

# CLIMATE FINANCE SHADOW REPORT 2016

LIFTING THE LID ON PROGRESS TOWARDS  
THE \$100 BILLION COMMITMENT



# SUMMARY

**INTERNATIONAL CLIMATE FINANCE IS VITAL IN THE GLOBAL EFFORT TO COMBAT CLIMATE CHANGE. IT OFFERS A LIFELINE TO THE WORLD'S POOREST COUNTRIES AND COMMUNITIES THAT ARE STRUGGLING TO COPE WITH A CHANGING CLIMATE, AND PROVIDES CRUCIAL SUPPORT TO HELP THEM DEVELOP IN A LOW CARBON WAY.**

The quality and quantity of climate finance to developing countries must increase significantly if the world is to have any chance of keeping temperature increases to within 1.5°C and those vulnerable to climate change are to get the support to which they are entitled. The Paris Agreement laid out a vision for shifting all financial flows – public and private – to be consistent with low emission, climate resilient development. Mainstreaming climate objectives into development strategies and spending is an essential element in meeting this objective.

Financial support to adapt to climate extremes in developing countries is urgent and rising. The combined effects of climate change and El Niño this year have devastated harvests and left an additional 40 million people in Southern Africa alone facing hunger.<sup>1</sup> For developing countries, the need for adaptation finance is particularly pronounced in agriculture.<sup>2</sup>

This report offers a critical assessment of reported international public climate finance flows in the context of developed country commitments under the United Nations Framework Convention on Climate Change (UNFCCC).<sup>3</sup> It assesses 2020 climate finance commitments, and climate finance contributions for the period 2013–14 (bilateral and multilateral) using three main sources of data: UNFCCC second biennial reports produced by donor countries;<sup>4</sup> the OECD Development Assistance Committee (DAC) database, which captures the climate-relevance of donors' ODA spending;<sup>5</sup> and the recently published Roadmap to \$100 Billion by developed countries, and associated technical report by OECD.<sup>6</sup>

These sources provide comprehensive data on climate finance contributions by country, but because of their differing methodologies, the numbers they provide can be inconsistent. Our analysis focuses mainly on public finance, which constitutes the vast majority of reported climate finance and commitments for 2020. In the final section, we also take stock of some of the main issues related to private climate finance.

**FINANCIAL SUPPORT TO ADAPT TO CLIMATE EXTREMES IN DEVELOPING COUNTRIES IS URGENT AND RISING.**

Oxfam's analysis explores some fundamental questions, including: how is climate finance being counted? What is climate finance being spent on? Where is climate finance being spent? Key takeaways are set out below. Together they highlight a number of critical challenges for climate finance following the 2015 Paris Agreement.

- **Levels of climate finance to adaptation and to Least Developed Countries (LDCs) are seriously low – new commitments to increase both are urgently needed.** LDCs are being left with far too little support and adaptation continues to be seriously neglected, when in reality both should be first-order priorities for allocation of the \$100bn.<sup>7</sup>
- **Agreement on common accounting standards is long overdue and vital to ensure that climate finance is spent effectively and efficiently to help deliver low carbon and climate resilient development.** Climate finance reporting systems lack transparency, consistency and detail, resulting in wide differences and 'fuzzy maths' in the way developed countries report.
- **Reported levels of global climate finance overstate the actual support (climate-specific support, net assistance) provided to developing countries by a large margin.** This is due to, for example, many countries counting loans at face value rather than at their grant equivalent.

Africa's fourth COP in Marrakech in 2016 must address the unfinished business of climate finance following Paris. Progress on governance of finance flows is essential if the quality and accountability of climate finance is to be improved. The greater the share of the \$100bn that is miscounted or over-counted, the less support developing countries receive.

Commitments and decisions made at COP22 must also address the stark shortfall in adaptation finance support to the world's poorest countries. Governments in Paris in 2015 came close, but ultimately failed to agree quantified goals to ensure adaptation finance increases at anywhere close to the scale needed. Countries did however agree the 'provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation' (Paris Agreement Article 9.4).<sup>8</sup> The projected doubling of adaptation finance in the Roadmap to \$100 Billion by donor countries is welcome, but not enough to ensure 'balance': Oxfam estimates it would only result in adaptation receiving around 20 percent of the \$100bn per year by 2020.<sup>9</sup> We urge donor countries to step up their efforts to significantly increase adaptation finance, and work with developing countries to quickly make those funds accessible to those that need them the most.

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The most vulnerable people and communities are losing out twice: they are hardest hit by climate change that they did least to cause, and they are being neglected by funds that should be helping them. The fast ratification of the Paris Agreement shows world leaders understand the need for urgency.<sup>10</sup> We hope they act with similar urgency at COP22 in Marrakech to ensure women and men on the frontlines of the climate crisis get the support they need and to which they are entitled.

# CLIMATE FINANCE TOWARDS THE \$100BN COMMITMENT: KEY TAKEAWAYS

## 1. THE PICTURE IN 2013–14:

Reported figures suggest around \$41bn of public finance per year has been provided by developed countries. Of this, the net assistance to developing countries specifically targeting climate change may have been just \$11–21bn.

## 2. THE PICTURE IN 2020:

Projected figures in the recent \$100bn Roadmap suggest \$67bn of public finance per year may be provided by developed countries by 2020. Of this, the net assistance to developing countries specifically targeting climate change may be just \$18–34bn.

## 3. GENEROUS LOAN ACCOUNTING:

In 2013–14, loans were reported at up to three times their net value to developing countries.

## 4. COUNTING FUNDS THAT ARE NOT FOCUSED ON CLIMATE CHANGE:

A significant proportion of reported climate finance may not be focused on climate change. If the significance of addressing climate change as a funding objective was taken into account, bilateral flows of climate finance in 2013–14 could be \$6–10bn per year lower than reported.

## 5. GRANT-BASED ASSISTANCE REMAINS TOO LOW:

Less than 25 percent of reported climate finance in 2013–14 was in the form of grants.

## 6. ASSISTANCE FOR ADAPTATION REMAINS TOO LOW:

Only 16 percent of climate finance was dedicated to adaptation in 2013–14, and even with the projected doubling of funds for adaptation outlined in the recent \$100bn Roadmap, this is set to reach only 20 percent by 2020.

## 7. ASSISTANCE FOR LEAST DEVELOPED COUNTRIES (LDCS) REMAINS TOO LOW:

Only an estimated 18 percent of climate finance went to LDCs in 2013–14.

## 8. CLIMATE FINANCE IS TAKING A GROWING SHARE OF ODA BUDGETS:

In 2013–14 the vast majority of climate finance was counted against donor commitments to increase ODA to 0.7 percent of GNI: climate finance amounted to 18 percent of the total global ODA budget in 2013, and 20 percent in 2014.

## 9. ACCOUNTING FOR PRIVATE FINANCE REMAINS A BLIND SPOT:

While contributing countries are putting increasing emphasis on the importance of mobilizing private finance as part of their climate finance contributions, there remains little consensus about what should be counted or how.

