G20 SUPREME AUDIT INSTITUTIONS (SAI20) ISSUE NOTE
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CLIMATE FINANCE AND JUST AND INCLUSIVE ENERGY TRANSITION

Importance of the topic

The Synthesis Report for the Sixth Assessment Report (AR6) of the Intergovernmental Panel on Climate Change (IPCC) points out that human-induced climate change is causing dangerous and widespread disruptions in nature and affecting the lives of billions of people worldwide, despite efforts to reduce the risks. People and ecosystems least able to cope are being hit hardest[1]. Besides efforts to mitigate the advancement of climate change, there is a necessary and urgent need for global action to reduce vulnerabilities and increase resilience to the impacts of climate change, given the ongoing process of intensification of the frequency, intensity, and duration of extreme weather events.

The energy sector is the main contributor to the gas emissions that further climate change worldwide. In particular, fossil fuels are present in 78% of the world's final energy consumption[2]. Given this fact, energy transitions are shown to be a relevant strategy in the path towards low-carbon economies.

According to scenarios from the International Renewable Energy Agency (IRENA), "*Limiting global warming to 1.5°C requires cutting carbon dioxide (CO_2) emissions and achieving net-zero emissions in the energy sector by 2050. For that, the share of renewable energy in the global energy mix would increase from 16% in 2020 to 77% by 2050. Renewable energy investment remains concentrated in a limited number of countries and focused on only a few technologies. 85% of global renewable energy investment benefitted less than 50% of the world's population*[3]." The environmental, economic, and social aspects need to be interconnected in the pursuit of fair and inclusive energy transitions.

The issue is particularly relevant in the context of the G20, since the countries in this group are together responsible for 75% of greenhouse gas emissions and concentrate 80% of global GDP and two thirds of the world's population[4]. The group brings together world powers present on all continents. Thus, its work is crucial in determining where global climate actions should be addressed.

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[1] https://www.unep.org/pt-br/resources/relatorios/sexto-relatorio-de-avaliacao-do-ipcc-mudanca- climatica -2022.
[2] REN 21, 2023
[3] https://www.irena.org/Digital-Report/World-Energy-Transitions-Outlook-2023
[4] https://climateanalytics.org/publications/2021/closing-the-gap-the-impact-of-g20-climate- commitments-on-limiting-temperature-rise-to-15c/

Climate finance is essential to ensure that the investments needed to tackle the climate emergency are sufficient to mitigate its occurrence and promote adaptation to its effects. In a broader definition, the term climate finance refers to the flow of resources for actions that reduce greenhouse gas emissions or help society adapt to the impacts of climate change. This flow is provided by various instruments, such as multilateral funds and banks and bilateral channels.

An important milestone for climate finance was established at COP15, carried out in Copenhagen in 2009. During the event, developed countries committed to collectively mobilize US$100 billion a year by 2020 for climate action in developing countries. The conference had repercussions on the United Nations 2030 Agenda, specifically on Sustainable Development Goal 13 (Action against Global Climate Change), in its target 13.a:

> Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly $100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible.

In 2020, the initial target year, total climate finance mobilized by developed countries for developing countries reached US$ 83.3 billion[5]. At COP 21, carried out in Paris in 2015, this commitment was extended to 2025.

The most relevant sources of climate finance include the Green Climate Fund (GCF), the UN Clean Development Mechanism, the Global Carbon Market (under development), the Emissions Trading System (ETS), as well as other government and private, multilateral and bilateral initiatives. These mechanisms are vital for channeling investments into sustainable technologies and reducing greenhouse gas emissions. However, there are several relevant challenges that have been identified in relation to climate finance, such as:

