



CLIMATE FINANCE SHORT-CHANGED

The real value of the \$100 billion commitment in
2019-20

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Developed countries failed to meet the \$100bn climate finance goal in 2020 – the deadline for the promise made 13 years ago. They claim climate finance provided and mobilized reached \$83.3bn in 2020 (\$13.1bn of which was mobilized private finance). But Oxfam estimates the value of climate finance provided was only around a third of that reported (\$21–24.5bn).

Immediate action is needed to restore trust in the \$100bn goal and ensure that the provision of climate finance is fair and robust. For too long, most developed countries have persisted in counting the wrong things in the wrong way. There are too many loans, too much debt, too few grants, too little for adaptation, and too much dishonest and misleading accounting.

This brief sets out recommendations for action at COP27 and beyond to rectify these issues, restore trust in climate finance and stop the world's poorest climate-vulnerable countries and communities being short-changed of the climate finance they urgently need and are entitled to.

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org.

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Cover photo: Amina Ibrahim, a mother of 12 children, displaced by drought in Ethiopia. Credit: Pablo Tosco/Oxfam Intermón, 2019.

1 INTRODUCTION

Developed countries failed to meet the \$100bn climate finance goal in 2020 – the deadline for the promise made 13 years ago.¹ According to the OECD's assessment, which was based on reports by contributing countries, the shortfall was \$16.7bn.

Missing the \$100bn goal, and by this large of a margin, should in itself be alarming: \$100bn is the bare minimum these countries should be contributing and much more is needed. But as revealed in this briefing, Oxfam analysis finds that the reality is far worse. While developed countries claim their climate finance provided and mobilized reached \$83.3bn in 2020 (\$13.1bn of which was mobilized private finance), Oxfam estimates the actual value of climate assistance provided to developing countries to have been only one-third of that – around \$21–24.5bn.

While much political attention has been given to reaching the \$100bn on paper, too little has been paid in practice to ensuring it is reached in a way that is fair and robust. Within the UN climate negotiations, countries have never agreed how finance contributing to the \$100bn goal should be counted. This has led to a jumble of accounting standards and a prevalence of methods which overstate the value of support provided by a huge margin.

In addition to misleading accounting practices, climate finance continues to be dominated by loans (including a large share in non-concessional loans), contributing to a spiralling debt crisis in lower-income countries. And while adaptation finance increased in 2019–20, the lion's share of climate finance still continues to go to mitigation.

International climate finance is critical to a just and adequate global response to climate change. It matters for trust and for the fabric of multilateral progress that rich countries, which are most responsible for causing climate change, are seen to be meeting their commitments to supporting developing countries.

Climate finance also matters materially – in many communities, in many countries, it is what makes climate action possible. Accounting practices that overstate climate finance betray the adaptation needs of women, children and other vulnerable groups on the frontlines of the climate crisis, and the urgent need to reduce emissions. Every dollar overcounted is a dollar developing countries do not get, resulting in lives and livelihoods lost and opportunities for low carbon transition missed.

Climate finance needs are urgent, rising and dwarf the unmet \$100bn promise. Adaptation costs in developing countries are currently estimated to be in the range of \$70bn, and could rise to \$300bn in 2030.² Investment needs for mitigation are conservatively estimated to be \$5.9 trillion by 2030, a significant proportion of which will need to come from international climate finance.³ The costs of loss and damage are rising too, with the most

comprehensive estimate suggesting that by 2030, needs could be between \$290–580bn.⁴

Existing climate finance flows are nowhere close to meeting needs and are surpassed by the billions in subsidies the fossil fuel industry receives and the profits it makes. The UNDP estimates that global fossil fuel subsidies are \$423bn per year.⁵ In 2021, 25 oil and gas companies made \$205bn in profits.⁶ It is not money that is lacking – it is government action to ensure finance is directed to addressing the climate crisis rather than causing it.

Immediate action is needed to improve accounting standards, to rebuild confidence in the delivery of the \$100bn commitment, and crucially, to ensure that agreement on a new finance goal for the post-2025 period actually meets needs and does not repeat the mistakes of the \$100bn goal. Never again should an international climate finance ‘commitment’ be made on such a slapdash basis, with no clarity on what counts and who is committing what, or even a plan to agree such matters. The fallout has been a free-for-all in which developed countries alone have been left to count the money, and most have used that free hand liberally to exaggerate their own generosity.