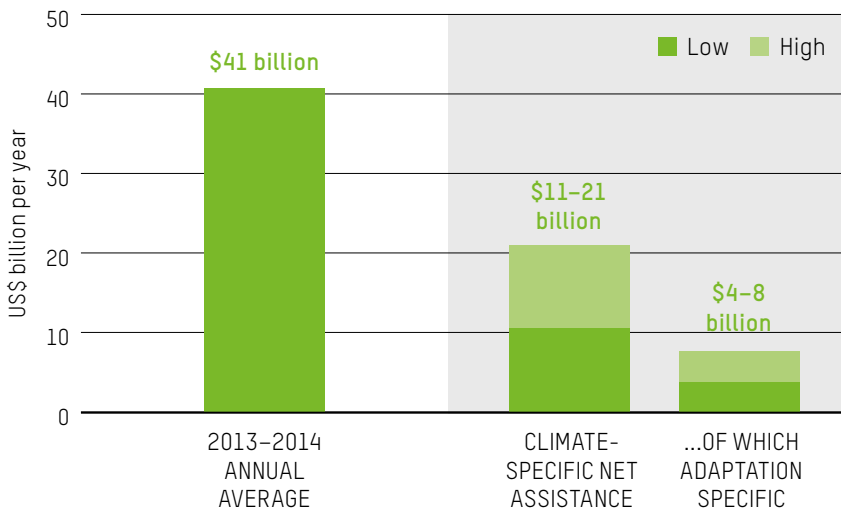
# 1

## THE PICTURE IN 2013–14: OF THE \$41BN PER YEAR REPORTED, NET CLIMATE-SPECIFIC ASSISTANCE MAY BE JUST \$11–21BN.

The rules and reporting guidelines governing what should count as international climate finance and how to account for it are limited, poorly defined and allow for a wide range of inconsistencies. The result is a situation in which the numbers reported by developed countries overstate the net support they provide specifically for addressing climate change objectives by a large margin.

The OECD has estimated that funds provided by developed countries (either bilaterally or through multilateral channels) amounted to \$41bn per year on average in 2013–2014. We estimate the net climate-specific assistance to be significantly lower: about \$11–21bn per year, of which just \$4–8bn is for adaptation (see Figure 1). Box 1 sets out the basis on which we have estimated net climate-specific assistance.

**Figure 1: Reported climate finance and Oxfam estimate of net climate-specific assistance (2013–2014 average)**



The first bar shows public climate finance as assessed by the OECD that analysed figures as reported in the Second Biennial Reports by developed countries. The bars in the shaded area are Oxfam's estimate of net climate-specific assistance for total climate finance and for adaptation specifically.

Source: OECD (2015), own calculations based on OECD (2016)

## BOX 1: NET CLIMATE-SPECIFIC ASSISTANCE VS. REPORTED NUMBERS

There is a significant difference between what donor countries report as climate finance and Oxfam's estimate of 'net climate-specific assistance'.<sup>11</sup> Oxfam believes that only the net financial assistance of flows that target climate action should count towards meeting UNFCCC climate finance obligations, because anything outside of this does not constitute a financial transfer to developing countries in support of climate action. In attempting to estimate 'net climate-specific assistance' two main factors come into play.

The first is how loans are counted. Oxfam's estimate counts only the concessional element of loans or other non-grant instruments, not their face value. While instruments other than grants play an important role in triggering low-carbon, climate-resilient development, it is only their grant equivalent that represents the net financial value transferred to recipient countries. Data on the grant equivalent of financial instruments in climate finance does not exist. Therefore our (admittedly crude) estimate counts grants at 100 percent and non-concessional instruments at 0 percent in both our high and low estimates. Concessional instruments other than grants were counted at 25 percent for our low-end estimate, and at 67 percent for our high-end estimate.<sup>12</sup> *(See Section 3 for more detail)*

The second major issue is that most countries (legitimately) report funds for projects that only partially cover climate action.<sup>13</sup> Our assessment is that approaches used in determining the value of the climate component of such projects lacks rigour, such that the climate-relevance of these funds is being overstated. Oxfam's estimate discounts for this. In our low-end estimate we assume 10 percent of funds for projects where climate change is one of multiple objectives,<sup>14</sup> and our high-end estimate counts 50 percent of those funds where contributing countries do not apply lower percentages themselves. We consider this to be a reasonable range based on varying relevance of these projects to climate change,<sup>15</sup> as well as varying percentages that are applied by donor countries themselves.<sup>16</sup> *(See Section 4 for more detail)*

## RECOMMENDATIONS

All parties should agree rules and accounting guidelines under the UNFCCC that ensure countries report the grant equivalent of non-grant instruments and better reflect the climate relevance of provided funds, thereby minimizing over-reporting of climate finance against UNFCCC obligations by developed countries. This should be agreed as part of the current negotiations on modalities for the accounting of climate finance under the Paris Agreement. The new accounting rules agreed under OECD DAC for ODA finance reporting offer a useful approach and should be considered. *(See Sections 3 and 4 for further recommendations on reporting of loans and projects where climate change is one of multiple objectives.)*

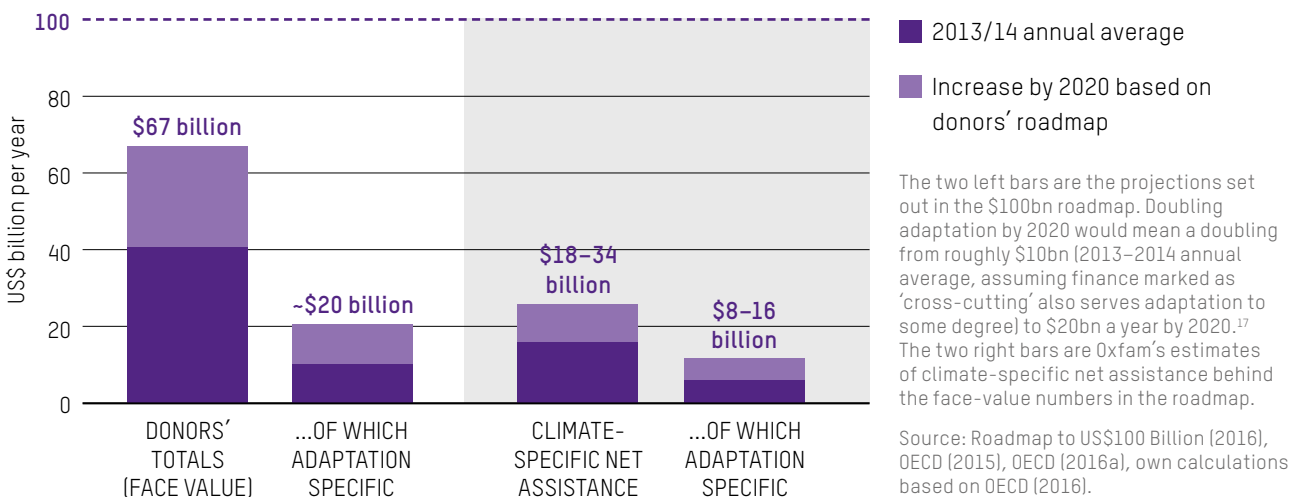
# 2

## THE PICTURE IN 2020: OF THE \$67BN OF PUBLIC FINANCE PER YEAR PROJECTED IN THE \$100BN ROADMAP, NET CLIMATE-SPECIFIC ASSISTANCE MAY BE JUST \$18–34BN.

On 17 October 2016, developed countries published a roadmap showing how by 2020 they will meet their commitment to mobilize \$100bn a year in climate finance for developing countries. The roadmap states that pledges made in 2015 (by both donor countries and MDBs – multilateral development banks) will boost public finance from an average of \$41bn over 2013–14 to \$67bn in 2020 – an increase of \$26bn. It also indicates that the amount of adaptation finance is projected to at least double in volume between 2013–14 and 2020.

The roadmap is a long overdue step forward in the world’s efforts to adapt to and combat climate change. While welcome, it leaves plenty of room for improvement in both the accounting of climate finance and allocation to adaptation (see section 6 for further discussion of adaptation). Based on the roadmap’s projections, we estimate net climate-specific assistance to be about \$18–34bn per year in total public climate finance by 2020, and around \$8–16bn per year for public adaptation finance (see Figure 2).

**Figure 2: Donors’ projected climate finance in 2020 and Oxfam estimate of net climate-specific assistance**



### RECOMMENDATIONS

All developed countries that have not already done so should set out what their level of total climate finance will be in 2020.

