

CLIMATE FINANCE SHADOW REPORT 2020

ASSESSING PROGRESS TOWARDS THE
\$100 BILLION COMMITMENT



SUMMARY

INTERNATIONAL CLIMATE FINANCE IS A CORNERSTONE OF GLOBAL COOPERATION ON CLIMATE CHANGE – ROOTED IN A RECOGNITION THAT CLIMATE CHANGE IS DEADLY, COSTLY, AND THAT THOSE LEAST RESPONSIBLE FOR CAUSING IT ARE BEING HARDEST HIT.

As many developing countries reel from the effects of coronavirus, the ever-present prospect of climate-induced extreme weather risks bringing crises on top of crises and poverty on top of poverty. Climate change could undo decades of progress in development and dramatically increase global inequalities.¹ The need for climate finance to help countries cope and adapt is urgent and rising.

Over a decade ago, developed countries committed to mobilize \$100bn per year by 2020 to support developing countries to adapt to the impacts of climate change and reduce their emissions.² The goal is a critical part of the grand bargain that underpins the Paris Agreement.³

As 2020 draws to a close, *Oxfam's Climate Finance Shadow Report 2020* offers an assessment of progress towards the \$100bn goal. The third in a series, this report looks at the latest donor figures for 2017–18, with a strong focus on public finance. It considers fundamental questions including: how developed countries are counting the climate finance they report; what it is being spent on; where it is going; how close we are to the \$100bn goal; and what lessons need to be learned for climate finance post-2020.

HOW THE \$100BN GOAL IS MET IS AS IMPORTANT AS WHETHER IT IS MET... VITAL LESSONS MUST BE LEARNED TO IMPROVE THE EFFECTIVENESS, FAIRNESS AND ACCOUNTABILITY OF CLIMATE FINANCE.

What has changed since 2015–16, when developed countries last reported on their climate finance, and will the \$100bn commitment be met?

Reported public climate finance has increased from \$44.5bn per year in 2015–16 to an estimated \$59.5bn per year in 2017–18.⁴ However, a closer look reveals that donor reports continue to overstate climate finance by a huge margin. Most loans continue to be counted at their full face value, rather than as the amount of money given to a developing country once repayments, interest and other factors are accounted for (the grant equivalent). There are also significant inaccuracies in how the climate component of broader development projects is counted. Taking account of these issues, Oxfam estimates that public **climate-specific net assistance** is much lower than reported figures, increasing slightly from \$15–19.5bn per year in 2015–16, to \$19–22.5bn per year in 2017–18.⁵

Oxfam estimates the provision of climate finance as **grants** has barely changed, from around \$11bn in 2015–16 to \$12.5bn in 2017–18, while provision of **concessional loans and other non-grant instruments** is estimated to have increased from \$18.5bn per year in 2015–16 to \$22bn per year in 2017–18.⁶ Rising levels of public climate finance are largely the result of the increasing provision of **non-concessional loans and other non-grant instruments**, which are estimated to have increased significantly from around \$13.5bn per year in 2015–16 to \$24bn per year in 2017–18.⁷

Funding for **adaptation** to climate change – a priority for the world’s poorest countries – rose faster than it has for many years, from around \$9bn (20%) per year in 2015–16 to \$15bn (25%) per year in 2017–18.⁸ While the majority of finance still flows to mitigation, this is a significant improvement. In 2017–18, only an estimated 20.5% of bilateral climate finance went to **Least Developed Countries (LDCs)** and 3% to **Small Island Developing States (SIDS)** – and the bulk of this finance was in the form of loans and other non-grant instruments.

Based on 2017–18 reported numbers, developed countries are likely to claim they are on track to meet the \$100bn goal. And on their own terms, they may be. But *how* the goal is met is as important as *whether* it is met. The dubious veracity of reported numbers, the extent to which climate finance is increasing developing country indebtedness, and the enduring gap in support for adaptation, LDCs and SIDS, are grave concerns. Meeting the \$100bn goal on these terms would be cause for concern, not celebration.

The excessive use of loans and the provision of non-concessional finance in the name of climate assistance is an overlooked scandal. The majority of public climate finance was estimated to be provided in the form of loans and other non-grant instruments in 2017–18, as was the majority of climate finance to LDCs, and around half of climate finance to SIDS.⁹ An estimated 40% of public climate finance overall is non-concessional – for bilateral finance this means it is not offered to developing countries on terms generous enough to qualify as Official Development Assistance (ODA) – a significant increase from an estimated 30% in 2015–16.¹⁰ The world’s poorest countries and communities should not be forced to take out loans to protect themselves from the excess carbon emissions of rich countries. Finance that should be helping countries respond to climate change should not be harming them by contributing to rising – and in many countries, unsustainable – debt levels.

Previous Oxfam shadow reports and scrutiny of climate finance by other actors have focused mainly on bilateral finance. But finance reported by multilateral development banks (MDBs) was an estimated \$25bn in 2017–18 (annual average), which is over 40% of total reported public finance.¹¹ Yet the transparency of this finance is inadequate. With a significant and rising share of climate finance towards the \$100bn goal being counted by MDBs this has to change. As this report sets out, alongside bilateral climate finance, MDBs need to improve their reporting and accounting standards.

As climate scientists warn of a race against time to limit temperature rises and adapt to an already changing climate, hard lessons must be learned from the experience of coronavirus. For years, health experts warned that more was needed to be prepared for a pandemic. The world has witnessed the consequences of inaction in hundreds of thousands of lives lost, and millions pushed into precarity and hunger. International climate finance is critical to a just and adequate global response to climate change – in many circumstances, in many countries, it is what makes climate action possible. Now more than ever the world needs the \$100bn commitment to be met, and met in a way that is fair and robust.

Agreement on climate finance is critical to success at COP26 in Glasgow, where the question of whether the \$100bn commitment has been met will be high on the agenda. The central conclusion of this report is that *how* the \$100bn goal is met is as important as whether it is met, and that vital lessons must be learned to improve the effectiveness, fairness and accountability of climate finance. If developed countries cling to the notion that it is acceptable for them to allocate and provide climate finance on the same terms as they have done to date, it will erode trust. Most importantly, it will not meet the needs of the world’s poorest countries and communities. At COP26, developed countries must agree to define a new path for climate finance post-2020.

MEETING THE \$100BN GOAL ON THESE TERMS WOULD BE CAUSE FOR CONCERN, NOT CELEBRATION.

CLIMATE FINANCE 2017–18: KEY TAKEAWAYS

1. OF THE ESTIMATED \$59.5BN IN PUBLIC CLIMATE FINANCE REPORTED BY DEVELOPED COUNTRIES (ANNUAL AVERAGE), **CLIMATE-SPECIFIC NET ASSISTANCE** MAY BE JUST \$19–22.5BN.
2. THE NET FINANCIAL VALUE OF CLIMATE FINANCE TO DEVELOPING COUNTRIES – THE **GRANT EQUIVALENT** – MAY BE LESS THAN HALF OF WHAT IS REPORTED BY DEVELOPED COUNTRIES.
3. DUE TO OVER-REPORTING OF **CLIMATE RELEVANCE**, BILATERAL CLIMATE FINANCE COULD BE AROUND A THIRD LOWER THAN REPORTED.
4. AROUND 20% OF REPORTED PUBLIC CLIMATE FINANCE WAS ESTIMATED TO BE **GRANTS**, COMPARED TO 80% REPORTED AS **LOANS AND OTHER NON-GRANT INSTRUMENTS**; OF ALL REPORTED CLIMATE FINANCE, AN ESTIMATED 40% WAS **NON-CONCESSIONAL**.
5. ONLY AN ESTIMATED 25% OF REPORTED PUBLIC CLIMATE FINANCE WAS FOR **ADAPTATION** AND 66% WAS FOR **MITIGATION**.
6. ONLY AN ESTIMATED 20.5% OF REPORTED FINANCE WENT TO **LEAST DEVELOPED COUNTRIES** (LDCS) AND AROUND 3% TO **SMALL ISLAND DEVELOPING STATES** (SIDS); THE MAJORITY TO LDCS, AND NEARLY HALF TO SIDS, WAS IN THE FORM OF LOANS AND OTHER NON-GRANT INSTRUMENTS.
7. REPORTED CLIMATE-RELATED DEVELOPMENT FINANCE WAS ESTIMATED TO BE 25.5% OF BILATERAL **ODA** IN 2017–18; THE MAJORITY OF CLIMATE FINANCE COUNTED TOWARDS DONOR COMMITMENTS TO INCREASE AID TO 0.7% OF GROSS NATIONAL INCOME.
8. ONLY AROUND A THIRD OF CLIMATE FINANCE PROJECTS ARE ESTIMATED TO TAKE ACCOUNT OF **GENDER EQUALITY**, AND TOO LITTLE CLIMATE FINANCE IS **SPENT AT THE LOCAL LEVEL**.
9. CONSISTENT AND TRANSPARENT INFORMATION IS NOT PUBLICLY AVAILABLE TO ESTIMATE THE LEVEL OF **PRIVATE FINANCE MOBILIZED** TOWARDS THE \$100BN GOAL.

RECOMMENDATIONS

NEW ACCOUNTING RULES

Climate finance needs to be reported in a way that better reflects its real value to developing countries and the real effort made by developed countries. At COP26, parties should agree new rules and accounting standards under the UN Framework Convention on Climate Change (UNFCCC) for all donors (countries, MDBs and their private sector lending arms, multilateral climate funds and other institutions), which ensure they:

- Report full project lists.
- Report the grant equivalent of their climate finance. For donor countries, this requires a column for the grant equivalent of climate finance in the new reporting framework (known as the Common Tabular Format).
- Where climate change is part of a broader development project, report the full project value as well as the estimated value of activities specifically targeting climate change. They should also set out how the project costs counted as climate finance were calculated.
- Do not count non-concessional instruments towards UNFCCC climate finance obligations.
- Disclose the terms of loans and other instruments used to provide climate finance.
- Report the share of climate finance they are contributing to LDCs and SIDS.

INCREASE GRANTS AND FINANCE TO ADAPTATION, LDCS AND SIDS

All donors (developed countries, MDBs, multilateral climate funds and other institutions) should:

- Commit to urgently increase grant-based public climate finance, in particular to LDCs and SIDS.
- Commit to increase their adaptation finance, in particular to LDCs and SIDS, and ensure adaptation constitutes a minimum of 50% of their overall public climate finance contribution.