2 ASSESSING THE REAL VALUE OF REPORTED CLIMATE FINANCE IN 2019–20

A separate methodology note provides full details of the assumptions and calculations that underpin Oxfam’s estimates set out in this section – see bibliography.

The recent OECD report on progress towards the \$100bn goal states that climate finance amounted to around \$80.4bn in 2019 and around \$83.3bn in 2020. These figures may appear substantial, but they are the result of flawed accounting methodologies that developed countries, multilateral development banks (MDBs) and some multilateral climate funds have produced themselves. Two major issues stick out.

Firstly, reported climate finance overestimates the climate relevance of funds when mitigation or adaptation are not the main objective of a reported project or programme. While developed countries usually take this into account by only reporting a proportion of the project or programme cost, most do so without granular assessment of a project’s costs and with generous assumptions about the climate component.

Secondly, loans and other non-grant instruments are reported at face value and not on the basis of ‘effort’ on the part of contributors, or the financial benefit to recipient countries of more preferential terms than those available on the market.

The result of both these accounting deficiencies is that the net value of support specifically aiming at climate action is likely to be significantly lower than reported climate finance figures suggest.

ESTIMATING CLIMATE-SPECIFIC NET ASSISTANCE (CSNA)

Oxfam's estimate of 'climate-specific net assistance' takes account of the combined impact of these two key factors, to offer a better representation of the net value of provided funds specifically aimed at mitigation or adaptation than that provided by the officially reported climate finance figures.

We do this by first making a more realistic assumption on the average climate relevance of provided funds. Second, instead of counting loans and other concessional non-grant instruments at their face value, we estimate their grant equivalent – in other words, the amount of finance a contributor is giving away.

In Oxfam's last assessment of CSNA for climate finance in 2017–18, we used contributing countries' own grant equivalent estimates for climate-relevant ODA loans as reported to the OECD. However, there are major flaws in the methodology countries use to make this calculation. One of the most significant is that loans are discounted at the same base rate of 5% regardless of the donor or the lending currency, which exaggerates donor effort.

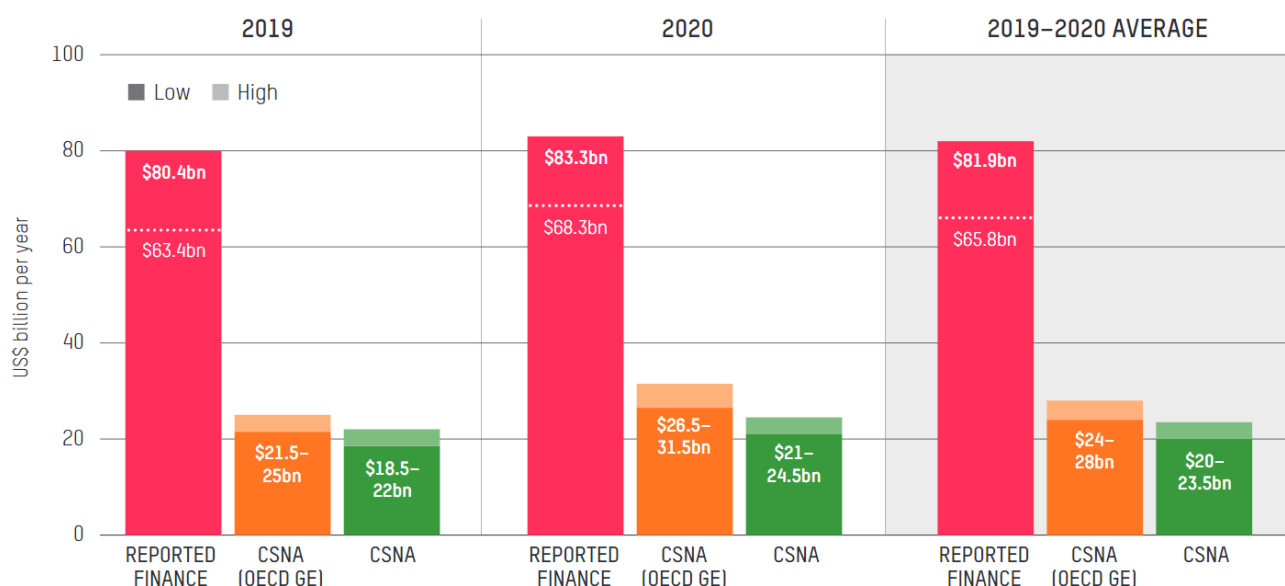
Therefore, for this estimate, we have used a more robust calculation of the 'net present value' of bilateral concessional loans using discount rates based on the long-term cost of funds to the donor at the time the loan is disbursed.⁷ A risk margin has also been added to the discount rate, which is based on an OECD assessment of recipient country credit risk at the time the loans were disbursed.⁸

