

# CREATIVE ACCOUNTING

## WEALTHY COUNTRIES AND INTERNATIONAL INSTITUTIONS ROUTINELY EXAGGERATE THE CLIMATE FINANCE THEY PROVIDE

### Key points

- The quantum of climate finance is critical, but any number can be undermined if there are lax rules on what can be reported as climate finance.
- The experiences from the \$100 bn target show that rich countries take advantage of the present situation where climate finance is not clearly defined.
- The decision on the NCQG at COP29 must set clear boundaries for the reporting of climate finance and include a process to agree on a precise definition.
- This briefing includes possible amendments to the AWP co-chairs text from 15 October 2024.

In 2021, developed countries came under fire at COP26 for not living up to their climate finance commitments. Numbers from their own organization, the OECD, showed clearly that they were off track to meet the \$100 bn target in 2020.

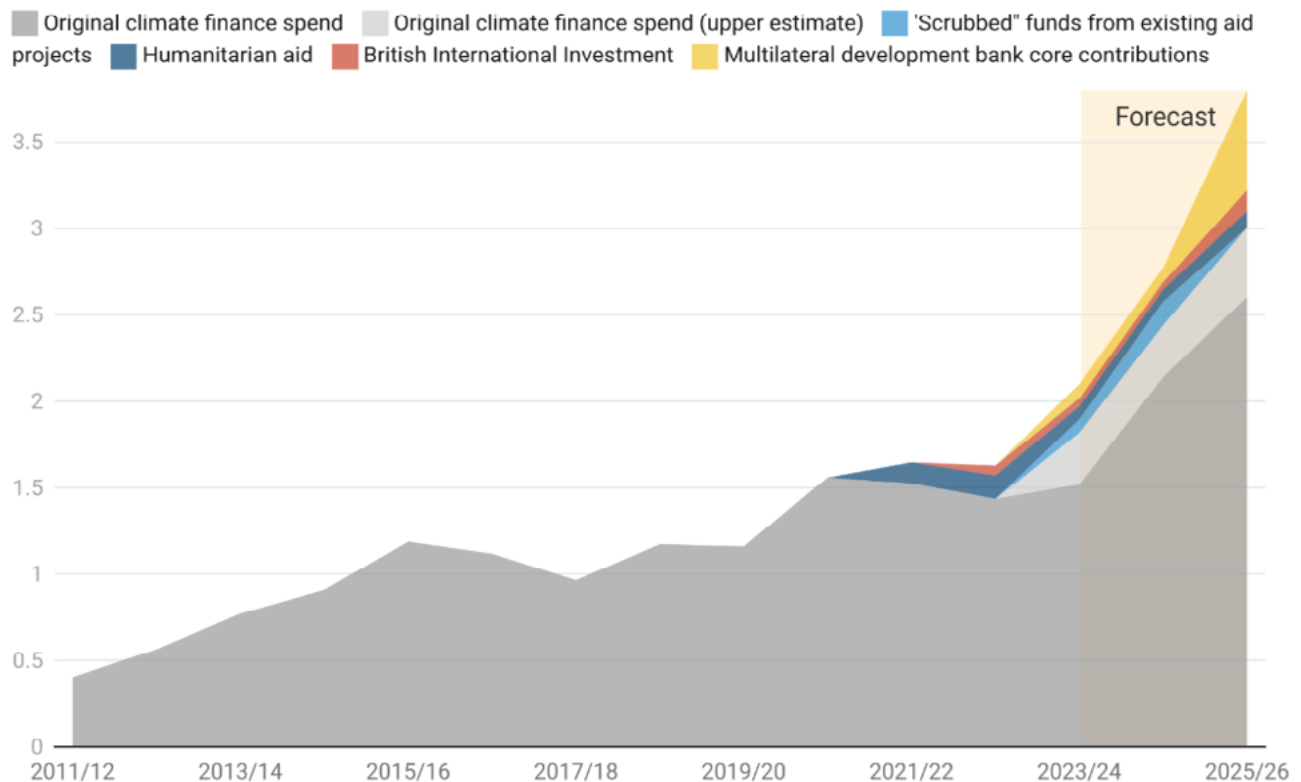
But now the problem has disappeared - - at least according to the latest figures from OECD<sup>1</sup> which show that developed countries provided and mobilized \$115.9 bn as climate finance to developing countries in 2022.

