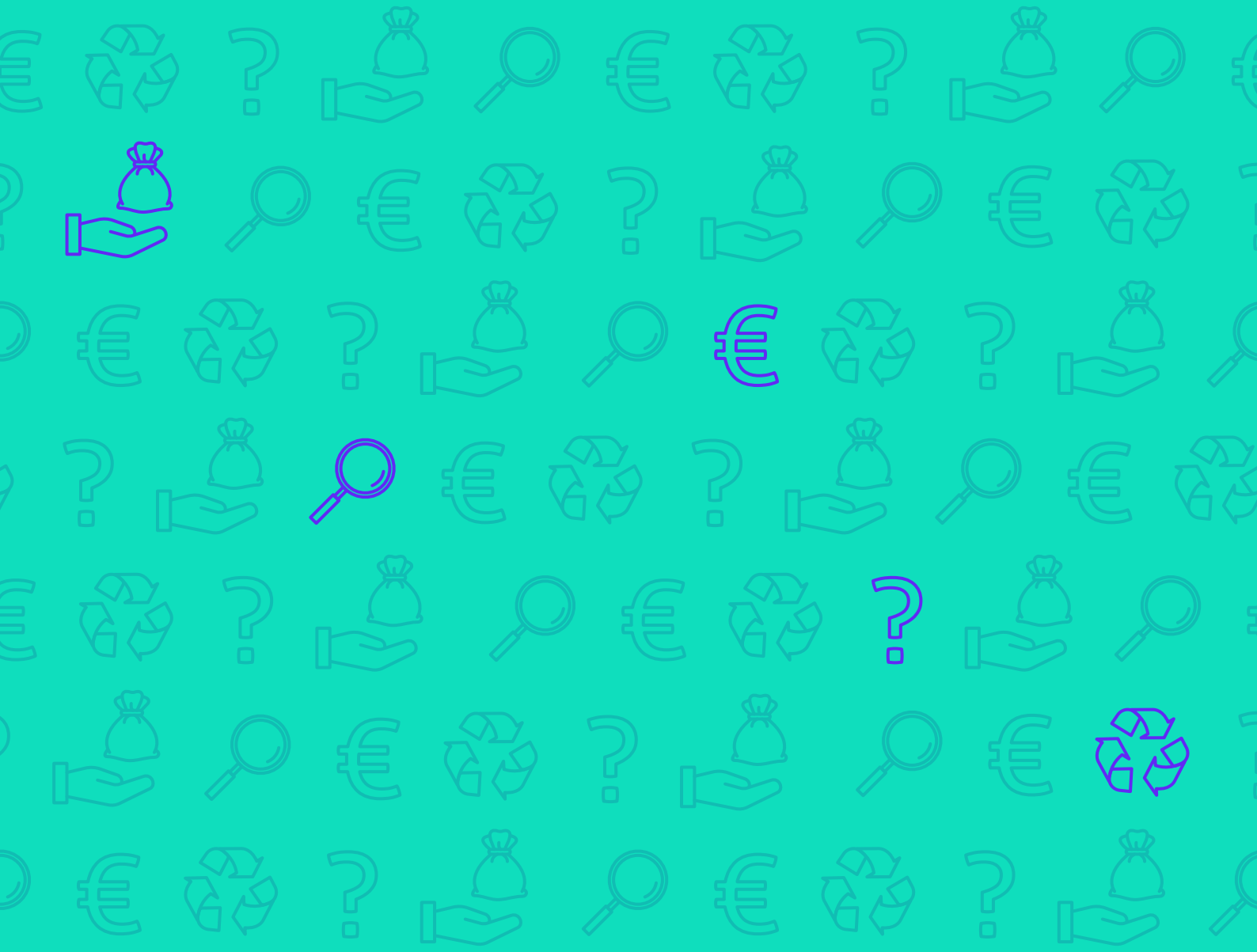

Assessing International Climate Finance by the EU and Member States: Key Insights for Shaping the New Climate Finance Goal

June 2024

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List of abbreviations

BRs	Biennial Reports
BTRs	Biennial Transparency Reports
CAN	Climate Action Network
CRS	Creditor Reporting System (OECD)
CTF	Common Tabular Format
DAC	Development Assistance Committee
EEA	European Environment Agency
EC	European Commission
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
GR	Governance Regulation
LDC	Least developed country
LMICs	Lower Middle-Income Countries
MDBs	Multilateral development bank
MFF	Multiannual Financial Framework
MMR	Monitoring Mechanism Regulation
NCQG	New Collective Quantified Goal
ODA	Official Development Assistance
OOF	Other Official Flows
SIDs	Small Island Developing States
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change

Summary

This report tracks the evolution of the European Union's (EU) contribution to international climate finance. The study analyses recent data of climate finance by the EU and its Member States and provides recommendations for the forthcoming framework for climate finance under the United Nations Framework Convention on Climate Change (UNFCCC), namely the New Collective Quantified Goal (NCQG), which will is set to be adopted at COP29 in November 2024.

EU Climate Finance: Channels & Framework

Under the UNFCCC and the Paris Agreement, developed countries are obliged to provide financial resources to assist developing countries in confronting the climate crisis. Developed countries have also committed to jointly mobilise $100 billion per year in climate finance over the period from 2020 through to 2025.

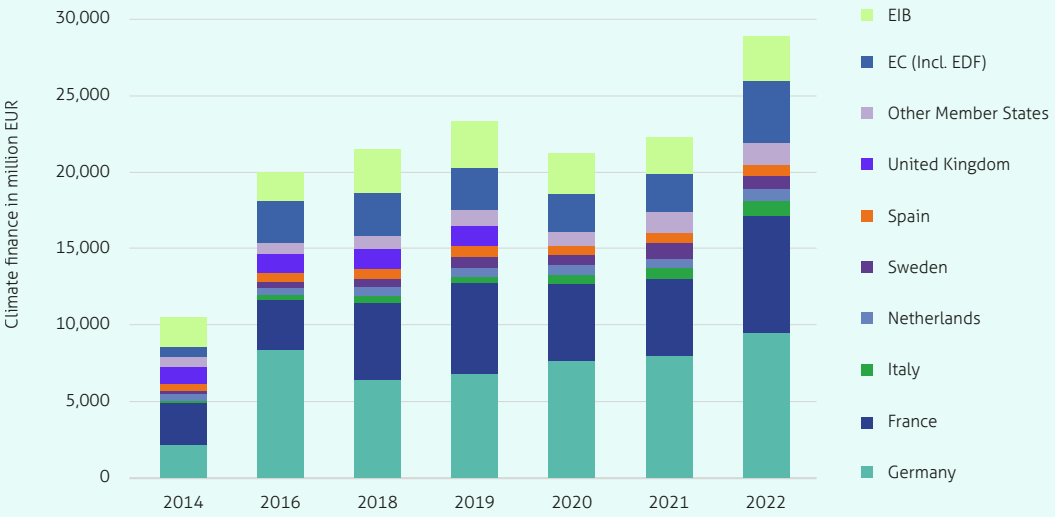
EU climate finance consists of allocations made by Member States, as well as allocations made by EU institutions through the EU Multiannual Financial Framework (MFF): the European Commission (EC), the European Development Fund (EDF)[1] and the European Investment Bank (EIB). Climate finance has never been clearly defined under the UNFCCC, and, due to a lack of international consensus on what the best accounting practices are, a robust accounting system has not yet been established. Rio markers are often used as a basis for calculating the climate relevance, or the share of climate finance attributed to a given project. However, how countries use these markers varies, creating a risk of overestimation of the climate relevance of funded projects and thereby total climate finance provisions.

Total Public Climate Finance from the EU

This study finds climate finance of the EU and its Member States in 2022 was €28.9 bn in total, with €21.9 bn from Member States, €4.0 from the EU budget and €2.9 bn from the EIB. European climate finance increased significantly in 2022 following only incremental growth between 2016 and 2021. There appear to be significant differences between the climate finance commitments and disbursements reported by some EU Member States as well as the EU institutions.

1 Starting with the 2021–2017 MFF, the EDF has been integrated into the MFF, however smaller and decreasing amounts of climate finance are still flowing from the EDF.

Figure 1. *Total climate finance reported by the EU and its Member States (including the UK until it left the Union in 2020) 2014–2022 (EUR Millions)*



Sources: *OECD (2023), dataset provided by the EIB to INKA Consult, EIB (n.d.), UNFCCC (n.d.) and EEA (n.d.). See Annex for methodology.*

Not All Finance Is Created Equal: Loans, Grants & Concessionality

In CAN Europe's view, climate finance to developing countries, in particular for adaptation and loss and damage, should be primarily provided as grants. However, considerable shares of the EU's and Member States' climate finance is extended through non-grant instruments, especially as loans. In 2022, 52% of all climate finance from the EU and Member states combined was extended via non-grant instruments. Around half (51%) of climate finance by EU Member States was extended as loans, while only 45% was extended as grants, with equity, guarantees and other instruments making up the remaining 4%.

For the EU institutions, this study identifies a positive trend in that the share of climate finance provided as grants has increased from 34% in 2013 to 58% in 2022. However, concurrently the share of concessional loans of the EIB climate finance portfolio decreased from 19% in 2017 to only 2% in 2021[2], implying that EIB loans have over time become less favourable for low-income countries. The study finds that due to the low concessionality of EIB loans, the grant equivalent[3] of the climate finance reported by the EU institutions in 2022 is 58% of the total climate finance reported.

2 Calculated from Climate-related official development assistance. OECD 2023

3 The grant equivalent provides an estimate of the amount of finance provided, if finance was only provided as grants, and illustrates the actual financial effort of the contributor.

Provisions of public climate finance are unevenly distributed between EU Member States. At 0.151%, Germany provided the highest amount of climate finance (counted as grant equivalent per GNI), around seven times higher than Italy. Portugal and Greece provide very low climate finance per GNI (0.002% and 0.001% respectively), while Bulgaria, Croatia and Cyprus provided no climate finance in 2022.

Developed countries committed at COP15 and COP16 to provide climate finance that is *new and additional* to other funding objectives. While a clear framework for the operationalisation of *'new and additional'* climate finance is lacking, this report estimates that EU Member States between 2011 and 2021 only ensured 9% of climate finance extended to be additional beyond 0.7% of GNI as Official Development Assistance (ODA). Primarily due to Germany's recently increased ODA provisions, the Annex II EU Member States share of total climate finance to be considered as additional beyond 0.7% ODA was at 30% in 2022.

Mobilised private climate finance reported by EU Member States almost tripled between 2021 and 2022. However, due to the unclear reporting methodologies, this change might result as much from altered reporting practices as from increased flows of private climate finance. Less than 4% of this went to the Least Developed Countries (LDCs) and Lower Middle-Income Countries (LMICs) combined, 70% toward mitigation and about 30% to cross-cutting objectives, while only 1% was directed to adaptation objectives.

Adaptation finance, recipient countries and LDCs

Looking at the thematic and geographical allocation, in 2022, 37% of the climate finance provisioned by the EU and its Member States targeted adaptation activities. While some Member States, namely Belgium, Denmark, Ireland, the Netherlands, and Sweden allocated 60% or more of their reported climate finance to adaptation efforts, the EU as a whole is still far from achieving the commitments to balance finance for adaptation and mitigation objectives, and from acting in accordance with the COP26 commitment to double global adaptation finance from about $20 bn in 2019 to $40 bn by 2025.

18% of the total climate-related development finance committed by the EU and its Member States in 2021 was allocated to *Least Developed Countries (LDCs)*. Of this amount, just under two-thirds (61%) targeted adaptation objectives. EU institutions allocated a significant portion of finance to projects with a regional focus on Africa, comprising 13% of total climate-related development finance in 2021. Egypt and India are the largest individual country recipients of climate-related development finance extended by the EU institutions, accounting for 11% and 8%, respectively. Looking at the top ten recipient countries of climate-related development finance by the EU Member States 2021, India was the largest individual country recipient (10%), followed by Bangladesh (5%) and Mexico (4%).

Loss and damage finance

COP28 operationalised the loss and damage fund, whose mandate includes addressing loss and damage in developing countries that are particularly vulnerable to the adverse effects of climate change. There is currently no standardised method for tracking and reporting information on loss and damage finance. This study identified the need of introducing a new Rio marker for loss and damage. It finds that financing to address loss and damage has to date primarily been sourced from existing funds designated for climate adaptation, development, or humanitarian aid.

Lessons and recommendations

Recommendations for the EU and Member States

General recommendations

1. The EU and its Member States should rapidly ensure higher provisions of public climate finance and put in place safeguards to avoid future issues of plateauing or even backtracking of climate finance provisions. All EU Member States should increase provision of climate finance, but the EU Member States with a low share of climate finance relative to their Gross National Income (GNI) should make targeted efforts to increase climate finance provisions, primarily through grants.
2. The EU should, after the NCQG agreement at COP29 in November 2024, elaborate a European climate finance delivery plan to cover a period at least until the end of the EU Multiannual Financial Framework (MFF) in 2027 and subsequently for the first five years under the NCQG until 2030.
3. Rather than diverting scarce funds from pressing development and humanitarian needs, EU Member States should follow the examples of Sweden and Luxembourg in ensuring all climate finance is provided in addition to their longstanding commitments of providing 0.7% GNI in official development assistance (ODA).

Private and public instruments and sources

4. Given the escalating debt crisis and growing impacts of climate change, it is imperative that the EU and its Member States, particularly in the field of adaptation, prioritise climate grants over loans. France specifically should reorient a significant share of its climate finance from loans (84% in 2022) to grants, and the EIB should provide much more concessional finance (beyond the current 2%).
5. The EU and some Member States should boost their provision of concessional finance to elevate the grant equivalent shares of climate finance. In particular, France, Italy and Austria should take steps to increase the grant equivalent share of their climate finance, in particular through enhanced provision of grants.

6. The EU and its Member States should tailor their interventions both to mobilise more private climate finance in ways to foster a socially just transition and direct more public climate finance, notably grants and concessional finance, to the objectives and geographies not targeted by private finance, including the poorest and most vulnerable countries (especially LDCs and SIDS) and to adaptation activities as well as to activities addressing loss and damage.

Thematic and geographical allocation

7. Considering the overall failure to prioritise adaptation finance, support to adaptation should be drastically scaled up. The EU and Member States should provide higher shares of their climate finance for adaptation to counterbalance the bias toward mitigation in the climate finance of the MDBs. In the context of the NCQG, a subgoal for the provision of public finance for adaptation should be set.
8. The European Commission and Member States must ensure that the poorest and vulnerable countries such as the LDCs and SIDS receive adequate financial support. The EU should ensure increased transparency in the allocation of climate finance to recipient countries. As the most climate-vulnerable countries in general have contributed insignificantly to climate change, and have the least resources to adaptation and resilience, the EU and its Member States should increase provisions of primarily grant-based adaptation finance to these countries.
9. The EU and Member States should provide a high amount of funding to address loss and damage to meet the evolving needs of developing countries, in addition to finance for adaptation and mitigation.

Transparency, monitoring and reporting

10. The EU should take proactive steps to advocate for clearer definitions of climate finance under the Paris Agreement. Subsequently, it should collaborate with developing countries to pursue an improved (annual) reporting system, to enhance transparency and accountability.
11. As part of their collaboration within the OECD on harmonising the use of Rio Markers to improve the reporting of climate finance allocated to mitigation and/or adaptation efforts, the EU and Member States should pursue a more granular approach, whereby Rio Markers are assessed at the component (or subcomponent) level. This will improve the accuracy of reporting for many projects.
12. To increase transparency, the European Commission should publish total figures of the annual climate finance contributions of individual Member States. Furthermore, the reporting format should include an overview sheet, to enhance transparency on aggregate amounts.

13. While some level of differences between reported committed and disbursed figures of climate finance can take place when countries are increasing climate finance from one year to another, further investigation is warranted to understand why certain EU Member States consistently report disbursements that are substantially lower than their commitments, considering action to ensure that commitments are fully delivered upon through disbursements over time.

14. A new Rio marker for tracking loss and damage finance should be established that can be applied complementary to the existing Rio markers for mitigation and adaptation. Such a new marker should capture response and recovery from climate-related disasters, reconstruction, relocation, and actions to address irreversible losses and non-economic effects. However, any double counting with humanitarian aid commitments must be avoided.

Recommendations for the New Collective Quantified Goal (NCQG)

Based on the EU's contributions toward the $100 billion goal the following lessons and recommendations can be drawn to inform negotiations about the NCQG:

Lesson 1.

The inability of developed country parties to collectively deliver on their commitments towards the $100 billion goal highlights the importance of ensuring that the objectives under the NCQG will actually be met within the agreed timeframe. A further observation is that there are wide differences between how much climate finance is extended by developed parties, including between EU Member States. However, despite its challenges and shortcomings, the existence of a collective quantified finance goal has been critical to work towards increasing finance compared to the situation that preceded this goal.

Recommendation 1 for the NCQG:

It is essential that the NCQG includes safeguards to ensure that the agreed quantum is reached in the agreed timeframe. Progress towards the goal should be monitored and provisions should be agreed to address and compensate for shortfalls.

Lessons 2:

Adaptation remains vastly underfunded and far from achieving the Paris Agreement commitment to achieving a '*balance*' between mitigation and adaptation financing, nor the COP26 commitment to double adaptation climate finance from $20 bn (2019) to $40 bn (2025). It is a clear learning from the $100 billion goal that a subgoal for adaptation should have been in place, as the mere commitment to 'balance' proved insufficient.