Non-concessional instruments are counted at zero in our estimate because the debt burden associated with such finance means it should not count as assistance.

As the CSNA bar shows in Figure 1, using this approach, we estimate that overall CSNA amounted to \$18.5–22bn in 2019, \$21–24.5bn in 2020, and \$20–23.5bn on average in 2019–20. For adaptation alone, as shown in Figure 2, we estimate CSNA to be around \$8–9bn in 2019, \$9.5–11.5bn in 2020, and \$9–10.5bn on average in 2019–20.

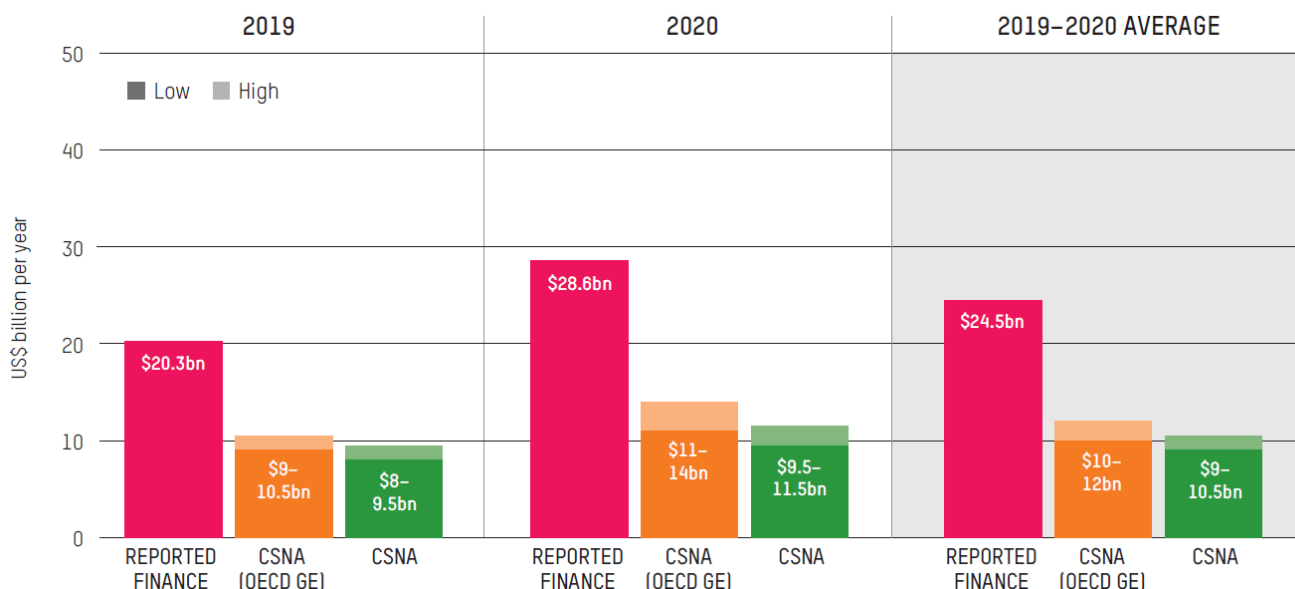
For comparison, Figures 1 and 2 also show what our estimate of CSNA would be if we used contributors' own grant equivalent calculations for bilateral loans based on the OECD's methodology. As the orange 'CSNA (OECD GE)' bar in Figure 1 shows, using the OECD grant equivalent methodology increases the estimated level of overall climate finance by \$5.5–7bn in 2020, and adaptation finance by \$1.5–2.5bn.