All developed countries that have not already done so should set out what their level of adaptation finance will be in 2020.

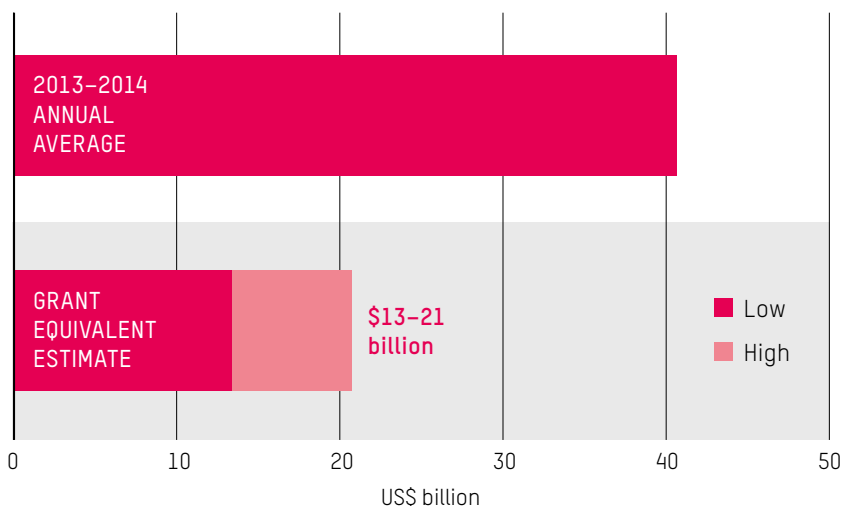
*(See Section 6 for further recommendations on adaptation)*

# 3

## GENEROUS LOAN ACCOUNTING: IN 2013–14, LOANS WERE REPORTED AT UP TO THREE TIMES THEIR NET VALUE TO DEVELOPING COUNTRIES.

Under the right circumstances, concessional loans, equity or guarantees all have an important role to play in providing and mobilizing climate finance. But reporting these instruments only at their face value obscures the level of assistance developing countries actually receive. Oxfam estimates that about three-quarters of reported public climate finance may be provided via instruments other than grants. Oxfam estimates the grant equivalent of this reported finance to be between \$13–21bn. This means reported numbers may be up to three times higher than their net assistance value (see Figure 3).

**Figure 3: Reported climate finance and Oxfam estimate of grant equivalent (2013–2014 average)**



The chart shows that reported levels of overall climate finance may be two to three times higher than estimated net assistance counting only grant or grant equivalent. Our estimate is explained in Box 1, Section 1.

Source: Second Biennial Reports (2016); own calculations based on OECD (2016)

Table 1 lists reported finance levels for major donors and estimates the net assistance contained therein, counting grants and estimating grant equivalents of non-grant instruments. It is not surprising that face-value amounts change most for the countries that are heavily using loans.



**Table 1: Reported climate finance and grant equivalent estimates for major donors (2013–14 average) delivered through bilateral channels**

Country	Bilateral total as reported	Grants	Concessional loans or equity	Non-concessional loans or equity	Non-concessional other instruments*	Unspecified <sup>b</sup>	Estimated total grant and grant equivalent
Australia	\$0.14bn	100%	0%	0%	0%	0%	\$0.14bn
Canada	\$0.06bn	100%	0%	0%	0%	0%	\$0.06bn
Denmark	\$0.2bn	100%	0%	0%	0%	0%	\$0.2bn
EU institutions <sup>a</sup>	\$3.84bn	28%	6%	3%	0%	63%	\$1.44–2.04bn
France	\$3.31bn	2%	78%	20%	0%	0%	\$0.71–1.8bn
Germany	\$5.18bn	45%	46%	9%	0%	0%	\$2.94–3.94bn
Japan	\$8.14bn	5%	41%	15%	0%	39%	\$1.66–3.72bn
Netherlands	\$0.34bn	100%	0%	0%	0%	0%	\$0.34bn
Norway	\$0.78bn	100%	0%	0%	0%	0%	\$0.78bn
Spain	\$0.43bn	12%	7%	32%	49%	0%	\$0.06–0.07bn
Sweden	\$0.28bn	100%	0%	0%	0%	0%	\$0.28bn
Switzerland	\$0.19bn	100%	0%	0%	0%	0%	\$0.19bn
United Kingdom	\$0.75bn	94%	6%	0%	0%	0%	\$0.71–0.73bn
United States	\$2.27bn	35%	0%	17%	48%	0%	\$0.79bn

\*Guarantees, export credit, etc.

The table shows finance via bilateral channels (excluding finance via multilateral channels) as set out in the Second Biennial Reports, as 2013–14 annual average. The right-hand column shows our estimate of the grant equivalent of reported figures, using the methodology set out in Box 1, Section 1.

<sup>a</sup> This refers to the EU institutions and their budget, not to the EU as a whole.

<sup>b</sup> For large amounts of the EU institutions' and Japan's bilateral finance as reported in the biennial reports, the financial instrument has been left unspecified, necessarily leading to the relatively large range. As explained in Section 1, in those cases we have assumed that half of the reported amounts were of concessional and the other half of non-concessional nature.

Source: Second Biennial Reports (2016); Oxfam calculations

## RECOMMENDATIONS

Contributing countries should only report grants or the grant-equivalent of instruments towards their UNFCCC obligations.

Non-concessional instruments that do not lead to net financial transfer should not be counted towards UNFCCC obligations.

Setting out information in country reports on concessional and non-concessional instruments at their face value, such as loans at market rates, guarantees or export credit insurance, is acceptable providing there is a clear distinction between what is reported and what is counted towards fulfilling a country's UNFCCC obligations.

# 4

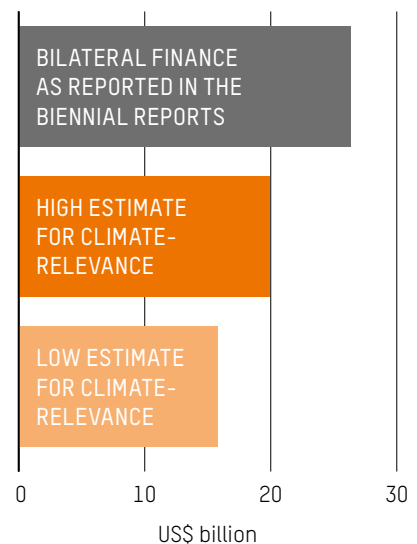
## COUNTING FUNDS THAT ARE NOT FOCUSED ON CLIMATE CHANGE: IF THE SIGNIFICANCE OF CLIMATE CHANGE AS A FUNDING OBJECTIVE WERE TAKEN INTO ACCOUNT, BILATERAL FLOWS OF CLIMATE FINANCE IN 2013–14 COULD BE \$6–10BN LOWER THAN REPORTED.

A large amount of climate finance is associated with projects where climate change is one among multiple objectives.<sup>18</sup> There are major discrepancies and questionable methodologies used to account for the climate component of these projects when reporting against UNFCCC commitments. For bilateral finance we estimate climate-specific finance may be between \$6–10bn lower each year than reported figures (see Figure 4). Adaptation finance numbers are likely to be particularly affected by this issue because during the 2013–14 period 69 percent of bilateral adaptation-relevant development finance included projects where adaptation was one of multiple objectives.<sup>19</sup>

Mainstreaming climate change into development spending is certainly not a bad thing. On the contrary, all providers of development assistance should integrate climate change considerations into all areas of the work they do. But in the push to demonstrate developed countries have met their \$100bn commitment, there is a risk that this becomes a superficial accounting exercise and that many activities are counted that are not climate-relevant, or projects counted which do not take climate change into consideration in their design and implementation.<sup>21</sup>

The majority of donors applied a flat percentage to determine the amount of climate finance they reported – ranging from 20 percent to 100 percent, as set out in Table 2. Only the US, UK and Switzerland attempted to calculate the exact amount of climate spending. The blanket approach applied by others means that due diligence was not carried out to ensure reported finance represents the actual amount allocated to climate action, and the lack of information makes the numbers impossible to check. This is a major concern given the numerous studies by Oxfam and others that highlight the staggering problem of climate finance mislabelling, coupled with the reality that development practice is not currently taking climate change seriously.<sup>22</sup> Applying flat percentages to estimate the share of climate-relevant funding in a project runs a high risk of over-counting.