At COP26, parties should:

- Agree a near-term Adaptation Finance Goal to urgently accelerate adaptation finance by 2022.
- Agree in principle to establish a new global public finance goal specifically for adaptation – as a component of the new collective finance goal starting in 2025, when the \$100bn commitment will be succeeded.

COMMIT TO 'NEW AND ADDITIONAL' FINANCE

- As a first step, developed countries should commit to ensure that future increases of climate finance qualifying as ODA form part of an overall aid budget that is increasing at least at the same rate as climate finance.
- All countries need to support urgent action to implement the most promising new national and international sources of climate finance – including shifting fossil fuel subsidies and carbon pricing for international aviation and maritime transport.

LOCALLY LED, GENDER- RESPONSIVE FINANCE

All donors (developed countries, MDBs, multilateral climate funds and other institutions) need to:

- Expand resources and support for locally led action on climate change – in line with developing countries’ own national planning, policies and strategies (including Nationally Determined Contributions) – and track and report on how much climate finance is spent at the local level.
 - Urgently increase financial support for climate action with stronger gender equality efforts; ensure that all climate finance projects consider the different needs of women and men in objectives, design and implementation, and have gender equality markers transparently reported to the OECD.
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MOBILIZED PRIVATE FINANCE

- Reporting on mobilized private finance to the UN should be conservative to avoid overcounting and build trust, including by not reporting on finance mobilized through interventions that are not financial.
 - At COP26, parties should agree a reporting framework for all donors (including MDBs and multilateral funds) which strictly applies the Katowice principles, including: reporting on a project-by-project basis; explaining causality between public investment and mobilized finance; and to avoid double counting, attribution of mobilized amounts between governments, because it is also difficult to find information on how it is attributed between donors as well as the host country government.
 - The new collective finance goal(s) starting in 2025 should not combine public climate finance provided and mobilized private finance in one goal.
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FINANCE FOR LOSS AND DAMAGE

- Developed countries must commit to developing new sources of international finance for loss and damage, in addition to the \$100bn goal. This could include a climate damages tax on carbon majors, and as a minimum, cancelling debt during climate-induced crises.

EXAMPLES: WHAT SHOULD COUNT AS CLIMATE FINANCE?

Climate finance is a lifeline to many of the world's poorest countries and communities that are struggling to adapt to the adverse effects of the climate crisis. It also supports vital action to help countries reduce emissions and develop in a low carbon way. While there are many good examples of climate finance being spent on the right things, there are also examples of projects that donors should not be reporting as climate finance due to their negative social, economic or environmental impacts.¹²



BUILDING SMALLHOLDER FARMERS' RESILIENCE

The International Fund for Agricultural Development's flagship Adaptation for Smallholder Agriculture Programme targets smallholder women and men farmers who are at significant risk from increasing temperatures, erratic rainfall, pest infestations, rising sea levels and extreme events such as floods and droughts. The initiative has helped eight million vulnerable smallholders in 43 countries to cope with the impacts of climate change. Activities include making infrastructure more climate-resilient, improving household access to water and supporting community groups in climate risk management.



SUPPORTING FEMINIST SOLUTIONS

The Global Alliance for Green and Gender Action (GAGGA) is an alliance of civil society organizations committed to action on climate change (and other environmental issues) that builds gender equality. Action is rooted in a theory of change which recognizes that 'grassroots women's rights and environmental justice groups and their movements are the best positioned to advance women's rights to water, food, and a clean, healthy, and safe environment'.¹³



'EFFICIENT' COAL POWER

In 2017–18, Japan reported over \$700m in climate finance towards its 'Matarbari Ultra Super Critical Coal-Fired Power Project' in Bangladesh.¹⁴ Japan defends the loan as climate finance because the plant produces less greenhouse gas emissions than a similarly sized plant using subcritical technology.¹⁵ But as fossil fuels contribute to climate change, the loans should not be counted as climate finance. Lack of transparency makes it hard to assess whether other countries have also reported coal projects to the UNFCCC in 2017–18. The Japanese Environment Minister recently signalled that Japan would phase out such financing, though the move has drawn criticism for being too equivocal.¹⁶



NON-CONCESSIONAL LOAN TO GHANA*

The International Finance Corporation (IFC), the private sector lending arm of the World Bank, reported \$28m in climate finance towards the development of a hotel, retail space and conference centre in Ghana.¹⁷ Part of a broader development project, the climate finance is reported to be for mitigation and is in the form of a non-concessional loan. However, the IFC does not disclose the terms of individual loans and counts them at their full value, even though the majority are market rate with no concessional element. Nor does the IFC disclose how it identifies and calculates the climate finance element of total project cost.

*This example falls outside the 2017–18 reporting period.

1

OF THE ESTIMATED \$59.5BN IN PUBLIC CLIMATE FINANCE REPORTED BY DEVELOPED COUNTRIES, **CLIMATE-SPECIFIC NET ASSISTANCE** MAY BE JUST \$19–22.5BN.

There is a significant difference between climate finance reported by developed countries, multilateral institutions and funds, and the actual assistance provided to developing countries specifically targeting climate action ('climate-specific net assistance').

Aggregating donor reports of public climate finance to the UNFCCC and OECD in 2017–18, using a similar approach as previous OECD reports on climate finance, totals \$59.5bn (annual average, with \$56bn in 2017 and \$63bn in 2018).¹⁸

This figure represents our best-guess estimate of what donor reports might amount to in aggregate if they were compiled in the same way today. It is not an endorsement of donor methodologies. **Oxfam estimates climate-specific net assistance to be significantly lower: between \$19bn and \$22.5bn per year in 2017–18, of which between \$6bn and \$7bn per year is for adaptation (annual averages – see Figure 1).** This is a small increase compared to 2015–16 when Oxfam estimated climate-specific net assistance was \$15–19.5bn per year, of which \$4.5–6.5bn per year was for adaptation (annual averages).¹⁹

As set out in Box 1, Oxfam's estimate of climate-specific net assistance discounts for the climate relevance of reported funds to estimate how much climate finance is actually targeting climate action (see section 2). It also discounts for grant equivalence, in order to estimate the financial transfer to developing countries once loan repayments, interest, administration and other factors many developed countries ignore are taken into account (see section 3). These figures are not exact, but indicative. Even assuming a large margin of error, the underlying conclusion that reported climate finance is significantly higher than climate-specific net assistance remains valid.

EVEN ASSUMING A LARGE MARGIN OF ERROR, THE UNDERLYING CONCLUSION THAT REPORTED CLIMATE FINANCE IS SIGNIFICANTLY HIGHER THAN CLIMATE-SPECIFIC NET ASSISTANCE REMAINS VALID.

BOX 1: WHAT IS 'CLIMATE-SPECIFIC NET ASSISTANCE' AND HOW IS IT DIFFERENT TO REPORTED NUMBERS?

Only counting 'climate-specific net assistance' is a fairer way of calculating climate finance than the approaches donors currently use. Anything outside of this does not constitute assistance (in terms of a net transfer of resources) to developing countries, nor does it specifically support climate action as required by the UNFCCC.²⁰ There are two main issues in attempting to estimate climate-specific net assistance.

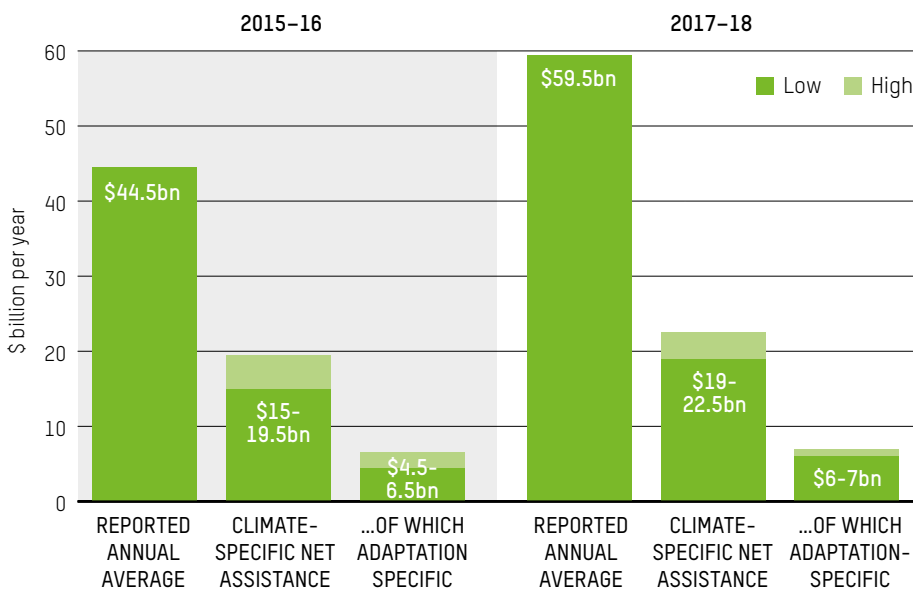
The first is to address donors' current practice of reporting loans, guarantees and other non-grant instruments at full face value. Oxfam's estimate counts only the grant equivalent of these instruments, so that future debt service payments, interest, administration and other obligations are factored into estimating the net financial transfer that countries receive. Oxfam's estimate counts grants at 100%.

Grant equivalence is estimated using the reported grant equivalent of climate-related ODA loan disbursements to the OECD for 2018.²¹ Non-concessional instruments are counted at 0%. While some finance defined as 'non-concessional' may include some level of concessionality (grant equivalence), for bilateral finance it is not generous enough to be ODA-eligible, and as such is not counted as assistance due to the burden that debt places on developing countries. The same principle is assumed for MDB finance defined as 'non-concessional'.²²

The second issue is linked to how developed countries report funds for broader development projects that only partially target climate action (Rio Marker 1 projects). Current reporting practices lead to significant overcounting of the climate relevance of such projects, so Oxfam's estimate discounts for this. In our low-end estimate, we assume the climate relevance of Rio Marker 1 projects to be 30% of total project cost. In our high-end estimate, we assume 50%. We consider this to be a defensible range based on the varying relevance of such projects to climate change, as well as the varying percentages that are applied to such projects by developed countries themselves to calculate climate relevance (see Table 2).