Recommendation 2 for the NCQG:

The NCQG should include a sub-goal for the provision of public finance to adaptation purposes.

Lesson 3:

Progress to scale up finance for supporting developing parties to address costs from unavoidable climate-induced loss and damages has been alarmingly slow. Current pledges to the Loss and Damage Fund amount only to around $751 million. No other international funding decision, target or obligation exists to provide loss and damage finance.

Recommendation 3 for the NCQG:

The NCQG should include a sub-goal to ensure sufficient resources are dedicated to address loss and damage.

Lesson 4:

Large sums of reported European and other developed country climate finance are provided as loans. In the case of the EU, in 2022, 58% of climate finance by the EU institutions was grants provided by the EC, while 42% were EIB loans. EIB concessional loans have decreased from 19% in 2017 to only 2% in 2021, becoming less favourable for low-income countries. The Member States provided on average 45% grants, 38% concessional loans and 13% non-concessional loans, though some Member States extend large amounts of loans, notably France with 84% of climate finance provided as loans. It remains problematic that some of the most climate-vulnerable and poor countries must repay adaptation loans.

Recommendation 4 for the NCQG:

The NCQG should ensure sufficient provision of climate finance as grants for adaptation and loss and damage, and grants, concessional loans and other blended finance instruments for mitigation. The NCQG could include provisions to secure a minimum level of public grant-based finance, as well as monitoring the percentages of grants, concessional and non-concessional loans, and the grant equivalent of such instruments.

Lesson 5:

The EU, like some other developed country Parties to the UNFCCC, have argued that climate finance should provide sufficient resources for the poorest and most climate-vulnerable countries. Yet, this is contrasted by the relatively low shares of EU climate finance allocated to LDCs (20% globally compared to 18% from the EU and its Member States).

Recommendation 5 for the NCQG:

Climate finance under the NCQG should earmark sufficient resources for the poorest and most climate-vulnerable countries. As such, the NCQG should prioritise more climate finance targeting LDCs and SIDS and include related reporting obligations to the UNFCCC.

1. Introduction

This study has been commissioned by Climate Action Network Europe (CAN Europe) to assess the European Union's provision of international climate finance toward the goals of the United Nations Framework Convention on Climate Change (UNFCCC). The study analyses how the EU and its Member States have delivered on their international climate finance obligations under the UNFCCC in the context of the goal set by parties to the UNFCCC to increase international climate finance to developing countries to $100 billion per year by 2020 and through to 2025. The study includes data on climate finance in 2022 that has been published by the EU's Reportnet[4] and OECD Creditor Reporting System (CRS). As such, this report provides an update to the overview of European climate finance published in a report in January 2021.[5]

COP29 in November 2024 is set to adopt a decision on a new post-2025 goal for climate finance — known as the New Collective Quantified Goal (NCQG). It is to build on the existing $100 billion goal, taking into account the needs and priorities of developing countries. In the run-up to the NCQG decision, there is a need to understand the provision of climate finance by the EU and its member states, how EU climate finance has evolved in the last few years as well as to identify lessons learned from the existing $100 billion goal. These findings can hopefully inform negotiations towards a successful COP29 decision.

EU climate finance consists of allocations made by Member States and allocations made by the EU institutions, namely the European Commission (EC), the European Development Fund (EDF) and the European Investment Bank (EIB). They all report climate finance allocations to the UNFCCC and climate-related development finance to OECD Development Assistance Committee (DAC).

Chapter 2 offers a brief description of the EU framework for providing and reporting international climate finance. Following this, Chapter 3 presents an analysis of how much climate finance the European Union has provided covering the EC, the EDF, the EIB and the Member States. Chapter 4 analyses loans, grants and concessionality, while Chapter 5 provides an overview of support for adaptation and for the Least Developed Countries (LDCs). Finally, Chapter 6 looks at finance for loss and damage, and Chapter 7 draws lessons for the New Collective Quantified Goal (NCQG). The Annex provides the methodology used for data analysis.

4 Reportnet is the e-platform for reporting environmental and climate data to the European Environment Agency (EEA).

5 INKA Consult and ACT Alliance (2021). An Analysis of the Climate Finance Reporting of the European Union.

This report was written by INKA Consult's team: Rasmus Bjerring Larsen, Tallulah Cherry-Virdee, Rasmus Bo Sørensen and Hans Peter Dejgaard.[6] The team received valuable feedback and advice from Emilia Runeberg (CAN Europe), John Nordbo (CARE Denmark), Jan Kowalzig (Oxfam) and Mattias Söderberg (DanChurchAid).

The consultant team wants to thank the EIB's Transparency and Civil Society Team which provided a copy of the dataset for EIB climate finance. Useful information was also provided by the EC's DG CLIMA climate finance unit.

6 INKA Consult is an independent Danish research consultancy specialising in climate finance.

2. EU Climate Finance: Channels & Framework

The EU and its Member States have reported a total of €28.5 billion in climate finance from public sources in 2022, which makes the EU continue to be the biggest contributor of international climate finance. As communicated, public climate finance includes €22 billion from the 27 Member States, €4.0 billion from the EU budget and €2.5 billion from the EIB.[7]

This chapter provides an overview of the context and institutional framework behind EU climate finance, including the different ways it is channelled, managed and reported. As of 2024, the EU's climate finance and climate-related development finance is managed and delivered in the following ways:

- Through the EU Multiannual Financial Framework (MFF) between 2021 and 2027, reported by the EC to the UNFCCC and to the OECD[8]
- Through the EIB, reported by the EC to the UNFCCC and by the EIB to OECD
- Through the EU Member States, reported by Member States to the EC, the UNFCCC and OECD

2.1 The European Commission

Until the end of 2020, EU development cooperation was funded not only via the EU's long-term budget, the so-called Multiannual Financial Framework (MFF), but also via several funds, the largest being the EDF which for historical reasons existed outside of the EU budget and therefore did not necessarily come under European Parliament scrutiny. With a total budget of €30.5 billion for the period 2014–2020,[9] the EDF was the largest external financing instrument outside of the EU budget. It was not funded by the EU MFF but via direct contributions from EU Member States.[10]

As of 2021, international climate finance, as well as development cooperation in general, were integrated into the MFF. This intended to bring together all the EU's various funds for development cooperation into a single instrument, the Neighbourhood, Development and International Cooperation Instrument (NDICI), to ensure consistency between different fields of external action as

7 European Council (2023). Climate finance: Council approves 2022 international climate finance figures.

8 The OECD receives reporting of climate-related development finance, not of climate finance.

9 European Parliament (2023). European Parliament decision of 10 May 2023 on discharge in respect of the implementation of the budget of the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2021.

10 European Parliament (2021). The integration of the European Development Funds into the MFF 2021–2027.

well as to increase transparency since the European Parliament oversees the MFF.[11] Although the EDF technically still exists and provides a smaller amount of climate finance, it has as of 2021 been integrated into the MFF.

2.1.1 The EU Multiannual Financial Framework

The previous MFF from 2014 through 2020 allocated around €36.3 billion to development cooperation, including international climate finance, under various sub-headings of the Global Europe heading.[12] Added to the EDF, total EU funding for development cooperation in the period 2014–2020 was around €66.3 billion.

The current MFF runs from 2021 through 2027 and is the first MFF to fully include EU spending on development cooperation. The 2021–2027 MFF outlines a total budget for development cooperation under the NDICI of €79.5 billion in 2021 prices, with annual expenditure set to decrease gradually from €12,1 billion in 2021 to €10.6 billion in 2027. This represents 3.9% of the total 2021–2027 MMF budget of €2 trillion. In 2022, the €4 billion reported in international climate finance from the EU budget in 2022 accounted for one third of the total €12.1 billion budgeted for development and cooperation.[13]

2.2 The European Investment Bank (EIB)

The EIB is the EU's long-term lending institution mandated to provide long-term financing for sound, sustainable investment projects in support of EU policy goals in Europe and beyond. In recent years, the EIB has, at the request of the European Commission and Member States, scaled up its work on climate change.

In late 2020, the EIB adopted a new *Climate Bank Roadmap*[14] committing the EIB Group to support €1 trillion of investment in climate action and environmental sustainability over the critical decade from 2021 to 2030, to align all new operations with the Paris Agreement (the first comprehensive application of the joint multilateral development bank Paris alignment approach[15]) and devote at least 50% of its financing to climate action and environmental sustainability by 2025 and beyond. These commitments apply to the Bank's activities outside and within the EU.

11 European Parliament (2021). The integration of the European Development Funds into the MFF 2021–2027.

12 Sub-headings of the 2014–2020 MFF counted here as development cooperation are the European Neighbourhood Instrument, the Development Cooperation Instrument, the Partnership Instrument, the European Instrument for Democracy and Human Rights and the Instrument for Stability.

13 European Commission (2021). Multiannual Financial Framework 2021–2027 (in commitments).

14 European Investment Bank (2020). The EIB Group Climate Bank Roadmap 2021–2025.

15 European Investment Bank et al. (2018). The MDBs' alignment approach to the objectives of the Paris Agreement.

The *Climate Bank Roadmap* also highlights that the bank will provide financing and support to countries and regions with a high degree of climate vulnerability — in particular the Least Developed Countries (LDCs) and Small Island Developing States (SIDS). The roadmap further notes that outside the EU, and particularly in developing countries, the EIB will *"support opportunities to protect people, assets and the environment, and strengthen the adaptive capacity of people and regions most at risk from climate change. Access to concessional finance will be key".*[16] The roadmap also commits the EIB to reinforce its support to partner countries, for example by mobilising additional financing — including concessional financing — from external sources.

The roadmap has been hailed as the most comprehensive climate strategy of all major public development banks,[17] and in the EIB mid-term review of the roadmap, the Bank reported having reached 58% green financing in 2022 while being on track to support €1 trillion of green investment by 2030 (in and outside the EU).[18] In 2021, the roadmap was complemented by the *EIB Climate Adaptation Plan*[19] with the target to increase the share of climate finance that targets adaptation objectives to 15% by 2025. Latest figures suggest 10% was reached in 2020, with the period 2012–2019 averaging 4–5%.[20]

In terms of EIB commitments towards developing countries, in 2015 the EIB committed to increase its share of lending to climate action in developing countries to 35% by 2020. This target was reached in 2017 and again in the following years. The EIB has no specific targets regarding recipients (e.g. LDCs) or concessionality of loans.

16 European Investment Bank (2020). The EIB Group Climate Bank Roadmap 2021–2025 (page 14).

17 European Investment Bank (2022). Standalone climate strategy and integration of climate in overarching strategy.

18 European Investment Bank (2023). Mid-term review of the EIB Group Climate Bank Roadmap.

19 European Investment Bank (2021). The EIB Climate Adaptation Plan.

20 European Investment Bank (2021). The EIB Climate Adaptation Plan.

2.3 EU Member States

In addition to the EU budget and EIB climate finance, each of the 27 EU Member States provide their own climate finance. These can include bilateral cooperation and funds channelled through multilateral development banks, multilateral climate fund and other programmes and initiatives, as well as mobilised private climate finance.

2.4 The UNFCCC international climate finance context

The 1992 United Nations Framework Convention on Climate Change (UNFCCC)[21] sets out developed countries' obligations to assist developing countries in covering the costs of dealing with climate change. At COP15 in 2009 developed countries committed to the $100 billion goal, to support climate action in developing countries. This included finance from both public and private, bilateral and multilateral and alternative sources. COP21 then extended this $100 billion goal from 2020 through to 2025 and tasked developed countries to balance climate finance for mitigation and adaptation.

Each year the OECD provides aggregate figures related to bilateral, multilateral and mobilised private finance. For 2021, the OECD reports $89.6 billion in total provided and mobilised climate finance.[22] The OECD has indicated that $100 billion goal has probably been reached by 2023,[23] mainly because of increased financing from the multilateral development banks (MDBs). Bilateral public finance has only increased slowly and MDBs have since 2019 been the largest contributors.

Substantial issues remain regarding the quality of climate finance. Weak and unclear accounting rules for climate finance under the UNFCCC have led to large differences in accounting practices between contributors, resulting in a general trend of overstating levels of genuine fiscal support. Oxfam has estimated that of the $83.3 billion climate finance reported in 2020, the net financial value of this only amounts to $21–$24.5 billion. An important reason for this difference is that a large share of climate finance is provided as loans that have a much lower net value for recipients than their face value suggests. Of the $66 billion in public climate finance reported for 2019–20, Oxfam calculated that only $17 billion (26%) was provided as grants; $20.7 billion (31%) was provided as concessional loans; and $28 billion (42%) was provided through non-concessional loans on terms not generous enough to qualify as Official Development Assistance (ODA).[24]

21 United Nations (1992). United Nations Framework Convention on Climate Change.

22 OECD (2023). Climate Finance Provided and Mobilised by Developed Countries in 2013–2021.

23 OECD (2023). Climate Finance and the USD 100 Billion Goal.

24 Oxfam International. (2023). Climate Finance Shadow Report 2023: Assessing the delivery of the $100 billion commitment.

At COP21 in Paris, the decision was made to set a New Collective Quantified Goal (NCQG), from a floor of $100 billion per year, taking into account the needs and priorities of developing countries.[25] At COP26 it was decided that this new goal should be agreed by COP29 in 2024.[26] As of mid-2024, despite years of technical expert dialogues and discussions, all key questions of the new goal remain undecided, including its quantum and regular review and adjustment mechanisms, inclusion of thematic subgoals, how it will differentiate between the provision of public finance versus the mobilisation of private finance, and how reporting should be made to ensure transparency.

Regarding the quantum of the NCQG, several estimates have been published. For example, the *Independent High-Level Expert Group on Climate Finance* has estimated that domestic and international climate investments in emerging and developing economies other than China must reach 2.4$ trillion annually by 2030.[27] UN Trade and Development estimates developing country climate finance needs to be around $500 billion annually by 2025, and $1,550 trillion annually by 2030.[28] A recent report by McKinsey argues that $2 trillion is needed annually by 2030 to reach Paris agreement goals and to transform the energy system, respond to growing climate change vulnerability, scale sustainable agriculture, and restore natural capital and biodiversity in developing countries.[29]

Lastly, the operationalisation of a fund to address loss and damage (L&D) in developing countries was agreed at COP28. Initial pledges to the fund amounted to $700 million, with organisations such as Climate Action Network International indicating that much more would be needed.[30]

In summary, recent years have seen a surge in developments and interest around international climate finance, and with the upcoming COP29 decision on the NCQG, the year 2024 is decisive for a significant increase in providing public climate finance and mobilising private finance for the benefit of developing countries.

25 United Nations (2016). Report of the Conference of the Parties on its twenty-first session, held in Paris from 30 November to 13 December 2015.

26 United Nations (2022). Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its third session, held in Glasgow from 31 October to 13 November 2021.

27 LSE (2022). Finance for climate action: scaling up investment for climate and development.

28 United Nations (2023). Considerations for a New Collective Quantified Goal.

29 McKinsey Sustainability (2023). Solving the climate finance equation for developing countries.

30 The Guardian (2023). $700m pledged to loss and damage fund at Cop28 covers less than 0.2% needed.

2.5 Reporting to the UNFCCC, OECD and EU

The EU and its Member States report their international climate finance to the UNFCCC, and the Member States also report to the EC under the Governance Regulation (GR). Furthermore, the EU and its Member States also report climate-related development finance to the OECD. The reports are described below:

a. **Biennial Reports and the Biennial Transparency Reports to the UNFCCC *(every two years)*:** Annex I parties to the UNFCCC are required to submit Biennial Reports (BRs) to the UNFCCC every two years, including information on climate finance provided to developing countries in the common tabular format (CTF). The EU submission provides information from the EC, EDF and EIB and as of 2024, these reports are available for the period 2011–2020 (spanning BR1 to BR5). Moving forward, the Paris Agreement requires developed countries to submit Biennial Transparency Reports (BTRs) every two years under the Enhanced Transparency Framework, with the first submissions due in December 2024 covering climate finance for the years from 2021.

b. **Reports to OECD DAC *(every year)***: The EC and the Member States provide annual project-level information on ODA and Other Official Flows (OOF) which do not meet ODA criteria. The data is publicly available in the Creditor Reporting System (CRS).[31] Through the Rio Markers for adaptation and mitigation, the dataset can be used to assess the amounts of climate-related development finance provided and received. Note that OECD data is not a reflection of climate finance in the context of the UNFCCC and the Paris Agreement, because of differing mandates and reporting rules, methodologies, and practices.

c. **Member States' GR reports to the EC *(every year)***: EU Member States are required to submit project-level information on support provided to developing countries by September each year to the EC under Article 19 of the Governance Regulation (GR). These reports are publicly available on the Reportnet website.[32] Based on these reports, in October/November each year the EU's total climate finance is published after the meeting of the Economic and Financial Affairs Council (ECOFIN), including total amounts of provided climate finance from the EIB, the EC and EDF as well as the Member States. The GR reporting covers reporting from 2020 onwards and replaces previous (though largely equivalent) reporting under the Monitoring Mechanism Regulation (MMR) for the years prior to 2020. Reports under the MMR can be found on the EIONET website.[33]

These publicly available reports are important to enable tracking of climate finance and support public understanding and accountability. However, climate finance has never been clearly defined under the UNFCCC, and, due

31 OECD (n.d.). OECD Data Explorer.

32 European Environment Agency (n.d.). Reportnet.

33 European Environment Agency (n.d.). Eionet Portal.

to a lack of international consensus on what the best accounting practices are, a robust accounting system has not yet been created. What is considered climate finance, and how developed countries estimate and report their climate finance, has, to date, been decided by developed countries themselves individually or through commonly agreed methods among OECD members. The complexity and fragmentation of reporting rules, methodologies and practices can hinder public understanding and make it more difficult to assess support for climate action.