**Figure 4: Oxfam’s estimate of climate relevance in bilateral finance (2013–14 average)**



The first bar shows bilateral finance as reported in the Biennial Reports (where countries use their own – if any – methodology on climate-relevance of provided funds). The second and the last bar give Oxfam’s high and low estimates. In our low-end estimate we assume 10 percent of funds for projects where climate is one of multiple objectives which would be targeting climate action,<sup>20</sup> and our high-end estimate counts 50 percent of those funds where donor countries do not apply lower percentages themselves. See Box 1, Section 1 for more on our methodology. The comparison serves to underline that actual climate-related finance may be much lower than reported numbers suggest.

Source: Biennial Reports (2016), own calculations based on OECD (2016)

**Table 2: Country approaches to counting the value of climate activities when projects include multiple objectives by country**

Country	Percentage applied
Spain	20%
Australia	*30%
EU Institutions	40%
France	40%
Germany	50%
Japan	100%
Netherlands	40%
New Zealand	**30%
Norway	100%
UK	Own method
US	Own method
Switzerland	Own method

\* Assessment of activities where feasible; otherwise 30 percent of project value

\*\*30 percent default unless activity-specific coefficient available

Source: OECD (2015)

## RECOMMENDATIONS

All governments and development finance institutions must commit to integrating climate change into all their spending portfolios. This is a prerequisite for realizing the objectives of the Paris Agreement and the Sustainable Development Goals (SDGs).

Contributing countries should commit to project-by-project assessment and reporting to determine the value of a project's climate component if they want it to count towards climate finance commitments. Determining the amount of a project budget that contributes to climate change objectives is not always straightforward, and many may raise concerns about time spent 'bean counting' rather than achieving results in the real world. But if contributors and recipients want to be able to hold one another accountable, and if citizens are going to be able to hold their governments accountable, these details are important.

Efforts like those of the UK, US and Switzerland to count only specific climate-related activities should be the basis for developing a consistent approach used by all parties. For adaptation, a consistent approach should ensure the following minimum criteria are applied: the climate context should be analysed and the project must identify the specific vulnerability to be addressed, as well as how the activities link to the impacts and vulnerability of the target group.

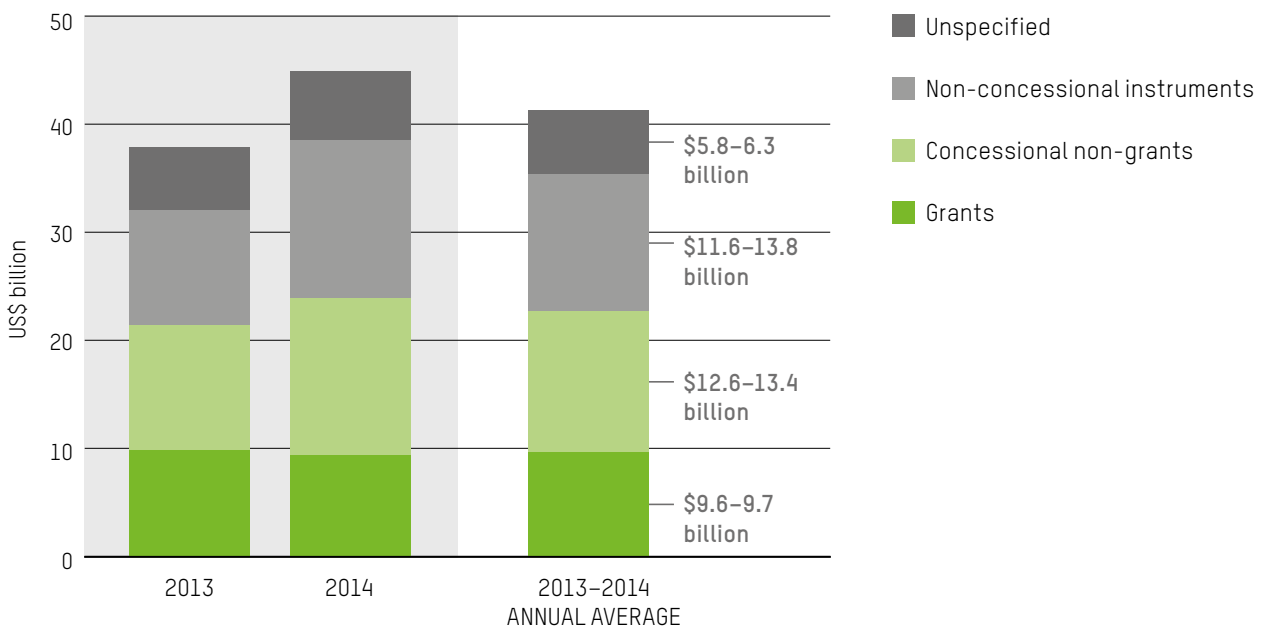
# 5

## GRANT-BASED ASSISTANCE REMAINS TOO LOW: ONLY ABOUT 25 PERCENT OF REPORTED CLIMATE FINANCE IN 2013–14 WAS IN THE FORM OF GRANTS.

The amount of climate finance that is being provided in the form of grants remains woefully inadequate. Of the \$41bn reported as public climate finance through bilateral and multilateral channels (annual average over 2013–14), only about \$10bn is provided in the form of grants, around 25 percent.

As Figure 5 shows, the \$10bn provided in the form of grants is significantly less than the \$32bn provided through other instruments such as loans, equity or guarantees. While overall climate finance increased between 2013 and 2014, the amount of grants provided decreased slightly.

**Figure 5: Grant finance 2013–14 (bilateral and multilateral)**



The figure shows Oxfam’s estimated split of the instruments used for climate finance. A total of around \$10bn of reported multilateral and bilateral climate finance was provided in the form of grants on average for 2013 and 2014. With regard to finance via the multilateral development banks, information on the split between the various instruments is patchy (especially relating to their concessionality). Also, how to attribute MDB finance to developed countries is not universally agreed. Hence these figures are only estimates.

Source: Second Biennial Reports (2016); own calculations based on OECD (2016)

Grant instruments play an essential role in ensuring that those hit first and hardest by climate change get the help to which they are entitled. Private finance and loans will struggle to meet the essential adaptation needs of poor and marginalized people.<sup>23</sup> Grants to LDCs 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.

Table 3 lists the amount of the climate finance reported by major donors that was provided in the form of grants. France and Japan score the lowest – providing just two percent and five percent of their finance respectively in the form of grants.

**Table 3: Reported climate finance and grants for major donors delivered through bilateral channels**

Country	US\$ billion bilateral total as reported	Percentage provided as grants	US\$ billion provided as grants
Australia	\$0.14bn	100%	\$0.14bn
Canada	\$0.06bn	100%	\$0.06bn
Denmark	\$0.20bn	100%	\$0.20bn
EU institutions <sup>a</sup>	\$3.84bn	28%	\$1.09bn
France	\$3.31bn	2%	\$0.07bn
Germany	\$5.18bn	45%	\$2.34bn
Japan	\$8.14bn	5%	\$0.43bn
Netherlands	\$0.34bn	100%	\$0.34bn
Norway	\$0.78bn	100%	\$0.78bn
Spain	\$0.43bn	12%	\$0.05bn
Sweden	\$0.28bn	100%	\$0.28bn
Switzerland	\$0.19bn	100%	\$0.19bn
United Kingdom	\$0.75bn	94%	\$0.70bn
United States	\$2.27bn	35%	\$0.79bn

All figures are 2013–14 annual average.

