# Concept note: Climate finance received by developing countries – is it transparent, impactful and aligned to national priorities?

**29th April 2022**

We propose to make an important contribution by working with climate vulnerable, low income countries to help track the climate finance they are receiving. We will develop approaches to track international finance disbursed to these countries which will help to illuminate how much is being given, what it is being given for, and its effects. We will also assess how the funding aligns with these countries’ own climate finance needs analyses and identify where there is duplication and funding gaps. This will contribute to greater agency for poor countries receiving climate finance and a clearer understanding of what is being provided. This work will identify issues with current reporting approaches and datasets and advocate for improvements in transparency of climate finance, as well as providing a methodology for future similar analyses.

**Problem statement**

Climate change threatens to cause major disruption to the environment and societies across the globe. The impacts of the changing climate will be heavily differentiated based on geography and the resources countries have to adapt to its effects in good time. This creates a triple-bind for some countries that are:

* Located in tropical or coastal regions or are particularly natural resource dependent and so are vulnerable to the effects of the changing climate;
* Low-income countries that do not have the resources to adapt and respond to these threats;
* The countries that have historically contributed the least to the greenhouse gas emissions that are causing the crisis.

There is a moral obligation on rich, polluting countries to provide effective financial support to help these countries, and this has formed a key part of the UN climate change negotiations. Rich countries pledged to provide $100bn of climate finance per year to help poorer countries mitigate and adapt to the effects of climate change.

This pledge has led to a series of challenges that are central to the global response to the climate crisis:

* Have rich countries delivered on their promise, and how can we reliably measure and track this?
* Is the finance allocated fairly, and is it effective at meeting the needs of poorer, climate vulnerable countries?
* Can the countries that are parties to the global efforts to respond to the climate crisis work together to meet the challenges and avert the worst potential scenarios?

Key to answering these questions is the transparency of climate finance. Good climate finance data will allow us to track progress towards the $100bn goal (soon to be replaced by a new, more ambitious target, effective from 2025), to see how funding is being allocated and judge whether it is being done so fairly and effectively. This will contribute to building trust between rich and poor countries – a vital ingredient in the climate negotiations.

Our initial research suggests that current transparency practices are characterised by a lack of standardisation, unclear definitions and multiple, fragmented information sources. This muddies the picture of who contributes and receives climate finance, how much is given and what it does.

**Summary of proposed action**

We will track climate finance at the country level to help build understanding of and trust in the climate finance system and to increase recipient countries’ agency over how climate finance is prioritised and spent to meet their needs.

Publish What You Fund proposes to work with three climate vulnerable developing countries[[1]](#footnote-1) to build comprehensive country datasets of international climate finance received. We will do this using our expertise in aid transparency analysis and data, and experience building development funding datasets in ongoing projects.

These datasets would go significantly beyond what is currently available and used by developing countries to track finance received. By using multiple data sources including the OECD DAC CRS, IATI and custom databases, as well as aid donors’ own data portals, we will be able to build significantly more comprehensive, current and inclusive national climate finance datasets. By using IATI data we will be able to track financial activities that are updated on a quarterly, monthly or even daily basis, including some forward looking budget data. Our data from official bilateral and multilateral sources will be more complete and will provide a more detailed, high-resolution picture of the international finance projects being delivered. As well as bilateral and multilateral funding data, we will also include NGO and foundation funding, providing a more comprehensive overview. We will also look to include detailed data from development finance institutions that are currently under-represented in the official data.

We will then work with a range of stakeholders so our developing country climate finance datasets can be used in the following ways:

* Compare the funding landscape with national climate change mitigation and adaptation plans to identify funding gaps and needs as identified and prioritised by the developing country itself. We will also combine the datasets with national budget spending data to provide a more complete picture.
* Engage climate finance donors so they can use the datasets to coordinate with other donors, identify needs and funding gaps and avoid over-spending and duplication of funds channelled to already over-served areas.
* Engage with civil society so they can use the data to access funds and advocate for local priorities and climate finance needs.
* Provide data about funding modalities and results, and compile evaluations of climate finance projects and programmes. This will provide the basis for some analysis of outputs and efficiency of climate finance in terms of, for example, cost of mitigation.
* Support international reporting by the recipient country under the UNFCCC - particularly supporting the preparation of official Biennial Update Reports (BURs).
* Disseminate our findings to government and civil society stakeholders to help build trust in the climate finance system and between developed and developing countries.
* The exercise of constructing these databases will also surface important global transparency advocacy recommendations for improvements in data and information transparency.