Recommendation:

The EU should take proactive steps to advocate for clearer definitions of climate finance under the Paris Agreement. Subsequently, it should collaborate with developing countries to improve the reporting system (including by moving to annual reporting), to enhance transparency and accountability.

2.6 Accounting of climate finance with the Rio markers

The OECD DAC Rio marker system is widely used by the Member States and the EC to collect data and to report to both the UNFCCC and OECD. Defined by the OECD, the Rio markers were originally designed to help track the extent to which aid portfolios integrate the Rio Conventions' objectives on environment and sustainable development, including climate change adaptation and mitigation. Accordingly, the Rio markers were *not* intended to monitor climate finance.

The Rio markers are self-reported by donors and operate on a three-tier scoring system where for each aid activity a score of *principal* (2) is assigned when climate change mitigation and/or adaptation is fundamental in the design of the project, a score of *significant* (1) is assigned when climate change mitigation and/or adaptation is important but not the fundamental driver or motivation, and *not targeted* (0) is assigned when a project is found not to target either mitigation or adaptation in any significant way.

When the EC and the Member States report to the UNFCCC on provisions of climate finance, the Rio markers are often used as a basis for calculating the reported amount of climate finance for a given project. If a project receives a Rio marker of 2 for adaptation and/or mitigation, then 100% of the project volume is usually reported as climate finance. For a project assigned a Rio marker of 1 for adaptation and/or mitigation, most countries report a share of the project volume as climate finance. However, there is a lack of harmonisation in the shares used, with (to give a few examples) the EC and Sweden using a coefficient of 40% for Rio marker 1 projects, Austria or Germany using 50%

and Poland 100%.[34] These fixed percentages are applied irrespective of the actual significance of the climate components of a project and there have been assessments showing overestimation of climate relevance.[35] Some providers of climate finance are improving the Rio marker methodology by assessing their projects with more granularity at component or sub-component levels, increasing the accuracy of reporting.

Recommendation:

The European Commission and Member States should collaborate with the OECD in harmonising the use of Rio Markers to improve the reporting of climate finance allocated to mitigation and/or adaptation efforts. Implementing a more **granular approach,** whereby Rio Markers are assessed at the component (or subcomponent) level, could improve the accuracy of reporting for many projects.

2.7 Accounting of climate finance by the European Investment Bank

As an MDB, the EIB does not apply the Rio markers but uses a different methodology to calculate and report climate finance. This methodology is based on the *Common Principles for Climate Mitigation Finance Tracking and Common Principles for Climate Adaptation Finance Tracking,* a set of guidelines and principles agreed by the MDBs in 2015 to support consistent accounting and reporting of flows in support for climate action. An updated version of these principles was published for climate change mitigation in 2021[36] and in 2022 the MDBs published the joint methodology for tracking adaptation finance as the operational application of the Common Principles.[37]

Under these guidelines, the EIB tracks and reports climate finance data through specific assessments of individual projects, counting only the finance of those components (and/or subcomponents) the EIB considers as directly contributing to mitigation and/or adaptation. The result of the Common Principles methodology is project-specific mitigation and adaptation finance figures, which are reported to the OECD DAC CRS database each year.

34 OECD (2023). Results of the survey on the coefficients applied to 2019–20 Rio marker data when reporting to the UN environmental conventions.

35 Weikmans, R., Timmons Roberts, J., Baum, J., Bustos, M. C., & Durand, A. (2017). Assessing the credibility of how climate adaptation aid projects are categorised.

36 Joint Climate Finance Tracking Group of multilateral development banks (2023). Common Principles for Climate Mitigation Finance Tracking.

37 European Investment Bank (2022). Joint methodology for tracking climate change adaptation finance.

3. Total Public Climate Finance from the EU

This chapter presents and compares the total public climate finance by the EU and its Member States. The figures include finance channelled through multilateral institutions as well as bilateral finance targeting climate change.

3.1 Climate finance as communicated by the EU

Every year, the European Council communicates the EU climate finance totals as aggregated by the EC. These are shown in Table 1 for the years 2014–2022.

Total climate finance as communicated by the EU has steadily increased since 2014, except for 2021 compared to 2020. However, these increases have often been small, particularly over 2016–2021 with the total stagnating at between €20–23 billion. In 2022, reported climate finance was €28.5 billion, a significant increase compared to previous years.

The "plateauing" from 2019–2020 was likely due, at least in part, due to the UK leaving the EU in 2020. It is estimated that Brexit lowered EU climate finance by around €1.86 billion. The UK provided around €1.46 billion in public climate finance in 2020, that no longer contributed to the EU total. Additionally, it is it is estimated that climate finance from the EC might have been €400 million higher if the UK had not left the EU (considering the 15.6% the share of the UK contribution to the EU budget in 2018[38]).

38 Statistia (2019). How Much are Member States Contributing to the EU?

Table 1. *Total climate finance as communicated by the EU, 2014–2022 (EUR million)*

	Member States	EC (incl. EDF) and the EIB	Total
2014	12.4	2.1 [39]	14.5
2015	13.9	3.7	17.6
2016	15.6	4.6	20.2
2017	15	5.4	20.4
2018	16.1	5.6	21.7
2019	17.5	5.7	23.2
2020	18.2	5.2	23.4
2021	17.9	5.1	23.0
2022	22.0	6.5	28.5

Sources: *Figures are those approved by the Economic and Financial Affairs Council, ECOFIN, usually ahead of the COP, covering climate finance from the foregoing year.*

3.2. Reported Climate Finance by the EU and its Member States

Assessing data reported to the UNFCCC, EC and OECD (see Section 2.5) allows us to analyse and assess climate finance flows, for example making it possible to review contributions by each Member State towards the totals reported by the EC.

Accordingly, Table 2 displays breakdowns of the total public climate finance from 2014 to 2022 reported by the EU and its Member States. This study finds climate finance of the EU and its Member States in 2022 as **€28.9 billion in total** with €21.9 billion from Member States, €4.0 from the EU budget and €2.9 billion from the EIB. This is slightly higher than the figure communicated by the EC (€28.5 billion with €22 billion from Member States and €4 billion from the EU budget and €2.5 billion from the EIB, see Section 3.1), though we assume the communicated figure is based on disbursements for the EIB rather than commitments as in our analysis.

39 The 2014 figures mention €2.1bn from the EIB but has no specific references to finance from other EU institutions.

Box 1:

Data sources for assessing climate finance by the EU and its Member States

Data sources tables and figures in this report is, unless specified in the caption, are as follows:

EC (incl. EDF) and EIB data was sourced from the climate-related dataset of OECD DAC CRS CITATION OEC232 \l 1030 (OECD, 2023), information provided bilaterally by the EIB to INKA Consult and as published by the EIB on its public register CITATION EIB \l 1030 (EIB, n.d.). All figures are on a commitment basis. While the OECD CRS provides information on climate-related development finance, not climate finance, in the case of the EC (incl. EDF) and EIB, close alignment was found between OECD and UNFCCC figures. In this report, we therefore refer to OECD data for the EC (incl. EDF) and EIB as climate finance.

Member States data was sourced from the UNFCCC BRs for 2014 to 2020 CITATION UNF \l 1030 (UNFCCC, n.d.) and as reported to the EC under the GR for 2021 and 2022 CITATION Eur \l 1030 (EEA, n.d.). Until 2021, Member States reported a mix of commitments and disbursements to the UNFCCC, and thus Member State figures for the period 2014-2020 contain both. Member State figures for the period 2021-2022 are bilateral commitments and multilateral disbursements. Disbursements of multilateral finance was chosen to minimise the risk of over-reporting in case of delayed, partial or decommitted disbursements from multi-year commitments.

All exchange rates (yearly averages) and GNI values were sourced from the OECD CITATION OEC \l 1030 (OECD, n.d.).

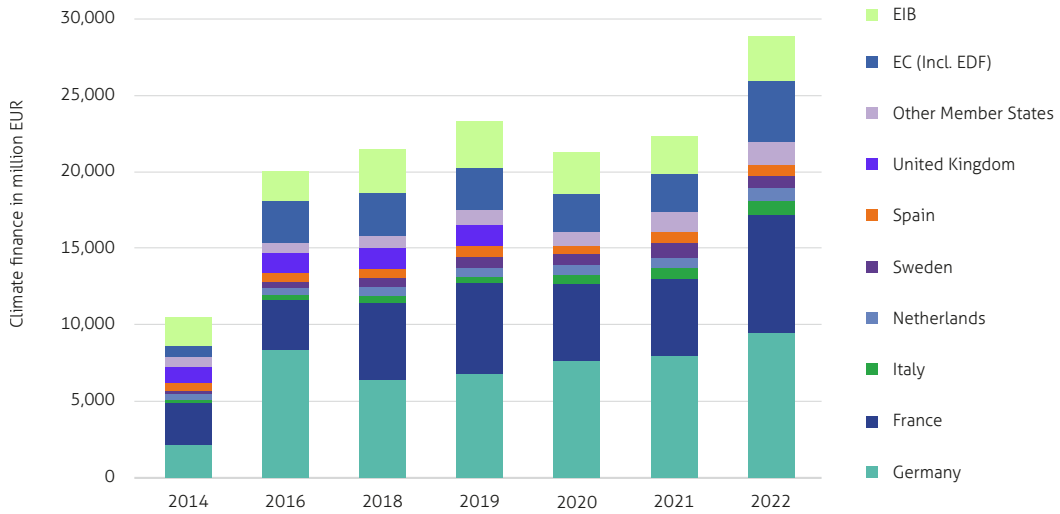
Though total reported public climate finance from the EU and its Member States (incl. UK contributions until 2020) increased from 2014 to 2021, the increases have been low, particularly from 2016 to 2021. In addition, total reported public climate finance fell from 2019 to 2020. This is largely attributable to Brexit, given the estimated contribution of the UK, though climate finance from the Member States excluding the UK also fell slightly over this period.

As is seen in the climate finance totals communicated by the EU (Table 1), there was a large increase in reported public climate finance from the EC (incl. EDF) and Member States from 2021 to 2022. Climate finance from the EIB also increased in 2022, albeit less so with levels still not surpassing its 2019 contribution. These increases stand in stark contrast to the low increases seen in previous years.

It is concerning that climate finance from both the EC and the EIB increased only incrementally between 2016 to 2021. For the EIB specifically, it is regrettable that the priorities outlined in its 2020 *Climate Bank Roadmap* to scale up support for climate action and environmental sustainability over the critical decade from 2021 to 2030, has until now only resulted in limited increases of climate finance for developing countries.

It is evident that the insufficiency of the small year-on-year increases since the adoption of the $100 billion goal in 2009 (and even periods of plateauing and backtracking), have contributed to the collective failure of developed countries to reach their $100 billion goal as promised by 2020.

Figure 1. *Total climate finance reported by the EU and its Member States (including the UK until it left the Union in 2020) 2014–2022 (EUR millions)*



Sources: OECD (2023), dataset provided by the EIB to INKA Consult, EIB (n.d.), UNFCCC (n.d.) and EEA (n.d.). See Annex for methodology.

Table 2. *Total climate finance reported by the EU and its Member States, 2014–2022 (EUR millions)*

	2014	2016	2018	2019	2020	2021	2022
Austria	141.2	185.5	239	332.8	257.9	248.6	401.3
Belgium	96.7	100.9	81	99.7	108.3	289.6	394.2
Bulgaria*	0.1	N/A	N/A	0.0	0.0	0.0	0.0
Croatia*	0.0	N/A	N/A	0.0	0.0	0.2	0.0
Cyprus*	N/A	N/A	N/A	0.0	0.0	0.0	0.0
Czechia*	19.7	13.7	7	7.5	11.7	11.5	8.5
Denmark	183.5	173.5	198	246.9	235.4	386.2	264.6
Estonia*	0.7	0.4	1.0	0.5	0.6	2.5	2.8
Finland	116.2	43.0	47	146.2	132.7	184.6	161.5
France	2,767.2	3,334.8	5,089	5,958.8	5,097.1	5,053.2	7,667.7
Germany	2,119.9	8,317.9	6,345	6,758.7	7,598.7	7,914.8	9,476.3
Greece	N/A	0.2	4	0.7	1.1	8.3	2.0
Hungary*	2.7	33.3	3	0.0	0.0	19.0	10.2
Ireland	33.7	52.7	77	96.4	88.3	89.2	118.2
Italy	165.5	263.0	452.0	417.2	583.7	731.4	957.8
Latvia*	0.4	0.0	0.0	0.1	0.1	0.0	0.1
Lithuania*	0.3	0.5	0.1	1.5	1.3	2.7	4.0
Luxembourg**	41.0	84.9	110	50.8	60.7	59.6	66.0
Malta*	0.0	0.1	0.1	0.1	0.1	0.1	0.2
Netherlands	394.7	471.9	576	580.8	607.7	634.1	804.4
Poland*	3.7	5.4	49	13.0	22.3	8.4	19.5
Portugal	9.2	2.1	2	12.3	3.7	2.2	4.2
Romania*	0.1	0.2	0.0	0.0	0.0	5.0	8.1
Slovakia*	1.1	3.0	2	5.9	1.9	7.1	7.4
Slovenia*	2.1	3.0	4	0.0	0.0	4.9	5.2
Spain	463.9	595.0	620	711.9	529.8	694.7	743.5
Sweden	228.3	402.0	580	715.2	706.2	1,004.0	795.0

	2014	2016	2018	2019	2020	2021	2022
Member States excl. the UK	6,792	14,087	14,485	16,157	16,049	17,362	21,923
United Kingdom	1,100	1,279	1,320	1.350	N/A	N/A	N/A
Member States incl. the UK	7,892	15,366	15,805	17,507	16,049	17,362	21,923
EC (incl. EDF)	679	2,728	2,808	2,741	2,496	2,494	4,031
EIB	1,923	1,910	2,884	3,071	2,707	2,474	2916
EU Institutions	2,602	4,638	5,692	5,812	5,203	4,968	6,946
Total excl. the UK	**9,394**	**18,725**	**20,177**	**21,969**	**21,252**	**22,330**	**28,869**
Total incl. the UK	**10,494**	**20,004**	**21,497**	**23,319**	**21,252**	**22,330**	**28,869**

Sources: *OECD (2023), dataset provided by the EIB to INKA Consult, EIB (n.d.), UNFCCC (n.d.) and EEA (n.d.). See Annex for methodology. See Section 3.2.2. regarding data-convergence in relation to Table 1. The years 2015 and 2017 are not included in this table since the data for the period is from biennial reports (BR).*

**Not a country listed in Annex II to the UNFCCC, i.e. countries with obligations to provide climate finance to developing countries under the UNFCCC. The Paris agreement extended this obligation to all developed country parties. **Climate finance reported by Luxembourg in 2019 and 2020 contain high levels of duplicates between commitments and disbursements and it was therefore chosen to consider only the bilateral commitments and multilateral disbursements. Most other Member States reported almost exclusively either commitments or disbursements, except for negligible amounts (which were included in the figures for 2019 and 2020).*

Key findings:

Across data sources, 2022 saw a big increase in reported public climate finance from Member States and the EC, and a smaller increase from the EIB. Yet, this ramp-up again stands in stark contrast to the foregoing years, as total European climate finance increased only slowly between 2016 and 2021. It is evident that the slow increases, periods of stagnation or even decreases of public climate finance from the EU and its Member States have contributed to the failure of reaching the $100 billion goal in 2020, 2021 and possibly also 2022.

Recommendation:

The EU and its Member States should rapidly ensure higher provisions of public climate finance and put in place safeguards to avoid future issues of plateauing or even backtracking of climate finance provisions.

3.2.1 Reporting Practices

Climate finance comprises various types of finance including grants, equity and loans with more or less generous terms. This means that the actual financial efforts of some contributors are significantly lower than what the face-value figures imply. This issue is further considered in Chapter 4.

It must also be kept in mind that reporting practices vary significantly between EU countries. For example, some countries include estimated climate-specific shares of core contributions to multilateral institutions such as the World Bank (e.g. Austria, Belgium, Germany, Slovenia, Italy), whilst others do not (such as Bulgaria, Lithuania). Other inconsistencies include reporting of financial commitments and disbursements, as some countries report both, while others choose to report only one, or report the categories separately (this issue was improved with the new reporting format under the GR, which has been in effect from 2021 onwards.

3.2.2 Data convergence

Recent years show relative alignment between the reporting formats for the EU institutions. In 2020, climate finance of the European Commission (incl. EDF) and EIB was:

- As reported to the UNFCCC: €2.6 billion from European Commission and €2.8 billion from the EIB
- As reported to the OECD: €2.5 billion from the European Commission, and €2.7 billion from the EIB
- Communicated by the EU as: €2.5 billion from the European Commission and €2.8 from the EIB

As the EU in its annual press release (see Section 3.1) does not publish the total figures for climate finance contributions by individual Member States but only the aggregated total for all countries, it is not possible to compare the results for individual Member States from Table 2 with official EU figures, but only the total. As the European Commission holds these figures necessary for producing the total aggregate, it is likely a political decision not to disaggregate the total further. This practice unnecessarily decreases transparency.