Figure 1: Reported climate finance versus Oxfam’s estimates of climate-specific net assistance (2019, 2020 and 2019–20 average)



Note: The red bars show reported climate finance as compiled by the OECD (OECD 2022a) – below the dotted line is public finance provided, and above the dotted line is mainly private finance mobilized and some export credits. The orange bars show Oxfam’s estimate of climate-specific net assistance based on OECD grant equivalent accounting. The green bars show Oxfam’s estimate of climate-specific net assistance using a more robust methodology to estimate grant equivalence. The orange and green bars show figures rounded to the nearest 0.5. See T. Carty and J. Kowalzig (2022) in bibliography for detailed methodology.

Figure 2: Reported adaptation finance versus Oxfam’s estimates of adaptation-only climate-specific net assistance (2019, 2020 and 2019–20 average)



Note: The red bars show reported adaptation finance as compiled by the OECD (OECD 2022a). The orange bars show Oxfam’s estimate of climate-specific net assistance for adaptation finance based on OECD grant equivalent accounting. The green bars show Oxfam’s estimate of climate-specific net assistance for adaptation using a more robust methodology to estimate grant equivalence. All figures show adaptation-only finance, not including 50% of cross-cutting finance. The orange and green bars show figures rounded to the nearest 0.5. See T. Carty and J. Kowalzig (2022) in bibliography for detailed methodology.

We believe that the assumptions and approach used to estimate climate-specific net assistance are robust and justified. Even assuming a large margin of error, the real net value of climate-specific support to developing countries in 2019 and 2020 is likely to have been significantly lower than officially reported climate finance suggests.

3 COUNTING WHAT COUNTS: ADDRESSING ACCOUNTING FLAWS

UNACCOUNTABLE ACCOUNTING OF CLIMATE RELEVANCE

The current system of reporting climate finance allows for gross over-estimation of the climate relevance of reported funds. A lack of disclosed data on how the climate relevance of funds has been calculated makes third-party verification of numbers challenging at best, and in many instances, impossible.

BILATERAL CLIMATE FINANCE

Most developed countries base their bilateral climate finance reporting to the UNFCCC on the Rio Marker system: projects are tagged with the Rio Marker for mitigation and the Rio Marker for adaptation, and indicate if these are pursued as a principal objective (Rio Marker 2) or a secondary objective (Rio Marker 1).

For reporting climate finance, Rio Marker 2 projects are usually counted at 100% of overall project volume, while Rio Marker 1 projects are usually counted with a single percentage (e.g. 40% or 50%), irrespective of how significant the climate component actually was. Table 1 sets out the coefficients that countries applied in 2019 and 2020 to calculate the climate component of projects where climate action was one of multiple objectives.

Independent assessments have identified that overly generous Rio Marker coding is widespread; this includes using Rio Marker 2 for projects that may not have climate action as their principal objective, or using Rio Marker 1 for projects that, while perhaps taking place in climate-relevant sectors, have little or no discernible focus on either mitigation or adaptation.⁹

Table 1: Coefficients for counting climate finance by Rio Markers for selected countries

Country	Rio Marker 2	Rio Marker 1
<i>Australia</i>	100%	30% *
<i>Canada</i>	100%	30%
<i>Denmark</i>	100%	50%
<i>EU institutions</i>	100%	40%
<i>Germany</i>	100%	50%
<i>Japan</i>	100%	50%
<i>Netherlands</i>	100%	40%
<i>New Zealand</i>	100%	30%
<i>Norway</i>	100%	40%
<i>Spain</i>	100%	50%
<i>Sweden</i>	100%	40%
<i>Switzerland</i>	85%	50%
<i>United States</i>	N/A	N/A

Source: OECD (2022b). The table shows the percentages by listed contributors to determine the value of Rio Marker 1 and 2 climate adaptation and mitigation projects. Some smaller contributors (not listed in this table) count the value of Rio Marker 1 projects at 100%, even though they are explicitly identified as not targeting climate action as a primary objective. The US is marked N/A because it calculates the climate component of funded projects on a case-by-case basis. *Unless a specific dollar value can be calculated.