The approach and learnings will be replicable in other climate vulnerable developing countries and will provide a demonstration effect of the possibilities and benefits of a comprehensive, granular approach to reporting on climate finance.

**The global context**

At the 2010 United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP), held in Cancun, the international community pledged to mobilise $100bn per year in climate finance by the year 2020.[[2]](#footnote-2) This money would be provided by developed countries (as defined under the Convention[[3]](#footnote-3)) to support developing countries in their response to the causes and effects of climate change. The details of this commitment have been further fleshed out at subsequent COPs and included in the 2015 Paris Agreement.[[4]](#footnote-4) Eligible climate finance can be provided through bilateral and multilateral channels, and financial instruments can include grants, concessional and non-concessional loans as well as equity, guarantees, insurance and other innovative modalities mobilised through public interventions.

Both the UNFCCC Standing Committee on Finance and OECD DAC track progress against the $100bn goal. Donor countries report their climate finance contributions to the UNFCCC in Biennial Reports and in their aid and development data recorded in the OECD DAC Creditor Reporting System (CRS), using the Rio Policy Markers. The most recent report published by the OECD estimated $78.9bn of international climate finance flows in 2018. Oxfam produces a shadow climate finance report each year that estimates a “climate specific net assistance” amount.[[5]](#footnote-5) The Oxfam estimate of the amount of received by developing countries was significantly lower than the OECD figure, at between $19-22.5bn in 2017-18.

Going beyond the headline figures, a more important question than whether the $100bn has been met is how the finance has been given and what it is for. Among the key issues are:

* Quality and effectiveness issues: are the funded programmes and projects appropriate, needs-based and sustainable/locally owned? What are the project results? Do they incorporate learning into project design and share learnings with others working in the same area? What about value for money and outcomes in terms of reduction of greenhouse gas emissions and/or vulnerability to climate change?
* Is the finance used for mitigation or adaptation? The international climate agreements suggest that half of finance should be used to fund adaptation initiatives and half should be for climate change mitigation. In practice around 70% is spent on mitigation, often as loans for large infrastructure projects.
* How much finance is channelled to those countries most vulnerable to the effects of climate change? Particularly Least Developed Countries (LDCs) and Small Island Developing States (SIDS) that are the most vulnerable to climate change impacts.
* Is reported climate finance new and additional to existing aid commitments, or does it displace or repurpose other development finance? There is no internationally agreed definition of climate finance that identifies where the line is drawn between development finance and climate finance.

An additional issue when assessing progress towards the $100bn target is whether finance is given as grants or loans, particularly with respect to already indebted poor countries. Recent increases in overall levels of finance have largely been attributable to increased lending rather than grants. There are also questions about how loans are accounted for – the current approach used by the OECD is to count the face value of loans, but this is controversial given that loans will be repaid, and aid volumes are measured using alternative approaches (such as the grant equivalent approach used by the OECD to report development finance).[[6]](#footnote-6) Finally, under the current reporting regime private finance mobilised by public investment can be counted as climate finance. Mobilised private finance is opaque, some countries do not make estimates, others do but there is no standardised approach to measuring and reporting it.