Recommendation:

To increase transparency, the European Commission should publish total figures of the annual climate finance contributions of individual Member States. Furthermore, the reporting format should include an overview sheet, to enhance transparency on aggregate amounts.

3.3. Commitments vs. Disbursements

Reporting climate finance on the basis of commitments is an indicator of the political will of contributors to support developing countries, yet it is only when finance is actually disbursed that change happens on the ground. Thus, it can be worthwhile to evaluate the extent to which climate finance commitments are followed up by actual disbursements. Table 3 compares climate finance commitments and disbursements by the EC and the Member States in 2021 and 2022.

Table 3. *Climate finance commitment and disbursements, 2021 and 2022 (EUR millions)*

	2021		2022	
	Committed	Disbursed	Committed	Disbursed
Austria	249	249	406	347
Belgium	283	125	369	154
Bulgaria	0.0	0.0	0.0	0.0
Croatia	0.2	0.2	0.0	0.0
Cyprus	0.0	0.0	0.0	0.0
Czechia	11.5	11.3	8.5	8.5
Denmark	386	347	264	281
Estonia	2.8	1.8	1.6	2.9
Finland	146	192	198	168
France	6,715	283	7,668	4,862
Germany	7,845	4,971	9,687	6,481
Greece	8.3	8.3	1.9	1.6
Hungary	19.0	17.5	10.2	9.8
Ireland	89	89	118	118
Italy	731	658	991	418
Latvia	0.0	0.1	0.0	0.2
Lithuania	2.7	0.8	4.0	2.5
Luxembourg	39	59	72	62
Malta	0.1	0.1	0.2	0.2
Netherlands	619	640	955	795

	2021		2022	
	Committed	Disbursed	Committed	Disbursed
Poland	8.4	8.4	19.5	19.4
Portugal	2.2	2.2	4.2	4.2
Romania	5.0	5.0	8.1	8.1
Slovakia	9.3	5.9	5.7	5.4
Slovenia	4.9	4.9	5.2	4.8
Spain	727	348	739	398
Sweden	1,004	798	795	806
Member States	18,908	8,824	22,333	14,957
EC (incl. EDF)	2,493	1,379	4,031	2,212

Sources: *OECD (2023) and EEA (n.d.). See Annex for methodology. Disbursements are not available for the EIB.*

Some variation between commitments and disbursements is to be expected. For example, it is common practice to report the commitment of a multi-year climate finance project in one year and then only disperse 20% of the total commitment that same year, if the project runs for five years. This can be part of the explanation why some countries have higher disbursements than commitments, if they committed to large projects in the years prior. Also, in periods where countries continually grow their climate finance one would expect their commitments to be higher than their disbursements that would 'catch up' only once a certain level of annual climate finance is reached and then held over several years.

Further, countries for which commitments and disbursements are at the same level may not have an increasing trend of their climate finance provisions. It should also be noted that *commitments* in this context does not mean political commitments that may or may not be followed through, but rather signed cooperation agreements that will usually be followed through. Lastly, there might also be good reasons why some commitments do not translate to disbursements if exceptional circumstances arise, this could be related to conflict or instability in the recipient country or a given project might become unviable for various reasons.

However, it could be of concern if a country continuously reports significantly higher commitments than disbursements (unless it relates to increasing climate finance trends, as noted above). Belgium and Spain report disbursements that are significantly lower than commitments in both 2021 and 2022 (Spain at 48% and 54%, Belgium at 44% and 42% respectively). Some countries show fluctuations, for example France reported disbursements that corresponded to around 4% of commitments in 2021[40] but this was 63% in 2022. Italy reported disbursements that corresponded to 90% of commitments in 2021 and this fell to 42% in 2022. As reporting of disbursements of climate finance has only recently improved for the Member States with the shift from the MMR to GR, it is difficult to draw conclusions from the variations observed at this stage. It will nonetheless be important to analyse trends over time to understand if climate finance commitments are being followed up by disbursements.

Key finding:

As reporting of disbursements of climate finance has only recently improved with reporting under the GR, it is too soon to draw significant conclusions regarding commitments vs. disbursements. Further inquiries are needed to understand why some Member States over time repeatedly report disbursements that are significantly lower compared to commitments. For the years 2021 and 2022, there are significant differences between reported commitments and disbursements for some EU Member States as well as from the European Commission.

Recommendation:

While some level of differences between reported committed and disbursed figures of climate finance can take place when countries are increasing climate finance from one year to another, further investigation is warranted to understand why certain EU Member States consistently report disbursements that are substantially lower than their commitments, considering action to ensure that commitments are fully delivered upon through disbursements over time.

40 France reported no disbursements of bilateral climate finance in 2021, indicating that a reporting issue might be involved.

4. Not All Finance Is Created Equal: Loans, Grants & Concessionality

Climate finance can be provided as grants, but also as loans, equity or other financial instruments such as guarantees, with varying *"favorability"* of that finance for a developing country recipient. Loans and other non-grant instruments come with requirements on the recipient to meet repayments. About half of the climate finance provided by the EU and its Member States are provided as loans.

Many developing countries are now so burdened by debt repayments to both international and domestic loan issuers, that the European debt network, Eurodad considers the current situation *"the worst debt crisis the world has ever seen"*.[41] Eurodad finds that debt servicing is absorbing on average 38% of budget revenue across developing countries. For Africa, these numbers increase to 54%. Rising debt costs not only limit the ability of developing countries to mitigate and adapt to climate change, but also strain vital public resources needed for development. UNCTAD has warned that about 3.3 billion people — almost half of humanity — now live in countries that spend more money paying interest on their debts, than on education or health.[42]

This chapter first assesses the financial instruments used by the EU and its Member States when extending climate finance to developing countries and compares the grant equivalent effort by Member States relative to the size of their economies. Section 4.4. then considers the 'additionality´ of climate finance and looks at the mobilisation of private climate finance and finally the use of guarantees as climate finance.

4.1 Grants vs. Loans

While some countries only report grants as climate finance, others also report loans. For climate finance provided as loans, it is important to consider the terms on which the loan was provided (maturity, grace period, interest rates). Some loans are provided on terms favourable to the recipient (concessional loans), while others are closer to what can be found on commercial markets (non-concessional loans). When assessing the financial effort by developed countries in providing climate finance, it is essential to look at the grant equivalence of the face-value totals as reported by countries. Expressing climate finance on the basis of grant equivalents also allows for better comparison across developed countries' contributions.

41 Eurodad (2024). Debt justice in 2024: challenges and prospects in a full-blown debt crisis.

42 UNCTAD (2023). UN warns of soaring global public debt: a record $92 trillion in 2022.

OECD has defined the difference between a concessional loan and a non-concessional loan. The 2016 OECD DAC reporting directive clarifies that for a loan to be considered concessional it must have a grant element of at least 45% in the case of loans to LDCs, 15% in the case of loans to lower-middle-income countries (LMICs), and 10% in the case of loans to upper-middle-income countries (UMICs). Bilateral loans below these thresholds are referred to as 'non-concessional' in OECD DAC statistics.

4.1.1 EU Institutions Financial Instruments

The EU institutions provide climate finance as grants through the EC (primarily through the MFF, See Section 2.1) and through the EIB as loans (and, to a lesser extent, equity which made up 3% of finance from the EIB from 2013 to 2022). As shown in Table 4, loans accounted for two-thirds of climate finance from the EU Institutions from 2013 to 2015, but the share of grants has since increased, accounting for around 50% of climate finance provided by the EU Institutions from 2016 to 2022. This change is largely driven by an increase in the grants provided by the European Commission (133% from 2013 to 2021). On the other hand, the concessionality of finance provided by the EIB has worsened since 2017. In 2020, 0% of the loans and equity provided by the EIB was concessional and in 2021 this was only 2%.

Table 4. *Shares of grants, loans and equity in climate finance commitments of the EU institutions, 2013–2022*

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Grants (EC incl EDF)	34%	26%	42%	59%	53%	49%	47%	48%	50%	58%
Loans & Equity (EIB)	66%	74%	58%	41%	47%	51%	53%	52%	50%	42%

Sources: *OECD (2023), information provided bilaterally by the EIB to INKA Consult and EIB (n.d.). See Annex for methodology.*

Table 5. *Concessionality of the EIB's climate loans and equity, 2017–2022*

	2017	2018	2019	2020	2021	2022
Concessional loans and equity	19%	12%	2%	0%	2%	TBC
Non-Concessional loans and equity	81%	88%	98%	100%	98%	TBC

Sources: *OECD (2023). See Annex for methodology.*

It is a matter of concern that the EIB has since 2019 almost solely extended climate finance as non-concessional loans and equity. This implies that as the impacts of climate change, especially in lower income developing countries, have increased and thus the need for highly concessional climate finance, especially grants, has increased, the EIB has simultaneously phased out concessional finance. In parallel, many developing countries are already facing significant financial issues due to increased debt repayments. Box 2 shows an example of the concessionality of an EIB loan and its reliance on interest rates.

BOX 2:

EIB loans becoming less favourable for low-income countries over time

In December 2020, the EIB issued a $95.2m loan to the Pune Metro Rail Project A in India. The loan period is 19 years including a grace period of three years, biannual repayments, and a flexible interest rate which at the time of the loan agreement was 0.66%. Calculated under these conditions, the total undiscounted repayments are $100.1m. For LMICs, OECD applies a discount rate of seven percent which results in a grant equivalence of $44.2m and a grant element of 47%. As such, calculated with the conditions at the time of the loan agreement, the loan fulfils OECD concessionality requirement of a grant element of 15%.

However, if instead applying a representative current higher interest rate, the favourability of the loan decreases substantially. The loan is issued with a flexible interest rate that follows market conditions, so the interest rate applied to the loan will change from the 0.66% at the time of the loan agreement to other rates similar to market rates. At the moment, the Secured Overnight Financing Rate (the SOFR), commonly used to represent market conditions, is 5.31%. Using this as the interest rate for the loan instead, the total repayments increase by 47% to $146.8m, in turn decreasing the grant equivalent to a mere $12.5m and the grant element to only 13% - a decrease of 72%. Had the loan been issued with the present interest rate, it would not qualify as concessional finance

4.1.2 Member States Reporting Loans as Climate Finance

The EU Member States report climate finance under various financial instruments, the most important being grants and loans.

Table 6. *Climate finance instruments reported by EU Member States in 2022*

	Reported climate finance (EUR millions)	Concessional as % of total			Non-concessional as % of total		Non-specified concessionality as % of total
		Grants	Loans	Other (incl. equity and guarantees)	Loans	Other (incl. equity and guarantees)	Total
Austria	401.3	26%	18%	19%	34%	1%	1%
Belgium	394.2	99%	1%	0%	0%	0%	0%
Bulgaria	0.0	N/A	N/A	N/A	N/A	N/A	N/A
Croatia	0.0	0%	0%	0%	0%	0%	100%
Cyprus	0.0	N/A	N/A	N/A	N/A	N/A	N/A
Czechia	8.5	66%	0%	34%	0%	0%	0%
Denmark	264.6	100%	0%	0%	0%	0%	0%
Estonia	2.8	100%	0%	0%	0%	0%	0%
Finland	161.5	56%	6%	38%	0%	0%	0%
France	7,667.7	16%	47%	0%	37%	0%	0%
Germany	9,476.3	56%	41%	1%	0%	1%	2%
Greece	2.0	100%	0%	0%	0%	0%	0%
Hungary	10.2	100%	0%	0%	0%	0%	0%
Ireland	118.2	100%	0%	0%	0%	0%	0%
Italy	957.8	41%	59%	0%	0%	0%	0%
Latvia	0.1	100%	0%	0%	0%	0%	0%
Lithuania	4.0	98%	0%	2%	0%	0%	0%
Luxembourg	66.0	92%	0%	0%	0%	8%	0%
Malta	0.2	100%	0%	0%	0%	0%	0%
Netherlands	804.4	100%	0%	0%	0%	0%	0%
Poland	19.5	46%	34%	20%	0%	0%	0%

	Reported climate finance (EUR millions)	Concessional as % of total			Non-concessional as % of total		Non-specified concessionality as % of total
		Grants	Loans	Other (incl. equity and guarantees)	Loans	Other (incl. equity and guarantees)	Total
Portugal	4.2	100%	0%	0%	0%	0%	0%
Romania	8.1	100%	0%	0%	0%	0%	0%
Slovakia	7.4	100%	0%	0%	0%	0%	0%
Slovenia	5.2	100%	0%	0%	0%	0%	0%
Spain	743.5	47%	33%	3%	9%	9%	0%
Sweden	795.0	97%	0%	3%	0%	0%	0%
Total	**21,923**	**45%**	**38%**	**2%**	**13%**	**1%**	**1%**

Source: *EEA (n.d.). See Annex for methodology. Some Member States report grants to multilateral institutions such as MDBs, who might use some of it to generate loans. From a recipient point of view, such finance should thus be counted as loans rather than grants.*

Of the climate finance reported by Member States in 2022, grants (45%), concessional loans (38%) and non-concessional loans (13%) made up the vast majority. Equity, guarantees, and any other financial instruments made up the remaining 4%. This means that more than half (55%) of the climate finance reported by the Member States was extended as non-grant financial instruments in 2022. However, many individual Member States only reported grants, either because they decided not to report loans as climate finance, or because they did not provide any climate related loans to developing countries (the data used for this study does not clarify which of these circumstances apply).

Member States that reported loans in 2022 were: France (84% of France's total climate finance), Italy (59%), Austria (52%), Spain (42%), Germany (41%), Poland (34%) and Belgium (1%). Only three Member States reported non-concessional loans, namely France (37% of reported climate finance), Austria (34%) and Spain (9%). France provided 93% of the total of non-concessional loans by Member States in 2022. A few countries extended climate finance as equity: Finland (38% of Finland's total climate finance), Spain and Sweden (both 3%) and France (2%). Spain was the only country to report guarantees as climate finance (5% of Spain's total climate finance).

Key finding:

The share of grants in the climate finance provided by the EU Institutions increased from 34% in 2012 to 58% in 2022, largely driven by an increase in the grants provided by the European Commission. However, the concessionality of EIB loans and equity has decreased from 19% in 2017 to just 2% in 2021.

More than half (55%) of climate finance reported by EU Member States was extended as non-grant financial instruments, the vast majority as loans (51% of total climate finance). While a large majority of Member States solely or almost solely reported grants as climate finance, a few countries, notably France provides 84% of their climate finance as loans.

Recommendation:

Given the escalating debt crisis and growing impacts of climate change, it is imperative that the EU and its Member States, particularly in the field of adaptation, prioritise climate grants over loans. France specifically should reorient a significant share of its climate finance from loans (84% in 2022) to grants, and the EIB should provide much more concessional finance (beyond the current 2%).

4.2 The Net Value of Climate Finance (Grant Equivalent)

Section 4.1 highlights how the EU and its Member States extend climate finance using various financial instruments, with varying degrees of favorability for developing country recipients. Many developing countries have highlighted the inadequacy of reporting loans at their face value, as loans arguably overstate the financial effort by contributor countries.

To evaluate the net value of climate finance provided as loans and other financial non-grant instruments, it is useful to calculate their grant equivalent, as this makes the actual financial effort of each contributor clearer. Essentially, the calculation multiplies the face-value of concessional non-grant finance by the relevant grant element percentage (dependent for example on the interest rate of loans) in order to produce the grant equivalent of a face-value figure (see Annex for methodology). Thus, the grant equivalent gives an estimate of the amount of finance provided, if finance was only provided as grants.

4.2.1 EU Institutions Grant Equivalent

Table 7 estimates the climate finance grant equivalent totals for the EU institutions in 2021. Since the EC provides only grants, the grant equivalent value of climate finance from the EC equals reported climate finance. The grant equivalent value of climate finance from the EIB is just 1% of its reported value due to the large amount of non-concessional finance extended by the EIB.

Table 7. *Grant equivalent of the European Commission (incl. EDF) and EIB climate finance in 2021*

	Reported climate finance (EUR Millions)	Estimate of grant equivalent value of climate finance (EUR Millions)	Grant equivalent share of reported climate finance
EC incl. EDF	2,493	2,493	100%
EIB	2,474	27	1%
Total	4,967	2,520	51%

Source: *OECD (2023). See Annex for methodology.*

4.3.2 Uneven Effort Sharing Between Member States

For EU Member States, it is possible to compare the grant equivalent of reported climate finance to the size of each country's economy, for example as expressed in their gross national income (GNI).

