

Climate Finance

A Developing Country Perspective

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Executive summary

The 29th Conference of the Parties (COP29) of the United Nations Framework Convention on Climate Change (UNFCCC), to be held in Baku, Azerbaijan, in November 2024, is being billed as the ‘finance COP’. Climate finance-related issues feature high on the agenda. Setting the New Collective Quantified Goal (NCQG), a mobilisation target for climate finance flows from developed to developing countries from 2026 onwards, will be the top priority. This will replace the previous mobilisation target of USD 100 billion per year by 2020, which was subsequently also made applicable through 2025.

In this context, the definition of climate finance flows from developed to developing countries itself is

contentious. This issue brief offers recommendations on the desirable attributes, definition, and mode of delivery of climate finance flows that should constitute the NCQG, as well as on the quantum of the NCQG itself.

Developed countries (Annex II countries in UNFCCC parlance) accounted for 57 per cent of cumulative global emissions from 1850 to 2019 (IPCC 2022). Further, Annex II countries have also not delivered on their emissions mitigation commitments under the Kyoto Protocol (van Deursen and Prasad 2023).

On the other hand, developing countries, which account for most of the world’s population, have contributed relatively less to historical emissions and are among

the most vulnerable to the impacts of climate change. These countries need to increase their consumption of energy and materials for their developmental needs. At the same time, the Paris Agreement calls on all countries to undertake ambitious efforts in responding to climate change. Given these twin priorities, developing countries should not be forced to choose between development and climate action. If they are expected to pursue both concurrently, they should be provided external financial support. This is because developing countries face several financing constraints.

Consistent with the UNFCCC's foundational principles of Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC) and equity, the Copenhagen Accord of 2009 (COP15) recognised the need to support climate action in developing countries with financial resources. In this connection, developed countries committed to providing USD 30 billion in climate finance to developing countries between 2010 and 2012, which was supposed to rise to reach USD 100 billion per year by 2020.

Since 2015, the Organisation for Economic Cooperation and Development (OECD) has annually reported on the progress towards the USD 100 billion per year by 2020 goal. Per the OECD, this target was reportedly achieved in the year 2022, two years behind schedule (OECD 2024). However, some observers, including Oxfam, and developing countries have raised questions over the accuracy, methodology, and verifiability of the OECD figures. In contrast to the OECD's claim of USD 115.9 billion climate finance delivered in 2022, Oxfam estimates that the real value of support is between USD 27.9 and 34.9 billion (Oxfam 2024).

The shortcomings of the OECD approach, as identified by various stakeholders, include (i) some reported figures are commitments but not actual flows; (ii) some reported figures represent existing developmental aid reclassified as climate finance, and are thus not new and additional; (iii) there's a possibility of overreporting of climate relevance in self-reporting by multilateral development banks (MDBs) and bilateral aid agencies; and (iv) inclusion of public finance provided at market rates.

On the matter of definition, the UNFCCC's Standing Committee on Finance (SCF) invited submissions from Parties on the operational definition of climate finance in 2020. In response, 17 submissions were made by Parties or groups of Parties. They provide valuable insights into

the positions of many developing countries on climate finance.

Drawing on our analysis of the various points in the preceding discussion, our recommendations span the desirable attributes, definition, and mode of delivery of climate finance as well as the quantum of the NCQG.

A. Attributes

On attributes, we recommend that

- i. Climate finance flows should either fund mitigation, adaptation, or both.
- ii. Only actual disbursements, and not commitments, should count as climate finance flows.
- iii. Climate finance flows should be new and additional, and not a reclassification of existing developmental aid.
- iv. Only public grant capital, or the grant equivalent of other forms of public capital, along with the private finance that these mobilise (for example, through de-risking), should count towards climate finance flows.

B. Definition

Tying these attributes together, we propose the following definition of climate finance flows from developed to developing countries: "Disbursements of new and additional public capital by developed countries in the form of direct grants, as well as grants or grant-equivalent components of other forms of public capital, along with the private capital flows that these mobilise, which collectively contribute towards developing country climate finance needs".

C. Mode of delivery

On mode of delivery, we recommend that public climate finance from developed countries should focus on funding blended finance instruments. By mobilising many multiples in private capital, these can make the most efficient use of limited public capital, and thereby minimise public finance requirements from developed countries.

D. Quantum

Finally, on the quantum, the NCQG should bridge the gap between organic private climate finance flows to developing countries, and their external climate finance

needs. An independent high-level expert group (IHLEG) constituted by the COP26 and COP27 presidencies and the UN Climate Change High-Level Champions concluded that developing countries (excluding China) will have external climate financing requirements of around USD 1 trillion per year by 2030. This requirement provides a credible basis for determining the NCQG.

The above recommendations constitute a framework to converge developing country perspectives onto a common ground. By approaching the topic of climate finance in a unified voice, developing countries could facilitate a breakthrough in climate finance negotiations, which so far has remained elusive.

1. Introduction

COP29 promises to be a crucial milestone for global climate action. The issue of climate finance is high on the agenda. Developing countries (Table 1 in Annexure) have long deemed this a key enabler for ambitious climate action. In this connection, a breakthrough on the New Collective Quantified Goal (NCQG), a new climate finance mobilisation target to address the climate finance needs of developing countries, will feature prominently during the negotiations in Baku.

The NCQG is a successor goal to the target of USD 100 billion per year and is supposed to be decided prior to 2025 (UNFCCC 2024). The target was agreed to at COP15 (2009: Copenhagen), and formalised at COP16 (2010: Cancun). This annual target was subsequently also made applicable through 2025 at COP21 (2015: Paris), post which the new mobilisation target, the NCQG, will be applicable.

The Earth Summit of 1992 in Rio de Janeiro, formally known as the United Nations Conference on Environment and Development, first outlined the principle of Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC). The principle of equity was later also included as foundational to the climate negotiations process within the UNFCCC. CBDR-RC recognises individual countries' varying historical responsibilities and differing capabilities in addressing climate change. Equity refers to a fair distribution of benefits and responsibilities.

Consistent with the principles of CBDR-RC and equity, the Copenhagen Accord of 2009 recognised the need

to support climate action in developing countries with financial and technical support from developed countries. Such assistance can be in several forms, such as capacity building, technology transfers and financial resources. However, the most critical factor remains that of financing climate action. Developed countries committed to provide USD 30 billion between 2010 and 2012, which would rise to USD 100 billion per year by 2020 (UNFCCC 2009). This target was also made applicable through 2025. Determining the NCQG is the primary focus of COP29. However, it is not just the quantum but definitional aspects, specifically what should constitute climate finance, which become relevant, particularly as the definition of climate finance itself continues to be debated.

In this context, this issue brief seeks to provide a fresh perspective on the topic of climate finance. This perspective is aimed at informing the discourse on a suitable definition of climate finance from the standpoint of the needs of developing countries.

We begin with a brief historical review of climate-related developments. This is accompanied by a spotlight on the financing constraints of developing countries. We cover an overview of the UNFCCC financial mechanism and existing definitions of climate finance, then move on to a deep dive into submissions by various Parties (and groups of Parties) on this matter. We follow this with an analysis of the major quantitative assessments of climate finance flows. Based on the above, we conclude the issue brief by proposing recommendations that span the desirable attributes, definition, and mode of delivery of climate finance as well as the quantum of the NCQG.

2. Responsibility, developmental imperatives and finance

The Paris Agreement of 2015 (COP21) is a binding agreement that holds all nations accountable to targets set by them. Further, consistent with the principles of CBDR-RC and equity, the Paris Agreement reaffirmed that developed countries should take the lead in providing financial assistance to countries that are less endowed and more vulnerable. However, to fully appreciate the matter of financial assistance for developing countries, it is important to understand who has been responsible for climate change, as well as the developmental imperatives and financial constraints of developing countries.

2.1 Responsibility: Carbon space occupied by developed countries

A review of historical cumulative emissions is necessary for an informed perspective on this matter. Developed countries accounted for 57 per cent of the cumulative global emissions between 1850 and 2019 (IPCC 2022). Focussing on the largest emitters reinforces the concentration of responsibility among just a few of them. Table 1 presents the historical cumulative emissions data for the top 10 emitters, across developed and developing country categories.

The USA, EU, Japan and Canada account for a 65.8 per cent share of the cumulative emissions by the top 10 emitters. This shows that even while some developing countries feature in the top 10 emitters' list, their cumulative contributions on a global scale are only a fraction of those of developed countries. Further, given

that most of the world's population lives in developing countries, developed country emissions are much higher on a per capita basis.