**Reporting and Transparency – of funding and of support received**

Transparency of climate finance is a crucial underpinning to answer pressing questions about financial flows and quality of climate finance spending. There are a number of reporting processes used to record climate finance provided or committed including:

* Biennial Reports to the UNFCCC (scheduled to become Biennial Transparency Reports in 2024)
* OECD DAC climate-related development finance database
* Reporting by the GCF, GEF, Adaptation Fund and multilateral development banks
* International Development Finance Club green finance mapping
* TOSSD
* The International Aid Transparency Initiative (IATI) Standard

The transparency regime of the UN climate system has developed over the last decade. Arrangements under the convention for measurement, reporting and verification (MRV) of climate finance have been strengthened by the new enhanced transparency framework (ETF) of action and support, introduced under the Paris agreement. The ETF is the framework to monitor member states’ progress against their nationally determined contributions (NDCs), including finance given by developed countries and finance needed and received by developing countries, as well as delivery on commitments to reduce greenhouse gas emissions.

However, significant challenges still remain, as can be seen in the wildly different estimates for total climate finance made by the OECD and Oxfam, referenced above. The Rio Markers were not designed to track progress against climate finance targets, and there are a number of challenges to using them in this way.[[7]](#footnote-7) Among these are the lack of precision in marking projects as having a “principal” or “significant” focus on climate change objectives and lack of guidance or detail on what proportion of a project marked as “significant” should count towards climate finance mobilisation targets. Studies of the OECD data have also raised issues of data quality and overestimation of adaptation financing, which have been attributed to human error, broad definitions, political incentives to miscategorise, and a lack of clarity about what activities qualify as adaptation.[[8]](#footnote-8)

The lack of participation of developing countries in the OECD DAC, which decides the approach and definitions of climate finance for the Rio Markers is also problematic and this has led to distrust between developed and developing countries. For example, a major report on climate finance commissioned by the OECD and Climate Policy Initiative for the 2015 COP was rejected by the G77+China on the basis that developing countries were not consulted on its methodology.

As well as reporting by developed countries on climate finance provided, the UNFCCC system includes financial reporting by developing countries. The main mechanism for doing this is through Biennial Update Reports (BURs) that include a section for identified needs and international climate finance received. They also include country context information, Greenhouse Gas Inventories and details of countries’ own efforts to mitigate and adapt to the effects of climate change.

So far uptake of reporting on finance needed and received has been slow. Developing countries were supposed to begin submitting their BURs in 2014 and to then do so every two years. As of early 2021, just 55 countries had submitted at least one BUR (out of 156 non-Annex 1 parties to the UNFCCC), and only nine have submitted all three BURs due so far. Least Developed Countries (LDCs) and Small Island Developing States (SIDS) - the countries most vulnerable to the impacts of climate change - have particularly low rates of reporting compliance, with just nine (out of 79) having submitted a BUR so far.

Of the 46 BURs submitted by developing countries in 2019-20, 41 provided at least some quantitative information on climate finance received at the project level in tabular formats. The reporting tends to be quite limited and in many cases information is incomplete. It is also mostly historical information covering finance received several years prior to the submission of the report.

**Using transparency to put developing countries in the driving seat of climate finance**

More transparency and better use of data can help improve the quality and effectiveness of climate finance. Developing countries have several mechanisms for identifying needs and outlining strategies for climate mitigation and adaptation actions. Among the national climate financing frameworks and monitoring systems used by developing countries are:

* Identified needs sections of Biennial Update Reports
* National climate change strategies
* Climate Public Expenditures and Institutional Reviews (CPEIRs)
* NDCs that include action plans
* Climate Change Financing (or Fiscal) Frameworks
* Other budget or national development plans that integrate climate change mitigation and adaptation
* National systems for tracking international climate finance and reporting finance received (such as Aid Information Management Systems - AIMS)
* The UNFCCC Standing Committee on Finance produces quadrennial reports on the finance needed by developing countries to implement their commitments from the convention and the Paris Agreement. The first of those reports was published at the end of 2021.[[9]](#footnote-9)

Greater transparency and more effective monitoring and tracking of support received can help direct finance to align with national plans and needs assessments, identify priorities and gaps, avoid duplication and coordinate between different donors and actors in the international climate finance system. This has the benefits of increasing national ownership and coordinating national and international spending together. Where international donors include forward looking budget data this can be particularly useful for planning processes. Depending on the government and approach to drawing up a national plan, other benefits can include identification of priorities in a more bottom-up way, and incorporating the needs and rights of communities in the plan.

