position for COP28 (EC, 2023). This is a controversial position and is likely to receive strong criticism by those countries which the EU expects to contribute in the future (for example, China, Saudi Arabia or India). At the same time, an official enlargement of the contributor base of climate finance would also move discussions outside the OECD and present a further argument for separately accounting for climate finance and ODA (as emerging economies are unlikely to accept standards and procedures decided at the OECD level).

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