<sup>a</sup> This refers to the EU institutions and their budget; not to the EU as a whole.

Source: Second Biennial Reports (2016)

## RECOMMENDATIONS

All contributing countries should work to increase the overall share and amount of grant-based assistance.

Grant instruments should be prioritized for adaptation, and for the poorest and most vulnerable countries.

# 6

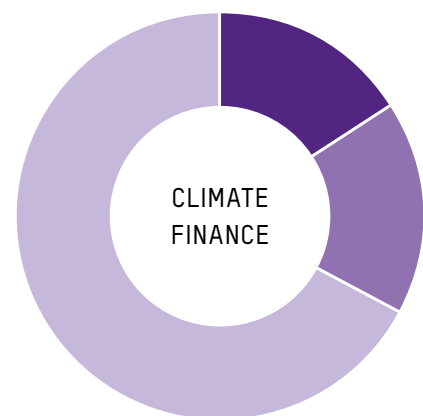
## ASSISTANCE FOR ADAPTATION REMAINS TOO LOW: ONLY 16 PERCENT OF CLIMATE FINANCE WAS DEDICATED TO ADAPTATION IN 2013–14; AND EVEN WITH THE PROJECTED DOUBLING OF ADAPTATION FUNDS IN THE \$100BN ROADMAP, THIS IS SET TO ONLY REACH 20 PERCENT BY 2020.

During the period 2013–14 an average of only 16 percent of international climate finance was allocated to adaptation, 67 percent to mitigation and 17 percent was cross-cutting.<sup>24</sup> Levels of finance were particularly low in 2014, when only 14 percent was allocated to adaptation.<sup>25</sup> Since the period 2011–12, total adaptation finance has increased slightly (by around \$1bn) but adaptation's share of overall climate finance has more or less stood still.<sup>26</sup>

The need for financial support to adapt to climate extremes in developing countries is urgent and rising. International support for adaptation falls well short of what is required and is being neglected in favour of mitigation. The Roadmap to \$100 Billion produced by developed countries shows an expected doubling of adaptation finance by 2020, which we estimate will bring adaptation to around 20 percent of the \$100bn: a long way from the 'balance' in allocation all governments agreed to in Paris.

In most cases, the countries that are providing most climate finance overall are allocating least to adaptation (as a proportion of their overall contribution). Japan, France, the US and the EU rank among the world's largest contributors of international climate finance, yet they are at the bottom of the table when it comes to adaptation support. Based on 2013–14 spending levels, if these four contributors alone committed to increase the proportion they spend on adaptation to just 35 percent it would almost double the amount of bilateral and multilateral adaptation finance flowing to developing countries globally.<sup>27</sup>

Figure 6: Global shares of mitigation, adaptation and cross-cutting finance in 2013–14



- 16%: Adaptation
- 17%: Cross-cutting
- 67%: Mitigation

Based on data from countries' second biennial assessments covering multilateral and bilateral finance, but not including core contributions to MDBs as breakdown of this data is not provided.

Source: Second Biennial Reports (2016)

**Table 4: Countries with the lowest allocation of adaptation finance in 2013–14<sup>28</sup>**

Country	Climate finance allocated to adaptation	Climate finance allocated to adaptation if 50% of 'cross-cutting' finance is also counted as adaptation
Portugal	10%	10%
Spain	8%	11%
Japan	14.5%	15%
France	13%	17%
United States	15%	16.5%
EU	9.5%	17%

Source: Second Biennial Reports (2016). Oxfam's calculations

## RECOMMENDATIONS

Governments in Paris in 2015 failed to agree quantified goals to ensure that adaptation finance increases at anywhere close to the scale needed in the future. But countries did agree the 'provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation'.<sup>29</sup> While there were some welcome commitments by a number of countries to scale up their adaptation finance in 2015, overall these commitments did not go far enough.<sup>30</sup> Urgent action is therefore needed to address the adaptation finance gap and ensure balanced provision of finance between adaptation and mitigation.

**All parties should agree a global adaptation finance goal.** In line with the Paris Agreement commitment to 'significantly increase adaptation finance from current levels'<sup>31</sup> and the commitment to 'balance' in the provision of finance between adaptation and mitigation,<sup>32</sup> this goal should include a commitment to **\$35bn in public finance for adaptation by 2020** as the minimum political signal needed to start to address the current adaptation finance gap.

**All developed countries should commit to ensuring that the level of their adaptation finance reaches at least 50 percent of their overall public climate finance contribution by 2020.**

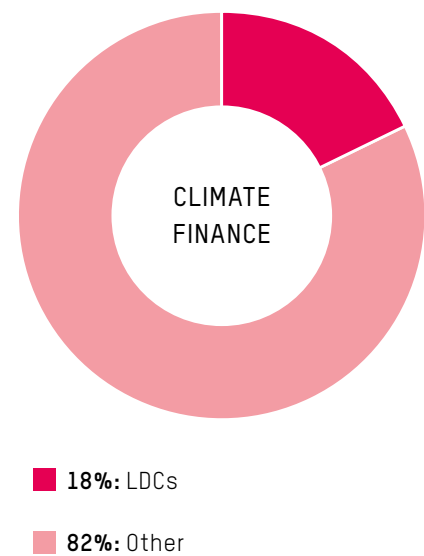
## ASSISTANCE FOR LEAST DEVELOPED COUNTRIES (LDCS) REMAINS TOO LOW: ONLY AN ESTIMATED 18 PERCENT OF CLIMATE FINANCE WENT TO LDCS IN 2013–14.

Countries are not required to report the share of climate finance they provided to LDCs in their biennial reports, but OECD data provides a good basis for estimating it. Over the period 2013–14, on average around \$8.7bn of overall climate-related development finance went to LDCs each year – 18 percent of the total. If we assume that the same proportion of climate finance reported to the UNFCCC went to LDCs then this would amount to \$7.4bn on average per year 2013–14.<sup>33</sup>

Climate finance to LDCs is too low. The proportion of climate finance we estimate LDCs are receiving is out of step with donor country global aid commitments that around 25 percent of aid should go to LDCs (0.15–0.2 percent out of the 0.7 percent of GNI ODA commitment).<sup>34</sup> While no share or specific dollar amount has been agreed for vulnerable countries or LDCs in the Paris Agreement, the Agreement (and many UNFCCC decisions before it) recognizes the importance of climate finance for LDCs and other vulnerable countries facing capacity constraints; in particular grant-based public finance for adaptation.<sup>35</sup>

Based on OECD DAC data, Oxfam estimates that grant funding for adaptation was only 12 percent of bilateral and multilateral climate finance in 2013, and 10 percent in 2014. Of that very limited grant financing for adaptation, LDCs received 45 percent in 2013 and 38 percent in 2014. LDCs are getting a reasonably large share of the adaptation grant pie, but the pie is much, much too small.

Figure 7: Share of climate finance to LDCs in 2013–14



Source: OECD (2016)

### RECOMMENDATIONS

Significantly more climate finance should be directed to LDCs in the coming years, in particular for adaptation. In order to achieve this, grant-based support will need to increase.

- All contributing countries commit to a minimum floor of 25 percent of their public climate finance being dedicated to LDCs, in line with guidelines for aid.
- All contributing countries to increase their contributions to the Least Developed Country Fund so that it can complete its mandate by 2020 at the latest.