**Country analysis and datasets**

Publish What You Fund can play an important role in furthering these aims by using our expertise to build country climate finance databases. These could then be used to support coordination, decision making and evaluation of climate finance, and could also feed in to official monitoring and tracking processes including BURs and other country reporting on support received.

In order to provide a more comprehensive picture of climate financing in our case study countries we will include national budget analysis in our country case studies – this will be an important piece of the overall landscape and will help to illustrate how government and international flows interact and can be coordinated together.

To build these datasets, we will adapt approaches we are currently using for our multi-country project to track development finance in support of women’s economic empowerment. For this project we are building custom datasets to track development finance for six focus countries. These include historical data from the OECD and both historical and current data published in the IATI Standard, as well as data from other sector-specific development finance databases. We have then used a combination of standard markers, sector codes and word searches on project titles and descriptions to identify projects that contribute to women’s economic empowerment and build country financing landscapes, outlining spending areas and funding gaps. To build climate finance datasets we will add climate finance-specific data sources and include analysis of forward looking budgets and performance/results data.

*Key challenges include:*

**National climate finance definitions:** there is no international agreement on what constitutes climate finance and approaches to reporting can vary widely. Beyond the environmental sector climate change adaptation can involve building resilience of communities that are vulnerable to the effects of climate change. This means there can be significant overlap with traditional development finance. Countries are able develop their own definitions of climate finance to incorporate in their reporting and planning/ needs analyses. The UNFCCC Standing Committee on Finance also has an operational definition which we could use in cases where no national definition exists.

**Identifying reliable and comprehensive data sources:** there are a number of different data sources for climate finance, including existing reporting to UNFCCC (through Biennial Reports), OECD DAC CRS data, data published in the International Aid Transparency Initiative (IATI) Standard, national AIMS and climate finance tracking systems, donor websites and portals and other custom databases, such as the ODI Climate Funds Update.[[10]](#footnote-10) We will use our expertise in this area to identify reliable sources of data and build datasets that are as comprehensive and granular as possible.

**Applying climate finance definitions to identify climate change activities in the data:** we have developed innovative methods to identify projects using a combination of official policy markers, filtering of data using sector codes and aid flow types, automated word searches of titles and descriptions and manual review of identified data. We will develop an approach using a combination of these tools to identify climate finance activities and spending.

**Incorporate the analysis into national reporting processes and systems:** we will develop strategic approaches to engaging with governments in the case study countries to identify reporting needs and adapt our work to meet these needs. Identifying countries that would be open to this kind of support will be one of the criteria for selecting case study countries.

**Global advocacy asks**

As we work with the global datasets to build our country level analysis we will also identify improvements that can be made to global reporting approaches. We will develop a set of recommendations and guidance on global reporting and use our influence with international donors to push for needed changes. These may include recommendations for improvements to international reporting standards, improvements in the way organisations report to those standards and calls for large players to begin reporting their data or improve existing data.

We will also look specifically at Development Finance Institutions’ (DFIs) climate finance, including their alignment with Paris Agreement commitments. Publish What You Fund has a large research and advocacy project focused on the transparency of DFIs and we will apply learnings from that project to our work on climate finance. Using available data we will make estimates of the net emissions contributions of DFI portfolios, calculated based on the total recorded emissions impacts of their investments in our case study countries and the recorded emissions mitigation impacts. This will provide a basis for assessment of progress towards net zero commitments made by these institutions.

Project level data disclosure varies significantly across DFIs so this analysis will likely only be possible for a few DFIs. Where data is not available we will use our analysis to make the case for its publication.

**Legacy/future use**

Once established, the funding databases can continue to be used by the focus countries for future monitoring and tracking of climate finance support received. We also hope there will be demonstration effects and lessons learned from our tracking exercises that can be adapted and taken up elsewhere. Our work will be open-source and we will share the data collection and analysis approaches we develop so they can be adapted and used elsewhere.

