Submission by the Republic of Senegal on behalf of the Least Developed Countries (LDCs) Group on views on the Operational Definitions of Climate Finance, in accordance with the call by the Standing Committee on Finance (SCF) to seek further inputs on the definition of climate finance *(in the context of the request from COP26 and CMA3 to SCF to continue its work on definitions of climate finance, taking into account the submissions received from Parties on this matter, with a view to providing input for consideration at COP 27 (November 2022).*

The Least Developed Countries (LDCs) Group welcome another opportunity to share their views on the **definition of climate finance**, in accordance with the call by the Standing Committee on Finance (SCF) to seek further inputs on the definition of climate finance, in the context of the request from COP26 and CMA3 to SCF to continue its work on definition of climate finance, with a view to providing input for consideration at COP 27 (November 2022).

An operational definition of climate finance

Building on previous UNFCCC Articles/Decisions, background contextual information (see below) and SCF's operational definition mentioned in its BA 2014[1], the LDC Group proposes the following revised operational definition:

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

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

NEED FOR A COMMON DEFINITION OF CLIMATE CHANGE FINANCE

Currently, there is a diverse number of operational definitions of climate finance, in use by Parties, multilateral development banks and financial institutions, UN agencies and the private sector. This lack of an agreed definition of climate finance compromises the accuracy and transparency of tracking progress of finance provision, mobilization and utilization, risking to undermine the trust between parties.

This is a persistent issue, whose consequences are further reflected across the different reports

[1] "Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts", SCF 2014 Biennial Assessment Report.

and communications published since our last submission on this matter (2020). Some of these reports and their findings are highlighted below:

- The SCF's 2020 Biennial Assessment and Overview of Climate Finance Flows, mentions that "while definitions being used generally reflect a common understanding of mitigation or adaptation finance, they differ when it comes to sector-specific activities, certain financial instruments and approaches to public and private finance flows".
- In the context of assessing progress towards the delivery of the US$100 billion goal by 2020, the latest OECD report on "Climate Finance Provided and Mobilised by Developed Countries" estimates a total amount of US$ 79.6 billion in 2019. In contrast, Oxfam's 2020 climate finance shadow report has estimated the mobilised amount in approximately US$60 billion in 2017-2018. Moreover, the report indicated that climate-specific net assistance was only between US$ 19-22.5 billion per year in the same period.
- The UNFCCC summary report of the 2021 in-session workshop on "information to be provided by Parties in accordance with Article 9, paragraph 5, of the Paris Agreement" mentioned that the information provided in the First Biennial Communications presented by developed countries is difficult to aggregate and compare. Several participants in the workshop highlighted the lack of sufficient information on how climate finance was identified as new and additional.

One of the factors contributing to these inconsistencies is the lack of common and clear identification of climate change related activities. The current application of the Rio Markers used for bilateral support by many developed countries gives space for a wide range of interpretations of climate finance and the Common Principles applied by multilateral development banks make identification of climate change related activities uncertain. The Rio Markers are used in various ways by different Parties, and there are worrying examples of projects and activities, which have been counted as climate finance, even if only part of the budget related to climate change.

Another long-standing problem is the labeling or diverting of ODA as provision of climate finance. Developed countries should not conflate ODA and climate finance – they should be scaling up financial support separately for both climate change activities and development assistance to better equip developing countries to implement their Nationally Determined Contributions (NDCs) and to collectively achieve their sustainable development goals (SDGs).

In this context, **the LDC group stresses again that it would like to see in place a clear and common operational definition of climate finance**. Having this definition in place will facilitate ongoing discussions, and allow for a more precise and transparent implementation of current and upcoming commitments, particularly the delivery of US$100 billion goal and the post 2025, New Collective Quantitative Goal.

The LDC group offers the following context and proposals for how to reach a common understanding of an operational definition for climate finance.