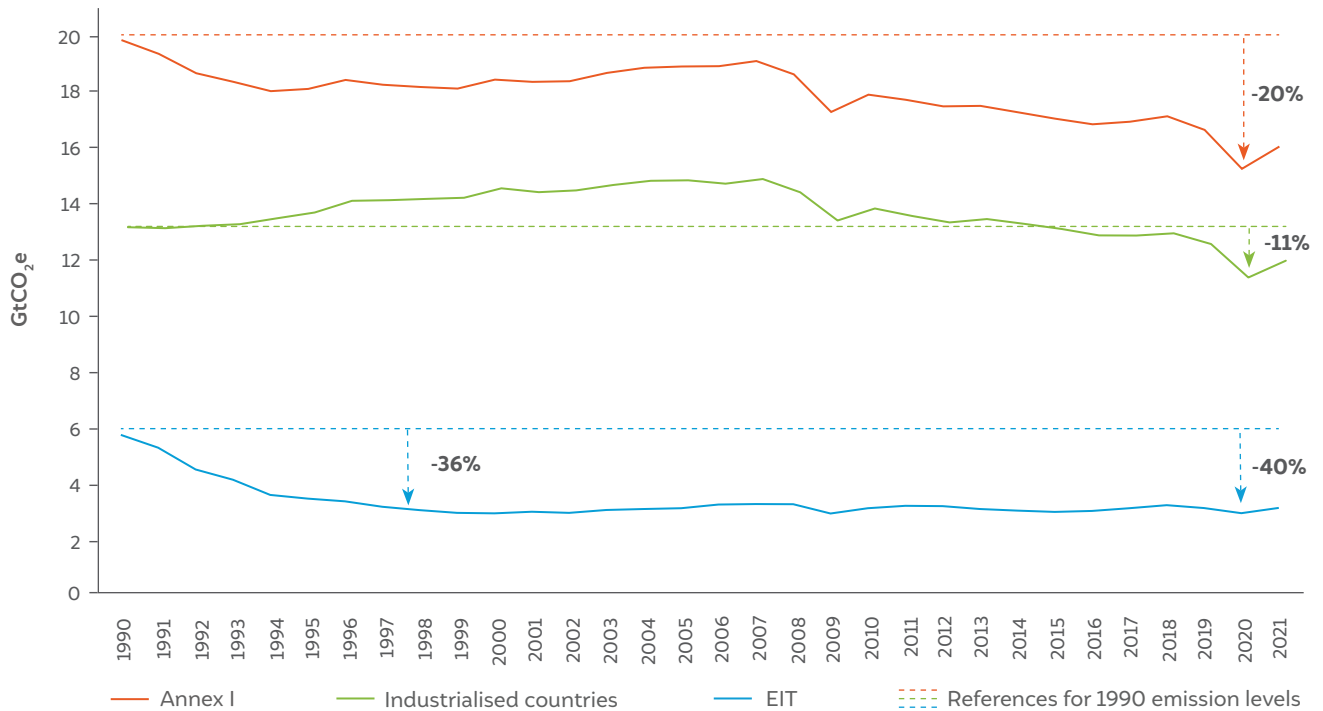
Not only have developed countries been chiefly responsible for the emissions that have caused climate change, their historical emissions reduction achievements have been underwhelming. Figure 1 demonstrates the emissions trajectory of Annex I countries¹, which are further bifurcated into industrialised economies of the OECD (Annex II) and economies in transition (EIT). It is evident that a significant share of the emission reductions in Annex I countries in the pre-2020 period was driven by EIT, and not just by industrialised economies (van Duersen and Prasad 2023). Industrialised country emissions mostly remained above the 1990 baseline, and the decline in 2020 may be attributed to the Covid pandemic.

Table 1 Developed world dominated cumulative emissions from 1850 to 2019

Emitter	Cumulative emissions in gigatonnes of carbon dioxide (GtCO ₂)
USA	400.98
EU	348.85
China	220.91
Russian Federation	113.88
Japan	63.61
India	53.21
Canada	32.26
Mexico	18.31
South Korea	17.51
Brazil	15.01
Total of 10 emitters	1,284.53

Source: Malyan, Ankur and Vaibhav Chaturvedi. 2021. *The Carbon Space Implications of Net Negative Targets*, New Delhi: Council on Energy, Environment and Water.

1. **Annex I countries** are industrialised countries and economies in transition that are part of the United Nations Framework Convention on Climate Change (UNFCCC). **Industrialised countries:** Those that were members of the Organisation for Economic Co-operation and Development (OECD) in 1992, such as Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, United Kingdom and United States of America. **Economies in transition:** Referred to by UNFCCC to include Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Russian Federation, Slovakia, Slovenia and Ukraine.

Figure 1 Emissions reductions by economies in transition mask underwhelming performance by developed countries

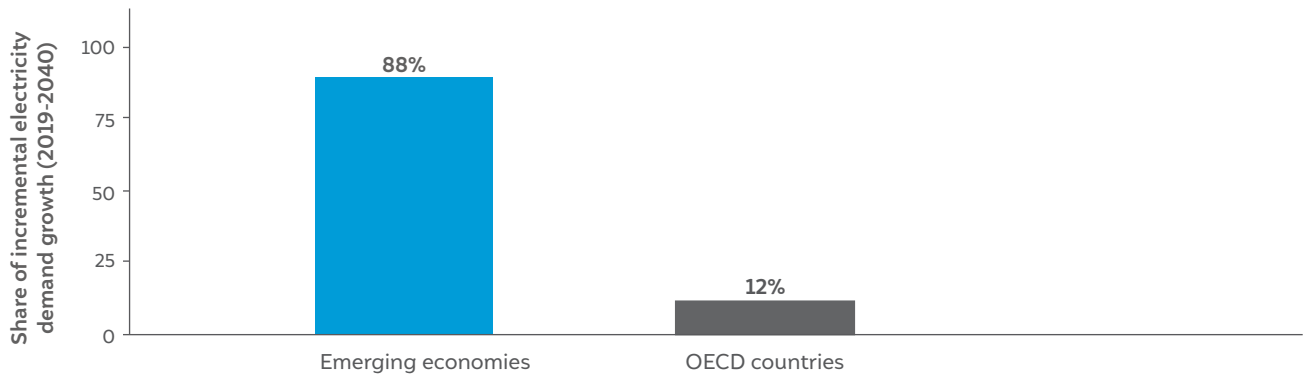
Source: Van Deursen, Max and Sumit Prasad. 2023. *Trust and Transparency in Climate Action: Revealing Developed Countries' Emission Trajectories*, New Delhi: Council on Energy, Environment and Water.

Note: Annex I Parties are grouped into (i) industrialised countries and (ii) economies in transition (EIT).

2.2 Developmental imperatives

Energy access is fundamental to development. Developing countries need to universalise access and increase energy consumption in the coming decades. Emerging economies, for example, are expected to account for 88 per cent of the growth in global electricity demand between 2019 and 2040 (Bond, et al. 2021). Meeting their developmental requirements is their first priority. At the same time, the Paris Agreement calls on all countries to undertake ambitious efforts in responding to climate change. Given these twin priorities, developing countries should not be forced into making the hard choice between development and climate action.

If developing countries are expected to pursue climate action along with development, external finance should be made available to them. The transition to a low-carbon and climate-resilient economy requires a large amount of investment to mitigate and adapt to climate change, and finance remains a fundamental bottleneck towards accelerating climate action in developing countries.

Figure 2 Developing countries will overwhelmingly drive future global electricity demand

Source: Bond, Kingsmill, Arunabha Ghosh, Ed Vaughan, and Harry Benham. 2021. *Reach for the sun: The emerging market electricity leapfrog*. A Carbon Tracker-CEEW report. London: Carbon Tracker.

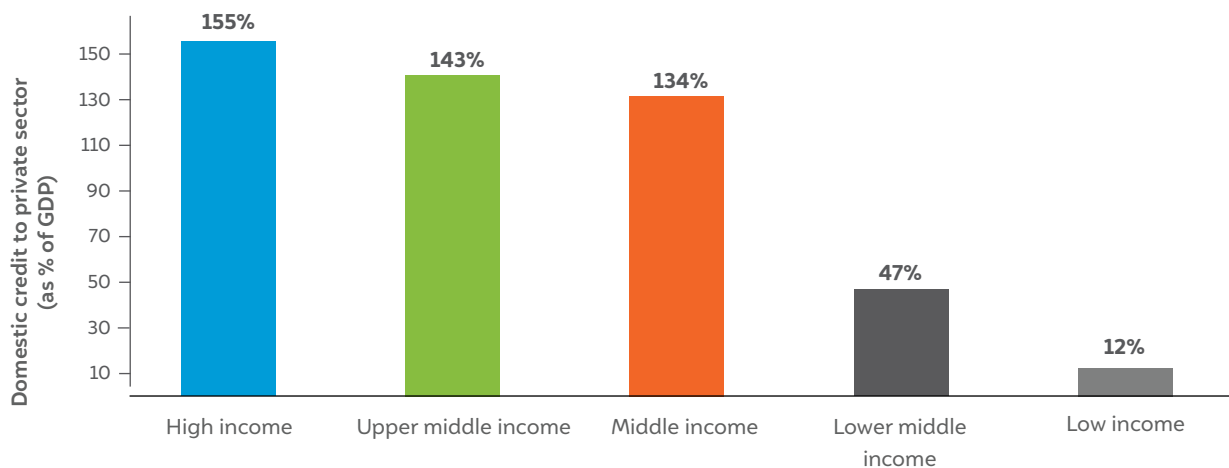
Note: Emerging economies include China, India, ASEAN, Africa, South America, Middle East, Eurasia, other emerging economies.