Oxfam's estimate of climate-specific net assistance is based on climate-related development finance reported to the OECD.²³ It is not possible to estimate on the basis of climate finance reported to the UNFCCC, which has already been discounted for climate relevance by developed countries. Climate-related finance reported to the OECD does not exactly mirror climate finance reported to the UNFCCC, but it is close enough to allow us to estimate in broad terms the climate relevance and grant equivalent of reported climate finance.²⁴

Figure 1: Developed countries' reported climate finance versus Oxfam's estimate of 'climate-specific net assistance' (2017–2018 and 2015–16 annual averages)



Sources: 2017-18 numbers – Fourth Biennial Reports (2020) and OECD (2020a). See Box 1 for details of how climate-specific net assistance is calculated. Note 21 sets out how total reported public climate finance was estimated for 2017-18. 2015-16 numbers – reported climate finance as set out in OECD (2019a), and see T. Carty and A. le Comte (2018) for climate-specific net assistance estimates, which have been adjusted in line with reported climate finance estimated in OECD (2019a).

RECOMMENDATIONS

- At COP26, all parties should agree rules and accounting standards under the UNFCCC that ensure countries and multilateral institutions report the grant equivalent of non-grant instruments and better reflect the climate relevance of provided funds, thereby reporting climate finance in a way that better reflects its real value to developing countries. This should be agreed in the context of negotiations on the 'modalities of accounting' (Common Tabular Format) for climate finance as part of the Paris rulebook.

2

THE NET FINANCIAL VALUE OF CLIMATE FINANCE TO DEVELOPING COUNTRIES – THE **GRANT EQUIVALENT** – MAY BE LESS THAN HALF OF WHAT IS REPORTED BY DEVELOPED COUNTRIES.

Oxfam estimates the grant equivalent of reported climate finance in 2017–18 was \$25bn (annual average).²⁵ This is less than half the estimated \$59.5bn in total public climate finance when donor numbers are taken at face value.²⁶

In the right circumstances, concessional loans, equity or guarantees have an important part to play in providing and mobilizing climate finance. But counting the face value of these instruments significantly overstates the assistance developing countries receive.

As Table 1 demonstrates, developed countries that disburse large shares of their climate finance through loans and other non-grant instruments report numbers that do not reflect their real financial effort, especially compared to developed countries providing mainly grants. In the case of France, the grant equivalent of its bilateral climate finance is less than a third of its reported numbers; for Japan, Spain and Germany, it is around half.

IN THE CASE OF FRANCE, THE GRANT EQUIVALENT OF ITS BILATERAL CLIMATE FINANCE IS LESS THAN A THIRD OF ITS REPORTED NUMBERS; FOR JAPAN, SPAIN AND GERMANY, IT IS AROUND HALF.

Table 1: Reported bilateral public climate finance and grant equivalent estimates for major donors (2017–2018 annual average)

Donor	Bilateral total as reported (\$m)	Grants	Concessional loans and other instruments	Non-concessional loans and other instruments	Equity	Other	Estimated grant equivalent (\$m)
Australia	119	100%	0%	0%	0%	0%	119
Canada	307	33.4%	61.8%	0%	4.9%	0%	212
Denmark	159	98.8%	0%	0%	1.2%	0%	159
EU institutions (excl. EIB)	3,157	100%	0%	0%	0%	0%	3,157
France	4,778	3.3%	74.2%	16.1%	0%	6.3%	1,309
Germany	7,026	36.4%	41.1%	22.5%	0%	0%	3,461
Japan*	9,688	2%	74%	24%	0%	1%	5,025
Netherlands**	364	100%	0%	0%	0%	0%	364
Norway	651	71.7%	0%	0%	0%	28.3%	513
Spain***	263	37%	8%	55%	0%	1%	108
Sweden	438	99.7%	0%	0%	0%	0.3%	437
Switzerland	221	99%	0%	0%	1%	0%	221
US	1,898	67%	0%	9%	0%	24%	1,382
UK	1,116	91.1%	0.7%	0%	8.2%	0%	1,110
Total****	31,005	32.9%	45.4%	16.4%	0.4%	4.9%	18,299

Source: Fourth Biennial Reports (2020).

The right-hand column shows our estimate of the grant equivalent of reported figures, using the methodology set out in **Box 1**.

*Japan's bilateral total as reported includes a deduction of \$1bn in estimated coal-related finance.

**The Netherlands provides some of its climate support through non-grant instruments, but reports only grant equivalent of the support.

***Spain's bilateral total includes a deduction of \$311m in export credits.

****Total is for all bilateral donors, not only those listed.

For development finance reported to the OECD from 2018 onwards, the grant-equivalent system became the standard for measuring headline ODA from donor countries, in recognition of the need to better reflect donors' real financial effort. Grant-equivalent reporting of climate finance to the UNFCCC is needed from all providers, in all reports, to improve the integrity and comparability of reported numbers, and to ensure that climate finance keeps pace with improving standards for aid accounting.

RECOMMENDATIONS

At COP26, all parties should agree new rules and accounting standards under the UNFCCC that ensure donors (countries and multilateral organizations):

- Report the grant equivalent of their climate finance. For country donors, this needs to be agreed in the context of negotiations on the new reporting framework (known as the Common Tabular Format), which must include a column for the grant equivalent of climate finance alongside its face value.
- Disclose the terms of loans and other instruments being used to provide climate finance.

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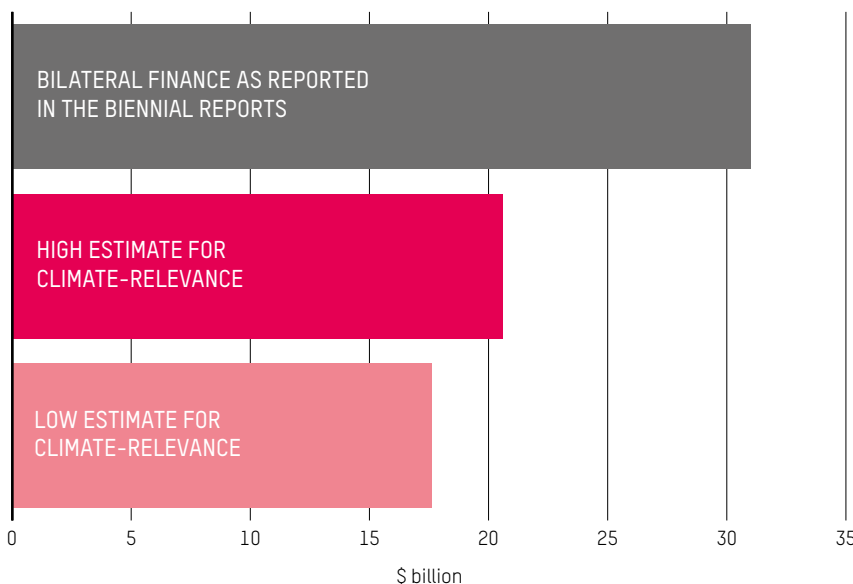
DUE TO OVER-REPORTING OF CLIMATE RELEVANCE, BILATERAL CLIMATE FINANCE COULD BE AROUND A THIRD LOWER THAN REPORTED.

Current rules (or lack thereof) allow for gross over-estimation of the climate relevance of funds, especially where climate change is part of a broader development project. **We estimate bilateral flows of public finance specifically targeting climate action could be \$10.5–13.5bn lower than reported figures suggest (see Figure 2).**

Most developed countries base their bilateral climate finance reporting to the UNFCCC on the Rio Marker system, in which projects are tagged to indicate if they include climate change as a primary objective (Rio Marker 2), as an objective among several others (Rio Marker 1) or not at all.²⁷ A great deal of reported climate finance stems from projects in the second category. A number of studies assessing the application of Rio Markers have questioned the credibility of how climate projects are classified, and have identified widespread overcounting by donors.²⁸

Table 2 shows how approaches to counting the climate finance component of broader development projects vary significantly. At the worst end of the spectrum, some countries (including Japan) count the climate component as 100% of the project budget – even though such projects are explicitly defined as not primarily targeting climate action. Most countries apply a blanket percentage (usually 40 or 50%). Only a few countries – including the UK – calculate the value of climate activities on a project-by-project basis.

Figure 2: Oxfam’s estimate of climate relevance of bilateral finance (2017–2018 annual average)



SOME COUNTRIES COUNT THE CLIMATE COMPONENT AS 100% OF THE PROJECT BUDGET – EVEN THOUGH SUCH PROJECTS ARE EXPLICITLY DEFINED AS NOT PRIMARILY TARGETING CLIMATE ACTION.

Source: Reported finance based on Fourth Biennial Reports (2020). In the high estimate, Rio Marker 1 projects are counted at 50% of full project value, and in the low-end estimate, 30%, using data from OECD (2020a). Where bilateral finance reported in Fourth Biennial Reports is lower than our estimate, we have used that figure instead.

Table 2: Major donor approaches to counting the value of climate activities in broader development projects (Rio Marker 1, OECD)

Donor	Percentage applied
Australia	30%
Canada	30%
Denmark	50%
EU institutions	40%
France	40%
Germany	50%
Japan	100%
Netherlands	40%
Norway	40%
Spain	50%
Sweden	40%
Switzerland	50%
UK	Own method by project
US	Own method by project

Source: OECD-CPI (2015); OECD (2019a).

Analysis of MDB finance also raises concerns. We estimate that reported MDB finance counted towards the \$100bn goal was in the region of \$25bn in 2017–18 (annual average),²⁹ but this figure cannot be verified.

While MDBs state they are reporting accurate adaptation and mitigation figures using project-level analyses, the method is not transparent and explanations of its usage are not public, preventing accountability and independent scrutiny of huge volumes of climate finance. Project-level reporting is patchy, and even where project data is reported, the basis on which the climate component is calculated is inconsistent – or in many cases, absent. Reviewing a sample of World Bank projects in 2018, Oxfam was unable to independently verify the amount of climate finance reported. Additionally, projects financed by the World Bank Group’s private sector lending arm, the IFC, were absent from the World Bank’s project list.