## CLIMATE FINANCE IS TAKING A GROWING SHARE OF ODA BUDGETS: IN 2013–14 THE VAST MAJORITY OF CLIMATE FINANCE WAS COUNTED AGAINST DONOR COMMITMENTS TO INCREASE ODA TO 0.7 PERCENT OF GNI; CLIMATE FINANCE AMOUNTED TO 18 PERCENT OF THE TOTAL GLOBAL ODA BUDGET IN 2013, AND 20 PERCENT IN 2014.

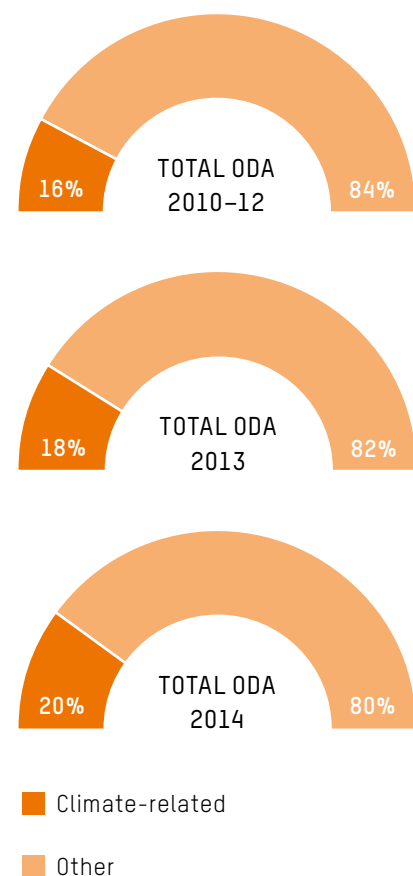
The UNFCCC Biennial Country Reports show that the vast majority of multilateral and bilateral climate finance was counted towards donor commitments to increase ODA to 0.7 percent of their GNI.<sup>36</sup> And according to the OECD, 18 percent of the total global ODA budget was climate finance in 2013, and 20 percent in 2014.<sup>37</sup> This represents a steady increase compared with 2010–12, when 16 percent of ODA was climate-related.<sup>38</sup>

To the extent that climate finance is rising faster than overall ODA budgets, there is a risk that it is already displacing other critical areas of ODA spending. In the longer term, it is clear that ODA budgets alone will not be sufficient to meet escalating climate finance costs alongside other development priorities.

Mitigation finance aside, a simple extrapolation of future adaptation finance needs against potential future ODA levels paints a concerning picture. UNEP estimates that by 2030 the costs of adaptation could range from \$140bn to \$300bn.<sup>39</sup> While developed countries are not expected to foot the whole bill, agreements under the UNFCCC oblige them to contribute a significant share.

- An optimistic scenario, in which all countries meet their commitments to dedicating 0.7 percent of GNI to ODA, could see ODA levels reach around \$420bn by 2030.<sup>40</sup> This scenario could see adaptation costs alone (\$140–300bn) needing a huge portion of aid if developed countries are to pay a significant share (see Figure 9).
- A pessimistic scenario in which ODA levels are equivalent to current levels (0.3 percent GNI) would be in the region of around \$180bn.<sup>41</sup> This scenario could see the entire ODA budget unable to contribute enough to adaptation needs, let alone other development priorities (see Figure 9).

Figure 8: Climate finance as a proportion of ODA in 2010–12 and 2013–14

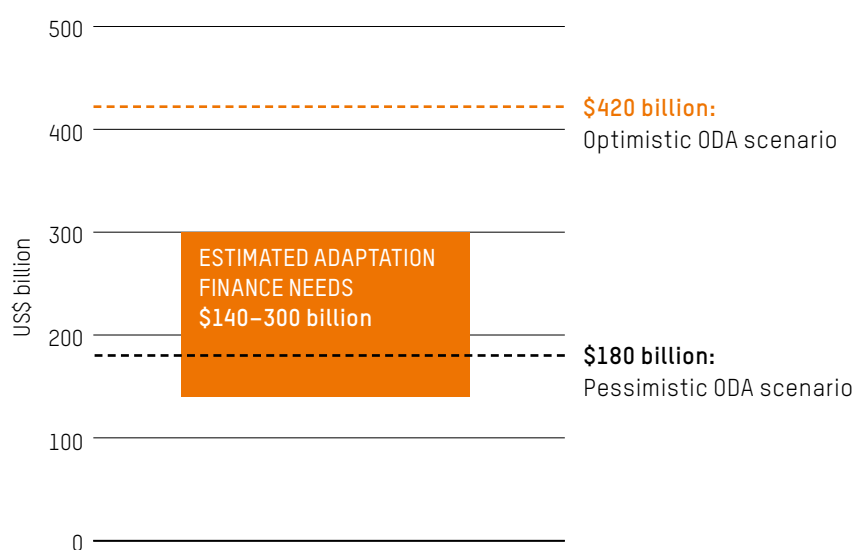


Source: OECD (2016)

For the world's poorest countries, which simply cannot afford the costs of adaptation or drastic cuts to other areas of life-saving aid, this is a bleak predicament. Both scenarios demonstrate the imperative of progressing new sources of climate finance outside of traditional ODA budgets.

New innovative sources of climate finance, such as a financial transaction tax and carbon pricing of shipping and aviation, are crucial to help address the large and growing gap between existing levels of finance and growing needs, and to curb the displacement of aid for health, education and other essential development priorities. These finance sources exist and are technically feasible but the political will to implement them is currently lacking.

**Figure 9: Potential future scenarios – Climate finance as a proportion of ODA in 2030**



Source: OECD (2016) and UNEP (2016)

## RECOMMENDATIONS

In principle, Oxfam sees climate finance to meet UNFCCC obligations as additional to ODA commitments. That means that funds reported towards meeting UNFCCC obligations should not be reported towards meeting the 0.7 commitment.

- As a first step, developed countries should commit to ensure that future increases of climate finance that qualifies as ODA is part of a rising overall aid budget, and one that is rising at least at the same rate as climate finance.
- All countries need to support urgent action to get the most promising national and international new sources of climate finance off the ground, including revisions to the EU Emissions Trading Scheme. New sources are critical to address the large and growing gap between existing levels of adaptation finance and growing needs. Sources include a Financial Transaction Tax, carbon pricing for international aviation and maritime, and domestic or regional carbon pricing/carbon markets, including allocation of EU-ETS auction revenues to climate finance.

## ACCOUNTING FOR PRIVATE FINANCE REMAINS A BLIND SPOT: WHILE CONTRIBUTING COUNTRIES ARE PUTTING INCREASING EMPHASIS ON THE IMPORTANCE OF MOBILIZING PRIVATE FINANCE AS PART OF THEIR CLIMATE FINANCE CONTRIBUTIONS, THERE REMAINS LITTLE CONSENSUS ABOUT WHAT SHOULD BE COUNTED OR HOW.

While the first eight sections of this report focus on analysing public climate finance, this last section takes stock of some of the main accounting and other challenges related to private climate finance.

In recent years, increasing attention has been given to private climate finance for various reasons: public finance is limited (aid and domestic budgets are constantly under threat); the private sector also needs to tackle climate change (cutting the emissions and building resilience of their supply chains); and the financial sector has a crucial role to play in 'shifting the trillions' towards a sustainable and low-carbon future. In the context of the Paris Agreement, all parties agreed to work to make *all financial flows consistent with a pathway towards low greenhouse gas emission and climate-resilient development*.<sup>42</sup> This is a crucial goal that should ensure the necessary divestment from fossil fuels for both public entities and private investors.

As many donors look to the private sector to fill funding gaps, the \$100bn roadmap makes it clear that mobilized private finance is expected to rise significantly. By 2020 developed countries project \$67bn of the \$100bn will be public and the rest mobilized private finance – almost a third. Yet, mobilized private finance is currently an accounting blind spot that needs to be addressed.