2.3 Financing constraints

Investments for climate action are particularly challenging for many lower- and middle-income countries that are simultaneously facing debt sustainability challenges and multi-dimensional crises (UNDP 2023). This limits the ability of developing countries to raise capital to fund mitigation and adaptation projects, making them ill-equipped to finance their climate action plans on their own. Further, public finance alone is not sufficient to finance this transition (IMF 2023). In this connection, IMF estimates suggest that the private sector will need to cover between 80 and 90 per cent of the climate mitigation investment needs in

emerging market and developing economies (EMDEs), because public investment growth is projected to be limited.

If mobilising private finance is such a key component of climate action, then how are developing countries placed on this front? Figure 3 presents the relative capabilities of countries, grouped by income levels, in mobilising private credit. It illustrates that the lower the income level, the greater the disadvantage in mobilising credit for the private sector (World Bank 2024).

Figure 3 The lower the income level, the greater the disadvantage in mobilising credit for the private sector

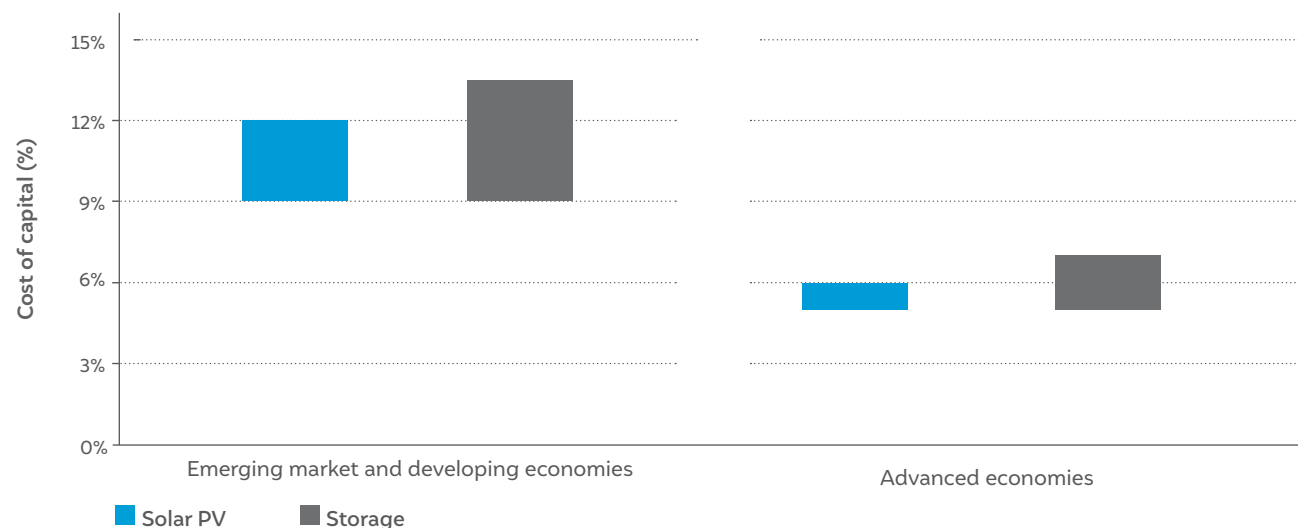
Source: World Bank. Retrieved on 30 Oct 2024. *Domestic credit to private sector (% of GDP)*.

Note: Data for country groups is for following years: 2023 (high income, upper middle income, and middle income), 2021 (lower middle income) and 2014 (low income).

In addition to the challenge of low capability to mobilise credit, the cost of capital for projects also differs considerably between advanced economies and EMDEs. In EMDEs, higher costs of capital are a result of higher risks (both economy-wide and project-

level), which require projects to achieve higher rates of return to justify the investment. Figure 4 demonstrates the difference in cost of capital between EMDEs and advanced economies, using two types of clean energy technologies (solar PV and storage) as an illustration.

Figure 4 The lower the income level, the higher the cost of capital



Source: IEA. 2024. *Reducing the Cost of Capital*, IEA, Paris.

Note: Advanced economies include USA and EU countries.

3. UNFCCC's definition of climate finance

The need for a consensus based definition of climate finance goes beyond procedural reasons. It is critical for both developing and developed countries to agree upon a clear, unambiguous, and precise definition, to track progress and ensure that commitments are ultimately honoured. Hence, at COP16 (2010: Cancun), the Standing Committee on Finance (SCF) was constituted to assist the COP in managing the financial mechanism of the UNFCCC. At COP17 (2011: Durban), the SCF was further mandated to prepare biennial assessments of global climate finance flows, which includes work on operational definitions of climate finance.

In its first biennial assessment (2014), the SCF noted the varied definitions used by different entities, and

provided a working climate finance definition of its own ('working definition') (UNFCCC 2014):

"Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts."

Additionally, the UNFCCC website also describes climate finance, but with a slightly different framing. This definition ('website definition') is provided below:

"Local, national, or transnational financing—drawn from public, private, and alternative sources—that seeks to support mitigation and adaptation actions addressing climate change."

BOX 1**UNFCCC's financial mechanism**

The need for effective mobilisation of climate finance led to the creation of UNFCCC's financial mechanism. This comprises five funds and facilities, which were established at different points in time to serve the purpose of climate finance mobilisation:

i) Global Environment Facility (GEF)

which was set up at COP2 (1996: Geneva), to serve as the first operational entity of the financial mechanism (UNFCCC 1996), and also operates two funds:

- a) Least Developed Countries Fund (LDCF)
- b) Special Climate Change Fund (SCCF).

ii) Green Climate Fund (GCF)

which was established under the Copenhagen Accord of 2009, and designated as the entity responsible for delivering a significant portion of the new multilateral funding for adaptation (UNFCCC 2009).

iii) Adaptation Fund

which was established under the Copenhagen Accord of 2009, and designated as the entity responsible for delivering a significant portion of the new multilateral funding for adaptation (UNFCCC 2009).

The financial mechanism serves both the Kyoto Protocol and the Paris Agreement. The objective of these funds and facilities, and the financial mechanism as a whole, is to ensure the flow of financial resources (USD 100 billion annually by 2020 as per the Copenhagen Accord, made applicable until 2025) to developing country Parties for financing climate action.




The 'working definition' approaches climate finance from the perspective of broad purpose. The 'website definition' approaches climate finance from the perspective of origin, source, and specific end-use. However, these definitions are not fit for purpose from the perspective of climate finance flows from developed to developing countries. This assumes particular relevance in the context of measuring the USD 100 billion per year commitment in climate finance flows from developed countries.


4. Submissions by Parties

In an effort to build consensus among Parties on a definition of climate finance, the SCF invited them to submit their views on the operational definition

of climate finance. The SCF released a report on clustering types of climate finance definitions in use for consideration at COP28 (2023: Dubai), which collated the submissions on operational definition of climate finance (UNFCCC 2023). The report also included an opinion to update the SCF's existing operational definition of climate finance, as appropriate, and support Parties in their national reporting efforts. To this end, the SCF invited Parties and external stakeholders to make further submissions via the submission portal by 30 April 2023. Overall, since 2020, the SCF has received submissions from 17 Parties or groups of Parties, including India. These have been synthesised in the table below.