RECOMMENDATIONS

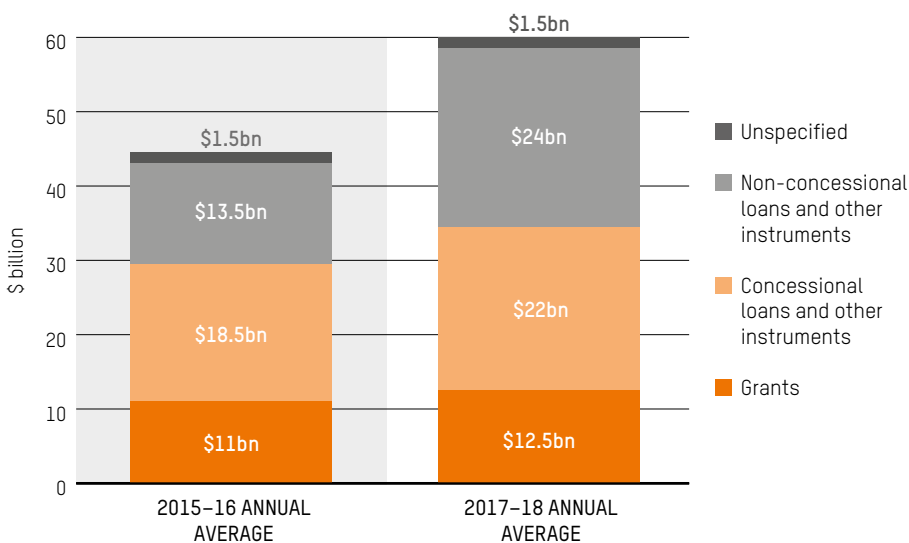
At COP26, all parties should agree that climate finance accounting by countries, MDBs (and their private sector lending arms), climate funds and other institutions should include:

- Full project lists.
- For each project, separate reporting of full project value and the amount being counted as climate finance.
- An explanation of how the climate finance component of the project costs was calculated, to ensure transparency and confidence in the numbers being reported.

AROUND 20% OF REPORTED PUBLIC CLIMATE FINANCE WAS ESTIMATED TO BE **GRANTS**, COMPARED TO 80% **LOANS AND OTHER NON-GRANT INSTRUMENTS**; OF ALL REPORTED CLIMATE FINANCE, AN ESTIMATED 40% WAS **NON-CONCESSIONAL**.

Of the estimated \$59.5bn annual public climate finance reported in 2017–2018, we estimate only \$12.5bn was provided in the form of grants; \$22bn was provided as concessional loans and other non-grant instruments; and overall, a staggering \$24bn was provided as non-concessional loans and other instruments (annual averages – see Figure 3).

Figure 3: Estimated climate finance by instrument via bilateral and multilateral channels, 2017–18 and 2015–16 (annual averages)



Sources: 2017–18 numbers – Fourth Biennial Reports (2020) and OECD (2020a) compiled as set out in note 21. 2015–16 numbers – see T. Carty and A. le Comte (2018) – adjusted in line with reported climate finance estimated in OECD (2019a). Figures rounded to the nearest 500 million.

NON-CONCESSIONAL FINANCE HAS INCREASED SIGNIFICANTLY

Reported non-concessional climate finance has increased significantly in recent years – from an estimated \$13.5bn (30%) in 2015–16, to a staggering \$24bn (40%) in 2017–18 (annual averages). For bilateral finance, being defined as non-concessional means this finance is not offered on terms generous enough to qualify as ODA. But since there is no binding minimum concessionality requirement for climate finance, developed countries can count it against their commitments. Donors are not obliged to report the terms of loans and other instruments, so the nature of this finance is unknown. While lending at a profit is contrary to the purpose and spirit of climate finance, there is currently nothing to stop market rate loans being counted towards the \$100bn goal.³⁰

In 2017–18, the majority of non-concessional finance – an estimated 70% – was provided by MDBs, and 16% was provided bilaterally.³¹ Spain is estimated to have provided 55% of its climate finance through non-concessional loans and other instruments, Japan 24%, Germany 22.5% and France around 16% (see Figure 4).³²

GRANT-BASED FINANCE HAS FLATLINED

Between 2015–16 and 2017–18, estimated grant-based support flatlined from around \$11bn (25%) to \$12.5bn (21%).³³ While LDCs and SIDS receive proportionately more grant-based support than countries in higher-income groups, less than half of climate finance provided to LDCs in 2017–18 is estimated to be in the form of grants, and only around half to SIDS (see section 6). This is a major concern as in most cases, loans and private finance cannot meet the crucial adaptation needs of at-risk communities to ensure disaster preparedness and food and water security. In any case, the world’s poorest countries should not be forced to take out loans to protect themselves from the impact of rich countries’ excess carbon emissions.

As Figure 4 sets out, Japan and France rank lowest in bilateral grant provision – they contributed a mere 2% and 3.3% of their climate finance as grants in 2017–18, respectively.³⁴

CLIMATE FINANCE IS INCREASING THE DEBT BURDEN

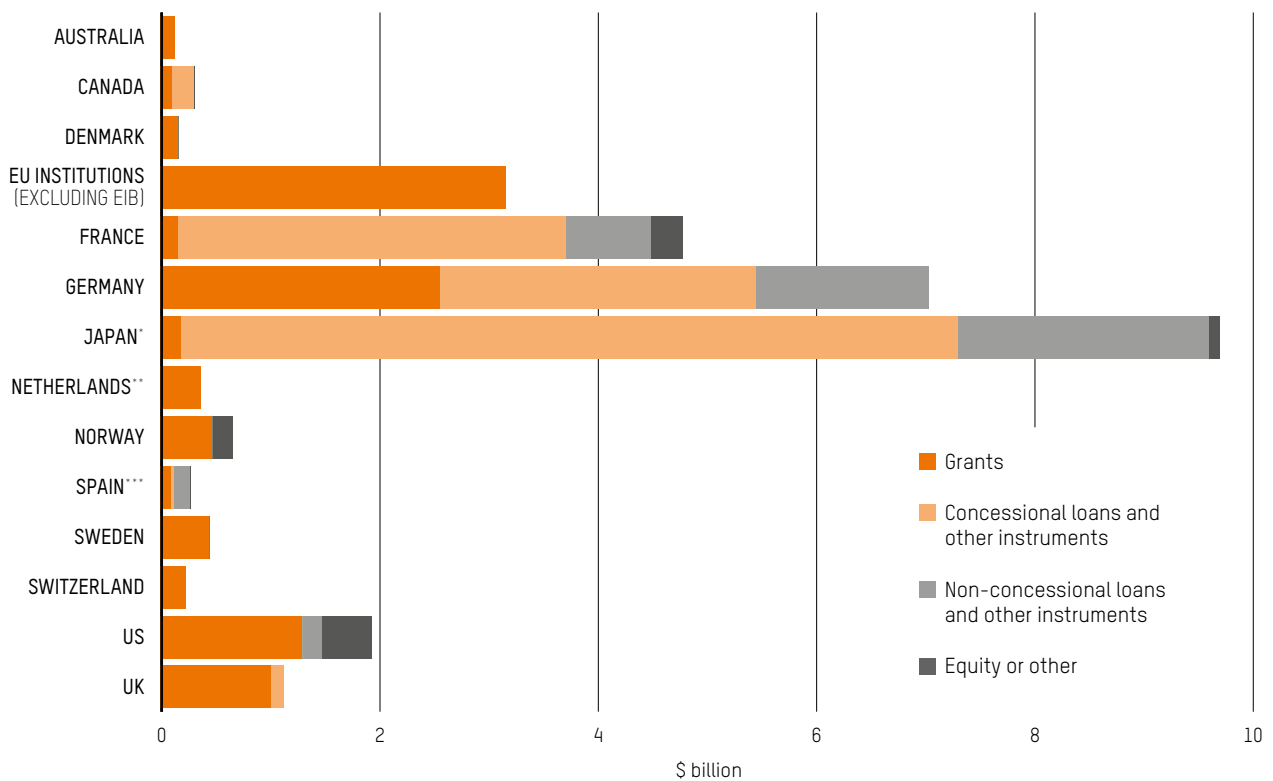
There is a misplaced assumption that loans are only going in large volumes to middle-income countries. But in 2017–18 we estimate that the majority of climate finance to LDCs, and around half to SIDS, was provided in the form of loans and other non-grant instruments (see Section 6).

Against a backdrop of rising debt, the overwhelming provision of climate finance in the form of loans and other non-grant instruments (a significant and increasing number of which are non-concessional) risks contributing to the unsustainable debt burdens of many low-income countries. Finance that should be helping countries respond to climate change is likely to be harming them in other ways.

Even before the coronavirus pandemic, the IMF warned that nearly half the countries in its low-income group were either in, or at high risk of, debt distress.³⁵ By June this year, this stood at 36 out of 73 low-income countries.³⁶ Many of the poorest countries are spending more on servicing debt payments than on life-saving public services.³⁷ Debt makes it more expensive for countries to access capital, and at worst significantly depletes investment in critical sectors such as education, health and agriculture. Reduced fiscal space for these sectors and basic infrastructure also curtails countries’ ability to take transformative action on climate change.

THERE IS A MISPLACED ASSUMPTION THAT LOANS ARE ONLY GOING IN LARGE VOLUMES TO MIDDLE-INCOME COUNTRIES.

Figure 4: Bilateral climate finance broken down by instrument for major country donors, 2017–18



Source: Fourth Biennial Reports (2020). Japan’s bilateral total as reported includes a deduction of \$1bn in estimated coal-related finance. The Netherlands provides some of its climate finance through non-grant instruments, but reports only the grant equivalent of the support as grants, which means it is not possible to estimate how much climate finance is non-grant. Spain’s bilateral total includes a deduction of \$311m in export credits.

RECOMMENDATIONS

- At COP26, all parties should agree that non-concessional instruments will not be counted towards UNFCCC climate finance obligations.
- All donors should commit to urgently increase grant-based support for climate action – especially to LDCs and SIDS – in particular Japan, France, Germany, Canada, Spain and other countries that currently provide a low share of their climate finance in the form of grants.

5

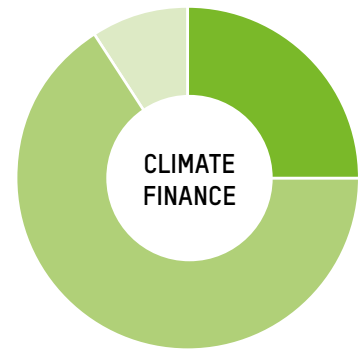
ONLY AN ESTIMATED 25% OF REPORTED PUBLIC CLIMATE FINANCE WAS FOR **ADAPTATION** AND 66% WAS FOR **MITIGATION**.