> *i) The volume of resources is considered insufficient to meet global climate mitigation and adaptation needs. ii) Many developing countries face barriers to accessing available climate finance resources, including lack of technical and institutional capacity, very bureaucratic processes, and limitations on financial guarantees. iii) Lack of transparency and accountability to ensure that funding is used efficiently and that results are widely monitored and reported. iv) Political challenges, including opposition to significant changes in energy and economic systems, and disagreements between countries on the costs and responsibilities of climate action. v) Difficulties in mobilizing private resources, associated*

[5] PINTO, T. P., VARGAS, D. B., GURGEL, A. C., VALENTE, F. C. Financiamento climático: realidades e desafios [Climate finance: reality and challenges]. Observatório de Conhecimento e Inovação em Bioeconomia, Fundação Getúlio Vargas - FGV-EESP, São Paulo, SP, Brasil. 2023.

with the challenge of finding ways to make private investments more attractive and viable to meet climate needs[6].

As an example of resource insufficiency, if only the energy transition is considered, $150 trillion is needed to achieve emissions neutrality by 2050, with an average exceeding $5 trillion annually. Although global investment in all energy transition technologies reached a record $1.3 trillion in 2022, annual investment must more than quadruple to stay on the 1.5°C pathway[7].

SAIs, especially those of G20 countries, can make a significant contribution to addressing these global challenges through audits and other external control actions that contribute to institutional strengthening, the establishment of a reliable environment for investments, and the adoption of coherent public policies. The upcoming SAI 20 meeting is an excellent opportunity to discuss how to make this happen.

Experience of SAIs working on the issue

A first step in this endeavor is to look at previous experiences of SAIs of the SAI20 on the topic, identifying results and conclusions that may be useful for the development of a joint project.

In this regard, in 2020 a survey was conducted with SAIs from donor and recipient countries of climate finance, within the framework of the Intosai Working Group on Environmental Auditing (Intosai WGEA). This research was part of the project "Auditing Climate Finance: Research and Audit Criteria for Supreme Audit Institutions", conducted by the U.S. GAO[8]. The results obtained in the research indicated the following challenges:

> There is no agreed definition of climate finance, making it difficult to measure progress towards climate finance goals stablished under the Paris Agreement at COP21. Of the 14 SAIs of donor countries that responded to the survey, none reported that their government had a formal definition of climate finance.
>
> Few countries have goals associated with climate finance contributions.
>
> While many SAIs have carried out audits related to climate finance, most of them deal with individual projects and programs, rather than overall financial contributions or flows, and few of them connect the audited projects and programs to strategic planning efforts such as national adaptation plans.

The document acknowledges that audit fields related to climate finance are relatively new, therefore its goal is to help SAIs to develop audit approaches regarding climate finance.

[6] Ditto
[7] https://www.irena.org/Digital-Report/World-Energy-Transitions-Outlook-2023
[8] https://www.environmental-auditing.org/media/oqvpaaya/wgea-wp3_climatefinance_2022.pdf.

Another initiative is the *ClimateScanner*[9], an ongoing global project. This project aims to provide SAIs with a tool to quickly assess government actions to deal with climate change in three axes: governance, public policies and financing. In the climate financing axis, the following components are analyzed:

> National climate finance: assesses whether the government has plans related to national climate goals, whether it has allocated resources to achieve them and whether it has mechanisms to monitor and report on these resources;
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> International climate finance (donor countries): assesses how donor country governments manage climate finance commitments, including direct financing, technology transfer, and capacity building;
>
> International climate finance (recipient countries); assesses how the governments of recipient countries have been able to identify funding needs, mobilize international resources for climate mitigation and adaptation projects, implement mechanisms for evaluating the use of these resources, and whether these governments are meeting the requirements for reporting the financial support received;
>
> National and international private climate finance mechanisms evaluates the management and execution of private climate finance by the government.

Therefore, the *ClimateScanner* will address many of the challenges identified in the above-mentioned survey regarding climate financing. The tool was designed and tested by an Executive Group made up of 18 SAIs from different regions of the planet—7 of which are members of SAI20. In 2024, SAIs around the world will be invited to apply the tool in the national contexts of their respective countries. At the end of the year, the results will be published globally.