Table 2. Key elements of parties' approach to operational definition of climate finance

Key elements	Approach of Parties	Party or group of Parties*
General views 	Is a common definition necessary?	<ul style="list-style-type: none"> • Yes: 8 African Group, AILAC, AOSIS, India, Kenya, LDCs, LMDCs, Vanuatu • No: 7 Canada, EIG, EU, Indonesia, Japan, Norway, USA • Not specified: 2 Philippines, Solomon Islands
	Is the 2014 SCF definition ('working definition') valid?	<ul style="list-style-type: none"> • Yes: 3 EIG, Japan, Philippines • Yes, but it may evolve: 5 AILAC, Canada, EU, Norway, USA • No: 5 African Group, AOSIS, India, LDCs, LMDCs • Not specified: 4 Indonesia, Kenya, Solomon Islands, Vanuatu
Climate relevance 	Which themes should be included?	<ul style="list-style-type: none"> • Adaptation and mitigation: 15 African Group, AILAC, AOSIS, Canada, EIG, EU, India, Kenya, LDC, LMDC, Norway, Philippines, Solomon Islands, USA, Vanuatu <ul style="list-style-type: none"> – Additionally include loss and damage: 8 AILAC, AOSIS, India, Kenya, LDC, LMDC, Solomon Islands and Vanuatu – Additionally include technology transfer: 4 African Group, India, LMDC, and the Solomon Islands • Not specified: 2 Indonesia, Japan
	How should climate-related activities be defined?	<ul style="list-style-type: none"> • Country driven: 12 African Group, AOSIS, Canada, EIG, India, Japan, Kenya (At country level), LMDC, Norway, Philippines, Solomon Islands, USA • Using classification system/common approach: 2 AILAC, LDC • Not Specified: 3 EU, Indonesia, Vanuatu
Financial instruments and accounting/reporting 	Which climate financial instruments are included?	<ul style="list-style-type: none"> • Grants and concessional loans: 2 African Group, Kenya • Grants, concessional loans, and guarantees: 2 India, LMDC • Grants, equity, concessional loans, and guarantees: 1 Solomon Islands • Grants, equity, concessional loans, blended, and risk-sharing instruments: 1 Japan • Grants, equity, concessional loans, and subsidies: 1 Philippines • All: 6 AILAC, AOSIS, Canada, EU, USA, Vanuatu • Not specified: 4 EIG, Indonesia, LDC, Norway
	Should grant-equivalent or face values be reported	<ul style="list-style-type: none"> • Grant-equivalent: 3 African Group, AOSIS, Kenya • Not specified: 13 AILAC, Canada, EIG, EU, India, Indonesia, LDC, LMDC, Norway, Philippines, Solomon Islands, USA, Vanuatu • Face value: 1 Japan
	Should finance be reported in terms of	<ul style="list-style-type: none"> • Disbursements: 4 African Group, AOSIS, India, LMDCs • Both/Either: 4 EU, Japan, Norway, Vanuatu • Not specified: 9 AILAC, Canada, EIG, Indonesia, Kenya, LDCs, Philippines, Solomon Islands, USAa

Key elements	Approach of Parties	Party or group of Parties*
	Is new and additional finance referred to and defined?	<ul style="list-style-type: none"> • Yes, defined: 10 AOSIS, India, Indonesia, Japan, Kenya, LDC, LMDCs, Philippines, Solomon Islands, Vanuatu • Yes, but not defined: 1 African Group • No: 6 AILAC, Canada, EIG, EU, Norway, USA
Actors 	Is finance from private sources or a wide variety of sources included?	<ul style="list-style-type: none"> • Public and private sources: 12 AILAC, Canada, EIG, EU, India*, Japan, Kenya, LMDCs, Norway, Philippines, US, Vanuatu <ul style="list-style-type: none"> – Additionally include alternative sources: 2 EU and Vanuatu – Additionally include blended sources: 1 Vanuatu • Public and mobilised private finance: 2 African Group, AOSIS • Wide variety of sources: 1 Solomon Islands • Not specified: 2 Indonesia, LDCs

* (i) African Group – 54 countries, (ii) AILAC: Alliance for Latin America and Caribbean – eight countries, (iii) AOSIS: Alliance for Small Island States – 40 countries, (iv) LDCs: Least Developing Countries – 46 countries, (v) EIG: Environmental Integrity Group – 6 countries, (vi) EU: European Union – 27 countries, (vii) LMDC: Like-Minded Developing Countries

*As sourced from the SCF Report on Clustering Types of Climate Finance Definitions in Use. In its official submission to the UNFCCC, India does not appear to have private sources as part of its proposed operational definition.

Source: CEEW-CEF adaptation; UNFCCC 2023. Standing Committee on Finance Report on clustering types of climate finance definitions in use. Bonn: UNFCCC. https://unfccc.int/sites/default/files/resource/Definitions_final_231117%20BLS23393%20UCC%20Climate%20Finance.pdf

We summarise the key takeaways from these submissions below.

Common definition

The submissions from various Parties reveal a nearly even divide between the number of submissions advocating for a common definition of climate finance, and those favouring multiple approaches that can include dynamic developments in the field (i.e., the definition may evolve). This divide broadly appears to be along the lines of the countries' stages of economic development. Submissions by developed Parties tend to believe the existing definition suffices but it may evolve in the future. Submissions by developing Parties (with the exception of Indonesia) tend to favour the need for a common definition. Only two Parties, the Philippines and the Solomon Islands, did not specify their stance on this issue.

End use (mitigation, adaptation)

The majority of Parties agree that climate finance should target both mitigation and adaptation, with fifteen Parties endorsing this comprehensive approach. Notably, seven of these Parties also include loss and damage as a critical end-use, reflecting a growing

recognition of the need to address the impacts of climate change already being felt by vulnerable communities. Only Indonesia and Japan did not specify their position on the end-use of climate finance.

Nature (financial instruments)

There is significant variation in Parties' positions regarding financial instruments. Seven Parties, including the African Group and India, specifically mention that grants and concessional finance, along with other instruments, such as guarantees, subsidies, blended and risk-sharing instruments, should qualify as climate finance. This emphasises the need for affordable funding for developing countries. Conversely, six Parties, including the EU and the USA, are open to a broader range of financial instruments. Four Parties did not specify their stance, leaving room for further discussion.

New and additional finance

The concept of 'new and additional' finance is supported by eleven Parties, who stress the importance of ensuring that climate finance is not merely repurposed from existing development aid. This view is particularly strong among groups like the African Group and AOSIS. However, six Parties, including Canada and the EU,

do not mention the need for climate finance to be new and additional, which leaves the door open to existing development flows to be classified as climate finance.

Source (private, public)

There is a broad agreement on the inclusion of both public and private funds as sources of climate finance, with twelve Parties supporting this view. Among them, two also recognise alternative and blended sources, underscoring the importance of innovative financing mechanisms. Meanwhile, the African Group and AOSIS emphasise the source of climate finance as public and mobilised private. The Solomon Islands take a more inclusive approach, considering all sources as potential contributors to climate finance, while two Parties, Indonesia and the LDC group, do not specify their approach.

5. Approaches to tracking climate finance

As mentioned at the outset, tracking progress is also a key purpose of any definition of climate finance. In this respect, there are three organisations that have tracked or assessed climate finance flows over a period of time. These organisations and their respective approaches are summarised below.

5.1 Organisation for Economic Cooperation and Development (OECD)

In response to a request from the Climate Change Expert Group (CCXG) of the UNFCCC in 2014, the OECD released its first report, *Climate Finance Provided and Mobilised by Developed Countries*, with the objective of “examining existing data sources to track climate finance, and highlighting questions around the complex nature of financial flows through examples across international and domestic as well as public and private flows”. It tracks climate finance flows by specifying four components: (i) bilateral public climate finance provided by developed countries’ institutions, notably bilateral aid agencies and development banks; (ii) multilateral public climate finance provided by multilateral development banks (MDBs) and climate funds, attributed to developed countries; (iii) climate-related officially supported export credits, provided by developed countries’ official export credit agencies;

and (iv) private finance mobilised by bilateral and multilateral public climate finance, attributed to developed countries.

While the OECD report was the first notable effort to quantify climate finance flows, it has been criticised due to concerns that it is counting climate finance commitments and not just actual flows (DEA 2015). It has also been faulted for not trying to measure and report the new and additional components of the finance extended, opening up the potential risk of classifying already committed development funds as ‘climate finance’. There are also concerns that the OECD permits self-reporting of climate relevance of projects and corresponding flows by MDBs and official aid agencies, opening the door to possible over-reporting of flows. Lastly, it counts non-grant components as climate finance.

5.2 Oxfam International

To provide a critical assessment of reported international public climate finance flows by the OECD, Oxfam International released the first of its *Climate Finance Shadow Reports* in 2016. This was the first report to identify shortcomings in the reported figures (Oxfam 2016). The initial report drew on three main data sources: (i) biennial reports produced by donor countries, (ii) the OECD Development Assistance Committee (DAC) database, which captures the climate-relevance of donors’ official development assistance (ODA) spending, and (iii) and the ‘Roadmap to USD 100 Billion’ published by developed countries in 2016, an associated technical report by the OECD.

However, the 2023 edition of the Oxfam Shadow Report is based only on the OECD dataset on climate-related development finance, and does not source data from developed countries’ biennial reports submitted under the Enhanced Transparency Framework of the Paris Agreement.

Oxfam’s reports question the underlying methodology used to report climate finance flows. The latest report findings suggest that:

- Just one-quarter of reported public climate finance is provided as grants. The remainder is mostly loans, the majority of which are not even concessional.