We estimate that in 2017–18, an average of 25% of reported public climate finance was allocated to adaptation, 66% to mitigation and 9% to cross-cutting projects (see figure 5). Adaptation finance increased in volume from an annual average of \$9bn in 2015–16 to \$15bn in 2017–18.³⁸

ADAPTATION FINANCE INCREASES BUT THE GAP PERSISTS

The estimated increase in the volume of adaptation finance between 2016 and 2018 is over 50% – the most significant rise in adaptation finance over a two-year period to date (see figure 6). This is a big improvement, and a rate of increase that must continue given unprecedented climate impacts that are disproportionately affecting developing countries.³⁹ And with 66% of climate finance still flowing to mitigation, significant scale-up in adaptation finance is needed if the Paris Agreement commitment to ‘achieve a balance between adaptation and mitigation’ finance is to be realised.⁴⁰

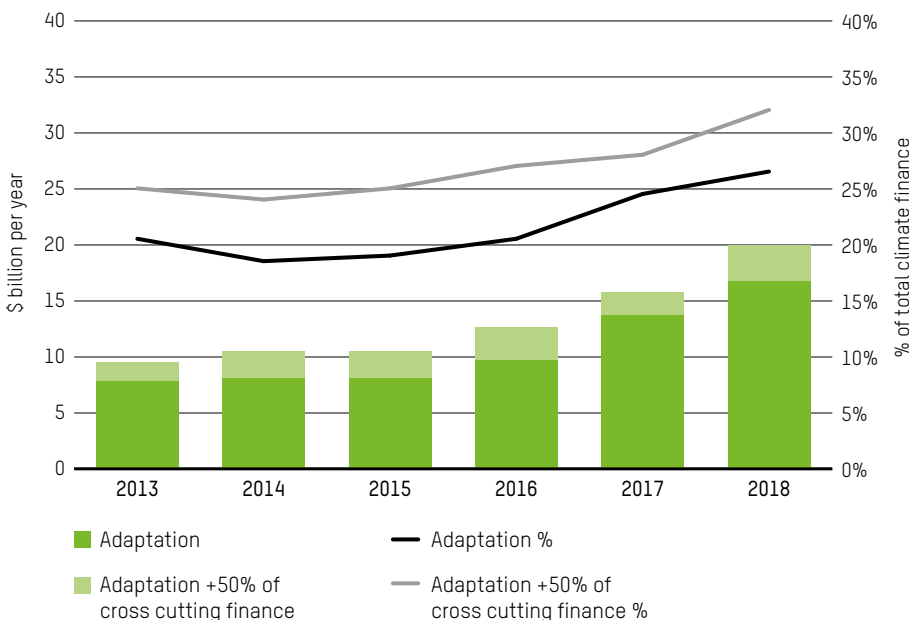
Figure 5: Global shares of mitigation, adaptation and cross-cutting finance in 2017–18



- 25%: Adaptation
- 66%: Mitigation
- 9%: Cross-cutting

Sources: Fourth Biennial Reports (2020); OECD (2020a).

Figure 6: Share and volume of adaptation finance, 2013–18



Source: 2013–16 OECD (2019b); 2017–18 OECD (2020a); Fourth Biennial Reports (2020).

THE ESTIMATED INCREASE IN THE VOLUME OF ADAPTATION FINANCE BETWEEN 2016 AND 2018 IS OVER 50% – THE MOST SIGNIFICANT RISE IN ADAPTATION FINANCE OVER A TWO-YEAR PERIOD TO DATE.

Table 3 breaks down reported adaptation finance provision in 2017–18 by donor type. The main uplift has come from MDBs, while bilateral flows of public finance to adaptation continue to lag.

Table 4 shows adaptation finance provision by country donor in 2015–16 and 2017–18. The Netherlands, the UK, Sweden, Switzerland, the European Commission and the European Development Fund should be applauded for providing a high share of their climate finance to adaptation. France and Germany should be recognized for having made progress since 2015–16, but with some way still to go towards achieving balanced allocation. For most other countries that allocated a small proportion of their public climate finance to adaptation in the last reporting period, including Norway and Japan, the adaptation gap has persisted.

Table 3: Reported adaptation finance as a proportion of total public climate finance for 2017–18 by donor type (annual average)

Donor	Adaptation only	Adaptation +50% cross-cutting
Total bilateral	21% (\$6.5bn)	28% (\$8.9bn)
Total MDB	30% (\$7.3bn)	30% (\$7.3bn)
Total multilateral climate funds	21% (\$469m)	34% (\$764m)
Total other institutions	57% (\$799m)	61% (\$849m)

Table 4: Reported bilateral and multilateral adaptation finance by major country donors for 2015–16 and 2017–18 (annual averages)

Donor	2015–16		2017–18	
	Adaptation only	Adaptation +50% cross-cutting	Adaptation only	Adaptation +50% cross-cutting
Australia	0% (\$0m)	50% (\$111m)	6% (\$15m)	53% (\$127m)
Canada	35% (\$41m)	65% (\$75m)	20% (\$74m)	47% (\$170m)
Denmark	14% (\$26m)	44% (\$80m)	27% (\$60m)	46% (\$101m)
European Commission and European Development Fund	41% (\$956m)	54% (\$1.3bn)	41% (\$1.3bn)	59% (\$1.9bn)
France	17% (\$552m)	25% (\$805m)	19% (\$1bn)	30% (\$1.6bn)
Germany	16% (\$1.4bn)	23% (\$1.9bn)	20% (\$1.5bn)	30% (\$2.2bn)
Japan	8% (\$803m)	10% (\$1bn)	11% (\$1bn)	13% (\$1.3bn)
Netherlands	30% (\$163m)	62% (\$333m)	35% (\$197m)	62% (\$346m)
Norway	6% (\$31m)	11% (\$54m)	8% (\$51m)	12% (\$75m)
Spain	9% (\$50m)	17% (\$96m)	11% (\$45m)	36% (\$144m)
Sweden	38% (\$154m)	60% (\$243m)	37% (\$230m)	60% (\$373m)
Switzerland	31% (\$101m)	52% (\$167m)	39% (\$133m)	56% (\$194m)
UK	21% (\$343m)	49% (\$819m)	40% (\$547m)	49% (\$670m)
US	US Fourth Biennial report not submitted			

Source: Fourth Biennial Reports (2020); Third Biennial Reports (2018); OECD (2020a).⁴⁴ Figures over a billion rounded to nearest 100 million.

Using OECD data, we roughly estimate that the share of grant-based finance dedicated to adaptation in 2017–18 was around 33%, and 51% if half of cross-cutting finance is also included.⁴² This shows some prioritization of adaptation, which is positive. But it also represents a decline in the estimated share of grant-based finance dedicated to adaptation in 2015–16, which was 38%.⁴³ There is an urgent need to scale up grant-based support for adaptation, which is too low and rising too slowly. Grants are a lifeline for adaptation action, which does not have the same potential to attract private finance as mitigation. Indeed, the latest OECD analysis suggests that only 3% of mobilized private finance was for adaptation (2016–17 average – see section 9).⁴⁴

RECOMMENDATIONS

- All donors (developed countries, MDBs, multilateral climate funds and other institutions) should commit to significantly increasing their adaptation finance, in particular to LDCs and SIDS, and ensure that adaptation constitutes a minimum of 50% of their overall public climate finance contribution.
- COP26 needs to agree a near-term Adaptation Finance Goal to urgently accelerate adaptation finance by 2022.

The all-encompassing \$100bn goal has failed to address the historic neglect of adaptation. As a sign of intent, and to build confidence:

- COP26 needs to agree in principle to establish a new global public finance goal specifically for adaptation – as a component of the new collective finance goal starting in 2025, when the \$100bn commitment will be succeeded.

6

ONLY AN ESTIMATED 20.5% OF REPORTED CLIMATE FINANCE WENT TO **LEAST DEVELOPED COUNTRIES** (LDCs) AND AROUND 3% TO **SMALL ISLAND DEVELOPING STATES** (SIDS); THE MAJORITY TO LDCs, AND NEARLY HALF TO SIDS, WAS IN THE FORM OF LOANS AND OTHER NON-GRANT INSTRUMENTS.

The biennial reports developed countries submit to the UNFCCC do not include data on the share of climate finance provided to LDCs and SIDS, but OECD data provides a basis for estimating this.⁴⁵ **On average, around 20.5% of climate-related development finance reported to the OECD went to LDCs in 2017–18, and 3% to SIDS.**⁴⁶ If we assume that the same proportion of climate finance reported to the UNFCCC went to LDCs and SIDS, this would amount to around \$12bn and \$1.8bn per year, respectively.

We also estimate that in 2017–18 the majority (nearly 60%) of climate finance to LDCs was in the form of loans and other non-grant instruments; and for SIDS it was nearly half (see Figure 7).⁴⁷ A major share of this finance is for adaptation: estimated at around 45% in the case of LDCs, and around half in the case of SIDS. Some of these loans and other non-grant instruments are even non-concessional: of total public climate finance to LDCs an estimated 9% is non-concessional, as is just over 20% to SIDS.

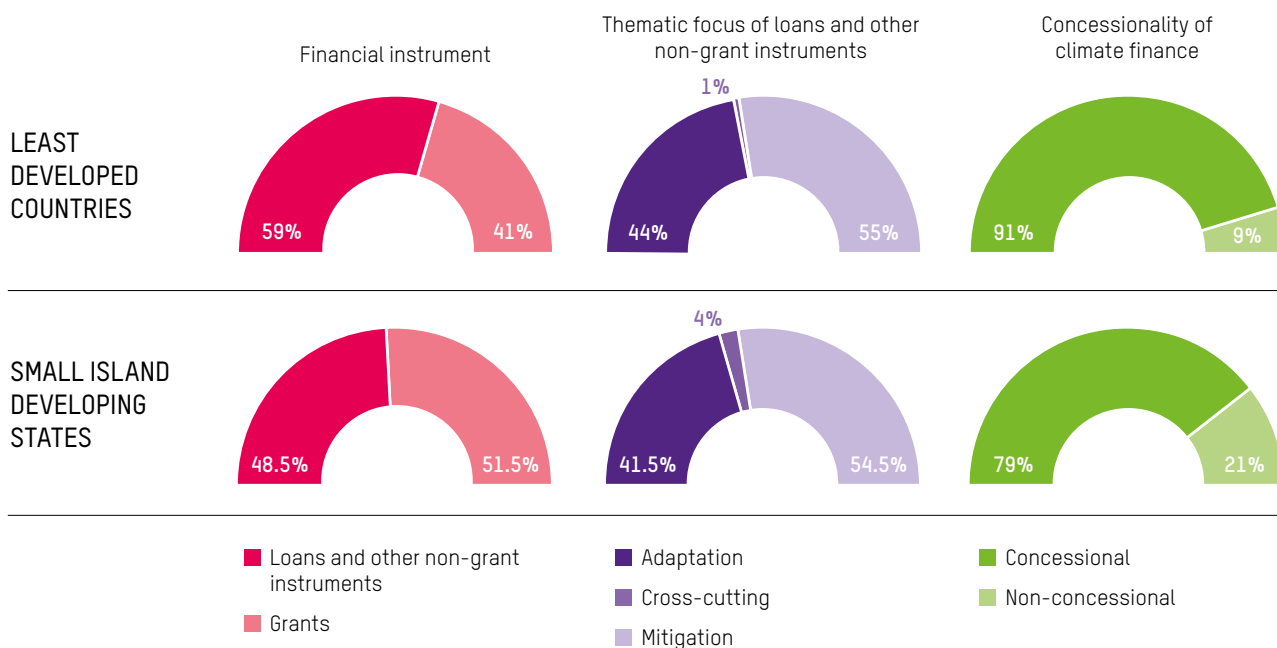
LDCs and SIDS have made a negligible contribution to the climate crisis, yet they are among the world's most vulnerable nations. LDCs are hit hard by climate shocks and stresses, and are least able to respond due to limited institutional capacity and resources. SIDS are also especially vulnerable due to their isolation, geographical size and location, and exposure to storm surges, sea-level rise and other impacts.