Table 8. *Reported climate finance totals and grant equivalents relative to size of economy in 2022*

	Reported climate finance at face value (EUR Millions)	Reported climate finance at face value, as share of GNI	Grant equivalent of reported climate finance (EUR Millions)	Grant equivalent share of reported climate finance	Grant equivalent share of GNI
Germany	9,476.3	0.223%	6,439.0	68%	0.151%
Sweden	795.0	0.123%	781.6	98%	0.121%
Luxembourg	66.0	0.123%	61.0	92%	0.114%
Netherlands	804.4	0.082%	804.4	100%	0.082%
France	7,667.7	0.257%	2,455.4	32%	0.082%
Belgium	394.2	0.067%	393.6	100%	0.067%

	Reported climate finance at face value (EUR Millions)	Reported climate finance at face value, as share of GNI	Grant equivalent of reported climate finance (EUR Millions)	Grant equivalent share of reported climate finance	Grant equivalent share of GNI
Denmark	264.6	0.065%	264.6	100%	0.065%
Austria	401.3	0.084%	252.7	63%	0.053%
Finland	161.5	0.057%	126.7	78%	0.045%
Spain	743.5	0.051%	521.4	70%	0.036%
Ireland	118.2	0.031%	118.2	100%	0.031%
Italy	957.8	0.046%	462.2	48%	0.022%
Slovenia*	5.2	0.009%	5.2	100%	0.009%
Estonia*	2.8	0.008%	2.8	100%	0.008%
Hungary*	10.2	0.007%	10.2	100%	0.007%
Slovakia*	7.4	0.007%	7.4	100%	0.007%
Lithuania*	4.0	0.006%	4.0	99%	0.006%
Romania*	8.1	0.003%	8.1	100%	0.003%
Czechia*	8.5	0.003%	7.1	83%	0.003%
Poland*	19.5	0.003%	14.4	74%	0.002%
Portugal	4.2	0.002%	4.2	100%	0.002%
Malta*	0.2	0.001%	0.2	100%	0.001%
Greece	2.0	0.001%	2.0	100%	0.001%
Latvia*	0.1	0.000%	0.1	100%	0.000%
Croatia*	0.0	0.000%	0.0	26%	0.000%
Bulgaria*	0.0	0.000%	0.0	N/A	0.000%
Cyprus*	0.0	0.000%	0.0	N/A	0.000%
Total	21,922.8	0.129%	12,746.5	58%	0.075%

Source: *EEA (n.d.). See Annex for methodology. * Non-Annex II country. (Annex II parties are by the UNFCCC required to provide financial resources to developing countries, the Paris agreement extended this obligation to apply to all developed country parties). Table is ranked by grant equivalent share of GNI.*

As Table 8 shows, 15 countries have grant equivalents equal or almost equal (>98%) to their reported climate finance. France, in contrast, is estimated to have a grant equivalent share of just 32% of their reported climate finance. On average, the grant equivalent share of climate finance from the EU Member States is estimated to be around 58%. This is largely due to the reporting of four

Member States: without Germany, France, Austria and Italy, the average increases to 92%.

Table 8 also highlights significant differences in climate finance provided by the Member States relative to the size of their economies. Germany's climate finance per unit GNI is almost double that of France and is seven times higher compared to Italy. Greece and Portugal provide very low volumes of climate finance relative to their economies and are Annex II countries parties to the UNFCCC (i.e. obliged to provide climate finance to developing countries under the UNFCCC, however the Paris agreement extended this obligation to all developed countries) with the lowest estimated grant equivalent per GNI. Bulgaria, Croatia and Cyprus are the three EU countries who provided no climate finance in 2022.

Key finding:

It is evident that the provision of public climate finance is unevenly distributed between Member States, with Germany providing seven times more climate finance per unit of GNI compared to Italy. Greece and Portugal (who are also UNFCCC Annex II countries) provide very low climate finance per unit of GNI. while Bulgaria, Croatia and Cyprus provided no climate finance in 2022.

Recommendation:

The EU and some Member States should boost their provision of concessional finance to elevate the grant equivalent shares of climate finance. In particular, France, Italy and Austria should take steps to increase the grant equivalent share of their climate finance, in particular through enhanced provision of grants.

Recommendation:

While arguably all EU Member States should increase provision of climate finance, the EU Member States with a low share of climate finance relative to their Gross National Income (GNI) should make targeted efforts to increase climate finance provisions, primarily through grants, and in line with their relative responsibilities and capabilities.

4.4 New and additional climate finance

The provision of climate finance should be additional to the funds targeting development priorities such as health or education. This was recognised under the Copenhagen Accord at COP15 in 2009, where developed parties agreed to provide *new and additional* climate finance to developing parties.[43] The Cancun Agreement at COP16 in 2010 stated that parties *"Takes note of the collective commitment by developed countries to provide new and additional resources".*[44]

However, there is no formalised definition of new and additional finance. Many EU Member States have defined the concept in their biennial reports to UNFCCC as finance that was not reported as climate finance in the previous year. This definition only safeguards against double counting. The EU definition does not correspond to the origin of the term,[45] and as noted by the IPCC: *"Resources prioritising climate at the cost of non-climate development finance increases the vulnerability of a population for any given level of climate shocks, and additionality of climate financing is thus essential.*[46]

In this report, additionality is defined as climate finance being provided in addition to resources provided towards the long-standing international UN commitment by rich countries to provide 0.7% of their GNI as ODA. This definition corresponds well to several EU statements. In 2015, the European Council reaffirmed its commitment to provide an amount equivalent to at least 0.7% of GNI as ODA by 2030. According to figures for 2022 released by the OECD, EU Member States reached an all-time-high reported figure equal to 0.59% of GNI or €84 billion in ODA. Yet, in recent years, only four EU Member States reached or exceeded the 0.7% of GNI target: Luxembourg, Sweden, Germany, and Denmark. It is worrying that most EU Member States failed to live up to the 0.7% UN commitment. In these countries, it's likely that climate finance is taking resources away from development efforts in health, education, governance, etc., which is an issue for the NCQG.

A 2023 CARE report by CARE Denmark examined the additionality of climate finance provided by Annex II parties of the UNFCCC from 2011 to 2020.[47] (Annex II parties are by the UNFCCC required to provide financial resources to developing countries, however, the Paris agreement extended this obligation to apply to all developed country parties). Table 9 shows total cumulative climate finance and new and additional climate finance in the 2011–2018 period for EU Member States and compares it to the corresponding climate finance for the year 2022 only.

43 UNFCCC (2010). Report of the Conference of the Parties on its fifteenth session, held in Copenhagen from 7 to 19 December 2009. Part Two: Action taken by the Conference of the Parties at its fifteenth session.

44 UNFCCC (2011). Report of the Conference of the Parties on its sixteenth session, held in Cancun from 29 November to 10 December 2010. Part Two: Action taken by the Conference of the Parties at its sixteenth session.

45 CARE (2023). Seeing Double

46 IPCC (2022). Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change

47 CARE (2023). Seeing Double

Table 9. *New and additional concessional climate finance above 0.7% GNI*

	Cumulative 2011-2021 figures			2022 figures		
	Total climate finance (ODA+OOF) € billion	Additional amount € billion	% of total	Total climate finance (ODA+OOF) € million	Additional amount € million	% of total
Austria	2.4	0	0%	503	0	0%
Belgium	2.2	0	0%	540	0	0%
Denmark	3.0	1.4	47%	353	0	0%
Finland	1.5	0	0%	235	0	0%
France	45.2	0	0%	8,432	0	0%
Germany	63.0	3.4	5%	10,437	6,643	64%
Greece	0.3	0	0%	47	0	0%
Ireland	1.0	0	0%	207	0	0%
Italy	6.4	0	0%	1,483	0	0%
Luxembourg	0.9	0.9	100%	79	79	100%
Netherlands	6.0	0.6	11%	997	0	0%
Portugal	0.4	0	0%	73	0	0%
Spain	7.0	0	0%	1,111	0	0%
Sweden	6.4	6.3	100%	927	927	100%
Total	145.5	12.7	9%	25,425	7,649	30%

Source: *(EEA, n.d.). All ODA and GNI values were sourced from the OECD (OECD, n.d.). Total climate finance contribution includes imputed contributions through the EU budget. Calculations: INKA Consult and Seeing Double CARE (2023).*

Only 9% of total cumulative 2011–2021 climate finance extended by the 14 Annex II EU Member States can be considered additional. Most of the EU Member States do not reach climate finance levels in excess of 0.7% of GNI and can thus not claim any additional climate finance under the 0.7% definition. The exceptions are Sweden (100% of climate finance is in addition to 0.7% of GNI), Luxembourg (100%), Denmark (47%), the Netherlands (11%), and Germany (5%).

The contributions have improved substantially in 2022, where 30% of climate finance can be considered additional. This climate finance is provided by Sweden, Luxembourg, and Germany (100%, 100%, and 64%, respectively). The main explanation for the increase since 2011–2021 is that Germany increased ODA and became part of the "0.7% club", allowing some part of their substantial climate finance to be considered additional.

Key findings:

In COP15 and COP16, developed countries committed to provide new and additional climate finance to developing parties. As a definition of the operationalisation of new and additional is lacking, this report has calculated that EU Member States between 2011 and 2021 only ensured 9% of concessional climate finance to be additional beyond 0.7% of GNI as ODA. Due to Germany's increasing ODA, the Annex II EU Member States' share of total climate finance to be considered as additional has increased to 30% in 2022.

Recommendation:

EU Member States should follow the examples of Sweden and Luxembourg to provide all climate finance in addition to their longstanding commitments of providing 0.7% GNI as ODA. In line with this, the EU should advocate for climate finance to be provided in addition to resources provided to meet official development assistance (ODA) commitments, as diversion of scarce funds from pressing development and humanitarian needs cannot be considered as financial assistance.

4.5 Predictable Climate Finance Contributions (Article 9.5)

Under the Paris Agreement, developed countries are obliged to report to the UNFCCC on their future climate finance plans. CARE have previously analysed the second biennial communication submissions from 23 developed countries, due at the end of 2022, plus the European Union.[48] These communications describe their plans for providing climate finance to developing countries in accordance with Article 9.5 of the Paris Agreement.

48 CARE (2023). Hollow Commitments 2023 — an Analysis of Developed Countries Climate Finance Plans.

Key takeaways from the CARE report indicate that while progress can be seen when comparing first and second biennial communication submissions, most developed countries have failed to ensure that their overall provision of climate finance is predictable for the recipients. In addition, most developed countries did not clearly indicate which countries they would support, creating significant uncertainty. One cannot call on developing countries to spend significant, and often scarce, resources on planning climate actions when the financial commitments in support of them are extremely uncertain. In the CARE report, each country's submission is evaluated against five different criteria with regard to its clarity and content. Yet only seven countries put forward numbers demonstrating a planned increase in climate finance. Most countries provided almost no quantitative information regarding indicative future levels of support, despite this being the main purpose of the reporting.

It is essential for the EU to enhance the predictability of its financial commitments, which can be done through a European *climate finance delivery plan*. This could also promote an internal burden-sharing mechanism among the Member States.

Recommendation:

The EU should, after the NCQG agreement at COP29 in November 2024, elaborate a ***European climate finance delivery plan*** to cover a period at least until the end of the EU Multiannual Financial Framework (MFF) in 2027 and subsequently for the first five years under the NCQG until 2030. Furthermore, the European Commission and EU Member States should ensure that they provide all the information requested when submitting the next editions of their biennial communications on future climate finance contributions at the end of 2024.

4.6 Climate Finance Not Qualifying As Development Assistance (OOF)

Another way to consider the types of climate finance provided by Member States is to look at the shares of finance which qualify as ODA, and importantly the share of finance which does not qualify, the so called Other Official Flows (OOF). OOF is often provided as non-concessional loans as defined by OECD. Table 10 shows the EU Member States who reported OOF as climate finance from 2019 to 2022.

Most Member States reported only climate finance that qualifies as ODA between 2019 and 2022, while 11 countries provided varying volumes of OOF, as seen in Table 10. In total, 11% of climate finance by EU Member States between 2019 and 2022 was reported as OOF.

Table 10. *Climate finance reported as Other Official Flows (OOF) in absolute amounts and as share of reported totals, 2019–2022*

	2019		2020		2021		2022	
	Amount (EUR Millions)	% of total climate finance	Amount (EUR Millions)	% of total climate finance	Amount (EUR Millions)	% of total climate finance	Amount (EUR Millions)	% of total climate finance
Austria	162.4	49%	30.3	12%	49.7	20%	146.9	37%
Belgium	0.4	0%	2.1	2%	3.6	1%	16.8	4%
Croatia	0.0	0%	0.0	0%	0.2	100%	0.0	100%
Finland	26.1	18%	8.2	6%	0.0	0%	10.0	6%
France	1,158.1	19%	1,366.5	27%	1,039.8	21%	1,192.8	16%[49]
Germany	399.9	6%	348.5	5%	89.0	1%	261.9	3%
Hungary	0.0	0%	0.0	0%	3.7	20%	2.0	19%
Italy	10.3	2%	0.0	0%	155.0	21%	0.0	0%
Luxembourg	23.6	27%	140.2	74%	30.5	51%	38.9	59%
Malta	0.1	100%	0.1	100%	0.1	100%	0.2	100%
Spain	406.5	57%	325.8	61%	443.7	64%	332.8	45%
Total	2,194	14%	2,222	14%	1,816	10%	2,002	9%

Sources: *EEA (n.d.). See Annex for methodology.*

4.7 Mobilised Private Climate Finance

While this report focuses on provisions of public climate finance, many argue that the private sector is positioned to assume an increasingly significant role in financing climate action. For example, the OECD has identified the mobilisation of private finance as a key priority alongside increasing adaptation finance.[50] The mobilisation of private finance was also referenced as a priority in the 2021 Climate Finance Delivery Plan[51] by developed countries. The debate on private climate finance is part of broader deliberation on the role of private investments and development.

49 While this figure seems at odds with the fact that France reported 84% of its climate finance as loans in 2022, of which 37% were non-concessional, part of the explanation could be that France reported about 60% of its non-concessional loans as ODA in 2022.

50 OECD (2023). Climate Finance Provided and Mobilised by Developed Countries in 2013–2021.

51 UK Government (2021). Climate Finance Delivery Plan: Meeting the US$100 Billion Goal.

In short, *mobilised private climate finance* refers to how public resources can stimulate, support and de-risk individual projects and typically take the form of blended finance tools such as guarantees, collective investment vehicles, syndicated loans or project finance. Private climate finance can also be attracted through enabling environments and incentives e.g. from host governments, which the OECD refer to as *catalysed private climate finance*.

However, amounts mobilised have so far been lower than anticipated. The OECD finds that levels of reported mobilised private finance for climate objectives have stagnated between 2017 and 2021 at around $14–14.5 billion per year, despite a significant growth in public climate finance over the same period (from $72 billion in 2017 to $90 billion in 2021).[52] Mobilised private climate finance has also been unbalanced in terms of supporting primarily mitigation and energy-related investments in middle- and upper income countries.

When estimating totals of mobilised private climate finance, it is essential to demonstrate a causal link between the private finance made available and the mobilising instrument.[53] The OECD annually collects activity-level data[54] from bilateral and multilateral development finance providers on syndicated loans, guarantees, shares in collective investment vehicles, direct investment in companies, credit lines, project finance and simple co-financing arrangements.

The OECD highlights that care should be taken if amounts are translated into indicators such as institution- or aggregate-level mobilisation ratios, as experience shows wide ranges claimed on potential ratios. In addition, there is limited information on how mobilisation ratios are calculated across institutions, hindering comparability and consistency as the numerator and denominator of such ratios can include or exclude different categories of public and private finance. Lastly, the ability of development actors to mobilise private finance should not be considered a proxy for effective climate action, as this would require evaluating actual impacts.[55]

In conclusion, there are considerable methodological challenges associated with the reporting and accounting of mobilised private climate finance, and wide differences among providers regarding if and how to report such resources. Data on mobilised private climate finance is at best incomplete, and data on private investments are often kept confidential under non-disclosure agreements.

52 OECD (2023). Climate Finance Provided and Mobilised by Developed Countries in 2013–2021.

53 OECD (2023). Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries.

54 Based on methodologies developed in consultation with bilateral and multilateral development finance providers, and thereafter approved by DAC members.

55 OECD (2023). Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries.

4.7.1. Private Climate Finance Mobilised by EU Member States

Under the GR, EU Member States can report mobilised private climate finance to the EC. As of 2024, the EC and the EIB do not report mobilised private climate finance.

Table 11. *Mobilised private climate finance by Member States, 2021 and 2022 (EUR millions)*

	2021	2022
Belgium	37.2	55.2
Czechia	0.1	0.0
Denmark	121.8	191.5
Estonia	0.4	0.3
France	0.0	1,201.0
Germany	192.1	479.1
Hungary	0.0	1.4
Lithuania	2.5	0.0
Luxembourg	0.0	8.4
Netherlands	591.7	576.2
Romania	0.1	0.0
Slovenia	0.0	0.0
Spain	519.0	3,164.4
Sweden	665.6	578.9
Total	2,130.5	6,256.4

Sources: *EEA (n.d.). See Annex for methodology.*

As seen in Table 11, reported mobilised private climate finance almost tripled between 2021 and 2022. However, considering the unclear reporting methodologies, this change might stem as much from changed reporting practices as from increased flows of private climate finance, and data over additional years are needed before substantive conclusions can be drawn. There are also wide differences in the amounts mobilised by individual countries from one year to the next. Spain, for example, reported more than six times more finance mobilised in 2022 compared to 2021.

4.7.2. Recipients and Objectives of Mobilised Private Climate Finance

As with public climate finance, it is important to evaluate where and to which projects mobilised private climate finance flows.