Only four countries – Canada, Finland, France and Japan – included in their Second Biennial Reports information about the amount of private finance mobilized in developing countries. However, those figures cover different time periods and use different methodologies, which makes adding them up a difficult task (See Table 5). Other contributors have included estimates of their private finance mobilized but without making this information publicly available yet. Furthermore, it is not currently possible to verify what has been reported, because detailed, project-level breakdowns have not been provided. Here too, developed and developing countries need to agree on reasonable accounting criteria and donors should be prudent in estimating their contribution to private funds

**Table 5: Information on private finance mobilized reported in Second Biennial Reports**

Country	Reported information on private finance mobilized in developing countries
Canada	\$1.44bn mobilized over 2010–11 to 2012–13
Finland	\$0.5–1.8bn initial estimate made in 2013
France	\$791m in 2013 \$904m in 2014 (methodology included in their report annex)
Japan	\$3.6bn total for both years 2013 and 2014

Source: Second Biennial Reports (2016)

mobilization. Credit should be given to the favourable effect that domestic policy and regulatory frameworks established – or preexisting – in recipient countries have in mobilizing investments.

Beyond accounting and reporting issues, other critical issues related to private finance need to be watched:

First, using public finance to mobilize private investment risks reducing the amount of public finance available to directly support the poorest and most vulnerable people where public investments are often best suited to respond to their adaptation needs. Private finance tends to favour emerging markets and middle-income countries, as well as mitigation (as shown in the OECD-CPI 2015 report, 90 percent of private finance targets mitigation activities).<sup>43</sup> Private finance struggles to meet the essential adaptation needs of the most vulnerable people in developing countries. More public finance must be directed to address adaptation needs, particularly in LDCs.

Second, the trend of aid funds being *blended* with private finance flows (called ‘private finance blending’) raises some concerns and lack of transparency regarding where money is being spent makes it very difficult to assess actual development and climate outcomes of blended investments.

Finally, while we believe national governments can facilitate the mobilization of private finance to encourage low-emission and climate-resilient development – and that the private sector is a key actor to support the transition we need – it is crucial that government decisions be consistent and coherent and respond to the Paris Agreement. The use of public funds to mobilize green investments needs to come along with the removal of public subsidies to brown investments that counter the transition.

## RECOMMENDATIONS

Parties to the UNFCCC need to agree on a consistent approach to accounting for and reporting private finance, with a conservative approach adopted and no flat leverage ratios applied to estimate mobilized private finance. Focusing on direct private co-finance, as OECD and CPI did in 2015 in their report *Climate Finance in 2013–14 and the USD 100 Billion Goal*, could be considered a conservative approach, although even this leaves open difficult questions about attribution, where recipient countries’ policy environments undoubtedly play a role in the process of mobilizing private finance.

Governments need to get serious about how best to deploy public finance in tandem with private investment to deliver the transformational change that we need. We need to look at more than just project outputs, but also contributions to systemic change and lasting impact.

All private financial flows counted against UNFCCC obligations need to be consistent with a low-emissions, climate-resilient pathway and subject to development effectiveness principles, particularly on transparency and accountability.

# RECOMMENDATIONS FOR COP22 AND BEYOND

At COP22 in Marrakech Oxfam calls on governments to:

## INCREASE 2020 FINANCE COMMITMENTS

- All developed countries that have not already done so should set out what their level of total climate finance will be in 2020.
- All developed countries that have not already done so should set out what their level of adaptation finance will be in 2020.

## INCREASE ADAPTATION FINANCE

- All parties should agree a global adaptation finance goal. In line with the Paris Agreement commitment to 'significantly increase adaptation finance from current levels'<sup>44</sup> and the commitment to 'balance' in the provision of finance between adaptation and mitigation,<sup>45</sup> this goal should include a commitment to \$35bn in public finance for adaptation by 2020 as the minimum political signal needed to start to address the current adaptation finance gap.
- All developed countries should commit to ensuring that their adaptation finance reaches at least 50 percent of their overall public finance contribution by 2020.

## INCREASE FUNDING TO LEAST DEVELOPED COUNTRIES

- All contributing countries should commit to a minimum floor of 25 percent of their public climate finance being dedicated to LDCs, in line with guidelines for aid.
- All developed countries should increase their contributions to the Least Developed Country Fund so it can complete its mandate by 2020 at the latest.

## INCREASE GRANT-BASED SUPPORT

- All contributing countries should work to increase the overall share and amount of grant-based assistance provided by 2020.
- Grant instruments should be prioritized for adaptation, and for the poorest and most vulnerable countries.

## IMPROVE THE QUALITY AND ACCOUNTABILITY OF CLIMATE FINANCE

Make progress in agreeing rules and accounting guidelines under the UNFCCC that ensure:

- Contributing countries only report grants or the grant-equivalent of instruments towards their UNFCCC obligations – and non-concessional instruments are not counted; information in country reports on concessional and non-concessional instruments, including at their face value, is distinguished from that which is being counted towards fulfilling climate finance commitments.
- Countries better reflect the climate relevance of provided finance by agreeing to project-by-project assessment and reporting to determine the value of a project's climate component.
- A consistent approach to accounting for and reporting private finance mobilized, with a conservative approach adopted and no flat leverage ratios applied to estimate mobilized private finance.

## LIMIT DISPLACEMENT OF ODA FOR OTHER DEVELOPMENT PRIORITIES AND PROGRESS NEW SOURCES

- Developed countries should commit to ensure that future increases of climate finance that qualify as ODA are part of a rising overall aid budget, and one that is rising at least at the same rate as climate finance.
- All countries need to support urgent action to get the most promising national and international new sources of climate finance off the ground, including revisions to the EU Emissions Trading Scheme.

# REFERENCES

Second Biennial Reports (2016) submitted to the UNFCCC covering the period 2013–14 can be found here: [http://unfccc.int/national\\_reports/biennial\\_reports\\_and\\_iar/submitted\\_biennial\\_reports/items/7550.php](http://unfccc.int/national_reports/biennial_reports_and_iar/submitted_biennial_reports/items/7550.php)

OECD (2015) *Climate Finance in 2013–14 and the USD 100 billion goal*, OECD, Paris 2015 <http://www.oecd.org/env/cc/Climate-Finance-in-2013-14-and-the-USD-billion-goal.pdf>