In light of their extreme vulnerability, global cooperation on climate change includes agreement on the preferential treatment of these countries in the provision of financial support.⁴⁸ Yet the resources LDCs and SIDS have to cope with increasing climate impacts are incommensurate with the increasing risks they face. LDCs and SIDS are failing to receive enough of the support they need and are entitled to – especially vital grant-based finance – and the scale of finance provided in the form of loans and other non-grant instruments risks contributing to rising and unsustainable debt burdens in many countries (see section 4).

As Table 5 sets out, among major country donors, Canada, France, Germany, Japan and Norway are estimated to provide the smallest share of their climate finance to LDCs (less than 20%). Estimates suggest that nearly all major donors except Australia neglect support to SIDS.

THE RESOURCES
LDCS AND SIDS
HAVE TO COPE
WITH INCREASING
CLIMATE IMPACTS ARE
INCOMMENSURATE
WITH THE INCREASING
RISKS THEY FACE.

Figure 7: Estimated climate finance to LDCs and SIDS in 2017–18 by instrument, concessionality and thematic focus of loans and non-grant instruments ⁴⁹



Source: OECD (2020a). Share of regional funds not included.

Table 5: Estimated share of finance to LDCs and SIDS by major country donors, 2017–18 (annual average)

Donor	Share to LDCs	Share to SIDS
Australia	25%	50%
Canada	16%	14%
Denmark	41%	0%
European Commission and European Development Fund	26%	6%
France	14%	3%
Germany	12%	0.3%
Japan	14%	0.9%
Netherlands	31%	0%
Norway	17%	1.5%
Spain	33%	8%
Sweden	34%	0.2%
Switzerland	20%	4%
UK	41%	0.1%
US	28%	3%

Source: OECD (2020a). Figures rounded to the nearest 0.5% except figures below 1%. Regional funds not included.

RECOMMENDATIONS

- All donors should commit to significantly increasing climate finance to LDCs and SIDS, especially grant-based support.
- UNFCCC rules and reporting guidelines should require donors to report the share of climate finance they are contributing to LDCs and SIDS.

REPORTED CLIMATE-RELATED DEVELOPMENT FINANCE WAS ESTIMATED TO BE 25.5% OF BILATERAL ODA IN 2017–18; THE MAJORITY OF CLIMATE FINANCE COUNTED TOWARDS DONOR COMMITMENTS TO INCREASE AID TO 0.7% OF GROSS NATIONAL INCOME.

Donor reports show that the majority of climate finance was ODA counted against commitments to increase aid to 0.7% of gross national income (GNI).⁵⁰ This resulted in climate-related development finance rising to 25.5% of total bilateral ODA in 2017–18, compared to 21% in 2015–16.⁵¹

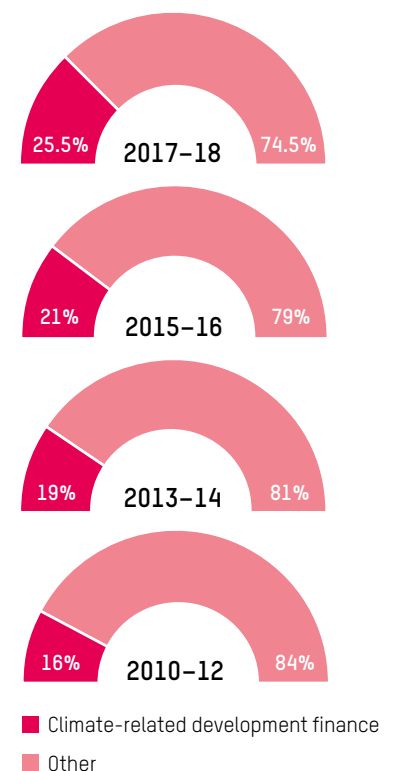
In 2018, global ODA declined by 2.7% compared to 2017, and only five countries met their commitment to keep ODA at or above 0.7% of GNI.⁵² Against this backdrop of stagnating aid, it is clear that the climate finance developing countries receive is likely to be displacing vital spending on health, education and other essential areas.

Developing countries lament that developed countries are not living up to agreements reached at COP16 in Cancún, which made the commitment that ‘scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties’ and formalised ‘a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries’.⁵³

The world’s poorest countries should not have to forgo life-saving aid to pay the costs of a climate crisis not of their making. The global ODA budget, which totalled \$153bn in 2018, is not sufficient to meet rising climate finance needs alongside other critical development spending. For adaptation alone, the UN Environment Programme estimates that by 2025–30, the costs could range from \$140bn to \$300bn per year.⁵⁴

Efforts to ‘mainstream’ climate into ODA spending to support low-carbon, climate-resilient development are vital and laudable. But this risks being a superficial accounting exercise in which many activities are counted that are not climate-relevant, as developed countries push to meet the \$100bn goal (see section 3). To be meaningful, mainstreaming must also address the extent to which development finance is still funding fossil fuel activities.⁵⁵

Figure 8: Bilateral climate-related development finance as a proportion of bilateral ODA, 2010–2018



Sources: OECD (2020a); OECD (2020b).

RECOMMENDATIONS

Climate finance should be additional to aid commitments, which means that funds counted towards the \$100bn commitment and UNFCCC obligations should not also be counted towards the 0.7% of GNI aid target.

- As a first step, developed countries should commit to ensuring that future increases of climate finance qualifying as ODA form part of an overall aid budget that is increasing at least at the same rate as climate finance.
- All countries need to support urgent action to implement the most promising new national and international sources of climate finance – including shifting fossil fuel subsidies and carbon pricing for international aviation and maritime transport.

8

ONLY AROUND A THIRD OF CLIMATE FINANCE PROJECTS ARE ESTIMATED TO TAKE ACCOUNT OF **GENDER EQUALITY**, AND TOO LITTLE CLIMATE FINANCE IS **SPENT AT THE LOCAL LEVEL**.

If climate finance is to reach those who need it most, it must be spent in a way that is responsive to the needs of affected women, men and local communities. Oxfam estimates that only around a third of climate finance projects in 2017–18 were designed to respond to the different needs of women and men. And there is a lack of data on how much climate finance is being spent at the local level in partnership with local communities, but the limited data which does exist suggests it is very little.

TOO LITTLE CLIMATE FINANCE IS LOCALLY LED

For climate finance to be responsive to the immediate needs of vulnerable people, local communities need to take a lead in decisions that affect them. Yet donor governments, UN agencies and MDBs are failing to sufficiently prioritize locally led activities. Donors are not required to report on how much of their climate finance is spent at the local level, meaning the vast majority of climate finance is not transparent enough to be tracked to its end use. An International Institute of Environment and Development (IIED) assessment of climate finance between 2003 and 2016 estimated that only 7% of climate finance was transparent enough to be tracked, and of that less than 10% was approved for locally led climate change projects.⁵⁶

ADAPTATION AND MITIGATION ACTION THAT IS GENDER-BLIND RISKS BEING INEFFICIENT OR INEFFECTIVE AND EXACERBATING GENDER INEQUALITIES.

TOO MUCH CLIMATE FINANCE IS GENDER-BLIND

Gender equality needs to be at the forefront of local action and climate finance spending, as set out in the Gender Action Plan agreed by all parties to the UNFCCC.⁵⁷ Women and men experience the impacts of climate change differently, because women's vulnerability is heightened by their socio-economic status and their unequal access to resources and decision-making processes. As principal food producers, stewards of natural and household resources, and important actors in their communities, women are also key agents of change in building the resilience of smallholder farmers, for example, or deploying renewable energy. Adaptation and mitigation action that is gender-blind risks being inefficient or ineffective and exacerbating gender inequalities.

The biennial reports developed countries submit to the UNFCCC do not include data on gender. But the OECD Development Assistance Committee (DAC) gender equality markers provide a basis for estimating the extent to which climate finance takes account of gender. In particular, for bilateral finance, multilateral organizations are not required to provide gender markers and do not in the majority of cases. As Table 6 shows, only an estimated 1.5% of climate-related ODA identified gender equality as a primary objective, and 34% identified gender equality as an important but not principal objective. A remaining 64% of projects either determined that gender equality was not a significant objective (33%) or were not screened (32% not marked).

Table 6: OECD-DAC gender equality markers for climate finance in 2017–18⁵⁸

	Not significant (0)	Significant (1)	Principal (2)	Not marked
Bilateral donors (DAC members)	47%	47%	2.5%	4%
MDBs	23%	23%	1%	53%
Multilateral climate funds (GCF, CIF, AF)	0%	55%	0%	45.5%
Other multilateral institutions (GEF, GGGI, IFAD, NDF)	0.1%	5.5%	0.7%	94%
Total	32.5%	34%	1.5%	32%

Source: OECD (2020a).

RECOMMENDATIONS

All donors (developed countries, MDBs, multilateral climate funds and other institutions) need to:

- Expand resources and support for locally led action on climate change – in line with developing countries' own national planning, policies and strategies (including Nationally Determined Contributions) – and track and report on how much climate finance is spent at the local level.
- Urgently increase financial support for climate action with stronger gender equality efforts; and ensure that all climate finance projects consider the different needs of women and men in objectives, design, budget and implementation, and have gender equality markers transparently reported to the OECD.