Wealthy countries' reporting of climate finance can be criticized from many angles. Firstly, it include loans, often at market rates of return: [Oxfam](#)<sup>2</sup> has calculated that the actual support is only about a third of the OECD numbers. Secondly, most of the reported climate finance is non-additional to the official development assistance, as shown by [CARE](#).<sup>3</sup>

But on top of these issues, the **reporting is fundamentally flawed** as there are no rules on what constitutes climate finance, and rich countries and international organizations utilize this to inflate their numbers. Earlier this year it was revealed that the [UK](#)<sup>4</sup> has reclassified money for humanitarian work and development activities to make it look as if it where delivering on its climate finance pledge.

## The UK government has reclassified £1.7bn of development aid as climate finance

Annual international climate finance spend, £bn, including accounting changes



Source: UK government.

## Recent studies from both official and independent sources confirm the tendency to exaggerate climate finance:

An investigation carried out by [Danish state auditors](#)<sup>5</sup> looked into the Danish Foreign Ministry's reporting practice. The analysis studied a sample of 38 climate programmes that **Denmark** supported between 2016 and 2018 and found that climate finance numbers were about [one third](#)<sup>6</sup> too high.

Denmark's climate finance does not count much at the world stage. **Japan** is the biggest contributor – at least 'on paper'. Since 2015, [Japan](#)<sup>7</sup> has reported more than \$10 bn yearly in climate finance, which is more than half the size of its ODA. But until recently, the country counted all projects with some sort of relation to climate as 100 percent climate finance. This means that nearly any infrastructure, water, and agriculture-related project could be reported as climate finance.

A study by [CARE](#)<sup>8</sup> from 2021 showed that Japan reported as climate finance also projects with no climate components. The report analyzed a sample of 111 adaptation projects from **26 donors** or multilateral institutions, finding 40 percent over-reporting.

In 2023, [Reuters](#)<sup>9</sup> investigated the climate finance reporting filed by **39 parties** to the UNFCCC. The dataset covers nearly 44,000 contributions between 2015 and 2020 and it focuses on bilateral spending. Reuters found that large sums of developed nations' climate finance do not support the goal of helping developing countries reduce emissions or adapt to the effects of climate change. Reuters' list of problematic projects includes a coal plant and an airport expansion as well as fancy stuff such as chocolate stores.

Also the amount of climate finance from multilateral development banks is often exaggerated. The **World Bank** is known for being rigorous on rules and procedures, so one would assume that their numbers are solid – yet they are not. In its 2021 report on adaptation finance, CARE includes examples of the bank's over-reporting. [Oxfam](#)<sup>10</sup> used the US Freedom of Information Act to get access to World Bank files and found that the bank could not account for up to 40 percent of the reported climate finance in the 2020 fiscal year.

Despite positioning itself as the 'climate bank of Asia and the Pacific', it is difficult to ascertain the **Asian Development Bank's** claims of climate adaptation finance. [Oxfam](#)<sup>11</sup> analysed the bank's climate finance portfolio and conducted a detailed assessment of 15 climate adaptation projects. It found that the ADB hugely overstates the reported amounts with potential over-reporting of 44 percent in average for the assessed projects.

**In conclusion**, the current numbers of international climate finance are unreliable. Various independent examinations of the reporting indicate a trend among wealthy countries and multilateral institutions to exaggerate climate finance - by a huge margin.

This means that any country interested in securing climate action should be concerned about the lack of a solid transparency and accountability framework. Therefore, when a new climate finance target is negotiated at **COP29**, the decision **should**:

- 1. Set clear boundaries for reporting of climate finance.** Only support for climate-related activities shall count, and only the incremental costs shall be reported as climate finance. There must be no double-counting of climate finance and official development assistance. Loans at market rates must not be included, and only the grant-equivalent of other loans shall count. Support for extraction, production, and use of fossil fuels cannot be considered as climate finance.
- 2. Include a process for agreeing on a definition of climate finance.** As the Standing Committee on Finance has been trying to deal with the issue for more than a decade, it should be elevated to the Subsidiary Body for Scientific and Technological Advice with a deadline for a COP-decision at COP31 in 2026.

