CLIMATE FINANCE SHORT-CHANGED

Methodology note

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OXFAM

CALCULATING 'CLIMATE-SPECIFIC NET ASSISTANCE'

For our estimate of the net value of provided funds specifically aimed at climate action ('climate-specific net assistance'), we consider two key factors: the overestimation of the climate-relevance of funded projects or programmes, and the counting of loans and other non-grant instruments by their face value rather than as an estimate of the amount being given away in a loan or other instrument by a contributing country.

Our estimate is based on OECD Development Assistance Committee (DAC) data on bilateral finance and not the biennial reports submitted to the United Nations Framework Convention on Climate Change (UNFCCC). This is necessary since OECD DAC data provides information on the overall volume of funded projects, which is needed to discount for overly optimistic assumptions on climate-relevance by the reporting country. In contrast, the funded projects contained in the biennial reports have already been discounted for climate relevance by the reporting country – albeit too generously in many cases.

The OECD DAC data on bilateral, climate-related official development assistance (ODA) as well as funding via multilateral channels is compiled by the OECD,[1] both from a provider and recipient perspective. Our calculations are based on the latter. Climate-related finance reported to the OECD DAC does not exactly mirror climate finance reported to the UNFCCC, but it is close enough to use as a basis to estimate climate-specific net assistance.

ESTIMATING CLIMATE RELEVANCE

- In our low-end estimate, we assume the climate-relevance of Rio Marker 1 projects to be 30% of the total project volume.
- In our high-end estimate, we assume 50%. We consider this to be a defensible range based on the varying relevance of such projects to climate change, as well as the varying percentages that are applied to such projects by developed countries themselves to calculate climate relevance (see Table 1).
- For multilateral funds that provide Rio Marker codes in their reporting to the OECD, we apply the approach above. But for activities financed via multilateral development banks (MDBs), and multilateral climate funds that do not use the Rio Marker system but instead report on a case by case basis, we do not discount for climate-relevance because our critique does not apply.

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

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

Source: OECD (2022b). The table shows the percentages by listed contributors used to determine the amount of Rio Marker 1 and 2 climate adaptation and mitigation projects reported as climate finance. 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.

ESTIMATING NET VALUE OF REPORTED FUNDS

- Grants, equity and shares in collective investment vehicles are counted at 100%.
- Non-concessional instruments are counted at 0%. While some finance defined as 'non-concessional' may include some level of concessionality, for bilateral finance it is not generous enough to be ODA-eligible, and as such is not counted as assistance due to the burden that debt places on developing countries. The same principle is assumed for MDB finance defined as 'non-concessional', though the terms of these instruments are largely not publicly available.
- Bilateral concessional loans are counted by estimating their grant equivalent using an approach which seeks to address flaws in the OECD methodology for calculating the grant equivalent of loans, as set out in Section 3 of the main report. A more robust calculation of their 'net present value' is estimated using discount rates based on the long-term cost of funds to the donor at the time loan is disbursed, as well as adding a credit risk calculation to the discount rate. The credit margins added to the discount rates have been calculated from the OECD's minimum country risk premium benchmarks that apply to the provision of medium- and long-term export credits.[2] For some countries, data was not available to estimate the grant equivalent of climate-related ODA loans, and therefore we applied the average grant element (16.1% – see Table 2).

- For comparison, Table 2 contrasts the average grant equivalent by country using this approach with the grant equivalent of reported climate-relevant ODA loans for 2019–20 based on the OECD's methodology for calculating grant equivalence.[3]
- To calculate the grant equivalent of concessional MDB and other multilateral loans using the more robust approach adopted for bilateral concessional loans set out above requires further information that is not available at this juncture. Therefore, we used the annual aggregate grant element of bilateral loans based on the OECD methodology (55% for 2019 and 53% for 2020 – see Table 2) to estimate the grant equivalent of multilateral concessional loans.
- Concessional non-grant instruments other than loans were treated as if they were loans (apart from in the case of equity and shares in collective investment vehicles as stated above).

Oxfam's calculations of climate-relevance and grant equivalence have involved some aggregation of data. There will be some flaws in the methodology and some mistakes. However, we contend that our figures are a closer approximation of the financial effort developed countries are making towards meeting (or rather failing to meet) their climate finance commitments than those reported to the UNFCCC or published by the OECD. Even assuming a large margin of error, Oxfam's estimate of climate-specific net assistance is a closer approximation of how much developed countries are giving away, and how much developing countries are receiving, than reported climate finance numbers.