9

CONSISTENT AND TRANSPARENT INFORMATION IS NOT PUBLICLY AVAILABLE TO ESTIMATE THE LEVEL OF PRIVATE FINANCE MOBILIZED TOWARDS THE \$100BN GOAL.

Ten years since developed countries committed to mobilize \$100bn in public and private finance, how they are counting the private finance element remains unclear. This is despite the fact developed countries' *Roadmap to US\$100 Billion* (2016) assumed that mobilized private finance would deliver a quarter or more of this goal: \$26–66bn by 2020.⁵⁹

MDBs have not published data on how they have calculated mobilized private finance in 2017–18. And for bilateral finance, inconsistencies and incomplete information in donor reports to the UNFCCC make it challenging for third parties like Oxfam to scrutinize and aggregate the data (see Table 7). Both of these gaps raise major concerns about the transparency and legitimacy of the numbers claimed.

Countries have accounted for mobilized finance in very different ways: Japan has reported a very large sum but without details; France has not reported any estimate; the UK's estimate spans 2011–18 rather than the current reporting period; many countries have provided project information but without costs; some countries have not listed projects but instead offered examples; and the Netherlands has included finance mobilized through its contributions to MDBs, while Switzerland explicitly states such finance should not be counted. For finance mobilized by multi-donor projects, it is also difficult to find information on how it is attributed between donors as well as the host country government.

COUNTRIES HAVE ACCOUNTED FOR MOBILIZED FINANCE IN VERY DIFFERENT WAYS.

Table 7: Information on private finance mobilized reported by major country donors (2017–18)

Australia	No estimate
Canada	\$309m total over 2017 and 2018
Denmark	DKK 800m (2017) and DKK 315m (2018) for mitigation
European Union	€734m (2017), €144m (2018)
France	No estimate
Germany	\$548m (2017); \$552m (2018)
Japan	\$4.5bn total over 2017–18
Netherlands	€335m (2017), €411m (2018), close to half of which is through MDBs (excluding EIB) and multilateral climate funds (GEF, GCF)
Norway	\$47m (2017) and \$2m (2018) for renewable energy
Spain	No estimate
Sweden	€31.4m (2018) through Swedfund investments; and \$1.6bn (multi-year, portfolio held per 2018) from private, public and mixed sources through Sida guarantees
Switzerland	Adaptation: \$9.5m (2017); \$18.3m (2018) Mitigation: \$14.1m (2017); \$93.9m (2018)
UK	£1.4bn since 2011
US	Fourth Biennial Report not submitted

Source: Fourth Biennial Reports (2020).

The OECD recently offered an analysis of private finance mobilized in 2016–17, following consultations with donor countries.⁶⁰ It estimated this to be \$12.3bn on average per year in 2016–17, compared to \$14.8bn in 2013–2014. Of the investment in 2016–17, 94% went to mitigation, 3% to adaptation and 3% to cross-cutting activities. The OECD states that the decline is partly explained by its use of improved methods and more granular data, but it is also clear that private finance is not materializing as fast as developed countries hoped it would.

At COP24 in Katowice, parties agreed accounting principles for mobilized private finance, which will be translated into a new reporting framework (known as the Common Tabular Format) at COP26.⁶¹ These principles assumed (but did not require) that parties would report on a project-by-project basis, show a causal link between their interventions and private investments claimed, and avoid double counting by showing how the finance claimed is attributed to (various) donors and the host country government. The agreement opened a Pandora’s Box by allowing donors to report mobilized private finance using a wide range of ‘public interventions’ other than financial investments, such as capacity building and technical assistance.⁶²

RECOMMENDATIONS

- Reporting on mobilized private finance should be conservative to avoid overcounting and build trust, including by not reporting on finance mobilized through interventions that are not financial.
- At COP26, parties should agree a reporting framework (the Common Tabular Format) for both country governments and MDBs, which strictly applies the Katowice principles, including: reporting on a project-by-project basis, explaining causality between public investment and mobilized finance, and avoiding double counting in attributing mobilized amounts between governments.
- The new long-term finance goal(s) should not combine public climate finance provided and mobilized private finance in one goal.

CLIMATE FINANCE IN 2020 AND BEYOND

WILL THE \$100BN GOAL BE MET?

In 2016, developed countries published a roadmap on how they would meet the \$100bn goal, which stated public climate finance was expected to reach \$66.8bn by 2020 and mobilized private finance would be in the range of \$26–66bn.⁶³ Based on the latest reported numbers, they might claim they are well on their way: public climate finance in 2017–18 totalled an estimated \$59.5bn (annual average); and while the level of private finance mobilized in 2018 is unknown, the OECD estimates that it reached \$12.3bn on average per year in 2016–17.⁶⁴ The outstanding amount in 2017–18 could therefore be estimated as being around \$25bn, with two to three years of financial reporting to go before the \$100bn deadline in 2020.

But as this report sets out, the terms on which developed countries are currently meeting the \$100bn goal are highly questionable. Adaptation, LDCs and SIDS are receiving too little of the finance provided. Too much is being provided in the form of loans and other non-grant instruments, including to LDCs and SIDS. Reported finance is based on methodologies which inflate donor numbers and are not acceptable to the majority of recipient countries – such as counting the face value of loans as if they were grants, and overcounting the climate change value of development programmes. A great deal of what is reported should not be counted, notably an estimated \$24bn in non-concessional finance. Mobilized private finance is being claimed in the absence of common standards and methodologies, and with limited transparency. And with the majority of climate finance likely being counted against donor commitments to increase aid to 0.7% of GNI, meeting the \$100bn commitment could be robbing developing countries of finance for health, education and other critical development goals, despite the promise it would be ‘new and additional’.

THE TERMS ON WHICH
DEVELOPED COUNTRIES
ARE CURRENTLY MEETING
THE \$100BN GOAL ARE
HIGHLY QUESTIONABLE.

FINANCING LOSS AND DAMAGE

Finance for loss and damage is a major gap. Even with ambitious action on mitigation and adaptation, some consequences of climate change are no longer avoidable. Collectively known as ‘loss and damage’, these negative impacts are rising rapidly around the world – from loss of lives, land and livelihoods due to sea-level rise, to major economic losses resulting from extreme weather events. Developed countries have not made commitments to fund loss and damage, pointing instead to the humanitarian system, insurance and adaptation finance as the answer. But these existing structures and funding streams are failing the world’s poorest countries and communities (see box 2).

As a stand-alone article in the Paris Agreement, loss and damage should be considered separately from and additional to (already inadequate) adaptation finance and the \$100bn commitment. Developed countries need to urgently grapple with the need for new sources of finance for loss and damage, in addition to the \$100bn goal. This could include a climate damages tax on carbon majors, and as a minimum, cancelling debt during climate-induced crises.

BOX 2: MOZAMBIQUE HIGHLIGHTS THE NEED FOR LOSS AND DAMAGE FINANCE

Mozambique was devastated by Cyclone Idai in 2019 – the damage amounted to around half the country’s national budget. The UN humanitarian appeal totalled \$620m, but less than half of it has been funded to date.⁶⁵ As a result, Mozambique has been forced to take on an IMF loan of \$118m to begin rebuilding.⁶⁶ After disasters, countries often have to finance rebuilding and recovery through loans, increasing their debt burden and squeezing public services. It is the poorest people who are hardest hit – especially women, who as primary caregivers tend to fill the gaps in public services.

A NEW ERA OF CLIMATE FINANCE?

At COP26 in Glasgow, all eyes will be on the \$100bn commitment: whether and how it has been met. It is currently unclear whether developed countries will meet the goal, but if they do, it may be on the same terms on which they have provided climate finance to date. If this happens in the absence of a commitment to improve standards, it will erode trust.

COP26 is the moment to draw a line under the provision of climate finance to date, and to recognize that in the pre-2020 era, too much climate finance was counting the wrong things, in the wrong way. It is the moment to ensure better climate finance in the years to come, by committing to accelerate the scale-up of grant-based finance for adaptation and to LDCs and SIDS; reduce the share of climate finance provided in the form of loans; rule out non-concessional climate finance; and put in place robust and improved global accounting standards for all donors.

COP26 IS THE MOMENT
TO DRAW A LINE
UNDER THE PROVISION
OF CLIMATE FINANCE
TO DATE.

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ENDNOTES

- 1 See for example UNFCCC. (2019, 9 July). *Climate Change Threatens Progress Across Sustainable Development, Warns New UN Report*. <https://unfccc.int/news/climate-change-threatens-progress-across-sustainable-development-warns-new-un-report>
- 2 The commitment was originally set out in the Copenhagen Accord in 2009 (<https://unfccc.int/sites/default/files/resource/docs/2009/cop15/eng/11a01.pdf>) and affirmed a year later in decisions made at COP16 in Cancún: <https://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf>
- 3 J. Thwaites and N. Manel Amerasinghe. (2018, November 27). *New UN Assessment Delivers Good News on Climate Finance, But No Time for Complacency*. World Resources Institute. <https://www.wri.org/blog/2018/11/new-un-assessment-delivers-good-news-climate-finance-no-time-complacency#:~:text=The%20%24100%20billion%20commitment%20is,that%20underpins%20the%20Paris%20Agreement>
- 4 2015–16 figure is OECD estimate see – OECD (2019b). See section 1 for details of 2017–18 estimate.
- 5 See section 1 for explanation of how climate-specific net assistance was calculated in 2017–18. See T. Carty and A. le Comte (2018) for 2015–16 estimate, which has been adjusted in line with reported climate finance set out in OECD (2019a).
- 6 See section 4 for a breakdown of total public climate finance by instrument in 2015–16 and 2017–18.
- 7 Ibid.
- 8 See section 5.
- 9 See section 4 for a breakdown of total public climate finance by instrument, and section 6 for a breakdown by instrument to LDCs and SIDS.
- 10 See section 4 for a breakdown of climate finance by instrument.
- 11 See note 21.
- 12 For more examples of successful climate finance projects, see Friends of the Earth and Institute for Policy Studies. (2015). *Getting Climate Finance Right: Successful Examples for the Green Climate Fund from around the World*. https://ips-dc.org/wp-content/uploads/2015/07/7-2-15-FINAL-Getting_Climate_Finance_Right-web.pdf
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- 14 Japan's Fourth Biennial Report to the UNFCCC – see Fourth Biennial Reports (2020).
- 15 See: *Ex-Ante Evaluation (for Japanese ODA Loan)*. https://www.jica.go.jp/english/our_work/evaluation/oda_loan/economic_cooperation/c8h0vm000001rdjt-att/bangladesh_190630_01.pdf