- The real value of financial support aimed at climate action is much less than officially reported figures suggest.

Oxfam does not count private finance mobilised by international public capital. Further, acknowledging the twin problems of (i) exaggerated reporting of climate finance flows and (ii) low share of grants in the climate finance flow mix, Oxfam developed the Climate-Specific Net Assistance (CSNA) framework. This is an attempt to account for these two issues and better reflect the actual financial effort made by developed countries to provide finance in support of climate action. Oxfam claims that the OECD method is “overscoring true financial effort by developed countries by at least double” (Oxfam 2024). This is also supported by another study by the Center for Global Development (Ritchie 2020). Oxfam’s primary contention is:

“There is no agreed definition for how finance contributing to the goal should be counted with respect to fulfilling the obligations of developed countries to provide financial resources under the UNFCCC or the Paris Agreement. This has led to reporting practices that overstate the value of support provided by a significant margin.”

Looking forward, Oxfam recommends that institutions should always report the grant-equivalent of provided finance. The upcoming NCQG negotiations should express any quantified elements in grant-equivalent terms (including an approach to computing grant-equivalence), and include a definition of climate finance that would then be used as the basis for reporting progress towards the NCQG in the future. Oxfam also points out that finance should be grant-based rather than loan-based, to avoid adding to the debt burden of developing countries. This is the first effort to highlight that reported climate finance figures by developed countries are often overstated.

5.3 Climate Policy Initiative

The Climate Policy Initiative (CPI)’s Global Landscape of Climate Finance Report provides an overview of global climate-related investment. The CPI has been tracking global climate finance flows since 2010. It monitors global primary investment by public and private actors in activities that reduce emissions, and improve adaptation and resilience to climate change. The CPI working definition of climate finance is aligned with the

UNFCCC SCF ‘working definition’, as specified in section III of this issue brief.

To determine what constitutes mitigation and adaptation finance provided by the public sector, CPI relies on the tracking methodologies and reporting followed by (i) the members of the OECD’s DAC, data for which is publicly available through the Creditor Reporting System database; (ii) the group of MDBs and members of the International Development Finance Club reporting on climate finance; and (iii) the group of multilateral climate funds, as reported through the Climate Funds Update (CPI 2023).

Data from the CPI shows that average annual flows in 2021–22 reached almost USD 1.3 trillion, doubling from the 2019–20 levels. Some of this (about 28 per cent of the increase) is due to better data availability and other methodological improvements, and it has been widely interpreted as a positive sign that more and higher quality climate finance data is being compiled, tagged, and made publicly available. However, the CPI’s methodology has faced criticism for its inclusion of all primary investments, and the lack of clarity on these investments being ‘new and additional’ (DEA 2015).

6. Quantifying climate finance flows

The assessment of the various definitions and submissions on climate finance by Parties to the UNFCCC, as well as the approaches of three organisations on tracking climate finance flows, sets the basis for addressing the following key questions with respect to quantifying climate finance flows. We list them below, along with the organisations that address the questions.

1. How much climate finance is flowing globally?

- (a) For what end-use (mitigation, adaptation) is this finance flowing?
- (b) What is the role of private finance by end-use globally?

2. How much climate finance is flowing in developed and developing countries?

- (a) What is the source (private, public) of finance flows in developed and developing countries?
- (b) How much climate finance is flowing from developed to developing countries?

3. Of the climate finance flowing from developed to developing countries,

- (a) What is the end-use, mitigation or adaptation?
 (b) What is the source, private or public?

Let us now look at these in detail.

6.1 How much climate finance is flowing globally?

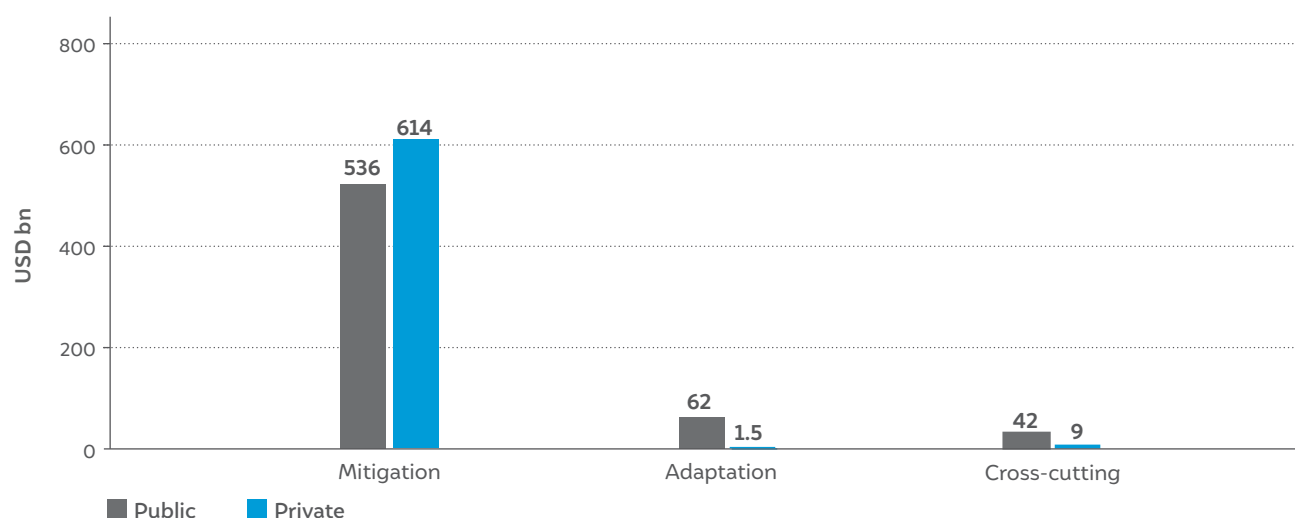
The average annual global climate finance for 2021–22 amounted to USD 1,265 billion (CPI, 2023a). Of this, a substantial 84 per cent (USD 1,062 billion) originated from domestic sources. International climate finance, which includes cross-border flows between countries, accounted for the other 16 per cent (USD 203 billion). Additional details can be found in the Annexure (Table 2). The key findings are outlined below.

(a) For what end-use (mitigation, adaptation) is this finance flowing?

At a global level, total climate finance flows are heavily skewed depending on end-use. Mitigation activities received 91 per cent (USD 1,150 bn) of the total finance, and adaptation efforts received only 5 per cent (USD 63 bn) (CPI, 2023a). The rest—USD 51 billion—went towards cross-cutting activities, that have both mitigation and adaptation components.

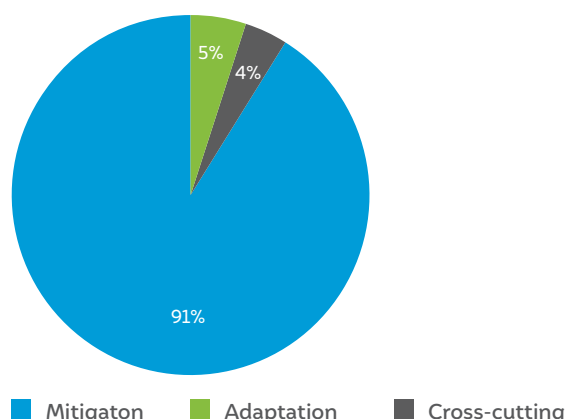
Figure 6 Adaptation largely funded by public capital, and mitigation funded by a balanced mix

Average annual flows (2021 and 2022)



Source: CEEW-CEF analysis; CPI 2023a. *Global Landscape of Climate Finance 2023*. Climate Policy Initiative.

Figure 5 Mitigation dominates global climate finance flows
Average annual flows (2021 and 2022)



Source: CEEW-CEF analysis; CPI 2023a. *Global Landscape of Climate Finance 2023*. Climate Policy Initiative.

(b) What is the role of private finance by end-use globally?

The role of private finance varies significantly depending on the end-use (Figure 6). Private finance was most prominent in mitigation activities, accounting for 53 per cent (USD 614 billion). In contrast, private finance played a minimal role in adaptation efforts, contributing only 2 per cent (USD 1.5 billion) of the total finance, and for cross-cutting activities, private finance accounted for 18 per cent (USD 9 billion) of the total.

6.2 How much climate finance is flowing in developed and developing countries?

When viewed from the perspective of economic development, developing countries account for just over half (53 per cent) of global climate finance flows (CPI 2023). Additional details can be found in a table in the Annexure (Table 3), salient observations from which are outlined below.