MULTILATERAL DEVELOPMENT BANK CLIMATE FINANCE

The reported climate finance of multilateral development banks (MDBs) raises concerns too. While the MDBs’ approach is to report only the climate-specific components of their adaptation and mitigation programmes, the method is not transparent enough to allow for independent scrutiny.

The World Bank is the largest multilateral provider of climate finance, yet it supplies very little evidence to support its claims about the amount it provides. A recent assessment by Oxfam attempted to recreate the Bank’s reported climate finance figures using public information for projects in the Bank’s FY2020. It found that the Bank’s current climate finance reporting processes are such that its claimed levels of finance provided cannot be independently verified and could be off by as much as \$7bn, or 40%.¹⁰

SYSTEMIC OVER-REPORTING OF LOANS

Current rules and practices for reporting climate finance allow for reporting of loans and other non-grant instruments at face value – rather than the amount of finance being given away. As such, reported numbers do not reflect the ‘effort’ of contributors, nor the financial benefit for recipient countries. Among other issues, this means developed countries take credit for providing climate finance that low-income countries actually have to pay back.

The real value of loans to developing countries lies in the financial benefit when those loans are concessional and with low interest, and hence come at lower cost than loans at market rates. One way to approximate this financial benefit is to consider loans by their grant equivalent, i.e. an estimate of the amount being given away in a loan or other instrument once repayments, grace periods and other factors are taken into account.

Grant equivalent accounting is now standard for reporting of bilateral ODA – a practice that climate finance reporting needs to follow. However, the OECD Development Assistance Committee (DAC) methodology used to calculate grant equivalence has a number of major flaws, leading to systemic overcounting. Chief among these is that all loans are discounted at the same base rate of 5% regardless of the donor or the lending currency, ignoring the significantly different costs of funds across donors and currencies. This has massively exaggerated donor effort in ODA loans in recent years, when government bond yields of lending currencies (primarily the euro and yen) have been low.

For climate finance, being able to count loans at full face value – rather than the amount actually being given away – creates a huge incentive to provide loans over grants. In addition, since most developed countries count climate finance towards their ODA commitments, overcounting of donor effort in ODA loans is further incentivized. Under the rules developed countries have put in place, they have been able to claim more ODA credit than the loans actually cost them. Indeed, the French government issued a budget document earlier this year which stated that for their ODA loans in 2019–20 they were claiming more than €5 for every €1 of effort.¹¹

4 TOO MANY LOANS, TOO MUCH DEBT, TOO LITTLE ADAPATION

LOANS CONTINUE TO DOMINATE

Loans are being massively overcounted, and they are dominating the provision of climate finance. According to the latest assessment by the OECD, loans made up 71% of public climate finance in 2020 (\$48.6bn) – a significant share of which were non-concessional – while only 28% was provided as grants (\$17.9bn).¹² Developing countries are being forced to take out loans to respond to a climate crisis they did least to cause, while developed countries claim credit for finance they are not providing.

According to Debt Justice, in 2020, low-income countries were spending an average of 14% of their government revenues on foreign debt repayments, and the external debt repayments of Least Developed Countries reached

\$31bn.¹³ Since 2020, COVID-19 has further intensified the debt crisis and the outlook is bleak: World Bank/IMF debt sustainability analysis indicates that over half of the countries in its low-income group are either in, or at high risk of, debt distress.¹⁴ Developing countries are also likely to be affected by recent increases in interest rates on the global capital market, implying higher repayments and a further increase in public debts.¹⁵

The widespread use of non-concessional climate loans is particularly pernicious.¹⁶ Many countries with rising and unsustainable debt are being saddled with more debt in the name of climate assistance, and the increase in non-concessional loans means this debt is being provided on harder terms. Developed countries have long agreed that non-concessional finance would not be counted as ODA. It is beyond time for the same approach to be adopted for climate finance contributing towards the \$100bn goal.