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- 17 IFC Project and Data Portal. <https://disclosures.ifc.org/#/projectDetail/ESRS/35396>
- 18 These figures are rounded to the nearest 500 million. In broad terms, the approach used to compile this estimate is consistent with that used by the OECD to estimate climate finance for 2013–14 – OECD-CPI (2015) – and for 2013–17 – OECD (2019b). In 2017–18 (annual average), bilateral funds were estimated to be \$31bn based on data in the Fourth Biennial Reports (2020) (excluding EIB and export credits). Based on data recorded in OECD (2020a) in 2017–18, (annual average) climate finance attributable to developed countries from the financial outflows of the MDBs (including EIB) was estimated at \$24.9bn; multilateral climate funds at \$2.3bn (Green Climate Fund, Climate Investment Funds, Adaptation Fund); and other multilateral institutions at \$1.4bn (Global Environment Facility, Global Green Growth Institute, International Fund for Agricultural Development and Nordic Development Fund). We used OECD (2019b) shares for multilateral finance attributable to developed countries to determine the share of multilateral outflows which could be considered as developed country climate finance. The US has not submitted a Fourth Biennial Report; therefore, we used US 2016 data set out in the Third Biennial Assessment – UNFCCC (2018) – to estimate bilateral flows. This represents the most up-to-date, publicly available information on US climate finance since President Trump came to office. We estimated that \$1bn of finance reported by Japan was for coal-related projects, which was deducted from the total of Japan’s Fourth Biennial Report over the two years (in line with the OECD approach). We also identified \$311m in export credits, which was deducted from the bilateral total (in line with the OECD), though we anticipate export credit levels to be higher.
- 19 T. Carty and A. le Comte (2018) adjusted in line with reported climate finance estimated in OECD (2019a).
- 20 In the UNFCCC Articles 4.3 and 4.4, as well as the Paris Agreement in Article 9.1 and 9.3.
- 21 Grant equivalent is an estimate of the amount being given away in a loan or other instrument. 2018 marks the first year donors have reported grant-equivalent data on climate-related ODA loan disbursements to the OECD, and we have used these figures to calculate the grant equivalent of each country’s loans and other non-grant instruments as reported in their Fourth Biennial Reports (2020). Grant-equivalent data was not reported for 2017, therefore we calculated it by using each countries’ 2018 average: Belgium 74.9%; France 31.1%; Germany 31.3%; Italy 92.1%; Japan 67.6%; Poland 85.1%; and UK 30.1%. Where a country has not reported grant-equivalent data, and for the MDBs which do not report grant-equivalent data, we applied the average for all DAC countries that reported for 2018 (minus Korea) – 49.8%.
- 22 ODA thresholds for concessionality of bilateral finance are defined by the OECD-DAC: <http://www.oecd.org/development/financing-sustainable-development/development-finance-standards/officialdevelopmentassisteddefinitionandcoverage.htm>. MDBs do not have a common definition for non-concessional and the terms of this finance are largely unclear.
- 23 OECD. (2020a). Op. cit.
- 24 We estimate the grant equivalent of bilateral finance using data from the Fourth Biennial Reports (2020) Op. cit. to be \$18.3bn (taking the climate relevance of reported numbers as given). This compares to an estimated \$16.3bn for bilateral, climate-specific net assistance, using data from OECD (2020a), discounting for grant equivalence in the same way and assuming climate relevance of Rio Marker 1 projects at 50%. The \$2bn difference represents a likely possible margin of error resulting from differences in the two datasets.
- 25 See note 24 for an explanation of how bilateral grant-equivalent finance was estimated. For MDB finance (which is not reported on a grant-equivalent basis), the estimate is based on the average for all DAC countries that reported grant-equivalent data for 2018 (minus Korea) to the OECD – 49.8%.
- 26 See note 21.
- 27 Rio Markers were established to measure how ODA supports the implementation of the UN conventions (UNFCCC, the UN Convention on Biological Diversity or the UN Convention to Combat Diversification) following the 1992 Rio summit.
- 28 A review of over 5,000 projects by AdaptationWatch found that three-quarters of projects listed as supporting developing countries to adapt to climate change appeared to be overcounted – R. Weikmans et al. (2017). *Assessing the credibility of how climate adaptation aid projects are categorized*, in *Development in Practice*, vol. 27, no. 4, p. 458–471. <https://doi.org/10.1080/09614524.2017.1307325>. Another assessment, of 2013–2015 adaptation finance from Germany, found that more than two-thirds of projects may not have deserved a Rio Marker (for adaptation) at all – C. Lottje (2017). *Anpassung an den Klimawandel: Wie gut unterstützt Deutschland die Entwicklungsländer?*
- 29 See note 21.
- 30 Concessional loans are provided at, or near to, market terms – OECD-CPI. (2015). p. 58. Lack of transparency around the terms of loans means it is not possible to assess the extent of market rate loans being provided.
- 31 Based on reported climate finance to the UNFCCC in the Fourth Biennial Reports (2020) and to the OECD in OECD (2020a), compiled as set out in note 21.
- 32 Fourth Biennial Reports. (2020). Note that for Spain \$311m of climate finance for export credits has not been included in line with OECD approach to compiling bilateral finance.
- 33 Rounded to the nearest 500 million and 1%. 2017–18 estimate based on climate finance reported to the UNFCCC in the Fourth Biennial Reports (2020) and to the OECD in OECD (2020a), compiled as set out in note 21.
- 34 Fourth Biennial Reports. (2020). Op. cit.
- 35 At the end of November 2019, the IMF’s debt sustainability assessment warned 33 low-income countries were either in or at high risk of debt distress. *List of LIC DSAs for PRGT-Eligible Countries As of November 30, 2019*.
- 36 See: IMF. (2020). Op. cit. Even after the G20’s debt-suspension initiative in response to the pandemic, 73 countries still repaid up to \$33.7bn worth of debt this year, which is \$2.8bn per month. Christian Aid et al. (2020). *Passing the Buck on Debt Relief*. Op. cit.

- 37 Ibid.
- 38 2017–18 estimates are based on climate finance reported to the UNFCCC in the Fourth Biennial Reports (2020) and to the OECD in OECD (2020a), compiled as set out in note 21. 2015–16 estimate based on OECD (2019b). Numbers are rounded to the nearest 500 million.
- 39 UN. (2019, 8 October). *Unprecedented Impacts of Climate Change Disproportionately Burdening Developing Countries, Delegate Stresses, as Second Committee Concludes General Debate*. <https://www.un.org/press/en/2019/qaef3516.doc.htm>
- 40 Paris Agreement Article 9, paragraph 4: https://unfccc.int/sites/default/files/english_paris_agreement.pdf
- 41 Reported numbers compiled as set out in note 21.
- 42 OECD. (2020a). Op. cit.
- 43 T. Carty and A. le Comte. (2018). Op. cit.
- 44 OECD. (2019b). Op. cit.
- 45 The Fourth Biennial Reports (2020) set out which countries are recipients of a given project, but do not always state how much each country receives.
- 46 OECD. (2020a). Op. cit. Share of regional funds not included.
- 47 OECD analysis also shows a majority of climate finance to LDCs and SIDS was in the form of loans and other non-grant instruments over recent years – see OECD (2019b). Figure 2.8.
- 48 Paris Agreement Article 9.4: <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>
- 49 Share of regional funds not included. OECD analysis also shows a majority of climate finance to LDCs and SIDS was in the form of loans and other non-grant instruments over recent years – see OECD (2019b) Op. Cit. Figure 2.8.
- 50 Fourth Biennial Reports. (2020). Op. cit.
- 51 OECD (2020a) and OECD (2020b). Op. cit. This is an estimate of climate-related bilateral ODA and allocatable aid (not general budget support) as a proportion of overall ODA.
- 52 Denmark, Luxembourg, Norway, Sweden and the UK met or exceeded the target. OECD. (2019, 10 April). *Development aid drops in 2018, especially to neediest countries*. <https://www.oecd.org/development/development-aid-drops-in-2018-especially-to-neediest-countries.htm>
- 53 UNFCCC. (2011, March 15). Report on COP16. <https://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf>
- 54 UN Environment Programme (2016). *The Adaptation Gap Report 2016: The adaptation finance gap*. <https://unepdtu.org/publications/the-adaptation-finance-gap-report/>
- 55 OECD estimates average commitments of official development finance for fossil fuel activities at \$3.9bn annually over 2016–17. See OECD. (2019). *Aligning Development Co-operation and Climate Action: The Only Way Forward*. <http://www.oecd.org/development/aligning-development-co-operation-and-climate-action-5099ad91-en.htm>
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- 57 The Gender Action Plan was established at COP23: https://unfccc.int/sites/default/files/cop23_auv_gender.pdf
- 58 Calculations based on bilateral and multilateral data from OECD. (2020a). The shares are calculated using a weighted average, and figures above 1% are rounded to the nearest 0.5%.
- 59 *Roadmap to \$100 billion*. (2016). Op. cit. This wide range derives from applying different private-public finance ratios and project mixes.
- 60 OECD. (2019b). Op. cit.
- 61 Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement: FCCC/PA/CMA/2018/3/Add.2, Section V, paragraphs 118 through 125, particularly paragraphs 121 (m), (n), and (o), and 125. https://unfccc.int/sites/default/files/resource/cma2018_3_add2_new_advance.pdf#page=18
- 62 Ibid. Paragraph 125(d): Type of public intervention used (e.g. grant, concessional loan, non-concessional loan, equity, guarantee, insurance, policy intervention, capacity-building, technology development and transfer, technical assistance).
- 63 OECD. (2016). Op. cit.
- 64 OECD. (2019b). Op. cit.
- 65 See UNOCHA appeal summary: *Mozambique Humanitarian Response Plan 2019*. <https://fts.unocha.org/appeals/761/summary>
- 66 IMF. (2019, April 19). *IMF Executive Board Approves US\$118.2 Million Rapid Credit Facility Assistance to the Republic of Mozambique in the Wake of Cyclone Idai*. <https://www.imf.org/en/News/Articles/2019/04/19/pr19121-republic-mozambique-imf-exec-board-approves-rapid-credit-facility-assistance-cyclone-idai>

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