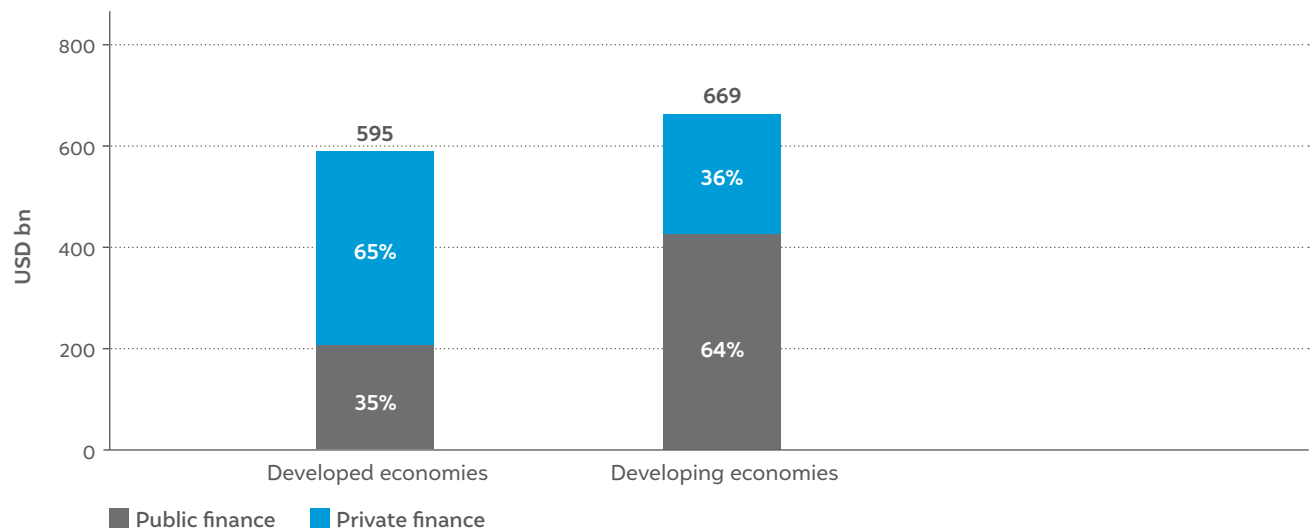
(a) What is the source (private, public) of finance flows in developed and developing?

The CPI report on the *Global Landscape of Climate Finance* does not specifically split the dataset into

developed and developing economies. It does, however, divide countries into High-Income Countries (HICs), Least Developed Countries (LDCs), Low-Income Countries (LICs), Lower Middle-Income Countries (LMICs), and Upper Middle-Income Countries (UMICs). In order to facilitate an analysis from the viewpoint of the nature of climate finance flows of developed and developing economies, we have categorised HICs as developed economies and LDCs, LICs, LMICs and UMICs as developing economies. Based on the categorisation, public finance dominates in developing countries, accounting for 64 per cent (USD 430 billion) of total flows. In contrast, in developed countries, private finance dominates, accounting for 65 per cent (USD 386 billion) of total flows.

Figure 7 Private climate finance flows dominate in developed economies, public sources in developing economies

Average annual flows (2021 and 2022)

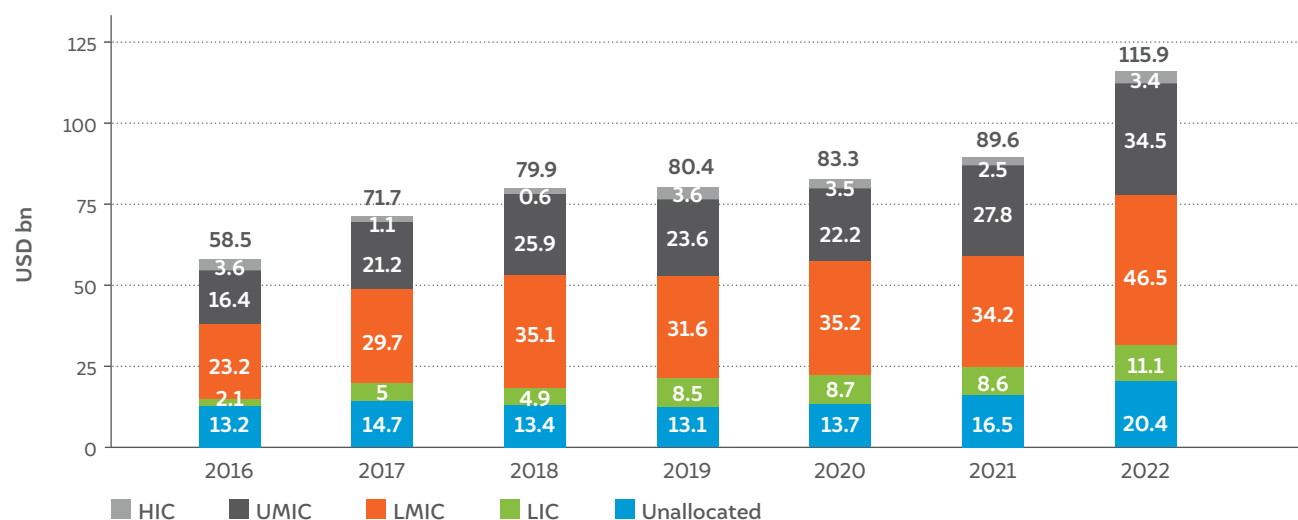


Source: CEEW-CEF analysis; CPI 2023a. *Global Landscape of Climate Finance 2023*. Climate Policy Initiative.

(b) How much climate finance is flowing from developed to developing countries?

Since 2015, the OECD's annual climate finance report has been the primary tool for tracking progress towards the climate finance goal of USD 100 billion per year, pledged by developed countries to support developing countries. The OECD, in its approach, counts both public climate finance provided by developed countries and the private finance mobilised by these flows. The latest report, *Climate Finance Provided and Mobilised by Developed*

Countries in 2013-2022, released in 2024, marks a significant milestone, as this is the first time OECD has estimated that the target was reportedly achieved. Within developing economies, in terms of income groups, LMICs accounted for 40 per cent (USD 46.5 billion) of total climate finance in 2022, while UMICs accounted for 30 per cent (USD 34.5 billion), and LICs accounted for 9 per cent (USD 11.1 billion). HICs accounted for 3 per cent (USD 3.4 billion) of total climate finance. However, 18 per cent (USD 20.4 billion) worth of climate finance flows could not be allocated to a specific income group.

Figure 8 Middle-income countries receive the lion's share of reported climate finance flows

Source: OECD. 2024. *Climate Finance Provided and Mobilised by Developed Countries in 2013-2022*. Paris: OECD Publishing.

Note: Countries are grouped based on gross national income (GNI) per capita, as published by the World Bank.

i) LICs: Lower-Income Countries, (ii) LMICs: Lower Middle-Income Countries, (iii) UMICs: Upper Middle-Income Countries, (iv) HICs: High-Income Countries

However, Oxfam presents a starkly different picture. Using its CSNA framework, Oxfam estimates that climate finance flows from developed to developing countries in 2022 were only between USD 27.9 and 34.9 billion.² The significant discrepancy between Oxfam and OECD figures arises because Oxfam accounts for climate finance only in grant-equivalent terms, whereas the OECD's figures include a broader range of financial instruments and non-public finance flows.

Meanwhile, to analyse the CPI dataset, a slightly different categorisation of data is needed to assess climate finance flows to developed and developing countries. The CPI report on the Global Landscape of Climate Finance does not explicitly define developing economies. It does, however, categorise flows as 'international' and 'domestic' for developed countries, emerging markets and developing economies (EMDEs), LDCs, and 'Unknown', further detailing international flows among these categories. In order to facilitate an analysis

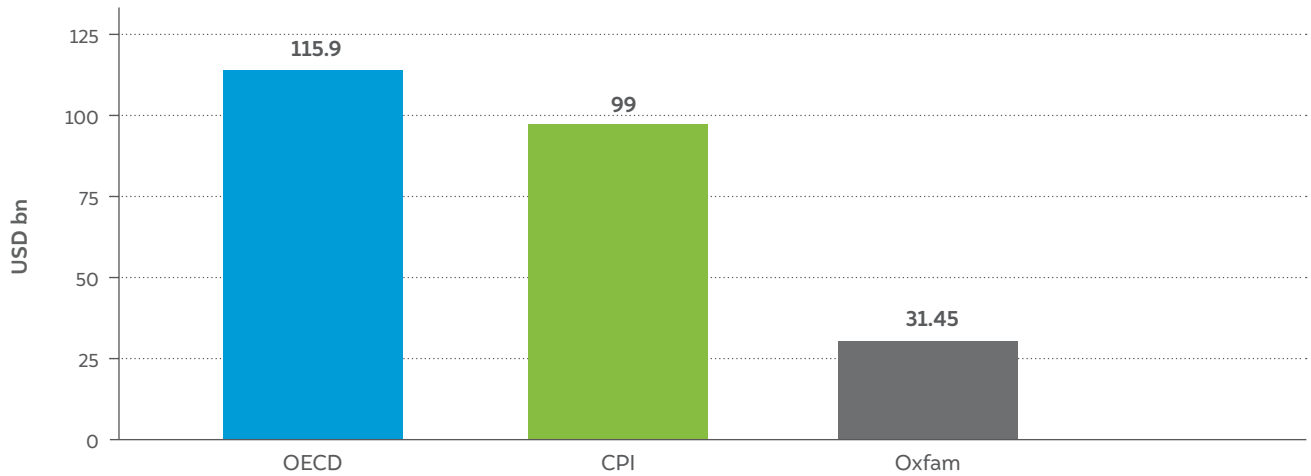
from the viewpoint of the climate finance flows from developed to developing economies, we have clubbed EMDE, LDCs and 'Unknown' into developing countries. On this basis, the average annual climate finance flows from developed countries to EMDEs and LDCs for 2021–22 totalled USD 92 billion; of this, USD 70 billion went to EMDEs, and USD 22 billion to LDCs, while the rest (USD 7 billion) is classified as 'Unknown' international flows.