Comprehensive figures on bilateral finance reported to the UNFCCC are not yet publicly available, but Oxfam estimates that in 2019–20, non-concessional instruments constituted 67% of multilateral climate finance. Of this, MDBs provided a staggering \$22.6bn of their climate finance through non-concessional instruments (71% of their reported climate finance in 2019–20).¹⁷

Extreme weather disasters fuelled by climate change are also increasing debt. Vanuatu's public debt doubled following Cyclone Pam in 2015, largely due to the costs of rebuilding.¹⁸ Countries on the frontlines of climate change impacts face a triple whammy: they are harmed by extreme weather causing widespread destruction; they are harmed by debt-laden climate finance that should be helping them; and those with debt and/or high climate risks (particularly low-income and small island states) have to pay more to access finance. Many of the countries which have contributed least to climate change will pay the most to finance their response to it.

THE ADAPTATION FINANCE GAP PERSISTS

Based on developed country reports, adaptation finance increased significantly in 2020 compared with previous years, reaching \$28.6bn. But as Oxfam's estimates show, if a fairer and more robust accounting methodology is applied then the level of adaptation finance drops significantly, to between \$9.5–11.5bn in 2020.¹⁹ This falls well short of meeting urgent and rising adaptation needs, which are now generally agreed to be at the upper end of the range of \$140–300bn per year by 2030 that was estimated by the United Nations Environment Programme (UNEP) in its 2016 Adaptation Gap Report.²⁰

Grant-based adaptation finance is a lifeline for low-income climate-vulnerable countries. Grants to Least Developed Countries and others with high vulnerability and low capacity are especially vital to ensure food and water security, disaster preparedness and other action to increase poor people's resilience to climate change. Low levels of mobilized private finance for adaptation in the context of the \$100bn goal demonstrate how private finance and loans are insufficient to meet the essential adaptation needs of poor and marginalized people.²¹

5 RECOMMENDATIONS FOR COP27 AND BEYOND

Immediate action is needed to restore trust in the \$100bn goal and make progress on a new post-2025 goal that is fair and robust. For too long, most developed countries have persisted in counting the wrong things in the wrong way. There are too many loans, too much debt, too few grants, too little for adaptation, and too much dishonest and misleading accounting.

Rich countries appear to be in denial about the critical role of climate finance in ensuring a world that is safe for all. Adaptation finance saves lives. And without mitigation finance, the scale of emissions reductions needed in developing countries to limit global temperature rise to 1.5°C is unlikely to be realized. The world is running out of time, and the costs of the delay can be counted in lives and livelihoods lost, and homes and communities destroyed.

IMPROVING ACCOUNTING STANDARDS

To ensure transparency and confidence in climate finance numbers, the following action is needed at COP27 and beyond:

- **Grant equivalence:** Parties should agree that the new grant equivalent column in the transparency reporting framework is to be completed on a mandatory rather than a voluntary basis.
- Parties should also agree to commence a process under the Subsidiary Body for Scientific and Technological Advice (SBSTA) to develop a credible methodology for assessing the value of provided finance, including its grant equivalent. The flawed OECD DAC approach must not become the norm for climate finance accounting.
- **Climate relevance:** To allow independent verification of claims, parties should agree that reporting of climate finance by all providers includes disclosure of the assessments used to calculate the climate finance component(s) of projects that are reported as climate finance.
- **Non-concessional finance:** Parties should agree that non-concessional instruments will not be counted towards UNFCCC climate finance obligations.

MAKING GOOD ON THE \$100BN COMMITMENT

In addition to improving accounting standards, the following actions are also needed:

- For any years in 2020–2025 when the \$100bn goal is missed, developed countries must commit to **address any shortfalls** through increased contributions in subsequent years.
- All climate finance providers (developed countries, MDBs, multilateral climate funds and other institutions) should commit to **significantly increase grant-based finance** and ensure that **adaptation constitutes a minimum of 50%** of their overall public climate finance contribution. This finance should be allocated in a way that is pro-poor, gender transformational and prioritizes those who are most vulnerable.
- Developed countries need to urgently set out a **delivery plan for the collective commitment to double adaptation finance** agreed at COP26, with clear timelines, trajectories and a mechanism for tracking progress.