Regarding the energy transition specifically, preliminary research results from a 2023 study conducted within the framework of the INTOSAI Working Group on Extractive Industries (INTOSAI WGEI) indicate some common challenges faced by SAIs in conducting audits on the energy transition:

> The main challenge is the lack of skills or expertise within the SAIs, which they have sought to overcome by undertaking capacity development and training actions nationally and internationally or seeking technical support from some prestigious organizations.
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> Available data on the energy transition is often insufficient, making assessments by SAIs difficult, which is exacerbated by the lack of monitoring systems and inadequate

[9] https://sites.tcu.gov.br/climatescanner/index.html.

reporting.

There are also common challenges related to the lack of audit procedures on the subject, which seem to be linked to insufficiently established norms and standards, lack of methodological references, and insufficient formulation of government policies.

The research evaluation is still ongoing, but it already points to clear advantages in conducting cooperation between SAIs to deal with the energy transition, with a favorable support from a large part of the SAIs in carrying out such cooperation at a global or regional level. These projects are examples of international cooperation and joint work amongst SAIs to produce relevant information regarding critical themes in the global context. At the same time, these initiatives promote the strengthening of SAIs by means of experience sharing, capacity building, establishment of partnerships with relevant stakeholders, and positioning SAIs in the international scenario.

Climate financing and Energy Transition is a topic that has gained momentum recently, and the next United Nations Conference on Climate (the COP28, in 2023) will be a qualified forum for its discussion. Therefore, SAI20 has a unique opportunity of conducting a joint effort to deliver products and relevant information on climate financing and energy transition at a global level.

SAI20 participation

Considering the above, the following activities are proposed for SAI20's engagement in the climate finance and just and inclusive energy transition theme throughout 2024:

1. A rapid and objective assessment of SAI20's member SAIs performance in the climate finance and just and inclusive energy transition theme over the past 10 years, including:

- Completed work (audits or otherwise).
- Future work perspectives.
- Major challenges faced by SAIs in the theme.

2. Meetings with experts in the field to discuss the results of this assessment and the potential roles of SAIs in the climate finance and just and inclusive energy transition theme. These meetings can shed light on the following thought-provoking questions:

- What are the most suitable types and approaches to audit the effectiveness of climate finance and just and inclusive energy transition?
- What collaborative structures could be established to share best practices, data, and

supervisory methodologies among SAIs and among countries?

- What are the prospects for SAIs' involvement in climate finance mechanisms such as the Green Climate Fund (GCF), Emissions Trading Schemes (ETS), the global carbon market, and other mechanisms? How can SAIs contribute to the governance, accountability, transparency, and effectiveness of these mechanisms?
- What are the prospects for the activities of SAIs regarding energy transitions? How can SAIs contribute to institutional strengthening, the establishment of a reliable investment environment, and the adoption of coherent public policies?
- What are the international best practices regarding mechanisms for tracking and reporting allocated resources to achieve national climate objectives?
- How to integrate the contributions of SAIs into the climate, economic, energetic, and financial agendas of the G20?

3. Application of ClimateScanner by SAI20's SAIs in the national contexts of G20 countries, especially regarding:

- The climate finance axis.
- The profile of these countries (country profiles), considering them individually and collectively.
- The consolidation of results from G20 countries, considering them in groups (donors/receivers) and collectively.

4. Construction of a Communiqué that contributes to institutional strengthening, the establishment of a reliable investment environment, and the adoption of coherent public policies aimed at fostering fair and inclusive energy transitions.

With these actions, SAI20 can contribute to discussions within the G20 regarding climate finance and energy transition, whose materiality, risk, and relevance are well-known, leveraging a global movement led by SAIs in support of the implementation of international commitments, Sustainable Development Goal 7 and 13 of the 2030 Agenda, and the fight against climate change.

Brazil, March 25, 2024 [updated]