Table 2: Grant element calculations for climate-related concessional loans reported to the OECD, 2019–20

Country	Grant element using donor-reported figures based on OECD methodology	Grant element using more robust calculation of 'net present value'
Austria	34.9%	-3.4%
Belgium	79.4%	36.6%
Canada	96.8%	58.8%
France	42.7%	4.6%
Germany	31.8%	2.9%
Italy	39.8%	19.8%
Japan	69.7%	27.6%
Spain	34.9%	5.8%
Total	53.9%	16.1%

Note: Oxfam calculations using data from OECD (2022d). While Portugal and the United States do report concessional ODA loans, none were reported alongside Rio Marker allocations and therefore a grant element percentage for climate-related loans was not calculated.

Table 3: Estimated climate-specific net assistance (CSNA) of reported public finance in 2019 and 2020

Public climate finance channel	2019			2020			2019–2020 average		
	Reported climate finance	CSNA (OECD GE)	CSNA	Reported climate finance	CSNA (OECD GE)	CSNA	Reported climate finance	CSNA (OECD GE)	CSNA
Bilateral	28.7	13.7–17.2	11.1–14	31.4	17.7–22.3	12.4–15.8	30.1	15.7–19.7	11.7–14.9
MDB finance	30.5	5.4	5.4	33.2	7.1	7.1	31.9	6.2	6.2
Multilateral climate funds and other institutions	4.1	2.3–2.5	2.3–2.5	3.7	1.6–1.8	1.6–1.8	3.9	1.9–2.1	1.9–2.1
Total	**63.4**	**21.3–25**	**18.7–21.9**	**68.3**	**26.5–31.3**	**21.1–24.7**	**65.9**	**23.9–28.1**	**19.9–23.3**

Amounts in US$ billion per year. Source: Reported climate finance from OECD (2022c); CSNA estimates calculated by Oxfam based on OECD (2022d). CSNA (OECD GE) uses OECD methodology to calculate the grant equivalent (GE), while CSNA uses the more robust approach set out in this note.

Table 4: Estimated climate-specific net assistance (CSNA) of public adaptation finance, 2019 and 2020

Thematic area	2019			2020			2019–2020 average		
	Reported provided and mobilized climate Finance	CSNA (OECD GE)	CSNA	Reported provided and mobilized climate Finance	CSNA (OECD GE)	CSNA	Reported provided and mobilized climate Finance	CSNA (OECD GE)	CSNA
Adaptation	20.3	8.8–10.4	8.2–9.7	28.6	11.2–13.8	9.6–11.5	24.5	10.0–12.1	8.9–10.6
Mitigation	51.4	10.6–12.1	8.6–9.8	48.6	13–14.7	9.8–11.1	50.0	11.8–13.4	9.2–10.4
Cross-cutting	8.7	2.0–2.5	1.8-2.3	6.0	2.2–2.8	1.7-2.2	7.4	2.1–2.6	1.8–2.3
Total	80.4	21.3–25	18.7–21.9	83.2	26.5–31.3	21.1–24.7	81.8	23.9–28.1	19.9–23.3

Amounts in US$ billion per year. Source: Reported climate finance from OECD (2022c); CSNA estimates calculated by Oxfam based on OECD (2022d). CSNA (OECD GE) uses OECD methodology to calculate the grant equivalent (GE), while CSNA uses the more robust approach set out in this note. Note: 'Reported provided and mobilized climate finance' represents the total public climate finance provided and private finance mobilized by developed countries, as reported by the OECD (OECD, 2022a), while 'CSNA (OECD GE)' and 'CSNA' figures cover only public sources of climate finance.

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NOTES

1 See OECD (2022d).

2 Adding a risk margin assumes that contributing countries will not claim any future debt relief for these loans as climate finance. Estimates of the average grant element of climate-relevant bilateral ODA loans without the credit risk margin added available on request.

3 Donors started reporting grant-equivalent data on climate-related ODA loan disbursements to the OECD in 2018, and we have used these figures to calculate the grant equivalent of each country's loans and other non-grant instruments (see second column in Table 2).

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

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