This number, from a quantum perspective, aligns more closely with the OECD estimate of climate finance flows (USD 115.9 bn) from developed to developing economies in 2022. However, there is insufficient detail on its constituents to assess if it aligns with the OECD estimates breakup of USD 115.9 bn into public, export credits, and mobilised private flows.

Additional details can be found in Table 4 in the Annexure, the salient observations from which are presented below.

² The low and high range depicts the climate relevance of projects. The low-end estimate assumes that projects with either or both Rio Markers for Adaptation and Mitigation set at 1 are 30 per cent climate-relevant, while the high-end estimate assumes 50 per cent climate relevance. Projects with at least one Rio Marker set at 2 are considered 100 per cent climate-relevant. Rio markers are a system for monitoring and reporting finance flows related to the UNFCCC and other Rio Conventions. The DAC of the OECD has been using the Rio markers system since 1998.

Figure 9 Considerable differences in climate finance from developed to developing countries depending on who is reporting



Source: CEEW-CEF analysis; OECD 2024, Oxfam 2024 and CPI 2023a

Note 1: The Oxfam figure represents the midpoint of the range.

Note 2: CPI figure is the average annual of 2021-2022

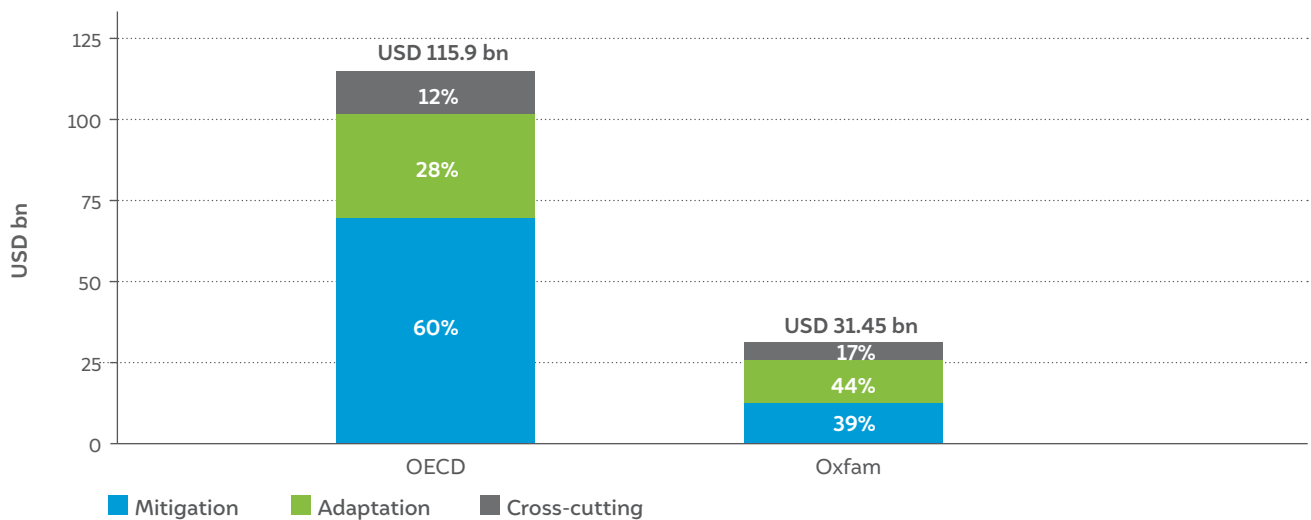
6.3 Of the climate finance flowing from developed to developing countries

(a) What is the end use, mitigation or adaptation?

According to the OECD, in 2022, climate finance was primarily directed towards mitigation activities, with USD 69.9 billion allocated for this purpose. Adaptation efforts received USD 32.4 billion, and cross-cutting activities, which address both mitigation and adaptation, were allocated USD 13.6 billion.

In contrast, Oxfam’s estimates are much lower. They suggest that in 2022, between USD 11.4 and 13.1 billion were directed towards mitigation, USD 12.7 to 14.9 billion towards adaptation, and USD 3.8 to 7 billion towards cross-cutting activities.

Figure 10 What does climate finance from developed to developing countries fund?



Source: CEEW-CEF analysis; OECD 2024 and Oxfam 2024

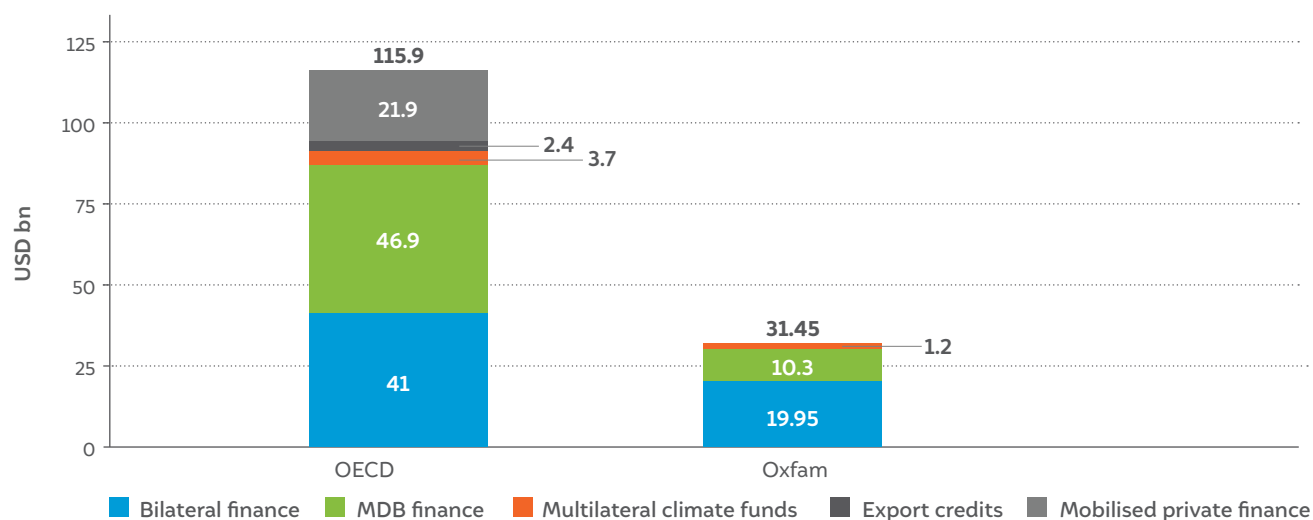
Note: The Oxfam figures represent the midpoint of the range.

(b) What is the source, private or public?

The OECD reported that in 2022, public climate finance amounted to USD 91.6 billion, with bilateral contributions accounting for USD 41 billion, MDBs providing USD 46.9 billion, and multilateral climate funds contributing USD 3.4 billion. Additionally, the OECD reported that USD 21.9 billion were mobilised from private sources, and USD 2.4 billion came from export credits.

Oxfam's analysis, however, reports much lower figures. It estimates that public finance ranged between USD 27.7 and 34.9 billion in 2021, with bilateral finance accounting for USD 16.5 to 23.4 billion, MDBs contributing USD 10.3 billion, and multilateral climate funds providing between USD 1.1 and 1.3 billion. Oxfam does not account for mobilised private finance in its framework.

Figure 11 Which sources contribute to climate finance from developed to developing countries?



Source: CEEW- CEF analysis; OECD 2024 and Oxfam 2024

Note: The Oxfam figures represent the midpoint of the range.

Applying these different estimates and perspectives provides a more nuanced understanding of climate finance flows from developed to developing countries. The disparities in reported figures underscore the complexities in defining, tracking, and mobilising climate finance. The OECD's broader accounting approach shows significant progress towards the USD 100 billion goal, yet Oxfam's more conservative estimates reveal the potential gap in actual, effective support being provided to developing nations. Meanwhile, understanding the differences in end-use allocation—whether towards mitigation, adaptation, or cross-cutting efforts—helps clarify where financial resources are being directed, and highlights the areas that may require more attention.