POST-2025 CLIMATE FINANCE GOAL

Agreement on a new climate finance goal post-2025 must address the inadequacies of climate finance provision to date, including:

- To address the stark difference between reported numbers and the net value of provided support, negotiations on the post-2025 goal need to include discussion and **agreement on what to count as climate finance and how to count it towards the new goal**.
- To address the neglect of adaptation, parties should agree to establish a **new global public finance goal specifically for adaptation** as a component of the new collective finance goal.

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NOTES

- 1 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>

Oxfam is moving away from the terms ‘developed countries’ and ‘developing countries’, but since the \$100bn commitment and financial obligations under the UNFCCC refer to ‘developed countries’ and ‘developing countries’ we have used these terms to refer to those groups.
- 2 UNEP, UNEP DTU Partnership and World Adaptation Science Programme (WASP). (2021). *Adaptation Gap Report 2020*. <https://www.unep.org/resources/adaptation-gap-report-2020>
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- 6 Accountable US. (2022). *Exploitation: Oil Giants Set Record Profits While Taking Advantage Of Inflation and the Crisis In Ukraine – The American People Pay The Price*. <https://www.accountable.us/wp-content/uploads/2022/03/20220307-UPDATED-Oil-And-Gas-2021-Profits-1.pdf>
- 7 This methodology derives from that which the OECD itself uses to calculate the concessionality level of tied aid loans, under rules that are designed to ensure such loans are truly below commercial lending terms.
- 8 It is not known whether contributors of climate finance will at some stage seek to count the costs of future debt relief for climate finance loans being given now as climate finance. Assuming that is not the case, we have added a credit risk to the discount rate for the estimates produced. But in a scenario in which debt relief for climate finance loans is counted as climate finance, this would be double counting credit risk. A breakdown of grant equivalent estimates without credit risk is included in the methodology note: <https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621426/mn-climate-finance-short-changed-methodology-note-191022-en.pdf?sequence=1&isAllowed=y>
- 9 See, for example, R. Weikmans, et al. (2017). *Assessing the credibility of how climate adaptation aid projects are categorized*. *Development in Practice*, Vol. 27, no. 4, p. 458–471. <https://doi.org/10.1080/09614524.2017.1307325>

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- 12 OECD. (2022a).
- 13 See the Debt Justice Debt Data Portal at <https://data.debtjustice.org.uk/>; and UNCTAD. (2022). *Soaring debt burden jeopardizes recovery of least developed countries*. <https://unctad.org/topic/least-developed-countries/chart-march-2022#:~:text=LDCs'%20total%20external%20debt%20service,to%20the%20pre%20pandemic%20average>
- 14 40 out of 69 low-income countries were either in or at risk or debt distress. See <https://www.worldbank.org/en/programs/debt-toolkit/dsa> (accessed 19 September 2022).
- 15 Such as the US Federal Reserve's 3.2% interest rate increase in September 2022.
- 16 As set out in Oxfam's assessment of 2017–18 climate finance – non-concessional finance increased a lot during this period. T. Carty, J. Kowalzig and B. Zagema. (2020). *Climate Finance Shadow Report 2020: Assessing progress towards the \$100 billion commitment*. Oxfam. DOI: 10.21201/2020.6621. <https://policy-practice.oxfam.org/resources/climate-finance-shadow-report-2020-assessing-progress-towards-the-100-billion-c-621066/>
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- 19 This is an estimate of adaptation-only finance. Taking account of adaptation finance plus 50% of cross-cutting finance, Oxfam's estimate of climate-specific net assistance is \$11.5–13.5bn, compared with the OECD's estimate of \$31.6bn. See OECD (2022c).
- 20 UNEP. (2021). *The Gathering Storm: Adapting to climate change in a post-pandemic world, Adaptation Gap Report 2021*. <https://www.unep.org/resources/adaptation-gap-report-2021>
- 21 See OECD (2022c), which states that mitigation had an overwhelming 86% share of climate finance provided and mobilized over the period 2016–20, 'in part related to the constraints that commercial investment in adaptation projects face'.

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