Table 12. *Recipient country groups and objective of mobilised private climate finance in 2022*

	Recipient group				Objective		
	Least Developed Countries (LDCs)	Lower Middle Income Countries (LIMCs)	Upper Middle Income Countries (UIMCs)	Other or unspecified	Adaptation	Cross-cutting	Mitigation
Belgium	7%	5%	89%	0%	1%	6%	93%
Denmark	0%	40%	50%	10%	0%	0%	100%
Estonia	0%	0%	0%	100%	0%	100%	0%
France	0%	0%	0%	100%	0%	100%	0%
Germany	8%	15%	24%	53%	2%	8%	90%
Hungary	0%	0%	0%	100%	0%	100%	0%
Luxembourg	0%	0%	0%	100%	0%	100%	0%
Netherlands	0%	0%	0%	100%	5%	90%	5%
Spain	0%	0%	92%	8%	0%	0%	100%
Sweden	2%	0%	0%	98%	0%	24%	76%
Total	1%	3%	51%	46%	1%	31%	69%

Sources: *EEA (n.d.). See Annex for methodology.*

As seen in Table 12, mobilised private climate finance was in 2022 unfit to support the poorest countries to mitigate and especially adapt to climate change. Less than 3.5% went to the Least Developed Countries (LDCs) and Lower Middle-Income Countries (LMICs) combined. Almost half of the resources reported with recipient specified as a country went to Brazil (45.6%). After Brazil, Chile was the country reported to have received the second largest amount of private finance mobilised and was a bigger recipient than the LDCs and LMICs combined. In terms of thematic allocation, mobilised private climate finance was, as of 2022, very far from achieving a balance between mitigation and adaptation, as almost 70% of mobilised private finance was directed to mitigation, around 30% for cross-cutting objectives and only 1% to adaptation.

These results are aligned with recent findings by the OECD that most private climate finance was mobilised for projects in middle-income countries with relatively low risk profiles and focused on mitigation.[56] Interestingly, other than for private finance mobilised by EU Member States, MDBs were able to mobilise private finance with a relatively higher risk profile.

The findings above led the OECD to underscore the need for public resources to prioritise poorer countries and adaptation activities: using smaller volumes of finance to de-risk rather than finance mitigation projects in middle income countries can free up resources for less commercially viable priorities, including in low-income countries. Considering the similarity of the results for private finance mobilised by EU Member States, this would also be applicable to European climate finance.

In light of the findings on European as well as global quantities and characteristics of mobilised private climate finance, a number of additional conclusions can be drawn. First of all, private climate finance, leveraged or not, seems more fit for some climate activities than others; namely contributing to mitigation activities in middle-upper income countries, in particular in the energy sector, while adaptation in low-income countries receives marginal attention. Second, the stagnating global levels of mobilised private climate finance[57] indicate significant uncertainties regarding the extent to which mobilised private resources can be expected to increase at the speed and scale required. Thus, public climate finance must still be at the heart of efforts to support developing parties to mitigate emissions and especially to adapt to climate change and address unavoidable loss and damage.

56 OECD (2023). Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries.

57 OECD (2023). Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries.

Key finding:

Mobilised private climate finance has potential to play a bigger role than today, for meeting the climate related financing needs of especially emerging economies and upper-middle-income countries (UMICs). The hitherto stagnant levels of mobilised private climate finance indicates that contributors of climate finance, including the EU and its Member States, should take steps to enable additional mobilisation.

Additionally, considering the limits of this type of finance towards the poorest countries and with only 1% of mobilised finance targeting adaptation, it is key that providers of public climate finance significantly increase their contributions towards these geographies and objectives. Lastly, questions around reporting and counting of mobilised private climate finance should be resolved.

Recommendation:

The EU and its Member States should tailor their interventions both to mobilise more private climate finance in ways to foster a socially just transition and work towards a better methodology for reporting such activities and, in relative and absolute terms, direct more public climate finance, notably grants and concessional finance, to the objectives and geographies not targeted by private finance, including the poorest countries (especially LDCs and SIDS) and to adaptation activities as well as to activities addressing loss and damage.

5. Adaptation, recipient countries and LDCs

It is equally important to consider the types of projects and countries that receive climate finance from the EU. Many developing countries are concerned that the majority of public climate finance, and an even larger share of private climate finance, is spent on mitigation projects in middle income countries, for example in the energy sector. This is largely because such investments often have a stronger business case and are perceived to be less risky than adaptation projects in lower-income countries. This leaves the vast adaptation needs of low-income countries unaddressed and underfinanced.

5.1 European Climate finance for adaptation

With increasing impacts of climate change affecting the poorest and most vulnerable countries and communities in particular, sufficient levels of climate finance for adaptation-resilience are a constant yet contentious issue, which has received considerable attention in international climate negotiations.

The point of departure for these discussions is often that while the Paris Agreement stipulates that climate finance should *"aim to achieve balance"* between mitigation and adaptation efforts, mitigation projects have received much more finance than adaptation. Indeed, in response to mounting pressure, COP26 set the goal to double climate finance for adaptation from about $20 billion in 2019 to $40 billion by 2025.

Yet, the latest figures show a decrease of adaptation finance in absolute and relative terms, as adaptation finance provided and mobilised by developed countries dropped from $28.6 billion to $ 24.6 billion in 2021, representing a 14% reduction compared to 2020, and resulting in a decrease of the adaptation share of total climate finance from 34% to 27%.[58] Mitigation continued to represent the majority (60%) of total climate finance provided and mobilised in 2021, with cross-cutting (targeting both mitigation and adaptation activities) accounting for 13%.

Such a decrease of adaptation finance is highly problematic, as the most recent update of the UNEP Adaptation Gap Report[59] found that the adaptation finance needs of developing countries are more than 10 times as big as international public finance flows. In total, UNEP estimates the costs of adaptation in developing countries at $215–$387 billion per year by 2030, while noting that such costs are projected to rise significantly by 2050 because of increasing climate risks and that achieving the goal of doubling adaptation finance (by 2025) would only reduce the financing gap by 5–10%.

58 OECD (2023). Climate Finance Provided and Mobilised by Developed Countries in 2013–2021.

59 UNEP (2023). Adaptation Gap Report 2023.

Table 13. *Adaptation and mitigation shares of the climate finance reported by the EU and its Member States, 2019–2022*

	2019		2020		2021		2022	
	Adaptation	Mitigation	Adaptation	Mitigation	Adaptation	Mitigation	Adaptation	Mitigation
Latvia	50%	50%	20%	80%	N/A	N/A	88%	12%
Poland	56%	44%	66%	34%	60%	40%	75%	25%
Belgium	73%	27%	66%	34%	78%	22%	74%	26%
Ireland	67%	33%	71%	29%	56%	30%	65%	35%
Czechia	61%	39%	59%	41%	61%	39%	64%	36%
Sweden	57%	43%	57%	43%	27%	41%	64%	36%
Portugal	12%	3%	28%	12%	51%	49%	62%	38%
Slovakia	41%	59%	48%	52%	30%	70%	61%	39%
Netherlands	63%	37%	60%	40%	73%	27%	61%	39%
Denmark	32%	59%	54%	46%	47%	53%	60%	40%
Luxembourg	60%	39%	53%	47%	49%	51%	54%	46%
Romania	50%	50%	7%	93%	50%	50%	50%	50%
Croatia	N/A	N/A	N/A	N/A	50%	50%	50%	50%
Malta	50%	50%	50%	50%	50%	50%	50%	50%
Estonia	36%	64%	44%	56%	40%	60%	48%	52%
Hungary	N/A	N/A	N/A	N/A	41%	59%	48%	52%
Slovenia	N/A	N/A	N/A	N/A	60%	40%	42%	58%
Finland	31%	69%	44%	56%	47%	53%	40%	60%
France	36%	57%	38%	57%	40%	60%	37%	63%
Spain	25%	75%	21%	79%	18%	82%	36%	64%
Germany	30%	67%	30%	67%	42%	58%	35%	65%
Italy	46%	54%	56%	44%	53%	47%	28%	72%
Lithuania	4%	96%	7%	93%	4%	96%	25%	75%
Austria	27%	73%	33%	67%	48%	52%	22%	78%
Greece	50%	50%	50%	50%	6%	94%	12%	88%
Bulgaria	N/A	N/A	N/A	N/A	50%	50%	N/A	N/A
Cyprus	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EU Member States	36%	61%	36%	57%	42%	56%	39%	61%
EC (incl. EDF)	65%	35%	51%	49%	36%	64%	51%	49%
EIB	10%	90%	24%	76%	9%	91%	11%	89%
EU Institutions	36%	64%	37%	63%	23%	77%	34%	66%
Total	36%	62%	37%	61%	38%	61%	37%	63%

Sources: *OECD (2023), EIB (n.d.), UNFCCC (n.d.) and EEA (n.d.). See Annex for methodology.*

Finance for which the thematic allocation was reported as 'Cross-cutting' has been split equally between adaptation and mitigation objectives. Where shares don't add up to 100%, parties reported the remaining shares of climate finance unallocated (neither as adaptation, mitigation nor cross-cutting).

Climate finance is reported as either targeting adaptation, mitigation or cross-cutting objectives, which addresses both adaptation and mitigation. If we count finance marked as 'cross-cutting' as contributing equally to mitigation and to adaptation, the share of funds going to adaptation from the EU as a whole is 37% in 2022. This share remains largely unchanged since 2019, far from achieving the agreed balance between mitigation and adaptation.

The EIB's climate finance is primarily focused on mitigation, ranging between 90% and 76% of its committed finance each year between 2019 and 2022. Given the EIB's focus on providing non-concessional loans, a high share of mitigation finance is expected. It is noteworthy and disappointing, however, that there has been a decline in the share of adaptation finance provided by the European Commission and the EDF in recent years, especially since they provide all of their finance as grants. In 2019, 65% of the finance committed by the European Commission and EDF targeted adaptation. In 2021, this was just 36%.

Of the 11 Member States extending more than €100 million in climate finance in 2022, Belgium, Denmark, Ireland, the Netherlands and Sweden provided 60% or more of their reported climate finance to adaptation. France and Germany who report a large absolute amount of total finance provide relatively low shares of finance to adaptation, at just 37% and 35% respectively.

Key finding:

It is unfortunate that public climate finance from the European Commission budget (incl. via the European Development Fund) has eroded from providing around two thirds to adaptation objectives in 2019, to only slightly more than one third in 2022. This stands in stark contrast to the commitments of balancing adaptation and mitigation finance, and also seems to work against the goal set by COP26 to double adaptation finance by 2025. The EIB focuses primarily on mitigation, with shares of mitigation finance ranging from 90% to 76% of total climate finance between 2019 and 2022. This emphasis is unsurprising, given its preference for non-concessional loans.

Key finding:

In 2021, 38% of public climate finance by the EU and its Member States was directed toward adaptation, a slight increase from 36% in 2019. Of the largest providers, Belgium, Denmark, Ireland, the Netherlands, and Sweden provided more than 50% of their funds for adaptation in 2022. Conversely, France and Germany allocate low shares (37% and 35% respectively) to adaptation. The average share of finance allocated to adaptation among Member States remains low, standing at just 39% in 2022.

Recommendation:

Considering the overall failure to prioritise adaptation finance by developed countries broadly, support to adaptation should be drastically scaled up. The European Commission and the EU Member States should move to provide higher shares of their climate finance for adaptation to counterbalance the bias toward mitigation in the climate finance of the MDBs.[60] In the context of the NCQG, a subgoal for the provision of public finance for adaptation should be set.

60 European Investment Bank (2023). 2022 Joint Report on Multilateral Development Banks' Climate Finance.

5.2 Finance to the Least Developed Countries (LDCs)

The Least Developed Countries (LDCs) are considered to be the least responsible for climate change and yet are at the forefront of damaging climate impacts.[61] Developed countries have in various UNFCCC agreements repeatedly committed to assist LDCs in confronting climate change.[62] Most recently, the outcome of the first global stocktake during COP28: *"emphasises the importance of ensuring the availability of and access to enhanced financial and capacity-building support for developing countries, in particular the least developed countries and small island developing States"*.[63] The EU has also underlined the need to prioritise countries and communities such as LDCs in efforts to scale up adaptation finance.[64]

The GRs submitted by Member States to the European Commission do not specify the percentage of finance allocated to LDCs, but it is possible to estimate this using OECD data. Table 14 presents the share of the climate-related development finance committed by the EU Institutions and EU Member States in 2021 that was allocated to LDCs, alongside the share of that finance that targets adaptation.

Of the total climate-related development finance committed by the EU in 2021, 18% was allocated to LDCs. This was below the LDC share of global climate finance, which came in at 20% in 2021.[65] In light of the various pledges to prioritise climate finance for the most vulnerable countries, as well as the low resilience to economic shocks, limited ability to mobilise domestic finance and enormous financing needs in LDCs, it is essential to increase the support to LDCs from the EU.

Adaptation finance is critically important in enabling LDCs to adapt to the impacts of climate change. Of the finance committed to LDCs in 2021 by the EU, 61% targeted adaptation objectives, though there is a wide range particularly among the Member States as shown in Table 14.

61 See for example UNCTAD (2023). Least Developed Countries Report 2023.

62 See for example Paris Agreement (preamble, article 9.4 and 11).

63 United Nations (2023). Outcome of the first global stocktake. Draft decision -/CMA.5. Proposal by the President.

64 Council of the European Union (2024). Council Conclusions on EU Green Diplomacy.

65 OECD (2023). Climate Finance Provided and Mobilised by Developed Countries in 2013–2021.

Transparency in reporting of climate finance to the LDCs is also important. Current reporting practices in both the GRs reported by Member States to the European Commission and the BRs reported to the UNFCCC make it difficult to assess the degree to which reported climate finance is flowing to LDCs. In the OECD dataset we have used in this analysis, a large percentage of climate finance is marked as 'unallocated by income'. Of the climate-related development finance reported by the European Institutions in 2021, 36% was reported without a recipient income group. For the Member States, 28% was reported without a recipient income group. This can happen when finance goes to a group of countries, and it is not specified which countries receive which proportion of the finance. Reporting practices should be improved to ensure accurate tracking of climate finance flows to recipient countries.

Table 14. *Share of total climate-related development finance to LDCs and the share of this which is directed to adaptation by Member States who are also OECD DAC Members in 2021 (EUR millions)*

	Total climate-related development finance	Total climate-related development finance to LDCs	Of which adaptation
Austria	79.7	12.1 (15%)	10.8 (89%)
Belgium	127.1	48.3 (38%)	38.7 (80%)
Czechia	3.4	1.9 (55%)	1.7 (88%)
Denmark	265.5	76.0 (29%)	43.1 (57%)
Finland	131.7	9.5 (7%)	8.7 (91%)
France	3973.8	913.5 (23%)	591.7 (65%)
Germany	4357.2	670.7 (15%)	388.1 (58%)
Hungary	10.5	0.7 (7%)	0.2 (36%)
Ireland	51.1	30.9 (61%)	23.0 (74%)
Italy	226.9	51.1 (23%)	38.1 (75%)
Lithuania	1.0	0.0 (0%)	0.0 (0%)
Luxembourg	14.1	11.8 (84%)	6.4 (54%)
Netherlands	527.1	98.1 (19%)	82.3 (84%)
Poland	1.6	0.1 (7%)	0.1 (60%)
Portugal	2.4	1.1 (46%)	0.5 (47%)
Slovakia	0.4	0.0 (0%)	0.0 (0%)
Slovenia	0.8	0.3 (39%)	0.3 (84%)

	Total climate-related development finance	Total climate-related development finance to LDCs	Of which adaptation
Spain	54.3	12.5 (23%)	6.2 (50%)
Sweden	392.2	106.5 (27%)	58.2 (55%)
Member States	10221.0	2045.2 (20%)	1298.1 (63%)
EC (Incl. EDF)	2485.4	455.3 (18%)	337.6 (64%)
EIB	2474.2	280.8 (11%)	65.6 (23%)
EU Institutions	4968.0	736.1 (15%)	403.2 (48%)
Total	15189.0	2781.3 (18%)	1701.3 (61%)

Source: *OECD (2023). See Annex for methodology. Adaptation finance includes 50% of finance reported as targeting cross-cutting objectives. A Rio marker 1 coefficient of 40% has been applied to all projects marked as 'significant' by providers in reporting to OECD.*

Key finding:

Of the total climate-related development finance committed by the EU and its Member States in 2021, 18% was allocated to LDCs. Just under two-thirds of this (61%) targeted adaptation objectives, though there is a wide range among the EU Institutions and Member States.

Key finding:

A significant portion of finance is reported with an unallocated recipient income group in OECD dataset, making it difficult to assess the flow to specific countries.

Recommendation:

The European Commission and Member States must ensure that the poorest and vulnerable countries such as the LDCs receive adequate financial support. The EU should ensure increased transparency in the allocation of climate finance to recipient countries.

5.3. Ten biggest recipients

The largest recipients of climate-related development finance from the EU and its Member States in 2021 are presented in Table 15 and 14, respectively.

Both the European Commission and the EIB commit a large share of finance to projects with a regional focus in Africa, accounting for 13% of total climate-related development finance committed by the EU Institutions in 2021. The largest single country recipients of the climate-related development finance committed by the EU Institutions are Egypt and India, at 11% and 8% respectively. Of the individual countries that feature in the top 10, just one, Guinea, is classified as an LDC.

Of the climate-related development finance committed by the Member States in 2021, a large share is reported with the recipient country unspecified (17% of the total in 2021). The largest single country recipients are India (10%), Bangladesh (5%) and Mexico (4%). Of the individual countries that feature in the top 10, Cambodia and Bangladesh are classified as LDCs.