7. Recommendations

Defining and agreeing on what constitutes climate finance flows from developed to developing countries is an essential step in determining the NCQG. Only then

will the world be able to meaningfully track, measure and ascertain progress towards the NCQG. In doing so, cognisance must be taken of the fact that most developing economies are often faced with making competing choices between meeting basic development goals and climate action. Given that these are twin priorities, developing countries should not be forced to choose between development and climate action, particularly when their historical contribution to climate change has been relatively low and when climate change is impacting them disproportionately. If developing countries are expected to pursue climate action along with development, external finance should be made available to them.

Concurrently, it is also important to acknowledge the limitations on the availability of public grant capital from developed countries, and therefore, an effort must be made to deploy this in the most efficient manner. One way for public climate finance to be delivered by developed countries is in the form of direct grants to developing countries. Alternatively, this public climate

finance in the form of grants may be used to capitalise blended finance instruments, which in turn crowd in multiples in terms of private capital. Ultimately, climate finance flows from developed countries should be able to help bridge the gap between private flows that flow organically to developing countries and the external financing needs of developing countries for climate action (approximately, USD 1 trillion per year by 2030 - excluding China, as per the IHLEG report).

Based on these principles and drawing on our analysis of the various points in the preceding discussion, our recommendations span the desirable attributes, definition, and mode of delivery of climate finance from developed to developing countries as well as the quantum of the NCQG.

7.1 Attributes

1. Climate finance flows should either fund mitigation, adaptation, or both.
2. Only actual disbursements, not commitments, should count as climate finance flows.
3. These climate finance flows should be new and additional, not a reclassification of existing developmental aid.
4. Only public grant capital, or the grant-equivalent of other forms of public capital, along with the private finance that these mobilise (e.g., through de-risking) should count towards climate finance flows.

7.2 Definition

Tying these attributes together, climate finance flows from developed to developing countries may be defined as:

Disbursements of new and additional public capital by developed countries in the form of direct grants, as well as grants or grant-equivalent components of other forms of public capital along with the private capital flows that these mobilise, which collectively contribute towards developing country climate finance needs.

7.3 Mode of delivery

The deployment of public climate finance through blended finance instruments could minimise the quantum of public climate finance required. The exact amount of public capital needed would depend on the type of financial instruments capitalised, as well as the extent of concessionality, and therefore, requires deeper analysis. By making the most efficient use of public capital sources from developed countries, this also aligns with the interests of developed countries. Therefore, a concerted effort must be made to position blended finance as the central pillar of delivery of climate finance flows from developed to developing countries.

7.4 Quantum

Finally, on the quantum, the NCQG should bridge the gap between organic private climate finance flows to developing countries, and their external climate finance needs. An independent high-level expert group (IHLEG) constituted by the COP26 and COP27 Presidencies and the UN Climate Change High-Level Champions concluded that developing countries (excluding China) will have external climate financing requirements of around USD 1 trillion per year by 2030. This requirement provides a credible basis for determining the NCQG.

In conclusion, the above recommendations constitute a framework to converge developing country perspectives onto a common ground. By approaching the topic of climate finance in a unified voice, developing countries could facilitate a breakthrough in climate finance negotiations which so far has remained elusive.

Annexure

Table A 1. Classification of developed' and 'developing' economies, per UNFCCC, OECD & CPI

	Classification of developed and developing economies		
	UNFCCC	OECD	CPI
Developed economies (Providers of financial resources)	<u>Annex II parties</u> of the UNFCCC (OECD members of Annex I, but not EIT parties)	<u>Annex II parties</u> of the UNFCCC, all member states of the European Union, as well as Liechtenstein and Monaco.	High-income countries (HIC) (CPI group countries based on <u>gross national income per capita</u>)
Developing economies (Recipients of financial resources)	<u>Non-Annex I parties</u>	Countries and territories included in the 2018 <u>DAC List of ODA</u> recipients for development finance, and/or the <u>non-Annex I</u> list of parties to the UNFCCC.	Upper Middle-Income Countries (UMIC) Lower Middle-Income Countries (LMIC) Low-income countries (LIC)

Source: CEEW-CEF compilation

Table A 2. Climate finance flows at global level (annual average for 2021 & 2022)

Global				
End-use	Nature	Domestic 84% (USD 1,062 bn)	International 16% (USD 203 bn)	Total 100% (USD 1,265 bn)
Mitigation 91% (USD 1,150 bn)	Private	49% (USD 563 bn)	4% (USD 52 bn)	53% (USD 614 bn)
	Public	39% (USD 443 bn)	8% (USD 93 bn)	47% (USD 536 bn)
	Total	USD 1,006 bn	USD 145 bn	USD 1,150 bn
Adaptation 5% (USD 63 bn)	Private	1% (USD 0.68 bn)	1% (USD 0.85 bn)	2% (USD 1.5 bn)
	Public	44% (USD 28 bn)	54% (USD 34 bn)	98% (USD 62 bn)
	Total	USD 28 bn	USD 35 bn	USD 63 bn
Cross-Cutting 4% (USD 51 bn)	Private	15% (USD 8 bn)	2% (USD 0.94 bn)	18% (USD 9 bn)
	Public	39% (USD 20 bn)	44% (USD 22 bn)	83% (USD 42 bn)
	Total	USD 28 bn	USD 23 bn	USD 51 bn

Source: CEEW-CEF compilation; CPI 2023a. Global Landscape of Climate Finance 2023. Climate Policy Initiative.

Table A 3. Climate finance flows between developed and developing economies (annual average for 2021 & 2022)

		Developed 44% of total (USD 595 bn by nature of finance) (USD 552 bn by source of finance)	Developing 56% of total (USD 669 bn by nature of finance) (USD 713 bn by source of finance)	South Asia 3.4% of total (USD 45 bn by nature of finance) (USD 45 bn by source of finance)
Nature*	Public	35% (USD 209 bn)	64% (USD 430 bn)	44% (USD 20 bn)
	Private	65% (USD 386 bn)	36% (USD 239 bn)	56% (USD 25 bn)
Source**	Domestic	86% (USD 473 bn)	83% (USD 589 bn)	49% (USD 22 bn)
	International	14% (USD 79 bn)	17% (USD 124 bn)	51% (USD 23 bn)

*Categorisation by nature of finance: Developing countries include data reported by CPI for EMDEs, LDCs, and 'Unknown'.

**Categorisation by source of finance: Developed countries include data reported by CPI for High-Income countries (HICs), and developing countries include data reported by CPI for LDCs, Low-Income Countries (LICs), Lower Middle-Income Countries (LMICs), and Upper Middle Income Countries (UMICs).

Source: CEEW-CEF compilation; CPI 2023a. Global Landscape of Climate Finance 2023. Climate Policy Initiative.

Table A 4. Comparison of quantum of climate finance from developed to developing economies 2022)

Source	Approach	Source (USD)	End-Use (USD)
OECD USD 115.9 bn 2022	<ul style="list-style-type: none"> Flows from developed to developing Climate finance flows include both those provided by and those mobilised by developed countries 	<ul style="list-style-type: none"> Public: 91.6 bn <ul style="list-style-type: none"> Bilateral: 41.0 bn MDBs: 46.9 bn Multilateral climate funds: 3.4 bn Mobilised private: 21.9 bn Export credits: 2.4 bn 	<ul style="list-style-type: none"> Mitigation: 69.9 bn Adaptation: 32.4 bn Cross-cutting: 13.6 bn
Oxfam USD 27.9 – 34.9 bn 2022	<ul style="list-style-type: none"> Flows from developed to developing Climate finance flows expressed in grant-equivalent terms Applies own climate-specific net assistance (CSNA) framework to OECD data to arrive at the above 	<ul style="list-style-type: none"> Public: 27.9–34.9 bn <ul style="list-style-type: none"> Bilateral: 16.5–23.4 bn MDBs: 10 bn Multilateral climate funds: 1.1–1.3 bn Mobilised private: NA* 	<ul style="list-style-type: none"> Mitigation: 11.4–13.1 bn Adaptation: 12.7–14.9 bn Cross-cutting: 3.8–7 bn
CPI USD 99 bn Annual avg. of 2021-22	<ul style="list-style-type: none"> Developed to EMDEs and LDCs (among other combinations including developed to developed) 	<ul style="list-style-type: none"> From developed to EMDEs: 70 bn From developed to LDCs: 22 bn 'Unknown' international flows: 7 bn 	

* Oxfam does not count private finance flows within the scope of climate finance.

Source CEEW-CEF compilation based on Oxfam 2024, OECD 2024 and CPI 2023a.

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