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## NOTES

- 1 OCHA (2016) *El Niño: Overview of Impact, Projected Humanitarian Needs and Response*. 16 August 2016. Available at: <http://reliefweb.int/report/world/el-ni-o-overview-impact-projected-humanitarian-needs-and-response-16-august-2016>
- 2 More than 90 percent of developing countries' Intended Nationally Determined Contributions (INDCs) identified the agriculture sector as a priority for adaptation. See *State of Food And Agriculture 2016: Climate change, agriculture and food security* (2016) Food and Agriculture Organisation.
- 3 Oxfam's analysis mostly focuses on donor countries and not MDBs and IFIs.
- 4 Contributing countries in Annex 2 produce biennial reports on their climate finance. See Second Biennial Reports (2016).
- 5 OECD (2016).
- 6 Roadmap to US\$100 Billion (2016) OECD (2016a).
- 7 Least Developed Countries are 48 countries that are particularly vulnerable to climate change and have the least capacity to recover from climate stresses. LDCs are small island states and countries located in Asia and Africa that face severe impacts on hunger, poverty, economic growth, health and other areas due to climate change. For further analysis see *Impact of climate change on Least Developed Countries: are the SDGs possible?* (2015) IIED.
- 8 UNFCCC Paris Agreement Article 9.4. Available at: [http://unfccc.int/files/essential\\_background/convention/application/pdf/english\\_paris\\_agreement.pdf](http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf)
- 9 See endnote 16 for explanation of Oxfam's 20 percent estimate.
- 10 Oxfam (2016) Paris agreement to face credibility test after being ratified by 72 countries. 5 October 2016. Available at: <https://www.oxfam.org/en/pressroom/reactions/paris-agreement-face-credibility-test-after-being-ratified-72-countries>
- 11 Countries' biennial reports do not provide the data required to formulate the estimates covered in this section. Therefore, our figures are based on the OECD (2016).
- 12 For those funds where the instrument was not specified we further assumed that half of those funds were of concessional and the other half of non-concessional nature. Our estimate is only a rough approximation, given uncertainties and insufficient data provided by some countries and MDBs. There is no data available to assess the average grant element of concessional instruments (other than grants) in climate finance, hence our large range. We have used 25 percent for our low estimate since this is the minimum concessional to qualify as ODA. For the high end we assumed that on average the grant equivalent would not have been higher than 67 percent, which corresponds to loans with a 10 year grace period, 40 maturity, 0 percent interest and 5 percent discount rate (<http://ida.worldbank.org/financing/grant-element-calculator>). This is probably over-optimistic, as for instance the Green Climate Fund uses a discount rate of 2.65 percent, which would reduce the grant equivalent (to 45 percent using the parameters given).
- 13 Such as the cost involved in building a school and making it flood resistant – only the additional cost of making the school flood resistant should count as adaptation finance, not the full cost of building the school.
- 14 Rio Marker set at 1.
- 15 See endnote 22.
- 16 For the estimate on adaptation-specific assistance for projects marked both as adaptation and mitigation (e.g. both Rio Markers set at 1 or both Rio Markers set at 2), we applied a 50:50 split.
- 17 The roadmap does not spell out the dollar amounts behind this projection. Since we know it refers to public finance and is based on last year's OECD (2015) report on climate finance 2013–2014, we can estimate these figures to amount to roughly \$10bn (2013–2014 annual average), doubling to \$20bn a year by 2020 – counting finance specifically reported as adaptation finance and assuming that half of finance listed in the OECD report as 'cross-cutting' would have addressed adaptation.

- 18 Information on climate-significant finance is not available in the Biennial Reports (2016); therefore we used OECD (2016) to assess this data. Donor/contributor policies on counting climate-significant (Rio Marker 1) projects toward their UNFCCC commitments vary significantly. When donors report to the OECD DAC on development assistance, they use the so-called Rio Markers to code projects according to their relevance in supporting the implementation of the Rio Conventions. Two Rio Markers exist for climate change, one for adaptation and one for mitigation. A Rio Marker can have a value of 0, 1 or 2, with 0 meaning climate (adaptation or mitigation) is not an objective of the project, 1 meaning climate (adaptation or mitigation) is a significant objective (which essentially means one of several objectives). Setting a Rio Marker at 2 indicates climate (mitigation or adaptation) is a principal (or main) objective of the project.
- 19 Own calculations, based on OECD 2016 database excluding non-annex I countries.
- 20 Rio Marker set at 1.
- 21 For example, in Nepal earthquake preparedness projects were counted towards climate change adaptation. See *Finding the Money*, Baral and Chhetri, 2014. Available at: [https://policy-practice.oxfamamerica.org/static/media/files/Nepal\\_AFAI\\_Stocktaking\\_Report\\_Final.pdf](https://policy-practice.oxfamamerica.org/static/media/files/Nepal_AFAI_Stocktaking_Report_Final.pdf)
- 22 For example, analysis by the Adaptation Finance Accountability Initiative (AFAI), which Oxfam is part of, has carried out numerous studies at a national level which show that many projects are incorrectly labelled as climate finance. For example, one study tracking \$500m of adaptation finance in Nepal over the period 2009–2012, found that a substantial share (44 percent) of funding initially marked as adaptation-related by donors was found to be not relevant to climate change. Most of the projects were regular development projects in education and health sectors, earthquake preparedness, and infrastructure such as road and bridge construction projects, with no evidence to suggest that climate change considerations had been integrated into their design and implementation. See Terpstra et al (2013) *The Plumbing of Adaptation Finance: Accountability, Transparency and Accessibility at the Local Level*. Available at: [www.wri.org/publication/the-plumbing-of-adaptation-finance](http://www.wri.org/publication/the-plumbing-of-adaptation-finance)
- 23 For more on this issue see Carty T. (2013) *Adaptation and the \$100 billion Commitment: Why private investment cannot replace public finance in critical climate adaptation*, Oxfam publication.
- 24 Calculated from Second Biennial Reports (2016).
- 25 Calculated from Second Biennial Reports (2016).
- 26 Comparison with compiled data from countries' first Biennial Reports as set out in the UNFCCC Biennial Assessment (2014) pp 42–3. Available at: [https://unfccc.int/files/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/application/pdf/2014\\_biennial\\_assessment\\_and\\_overview\\_of\\_climate\\_finance\\_flows\\_report\\_web.pdf](https://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_biennial_assessment_and_overview_of_climate_finance_flows_report_web.pdf)
- 27 This calculation is based on bilateral and multilateral flows as set out in Biennial Reports (2016) and does not include core contributions to MDBs spent on adaptation. The EU increasing its share of adaptation finance to 35 percent would result in an additional \$1bn; France \$0.7bn; Japan \$1.7bn; and the US \$0.5bn. This totals around \$4bn. Adaptation finance from Annex 2 countries was on average around \$4bn each year in 2013–14.
- 28 Own calculations based on Second Biennial Reports (2016). Rounded to nearest decimal place. Bilateral and multilateral does not include MDBs because broken down data for adaptation, mitigation and cross-cutting is not provided.
- 29 UNFCCC Paris Agreement Article 9.4 Op. Cit.
- 30 See Annex 1 of the Roadmap to US\$100 Billion (2016) for a full list of adaptation finance commitments.
- 31 Paragraph 114 of 1/CP.21.
- 32 UNFCCC Paris Agreement Article 9.4 Op. cit.
- 33 \$8.7bn out of \$47.5bn (bilateral and multilateral) of climate-related development assistance reported to OECD went to LDCs on average in 2013–14. The OECD data set does not directly match with climate finance reported to the UNFCCC. The OECD data set includes 2 non-Annex I countries, Korea and United Arab Emirates, and it includes some funding that parties do not count towards their UNFCCC commitments. OECD (2016).
- 34 At the 2001 UN Conference for the Least Developed Countries in Brussels, donors affiliated with the OECD's Development Assistance Committee (DAC) committed to dedicating 0.15 to 0.20 percent of gross national product as development assistance for LDCs.
- 35 Article 9.4, Paris Agreement Op. Cit.
- 36 Second Biennial Reports (2016).
- 37 OECD (2016a).
- 38 See OECD DAC flyer on climate related aid in 2010–12. Available at: <http://www.oecd.org/dac/environment-development/Climate-related%20aid%20Flyer%20-%20March%202014%20v3%20final.pdf>
- 39 UNEP (2016).
- 40 This figure is based on OECD long-term GDP forecast, which suggests OECD GDP (different to GNI, but not substantially so) is predicted to be \$59.6 trillion in 2030 – 0.7 percent of this is \$417bn. See <https://data.oecd.org/gdp/gdp-long-term-forecast.htm>
- 41 This figure is based on today's ODA ratio of 0.3 percent of GNI, applied to OECD long-term GDP forecast of \$59.6 trillion in 2030, which amounts to \$178bn. <https://data.oecd.org/gdp/gdp-long-term-forecast.htm>
- 42 Article 2.1c, Paris Agreement Op. cit.
- 43 OECD (2015).
- 44 Paragraph 114 of 1/CP.21.
- 45 UNFCCC Paris Agreement Article 9.4 Op. cit.

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