Table 15. *Top ten recipient countries of climate-related development finance by the EU Institutions (EC, EDF and EIB) in 2021*

Recipient country/region	Total climate-related development finance (EUR Millions)	Share of total climate-related development finance
Africa, regional	667	13%
Egypt	531	11%
India	400	8%
South of Sahara, regional	300	6%
Europe, regional	282	6%
Brazil	234	5%
Ukraine	174	3%
Jordan	125	3%
Cameroon	124	2%
Guinea*	124	2%

Source: *OECD (2023). See Annex for methodology. *LDC countries*

Table 16. *Top ten recipient countries of climate-related development finance by the EU Member States 2021*

Recipient country/region	Total climate-related development finance (EUR Millions)	Share of total climate-related development finance
Developing countries, unspecified	1,710	17%
India	1,040	10%
Bangladesh	488	5%
Mexico	456	4%
Africa, regional	343	3%
Viet Nam	278	3%
Colombia	272	3%
Serbia	267	3%
Philippines	261	3%
Türkiye	247	2%

Source: *OECD (2023). See Annex for methodology.*

Key finding:

The EU Institutions commit a large share of finance to projects with a regional focus in Africa, accounting for 13% of total climate-related development finance in 2021. The largest single country recipients of the climate-related development finance committed by the EU Institutions are Egypt and India, at 11% and 8% respectively. Of the climate-related development finance committed by the Member States, a large share is reported with the recipient country unspecified. The largest single country recipients are India (10%), Bangladesh (5%) and Mexico (4%).

Key finding:

The EU has underlined the need to prioritise the most vulnerable countries, including the LDCs. Despite this, of the individual countries that feature in the top recipients of climate finance from the EU Institutions, just one, Guinea, is classified as an LDC. Likewise, of the countries in the top recipients of climate finance from the Member States, just Cambodia and Bangladesh are classified as LDCs.

Recommendation:

As the most climate-vulnerable countries in general have contributed insignificantly to climate change, and have the least resources to adaptation-resilience, both the EU and its Member States should increase provisions of primarily grant-based adaptation finance to the poorest and most vulnerable countries such as the LDCs.

6. Loss and damage finance

Severe losses and damages from climate change are already occurring and are projected to increase even if mitigation and adaptation efforts are stepped up. Lower-income countries are acutely vulnerable to these impacts and have for over 30 years advocated for finance that explicitly addresses loss and damage, building on the demands of the Alliance of Small Island States (AOSIS), who in 1991 proposed a financial mechanism that would deal with the consequences of sea level rise.

Despite increased urgency and growing support among vulnerable countries, progress on establishing a reliable, dedicated system of financing to address loss and damage in the current architecture of international climate finance has been slow and contested. More than two decades after the AOSIS bought the issue to attention, the first dedicated mechanism on loss and damage was established in the 2013 Warsaw International Mechanism (WIM)[66] and in 2015 developing nations successfully advocated for the inclusion of an article on loss and damage in the Paris Agreement. These steps created political legitimacy but failed to commit countries to provide funds to address loss and damage. Finally, at COP27 in 2022 a landmark agreement was made on a Loss and Damage Fund (provisionally called "Fund for responding to loss and damage")[67] to provide financial support to developing countries most vulnerable to climate change. This was followed by COP28 decision for establishing a separate Fund and a first Board meeting was held at end of April 2024.

This COP decision reflects the need for urgent action to address loss and damage, but still many issues remain unsolved. The concept broadly refers to the adverse effects of climate change that cannot or will not be mitigated or adapted to. These residual impacts are often categorised as economic losses and non-economic losses including loss of cultural heritage, ways of life and displacement that are not easily quantifiable. However, there is no commonly agreed definition of loss and damage under the UNFCCC and divergences in understanding of what loss and damage mean remain.

With this ambiguity, there has been difficulty in agreeing whether loss and damage should be the 'third pillar' of climate action within the Paris Agreement. Developing countries and many civil society organisations have long pushed for loss and damage to be given its own policy track within the UNFCCC, distinct to adaptation, as well as for the provision of dedicated finance to address loss and damage and the inclusion of a related sub-target in the NCQG.

66 United Nations (2014). Report of the Conference of the Parties on its nineteenth session, held in Warsaw from 11 to 23 November 2013.

67 United Nations (n.d.). Fund for responding to loss and damage.

How we define and understand loss and damage is also important for how it is tackled. To date, finance to address loss and damage has largely been through existing funds for climate adaptation, development or humanitarian aid and insurance mechanisms. However, these mechanisms may not be suitable or sufficient for all losses and damages, and it is imperative that finance to address loss and damage doesn't have to compete with other important priorities.

In addition, there is no systematic method for tracking and reporting information on loss and damage finance under UNFCCC, OECD or MDB frameworks. Current reporting tables under the UNFCCC do not include a specific space for loss and damage finance, but, at least, one of the columns in the agreed reporting guidelines on "additional information" mentions support activities to address loss and damage for optional reporting.[68] There is no separate Rio marker under OECD system. This undermines the ability to assess the adequacy and effectiveness of flows of loss and damage finance. The EU and its Member States should lead from the front in this regard, and transparently report on finance they provide to address loss and damage, separate from adaptation and mitigation.

Case study:
Tracking loss and damage with new Rio marker

As responses to losses and damages are not captured by the current OECD Rio marker system, DanChurchAid has developed an additional loss and damage marker which has been used to monitor their project portfolio since 2019. The marker captures response and recovery from climate-related disasters, reconstruction, relocation, and actions to address irreversible losses and non-economic effects. In operationalizing this process for tracking loss and damage finance, DanChurchAid has found that there often is an overlap with projects marked as targeting adaptation under the existing Rio marker system. This means that reported adaptation finance would decrease if the loss and damage marker was applied to their portfolio, highlighting the need for additional finance for loss and damage alongside adaptation finance that is aligned with the needs of vulnerable countries.

68 Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its third session, held in Glasgow from 31 October to 13 November 2021. Addendum Part two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its third session | UNFCCC, table III.1

Key finding:

There is no universally agreed definition of loss and damage and there is no systematic method for tracking and reporting information on loss and damage finance under UNFCCC, OECD or MDB frameworks. This undermines our ability to assess the effectiveness of flows of loss and damage finance and accountable reporting.

Developing countries and international NGOs advocate for separate tracking of finance to address loss and damage under OECD and UNFCCC, dedicated finance to address loss and damage, and the inclusion of a related sub-target in the NCQG.

Key finding:

Finance to address loss and damage has so far largely been through existing funds for climate adaptation, development or humanitarian aid and insurance mechanisms. However, these sources can only cover a minimum of the future losses and damages and it is imperative that finance to address loss and damage doesn't have to compete with other important priorities.

Recommendation:

A new Rio marker for tracking loss and damage finance should be established, that can be applied complementary to the existing Rio markers for mitigation and adaptation. Such a new marker should capture response and recovery from climate-related disasters, reconstruction, relocation, and actions to address irreversible losses and non-economic effects. The creation of a loss and damage marker would also lead to changes in the existing adaptation marker, to avoid overlap and double counting.

6.1. European pledges to address loss and damage

A number of funding pledges were made during COP 27 and COP28 including by several EU Member States and the European Commission, toward the Loss and Damage Fund as well as other mechanisms such as the Santiago Network for Loss and Damage. These are listed in Table 17.

While enhanced finance to address loss and damage represents a step in the right direction, contributions so far do not come close to estimates of costs of climate-induced loss and damage. One study estimates economic loss and damage of USD 425 billion in 2020 and USD 671 billion in 2030.[69] There are also profound and devastating non-economic losses that cannot be quantified. The European Commission and the EU Member States must therefore commit much more finance to address loss and damage, beyond these one-off pledges.

Table 17. *Funding pledges for loss and damage during COP 27 and COP28 by the EU and its Member States (EUR millions)*

	Pledge at COP 27	Pledge at COP 28
Austria	50	
Belgium	2.5	
Bulgaria		
Croatia		
Cyprus		
Czechia		
Denmark	13	23
Estonia		0.5
Finland		3
France	20	100
Germany	170	95
Greece		
Hungary		
Ireland	10	25
Italy		100
Latvia		

69 Heinrich-Böll-Stiftung Washington, DC and Loss and Damage Collaboration (2023). The Loss and Damage Finance Landscape.

	Pledge at COP 27	Pledge at COP 28
Lithuania		
Luxembourg	10	
Malta		
Netherlands		15
Poland		
Portugal		5
Romania		
Slovakia		
Slovenia		1.4
Spain	2	20
Sweden		
European Commission	60	25
Total	**338**	**413**

Source: *Compiled by INKA Consult. Pledges include those to the Loss and Damage Fund as well as other mechanisms such as the Santiago Network for Loss and Damage.*

Some of these pledges did not come in the form of direct finance to address loss and damage as advocated for by vulnerable countries. For example, several pledges at COP27, notably €170 million from Germany, included finance to establish the Global Shield initiative against climate risk, focused on the development of climate and disaster risk insurance, despite concerns from vulnerable countries that insurance is expensive and often unsuitable for loss and damage.

Furthermore, many pledges were taken from existing climate finance and development budgets. Ireland, for example, announced a contribution of €25 million to the Loss and Damage Fund at COP28 that will come from finance already allocated to climate change.[70] In addition to finance for Global Shield, Germany pledged €95 million directly to the Fund.

70 The Journal (2023). 'Profound responsibility on our shoulders': Taoiseach pledges €25 million to climate damage fund.

As most member states already fail to meet their ODA commitments (See Section 4.4) and climate finance for adaptation that is crucial to minimise losses and damages remains grossly underfunded, there is a clear need for finance that specifically addresses loss and damage that is additional to existing climate finance as well as ODA. A relevant option for raising finance is international taxation, for example through a levy on the shipping sector. A specific sub-goal on loss and damage is needed in the NCQG to ensure that loss and damage finance is not only adequate to needs but new and additional.

Key finding:

At COP27 and COP28, the European Commission and several Member States have pledged €751 million funding to address climate-induced loss and damage. However, these fall far short of estimated costs and concerns arise over the nature of pledges, with some drawn from existing climate finance and development budgets instead of new-and-additional beyond ODA budgets.

Recommendation:

The European Commission and the Member States should provide a high amount of funding to address loss and damage to meet the evolving needs of developing countries, in addition to finance for adaptation and mitigation. This should also be expressed as a specific subgoal in the new NCQG goal.

7. Lessons for the New Collective Quantified Goal (NCQG)

At COP21 in Paris in 2015, the decision was made to extend the $100 billion goal through to 2025, and to agree on a New Collective Quantified Goal in 2024. Currently, all key elements of the new goal remain undecided, including its quantum, its structure (whether the goals will include thematic sub-goals), indicators and differentiation of public and private flows. All of these aspects therefore remain key decisions to be taken by COP29 in November 2024.

This chapter will, drawing on the findings from the previous chapters, consider which lessons can be drawn from the EU's contributions to the $100 billion goal for the new incoming finance goal. It is becoming increasingly clear that the financing needs of developing countries to adapt to and mitigate climate change, as well as to address unavoidable loss and damage, amount to trillions rather than billions. While this highlight the scale of the NCQG quantum challenge, it is also important to consider and evaluate the lessons learned from the $100 billion goal.

Lesson 1:

Firstly, that the **developed parties failed to collectively deliver** on their $100 billion goal highlights the importance of ensuring that the objectives under the NCQG will in fact be met in the agreed timeframe. The failure to deliver the $100 billion goal has eroded trust between developed and developing parties, and likely also slowed down progress on other work streams under the UNFCCC. However, despite its challenges and shortcomings, the existence of a collective quantified finance goal has been critical to work towards increasing finance compared to the situation that preceded this goal.

A further observation from the $100 billion goal is that there are wide differences in the extent to which developed country parties, including EU Member States obliged to extend climate finance to developing parties, have done so. Section 4.3.2 for example highlighted how Germany's climate finance per unit of GNI (0.151%) almost doubles that of France's (0.082%) and is seven times higher compared to Italy (0.022%), while 15 Member States provide less than 0.001% of GNI.

Recommendation 1 for the NCQG:

It is essential that the NCQG includes safeguards to ensure that the agreed quantum is reached in the agreed timeframe. Progress towards the goal should be monitored and provisions should be agreed to address and compensate for shortfalls.

Lesson 2:

As highlighted by the OECD[71] and UNEP[72], **adaptation remains vastly underfunded** and far from achieving the agreed "balance" in the allocation between mitigation and adaptation financing. It is a clear learning from the $100 billion goal that a subgoal for adaptation should have been in place, as the mere commitment to "balance" proved insufficient. Unfortunately, it was only at COP26 in Glasgow that parties acted on the problem, by setting the goal to double adaptation climate finance from $20 billion (2019) to $40 billion (2025). The low prioritisation of adaptation finance also applies to the EU institutions (just 34% of the total climate finance extended by the EU institutions targeted adaptation activities in 2022) and several Member States, including the by far two largest extenders of climate finance Germany and France (35% and 37% respectively).

Recommendation 2 for the NCQG:

In light of the significant adaptation financing needs of developing countries and the failure to reach a balance between mitigation and adaptation efforts in international climate finance, the NCQG should include a sub-goal for the provision of public finance to adaptation purposes.

71 OECD (2023). Climate Finance Provided and Mobilised by Developed Countries in 2013–2021.

72 UNEP (2023). Adaptation Gap Report 2023.

Lesson 3:

Similarly, progress to scale up finance for supporting developing parties to address costs from unavoidable climate-induced loss and damages has been alarmingly slow. Current pledges to the Loss and Damage Fund amount only to around $751 million. No other international funding decision, target or obligation exists to provide loss and damage finance.

Recommendation 3 for the NCQG:

Considering the discrepancy between financing needs and finance provided for addressing loss and damage in developing countries, the NCQG should include a sub-goal to ensure sufficient resources dedicated to address loss and damage.

Lesson 4:

As highlighted in Chapter 4 in this report, large sums of reported European climate finance are provided as loans. In 2022, 58% of climate finance by the EU institutions was grants provided by the EC, while 42% were loans through the EIB. A matter of concern is that EIB concessional loans have decreased from 19% in 2017 to only 2% in 2021, becoming less favourable for low-income countries.

Member States provided on average 45% grants, 38% concessional loans and 13% non-concessional loans, notably France with 84% of climate finance provided as loans. Although climate finance as loans has its merits in some sectors and geographies (e.g. for mitigation efforts in middle-income countries), it remains problematic that some of the most climate-vulnerable and poor countries must repay adaptation loans (often with high interest rates), provided to them by the countries responsible for climate change.

Recommendation 4 for the NCQG:

It is essential that the EU works for a NCQG that ensures sufficient provision of climate finance as grants for adaptation and loss and damage, and grants, concessional loans and other blended finance instruments for mitigation. The NCQG could include provisions to secure a minimum level of public grant-based finance, as well as monitoring the percentages of grants, concessional and non-concessional loans, and the grant equivalent of such instruments.

Lesson 5:

The EU has repeatedly argued that climate finance should provide sufficient resources for the poorest and most climate-vulnerable countries. Yet, this is contrasted by the relatively low shares of climate finance targeting LDCs (20% globally[73] compared to 18% from the EU and its Member States).

Recommendation 5 for the NCQG:

Climate finance under the NCQG should provide sufficient resources for the poorest and most climate-vulnerable countries. As such, the NCQG should prioritise more climate finance targeting LDCs and SIDS and include the share in reporting to the UNFCCC.

73 OECD (2023). Climate Finance Provided and Mobilised by Developed Countries in 2013–2021.

Annex: Methodology

A.1 Data sources and processing

This study utilises the following key sources of data in analysing EU international climate finance:

1. Biennial Reports (BR) to the UNFCCC
2. GRs (Governance Regulation) reports reported to the European Commission
3. Aid activity dataset and climate-related development finance dataset of the OECD Development Assistance Committee (OECD DAC) Creditor Reporting System (CRS)
4. EIB project-level dataset provided directly by the EIB to consultants
5. EIB project-level dataset published on the public register on the EIB website
6. EC project-level dataset provided directly by the EC to consultants

In addition, exchange rates (yearly averages) and GNI values were sourced from the OECD (OECD, n.d.).

Table A.1. *Data sources used for analysis.*

<table>
<tr><th rowspan="2"></th><th colspan="9">Primary data sources</th><th rowspan="2">Secondary or supporting data sources</th></tr>
<tr><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th></tr>
<tr><td>European Commission and European Development Fund</td><td colspan="9">Climate-related dataset of the OECD DAC CRS</td><td>EC project-level dataset provided directly by the EC to consultants in 2024</td><td>EU's Biennial Reports to the UNFCCC

Aid activity dataset of the OECD DAC CRS</td></tr>
<tr><td>European Investment Bank</td><td colspan="4">EIB project-level dataset</td><td colspan="5">Climate-related dataset of the OECD DAC CRS</td><td>EIB project-level dataset on the public register on the EIB website</td><td>EU's Biennial Reports to the UNFCCC</td></tr>
<tr><td>Member States</td><td colspan="8">Member State's Biennial Reports to the UNFCCC</td><td colspan="2">GRs reported to the European Commission</td><td>Climate-related dataset of the OECD DAC CRS</td></tr>
</table>

A.1.1 Biennial Reports to the UNFCCC

EU Institutions

The EU Institutions report to the UNFCCC in the Biennial Reports (BRs) every two years, including information on the climate finance committed by the EC, EDF and EIB. In this reporting:

- CTF Table 7 provides overview figures in both national currencies and USD, combining the climate finance provided by the EC, EDF and EIB from CTF Tables 7(a) and 7(b). Financial contributions are divided into climate-specific finance and core/general funding to multilateral institutions. The climate-specific finance is further divided into mitigation, adaptation and cross-cutting portions which are mutually exclusive categories.
- CTF Table 7(a) provides a breakdown of multilateral climate finance and core funding to individual multilateral institutions, though this has only been used by the EU in BR3, BR4 and BR5, and the information provided is limited. The EU states that climate-specific contributions that are not earmarked for specific purposes but support climate action in developing countries are reported as multilateral support in these tables.
- CTF Table 7(b) provides a breakdown of climate-specific bilateral climate finance. The EU states that the EU's statistical system categorises most climate finance support as bilateral with multiple recipients, even when the finance is delivered through a multilateral organisation, and this support is reported in CTF Table 7(b).