THE THREE PILLARS OF THE PARIS AGREEMENT

The Paris Agreement includes three pillars for which scaling up of climate finance is needed: **adaptation, mitigation and loss and damage.** Obligations for the provision of climate finance for adaptation and mitigation are already well elaborated under the UNFCCC and Paris Agreement. There is also recognition under the Paris Agreement (Article 8.3) that "*Parties should enhance understanding, action and support, including through the Warsaw International Mechanism, as appropriate, on a cooperative and facilitative basis with respect to loss and damage associated with the adverse effects of climate change".*

Building on long-standing calls from the LDC Group and others, the critical issue of support for loss and damage was discussed at COP25, including in the Review of the Warsaw International Mechanism (WIM). Under the WIM Review, developing countries through G77 & China called for, among others, urgent, scaled up, new and additional finance from developed countries to address loss and damage. Building on the outcomes of the WIM Review, further work is now needed for Parties to identify avenues for securing new and additional finance for loss and damage. In this context, an accurate operational definition of climate finance should give equal attention to these three pillars.

The operational definition, and thus methodology to identify climate change related activities, should be common, and robust, to avoid over reporting and double counting. This definition must also include clear distinct categories, to avoid overlap, e.g. between adaptation and loss and damage related activities.

ARTICLES OF THE CONVENTION AND THE PARIS AGREEMENT AND COP/CMA DECISIONS THAT PROVIDE GUIDANCE FOR AN OPERATIONAL CLIMATE CHANGE FINANCE DEFINITION ARE:

- **Article 4.3 of the Convention** states that *"(the) developed country Parties and other developed Parties included in Annex II shall provide* ***new and additional financial resources*** *to meet the agreed full costs incurred by developing country Parties (…) the implementation of these commitments shall take into account the* ***need for adequacy and predictability in the flow of funds*** *(…);*
- **Article 4.7 of the Convention states that "**The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments (…..)."
- **Article 4.9 of the Convention** states that *"the Parties shall take full account of the* ***specific needs and special situations of the least developed countries*** *in their actions with regard to funding and transfer of technology."*
- **Article 9.1 of the Paris Agreement** states that*: "Developed country Parties shall provide financial resources to assist developing country Parties with respect* ***to both mitigation and***

***adaptation** (…)";*

- **Article 9.3 of the Paris Agreement***: "(…)* *developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the **significant role of public funds**, through a variety of actions, including supporting country-driven strategies, and taking into account the **needs and priorities of developing country Parties**. Such mobilization of climate finance should represent a **progression beyond previous efforts.***

- **Article 9.4 of the Paris Agreement** stresses *"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 (…)***

- **Decision 2/CMA.2 paragraph 32** *"*Urges the **scaling-up of action and support**, as appropriate, including finance, technology and capacity-building, for developing countries that are particularly vulnerable to the adverse effects of climate change for **averting, minimizing and addressing loss and damage** associated with the adverse effects of climate change";

- **Decision 6/CMA.2 paragraph 6** *"(…) invites the Board of the Green Climate Fund to continue providing financial resources for activities relevant to **averting, minimizing and addressing loss and damage in developing country Parties** (…)".*

- **Decision -/CMA.3 paragraph 45** "*Calls upon developed country Parties to provide greater clarity on their pledges referred to in paragraph 44 above*[2] *through their next biennial communications under Article 9, paragraph 5, of the Paris Agreement";*

- **Decision -/COP.26 paragraph 27 and Decision -/CMA .3 paragraph 46** *"Urges developed country Parties to fully deliver on the USD 100 billion goal urgently and through to 2025 and emphasizes the importance of transparency in the implementation of their pledges".*

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[2] Decision /CMA.3, paragraph 44: "Notes with deep regret that the goal of developed country Parties to mobilize jointly USD 100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation has not yet been met, and welcomes the increased pledges made by many developed country Parties and the Climate Finance Delivery Plan: Meeting the US$100 Billion Goal6 and the collective actions contained therein".