## POSSIBLE TEXTUAL AMENDMENTS TO THE AWP CO-CHAIRS' TEXT FROM 15 OCTOBER 2024:

31. ~~{Decides that finance~~ **provided and** mobilized through the NCQG ~~shall should~~ ~~{promote co-benefits between climate action and sustainable development~~ **but only incremental costs of climate action should be counted towards the NCQG,** ~~{~~ be new and additional to official development assistance **and hence not double-counted as ODA,** ~~{~~ exclude market-rate loans **and only count the grant-equivalent of other loans,** ~~{~~ exclude all private finance, domestic resources and export credits; ~~}-~~ **Decides that all finance provided and mobilized through the NCQG must be 1.5C aligned, which requires inter alia the exclusion of finance for fossil fuel expansion or activities that prolong the lifetime fossil fuel assets;**

40. *Notes* **with concern** the diversity of definitions of climate finance in use by Parties and non-Party stakeholders in the context of aggregate accounting of and reporting on climate finance. **This practice impedes transparency and accountability;**

45. **Requests** ~~Invites~~ ~~{developed country Parties}~~ ~~{Parties contributing to the NCQG}~~ ~~{the Subsidiary Body for Scientific and Technological Advice}~~ to develop transparency arrangements for tracking progress towards achieving the NCQG, **including definitions of climate finance for mitigation, adaptation and loss and damage,** building on the enhanced transparency framework, biennial communications and the experience of tracking progress towards the goal of mobilizing jointly USD 100 billion per year, for consideration at CMA ~~{8}~~ ~~{x}~~;



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# Endnotes

- 1 OECD - "Climate Finance Provided and Mobilised by Developed Countries in 2013-2022 – May 2024. Available at [https://www.oecd.org/en/publications/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022\\_19150727-en.html](https://www.oecd.org/en/publications/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022_19150727-en.html)
- 2 Oxfam – "Climate Finance Short-Changed, 2024 Update". June 2024. Available at <https://www.oxfam.org.br/wp-content/uploads/2024/07/Climate-Finance-Short-Changed-2024-update-CSNA-Estimate-Methodology-Note.pdf>
- 3 CARE – "Seeing Double" – September 2023. Available at [https://careclimatechange.org/wp-content/uploads/2023/09/Seeing-Double-2023\\_15.09.23\\_larger.pdf](https://careclimatechange.org/wp-content/uploads/2023/09/Seeing-Double-2023_15.09.23_larger.pdf)
- 4 Carbon Brief – "UK 'double counting' £500m of aid for war-torn countries as climate finance" – 16 April 2024. Available at <https://www.carbonbrief.org/revealed-uk-double-counting-500m-of-aid-for-war-torn-countries-as-climate-finance/>
- 5 Folketinget Rigsrevisionen – "Climate change assistance provided to the developing countries" – January 2021. Available at <https://www.uk.rigsrevisionen.dk/Media/3/6/9-2020-UK.pdf>
- 6 Folketinget Rigsrevisionen - "Rigsrevisionens beretning afgivet til Folketinget med Statsrevisorernes bemærkninger Klimabistand til udviklingslande" (in Danish). January 2021. Available at <https://www.rigsrevisionen.dk/Media/F/0/SR0920.pdf>
- 7 CARE – "Seeing Double" – cit. f
- 8 CARE – "Climate Adaptation Finance: Facts or Fiction?" – April 2021. Available at [https://careclimatechange.org/wp-content/uploads/2021/01/CARE\\_Synthesis-report\\_Final\\_April-2021.pdf](https://careclimatechange.org/wp-content/uploads/2021/01/CARE_Synthesis-report_Final_April-2021.pdf)
- 9 Reuters – "Rich nations say they're spending billions to fight climate change. Some money is going to strange places" – 1 June 2023. Available at <https://www.reuters.com/investigates/special-report/climate-change-finance/>
- 10 Oxfam – "Unaccountable accounting – the World Bank's unreliable climate finance reporting" – October 2022 – Available at <https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621424/bp-world-bank-unreliable-climate-finance-reporting-031022-en.pdf?sequence=4>
- 11 Oxfam – "Unaccountable accounting: the Asian Development Bank's overstated claims on climate adaptation finance" – May 2024. Available at [https://oi-files-cng-v2-prod.s3.eu-west-2.amazonaws.com/asia.oxfam.org/s3fs-public/bp-unaccountable-adaptation-020524-en\\_embargoed%20%281%29\\_0.pdf?VersionId=W0dK147yrXX\\_Xud3YjNYghdFfqGgPUv](https://oi-files-cng-v2-prod.s3.eu-west-2.amazonaws.com/asia.oxfam.org/s3fs-public/bp-unaccountable-adaptation-020524-en_embargoed%20%281%29_0.pdf?VersionId=W0dK147yrXX_Xud3YjNYghdFfqGgPUv)