Prior to BR4 finance provided by the EIB was reported in CTF Table 7(b). In BR4 and BR5, however, the climate finance of the EIB is aggregated and reported as multilateral finance in Table 7(a). In addition, a technical annex is provided in the BRs which contains project-level information for the EIB's climate finance reported in CTF Table 7(a).

The EU states that it categorises its climate finance as climate-specific if it has been given a Rio Marker, while the EIB's climate relevant financial flows are tracked using the joint approach developed by the Multilateral Development Banks.

For both the EU and EIB the status of finance reported is committed finance. The EU categorises the funding source of its finance as ODA and the only instrument as grants. The EIB categorises its funding sources as ODA, OOF or Other, and this is specified in the technical annexes. EIB funds are delivered in the form of loans alongside smaller amounts of grants, equity investments and guarantees.

Data processing: EU Institutions

For the purposes of this study, for European institutions, the narrative reports and CTFs were downloaded spanning BR1 to BR5 on 11 April 2024 from the UNFCCC webpage (UNFCCC, n.d.) and Biennial Report Interface (UNFCCC, n.d.), respectively.

- For BR2 and BR3, EIB climate finance reported in Table 7(b) was manually extracted and compiled in a separate sheet.
- For BR4 and BR5, project-level breakdowns of EIB finance provided in the technical annexes of the narrative reports were manually extracted and added to separate sheets.

EU Member States

EU Member States also report commitments of climate finance every two years to the UNFCCC in the Biennial Reports (BRs) in the CTF Table 7, 7(a) and 7(b), using the same reporting practices as described for EU institutions above.

Data processing: EU Member States

BRs were used for reporting years 2019 and 2020. To this end, CTFs from BR5 were downloaded for all EU Member States on April 9 and 10 2024 from the Biennial Report Interface (UNFCCC, n.d.).

To prepare this data for analysis, the following steps were taken:

- To correct a reporting mistake, bilateral climate finance from France in 2019 was multiplied by 1000.
- All amounts reported in national currencies other than in euros were converted to euros, using OECD exchange rates (annual average) for each year.
- The share of Member States' climate finance reported as OOF (section 4.7, Table 10) was calculated by sorting projects based on the information provided in the "*FundingSource*" column:
    - Projects reported as "*ODA*" was counted as 100% ODA (Official Development Assistance).
    - Projects reported as "*ODA/OOF*" or similar were counted as 50% ODA and 50% OOF (Other Official Flows).
    - Projects reported as e.g. "*29% ODA/ 71% OOF*" or similar were reported as 29% ODA and 71% OOF.
    - Projects reported as "*OOF*" or anything else than the above were counted as 100% OOF.

A.1.2 GRs reported to the European Commission

The EU reporting framework on climate finance is currently governed by the Governance Regulation (GR) which was adopted in 2018. Under the GR, Member States must submit annual reports on financial support to developing countries as well as capacity building and technology transfer activities. The GR reporting consists of project-level information for support provided to developing countries, including financial instruments used, ODA/OOF status, objective(s), sector, committed and disbursed amounts etc. The dataset includes bilateral finance and finance transferred to multilateral organisations (both core funding and climate specific funding).

The GR dataset is used specifically to calculate reported totals, commitments and disbursements, financial instruments used, mobilised private climate finance (including recipients and objectives of mobilised private climate finance), support for adaptation objectives, and recipients of climate finance.

Data processing: Member States

GR data files were downloaded for all EU Member States for the years 2021 and 2022 on March 21 2024 from Reportnet (EEA, n.d.). To prepare this data for analysis, the following steps were taken:

- Formatting included ensuring consistent use of decimal separator and formatting from text to numbers in Excel.
- All amounts reported in national currencies other than the euro were converted to euros, using OECD exchange rates (annual average) for each year.
- Some Member States report a number of "multi-bi" or "multi-bilateral" projects. These were considered bilateral climate finance (as a significant majority of Member States reported them as such).
- Regarding OOF (section 4.7), projects were sorted based on the information provided in the "*FundingSource*" column, following the same methodology as described in section A.1.1. See Table 10.
- Only applicable to 2022: To provide an overview of the financial instruments used by Member States, as seen in Table 6, the financial instruments reported in the "*FinancialInstrument*" column were sorted using the following methodology:
    - All projects were first divided into three main categories as follows:
        - Grant: "*Grant*", "*Grant element of concessional loan (tied aid loan)*", "*grant equivalent of concessional loan*", and "*Standard grant*".

- Concessional loan: Any entry starting with "*Concessional loan*" and "*Standard Loan*" if the "*FundingSource*" column was marked as "*ODA*".
- Non-concessional loan: "Non-concessional loan" and "Standard Loan" if the "FundingSource" column was marked as "OOF".

- An additional category, "*Other*", was then introduced and divided between concessional, non-concessional and non-specified concessionality.
  - Concessional "*Other*": Any entry not included in the three categories above (Grant, Concessional Loan, Non-concessional Loan) reported as "*ODA*" in the "*FundingSource*" column.
  - Non-concessional "*Other*": Any entry not included in the three categories above (Grant, Concessional Loan, Non-concessional Loan) reported as "*OOF*" or similar in the "*FundingSource*" column.
- Lastly, all projects reported with no specification of concessionality (meaning the reported entry in the "*FinancialInstrument*" column did not fall into any of the three categories described above (Grant, Concessional Loan, Non-concessional Loan), or into "ODA", "OOF" or similar in the "*FundingSource*" column) were included in the "Non-specified concessionality" column in Table 6.

A.1.3 Aid activity and climate-related dataset of the OECD DAC Creditor Reporting System

On an annual basis, the OECD Development Assistance Committee (OECD DAC) collates project-level information on climate-related development finance alongside provisions of broader development finance from bilateral providers that are members of the DAC as well as some multilateral providers, including the EU Institutions. This is made public in the CRS Aid Activity dataset (hereafter CRS dataset), and in the climate-related development finance dataset (hereafter climate-related dataset).

The analysis utilises the climate-related dataset to assess the climate finance provided by the EU institutions (EU commission, EDF and the EIB), as well as for the EU Member States where analysis isnot possible with the information provided in the BRs or GRs. The CRS dataset is used specifically to calculate grant element percentages of climate-related ODA loans and for estimates of disbursed climate finance by the EC and EDF.

The climate-related dataset is available from both a provider and a recipient perspective. This analysis utilizes the recipient perspective which captures (i) activities provided and reported by developed countries with climate change objectives and (ii) the outflows of climate finance from multilateral organizations.[74]

The CRS dataset includes information on both commitments and disbursements of bilateral finance and on finance transferred to multilateral organisations that is not core funding (earmarked multilateral finance and "multi-bi" finance). The climate-related development finance dataset only includes information on commitments. Both datasets include information on grants, loans and other instruments that are used to deliver climate-related finance. The amounts are presented in current nominal values, i.e. they are not adjusted for inflation to a reference year. Information covers funds which are transferred to "DAC countries"; i.e. countries identified as eligible for receiving ODA.[75]

The CRS dataset is used for comparison of disbursements and commitments of climate finance, as disbursement data is not available in the climate-related dataset. This is, however, only possible for the EC and the EDF. As the EIB does not report Rio Markers to the full CRS, it is not possible to identify their climate-related finance in the full dataset.

74 Information regarding mobilised private finance and officially supported export credits is not available at the project level and is included at the aggregate level in annual OECD reports using non-publicly available data.

75 List of countries eligible for receiving ODA can be found here: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm

The climate-related development finance dataset meanwhile offers a more direct route for analysing commitments, and allows analysis of the climate-relevant commitments from the EIB (as the EIB do not apply Rio markers to their projects reported to the CRS, their climate-relevant commitments and disbursements are 'hidden' in the CRS dataset).

The climate-related dataset is not used for the EU Institutions for the year 2022 as the data was not available at the time of writing. Consultants therefore used data provided directly by the EC (see Section A.1.6) and published on the public register on the EIB website (see Section A.1.5). In addition, for the previous version of this study, data provided directly to the consultants by the EIB was used for the years 2013-2016 (see Section A.1.4).

Data processing: climate-related dataset

The recipient perspective climate-related development finance dataset was downloaded on 04 April 2024 (OECD, 2023), for the years 2010-2021. This was subsequently filtered for the period of analysis (2013-2021). To prepare this data for analysis, the following steps were taken:

- The "Provider" column was filtered to include only the EIB and EU Institutions (excl. EIB).
- Commitments for climate-related finance are reported in the dataset in both "Current USD thousand" and "2021 USD thousand". This analysis uses commitments in current USD figures. Exchange rates published by the OECD for each year of analysis were used to convert USD to EUR (OECD, n.d.).

In addition, further calculations were added in columns to the dataset to conduct the analysis:

- Adjustments for Rio marker scores (climate relevance)
- Calculation of the grant equivalence of commitments (see Section A.2)

Data processing: CRS Aid Activity dataset

The Aid Activity dataset was downloaded on 18/22 April 2024 from the CRS (OECD, 2024) for the years 2010-2022. To prepare this data for analysis, the following steps were taken:

- Files were converted from CSV to XLS.
- The climate-related projects were identified in each year's data based on the Rio markers reported for climate change mitigation and adaptation.
- The "Provider" column was filtered to include only the EU Institutions.
- Exchange rates published by the OECD for each year of analysis were used to convert USD to EUR (OECD, n.d.).
- To ensure the CRS data is limited to include only relevant transfers of climate finance, aid classified as general budget support (type of aid A01), imputed

student costs (E02), debt relief (F01) except debt swaps, administrative costs (G01), development awareness (H01) and refugees in donor countries (H02) was excluded. This is based on the coverage of the Rio markers outlined by the OECD.[76]

Adjustment for Rio marker scores

By identifying activities targeting climate change as a principal or significant objective, the Rio markers provide an indication of the degree of mainstreaming of climate considerations into a given project. The applied markers thus allow for an approximate quantification of the development finance that target climate objectives.

Depending on the Rio marker score a percentage of the overall budget of the project can be considered relevant to climate change mitigation, adaptation, or cross-cutting objectives.[77] There is no uniform standard coefficient applied to a budget to assess the proportional relevance, and a range of coefficients between 1% and 100% are applied by nations to projects with a *significant* score for adaptation and/or mitigation. To create a standardised dataset, in this analysis the OECD data is adjusted so that a Rio marker score of *significant* results in a financial adjustment of 40%.[78] For projects with a Rio-marker of *not targeted* the coefficient is 0% and for a Rio-marker of *principal* the coefficient is 100%.

The Rio marker score is also used to determine which objective the financial support is attributed to. In cases where mitigation is the principal objective and adaptation is a significant objective of the project, 100% of its related funding is attributed to mitigation, and vice versa if adaptation is the principal objective while mitigation is a significant objective. In cases where the Rio marker is equal for mitigation and adaptation, finance is assigned to the cross-cutting objective.

Based on this, a matrix showing attribution and adjustment of climate finance according to the reported Rio Markers is presented in Table 2. It shows, for example, that for a project with Rio marker scores of *significant* for adaptation and *significant* for mitigation, 40% of the total project amount is reported as cross-cutting finance. For a project with a Rio marker score of *principal* for adaptation and *significant* for mitigation, 100% of the total project amount is reported as adaptation finance.

The finance reported by the MDBs through the climate components approach is not adjusted in any way.

76 OECD (2023). Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire: Annexes — modules D and E.

77 The categories "mitigation", "adaptation" and "cross-cutting" are mutually exclusive when calculating climate finance totals. Mitigation and adaptation support are defined as per OECD DAC definitions. Cross-cutting activities are those that involve both mitigation and adaptation components.

78 Most members of the OECD-DAC apply a fixed coefficient between 30% and 50% for activities scored with a significant Rio marker.

Table A.1.3: *Matrix indicating how adaptation and mitigation Rio markers determine the type of support as adaptation (green), mitigation (pink) or cross-cutting (orange), and the resulting coefficients used to adjust a project's total budget.*

		Mitigation Rio Marker		
		Not targeted (0)	Significant (Score 1)	Principal (Score 2)
Adaption Rio Marker	Not targeted (Score 0)	Not relevant	40% of aid in support of activity is counted as mitigation	100% of aid in support of an activity counted as mitigation aid
	Significant (Score 1)	40% of aid in support of an activity counted as adaptation aid	40% of aid in support of an activity counted as cross-cutting aid	100% of aid in support of activity counted as mitigation aid
	Principal (Score 2)	100% of aid in support of an activity counted as adaptation aid	100% of aid in support of an activity counted as adaption aid	100% od aid in support of an activity counted as cross-cutting aid

Source: *Consultants own.*

A.1.4 EIB project-level dataset

For the previous version of this study, staff at the EIB explained that data on EIB funds are only reported to the CRS when disbursements are made. The information on committed funds found in the climate-related dataset for finance in 2016 and earlier was therefore considered incomplete for the EIB, since some projects/loans may have been committed but without disbursements made. Therefore, for EIB flows in 2016 and earlier, figures are calculated based on data provided by the EIB itself. This dataset was provided directly to consultants.

For the 2020 version of this study, the EIB again provided an updated dataset for its provision of climate finance in 2017 and 2018, and on inspection these figures were in close agreement with the figures in the climate-related dataset. Thus, OECD data was used for all EU institutions for 2017 and 2018.

A.1.5 EIB project-level dataset published on the public register on the EIB website

As the climate-related dataset was not available for the year 2022 at the time of analysis, to analyse the climate finance flows of the EIB in this year consultants used project-level data published on the public register on the EIB website (EIB, n.d.).

- The dataset includes all provisions of finance marked as targeting climate flowing to and developing countries. As such the data was filtered only for finance reported as flowing to countries on the DAC list of ODA recipients.[79]
- For finance reported with a region as the recipient it was not possible to determine if the finance flowed primarily to countries on the DAC list of ODA recipients, and as such this finance has not been included in analysis.
- The dataset does not include details of concessionality. For grant equivalent calculations of the EIB's finance in 2022, the concessionality of financial instruments in the climate-related dataset in 2021 has been used.

79 OECD (n.d.). DAC List of ODA Recipients.

A.1.6 EC project-level dataset

As the climate-related dataset was not available for the year 2022 at the time of analysis, to analyse the climate finance flows of the EC in this year consultants used project-level data provided directly by the EC. No adjustments were made to the data.

A.2 Calculation of grant equivalent values

To estimate the real support value of provided finance, we attempt to account for climate finance at its grant equivalent value. The methodology used in this analysis to calculate grant equivalent values is defined by the OECD.[80]

Calculation of grant equivalence for various financial instruments is as follows:

- Grants have a grant equivalence of 100% and are thus counted at their face value. Concessional equity and shares in investment vehicles are counted at their face value for a lack of a robust approach to estimate their grant equivalent value.
- Non-concessional instruments are estimated to have zero direct assistance value and a grant equivalence of 0%. While some finance defined as 'non-concessional' may include some level of concessionality, it is not generous enough to, in the case of bilateral finance, be categorized as ODA and as such is not counted as assistance due to the burden that debt places on developing countries.
- The grant equivalent value of concessional loans is calculated by multiplying the (weighted) average grant element percentage of the climate-related concessional loans for each donor with the face value of the loan.
- The grant element percentage for each donor is calculated by dividing the total grant equivalent value of all climate-related (i.e. Rio-marked) ODA loan disbursements by the total face value of those disbursements, as reported for each donor in the CRS dataset for 2021 and 2022. The CRS dataset is used as grant equivalents are reported and published only for ODA disbursements, and the climate-related development finance dataset is published based on commitments only.
- The resulting weighted average grant element percentage are shown in Table A.2.1. and A.2.2. For countries where provider-specific grant element percentages could not be calculated due to a lack of data, the weighted average grant element percentages were used (55.9% for 2021 and 51.2% for 2022).
- For bilateral providers that reported finance with a funding source of 'other', 50% of the finance has been treated as a concessional loan in accordance with the bullet above, and 50% of the finance has been treated as non-concessional and thus assigned a grant equivalence of 0%.

80 OECD (2016). Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire.

- The grant element percentage assumed for the EIB's concessional loans is the weighted average of 55.9% for 2021 and 51.2% for 2022, used as a conservative assumption while recognizing that OECD definitions of concessionality do not apply to multilateral development banks.

Table A.2.1: *Grant element percentages assigned to concessional climate-related loans in 2021.*

Country	Grant element
Austria	98.3%
Belgium	79.8%
Canada	92.5%
France	42.7%
Germany	33.9%
Italy	20.2%
Japan	65.9%
Spain	33.4%
Weighted Average	**55.9%**

Source: *Consultants calculations.*

Table A.2.2: *Grant element percentages assigned to concessional climate-related loans in 2022.*

Country	Grant element
Austria	97.5%
Belgium	80.3%
Canada	99.3%
France	34.2%
Germany	28.6%
Italy	12.7%
Japan	66.5%
Spain	64.4%
Weighted Average	**51.2%**

Source: *Consultants calculations.*

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