**Results analysis**

As well as producing the national funding landscape we will also review the results and evaluations available for the identified financing. Organisations publishing project and programme information in the IATI Standard are able to include publication of project results and evaluations. These can be current and are often updated on an annual basis. There is high variability in whether results and evaluations are published in the IATI data and whether these are up to date, however, producing a partial picture with the available data will still be a useful exercise and should allow for cost/benefit analysis of some projects. It will also strengthen the case for more and better publication of results and evaluations.

**Partners and collaboration**

We will set up country advisory groups in our focus countries to support the analysis and advocacy. These will be multi-stakeholder and we will look for participants from civil society, academia, government and independent experts.

**Country identification**

The following are some suggested criteria for identifying case study countries:

* Climate vulnerable countries (climate vulnerability index)
* Income level (LDC/LIC MIC, SIDS)
* How much needs identification has been done? – NCs, NAPs, CPEIR, CFF, BURs, NDC, national development plan – including climate finance
* Climate finance definition – has the country developed its own definition?
* Reporting on finance received – BURs, other reporting
* Does the country have AIMS system and/or system for tracking climate finance?
* Potential for collaboration with government – and commitment of the government to engage in the international climate finance system/develop reporting/plans
* Does the country government have a specialised climate change institution?
* Does the country have an active civil society?
* Universities – potential for collaboration with a university or specific academics? For example, does the country have a [Least Developed Countries Universities Consortium on Climate Change (LUCCC)](http://www.icccad.net/luccc/) member?
* National budget transparency and climate budged tagging – how transparent is the budget does the country use tagging to identify expenditure on climate action?
1. For example, three countries from: Bangladesh, Nepal, Cambodia, Malawi, Kenya, Costa Rica and Guatemala. [↑](#footnote-ref-1)
2. COP 16 – Decision 1/CP.16 [↑](#footnote-ref-2)
3. The UN Framework Convention on Climate Change lists member countries in annexes. Annex I lists the OECD members at the time the convention was adopted (1992), plus countries with economies in transition (EITs – consisting of ex-soviet states, Russia, central and eastern European states). Annex II lists the OECD countries but not the EIT states, and it is these that are required to provide financial resources to non-annex I (developing countries) to support their climate change mitigation and adaptation efforts. [↑](#footnote-ref-3)
4. Paris Agreement – Article 9 [↑](#footnote-ref-4)
5. Oxfam’s estimates use the grant equivalence of loans and a lower estimate for the amount of climate finance attributable to projects identified as being “partially” focused on climate change mitigation or adaptation. [↑](#footnote-ref-5)
6. See <https://www.oecd-ilibrary.org/development/the-grant-element-method-of-measuring-the-concessionality-of-loans-and-debt-relief_19e4b706-en;jsessionid=ae4l_HzqbzKFJosmsvw7wFN_.ip-10-240-5-76> – the grant equivalent approach has also come under criticism for overestimating the grant component of loans by using artificially high discount rates and risk rates in calculations. See: <https://www.publishwhatyoufund.org/wp-content/uploads/dlm_uploads/2022/03/Letter-to-DAC-Chair-25-March-2022.pdf> and <https://www.publishwhatyoufund.org/wp-content/uploads/dlm_uploads/2022/03/Giving-Credit-Where-Credits-Due-QA.pdf> [↑](#footnote-ref-6)
7. See, for example, <https://www.tandfonline.com/doi/pdf/10.1080/17565529.2017.1410087?needAccess=true> ; <https://unfccc.int/sites/default/files/resource/How%20to%20measure%20climate%20finance_UNFCCC_Oct2020.pdf> ; <https://unfccc.int/sites/default/files/resource/LDCs%20SCF%20submission%20Definition%20of%20Climate%20Finance.pdf> [↑](#footnote-ref-7)
8. <https://www.tandfonline.com/doi/pdf/10.1080/17565529.2017.1410087?needAccess=true> [↑](#footnote-ref-8)
9. <https://unfccc.int/topics/climate-finance/workstreams/needs-report> [↑](#footnote-ref-9)
10. <https://climatefundsupdate.org/> [↑](#footnote-ref-10)