

Oxfam Denmark's assessment of the report "A climate finance framework: decisive action to deliver on the Paris Agreement"

The report "A climate finance framework: decisive action to deliver on the Paris Agreement" (hereafter referred to as the Stern-Songwe report)¹ aims to develop policy recommendations to achieve the goals of the Paris Agreement. The report contains important observations about the challenges in climate finance, such as the fact that it is more difficult to secure climate finance for the poorest countries, that the gap between existing financing for climate adaptation and the need for it is growing, and that we are still lagging behind when it comes to raising funds for loss and damage (including the new fund). However, the report also presents several solutions that are partly at odds with other empirical evidence in the field and do not align with a principle of climate justice. Therefore, this paper focuses on the solutions outlined in the Stern-Songwe report and offers alternative and more just paths to climate finance.

The Polluter Pays Principle & Innovative Financing

The Stern-Songwe report (p.4) suggests that mobilizing domestic resources should be central to climate finance. This implies that the world's poorest countries should bear a significant portion of the responsibility for financing the climate action that has become necessary because of the excessive greenhouse gas emissions of wealthy nations. This contradicts the widely recognized principle that the polluter (typically a company or a country) should bear the costs. It would be fairer and more socially optimal to impose the costs of pollution on the polluter, as prices of polluting goods and services would rise. Simultaneously, the demand from consumers for lower prices will motivate producers to promote products with lower levels of pollution. Therefore, it makes more sense to follow the polluter pays principle.

However, it is positive that the report highlights the need to pursue an international tax on high-emission sectors such as maritime transport and international aviation, as this proposal aligns with the principle of the polluter pays (Stern-Songwe report, p.23). In other words, innovative climate financing, such as a tax on flights and shipping, could be part of the solution, which would also be a rational course of action according to the UN.

Nevertheless, there are challenges in imposing taxes on polluting goods and services, as this may disproportionately affect low-income groups. To ensure that such taxes are socially just, it is important to make them progressive. For example, an aviation tax could be made progressive by introducing higher taxes based on the number of flights purchased.

¹ The link is to a summary of the report, as the full report has not yet been published.

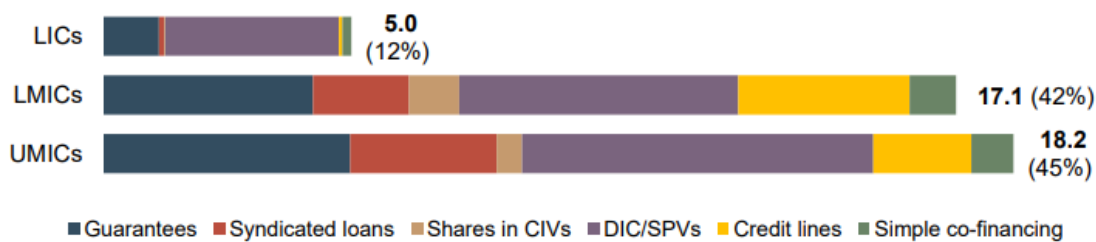
A realistic estimate for the climate financing need

In the [Stern-Songwe report \(p. 4\)](#) it is estimated, with reference to its predecessor "Finance for Climate Action: Scaling up Investment for Climate and Development," that \$2.4 trillion annually will be needed for climate financing in emerging markets and developing countries excluding China by 2030. This estimate roughly aligns with other estimates. According to the [NDR1 report \(The First Needs Determination Report\) from 2021](#), there is an absolute minimum requirement of \$5.8 trillion up to 2030 for climate financing in developing countries, including China [Climate Finance Shadow Report 2023, \(p. 35\)](#). This figure is based on the developing countries' own estimates of the costs of their national climate plans. However, it should be emphasized that this amount of \$5.8 trillion only covers the costs for just under half of the planned climate initiatives, as the costs for more than half of the climate initiatives were not determined at that time. Therefore, emerging markets and developing countries have a far greater need for climate financing than \$5.8 trillion up to 2023 according to NDR1. Hence, the assessment is that the Stern-Songwe report's estimate of \$2.4 trillion annually by 2030 is a good approximation of the real climate financing need.

Limited Role of Private Climate Finance for the World's Poorest

[The Stern-Songwe report](#) places particular emphasis on the climate finance potential of the private sector. However, this is a risky path if the aim of climate finance is to help the world's poorest countries cope with climate challenges. Several studies indicate that private investments primarily benefit middle-income countries, while the poorest countries benefit only to a very limited extent. [Figures from an OECD-report from 2023 \(p.17\)](#) show that while 87% of all private financing between 2018 and 2020 went to middle-income countries, only 12% went to low-income countries. One reason is that private investors view projects in countries with the greatest needs as high-risk due to concerns about returns and commercial viability. Although the OECD figures refer to private investment generally and not only to investments in climate actions, there is a clear risk that the world's poorest countries will only benefit limitedly from climate finance, if a larger portion of it is financed through private investments. This concern is further underscored by data from the ["State of Blended Finance Report from 2022" \(s. 9\)](#) which states that private companies demonstrated a significant decline in their privately mobilized funds for climate finance from 2019-2021 compared to the period 2016-2018. The analysis is the same according to researchers [Adam Moe Fejerskov and Ole Winckler Andersen](#), who point out that blended finance has only proven to mobilize a modest number of private investments, and that there is even uncertainty about how much of these private investments have been additional.

Figure 1: Mobilized private financing distributed by income groups, 2028-2020, measured in billion dollars.



Note: USD 375 thousand was mobilised for Venezuela and Niue which are not classified on GNI per capita for 2020 flows. Additional USD 8.4 billion was unallocated by country. Source: (OECD, 2022^[12]), (TOSSD, 2022^[13]) and complementary data submissions from DEG and FMO.

Source: OECD's report "Private Finance Mobilised by Official Development Finance Interventions" (2023)

Additionally, increased privately financed projects also pose the risk of worsening the debt crisis in the Global South due to high-interest loans, and the risk of indirectly impeding vulnerable and poor individuals from accessing privately financed essential services such as water or energy due to their inability to afford market prices.

These examples illustrate why it is problematic that the Stern-Songwe report suggests that the private sector should bear a larger share of the overall climate financing.

Climate Finance Through MDBs Risks Increasing the Debt Crisis

Another central point in the Stern-Songwe report concerns the role of MDBs (Multilateral Development Banks) in climate finance. The report assigns an important role to MDBs, but it does not distinguish between loans and grants, which is problematic since more loans will contribute to exacerbating the debt crisis faced by many developing countries (Climate Finance Shadow Report (s. 3); Unaccountable accounting (p. 7). The Stern-Songwe report (p. 10) also mentions that severe and repeated natural disasters can create a vicious circle of destruction and debt accumulation, thereby acknowledging that the debt crisis is not caused by the poorest countries themselves. Thus, while the Stern-Songwe report acknowledges the severity of the debt crisis, it indirectly encourages its growth, which is problematic, particularly from a climate justice perspective. Given that the total debt of developing countries more than doubled from 2011 to 2021 and continued to increase significantly from 2020 to 2022, there should be a strong focus on ensuring that MDB lending does not exacerbate the debt problem (Udviklingslandes udgifter til gæld mere end fordoblet de seneste 10 år (p.2); Climate Finance Shadow Report (p. 18). In addition, many nations in the global south are compelled to further lean on fossil fuel and extractive industries or export-focused industrial agriculture to generate foreign currency for debt repayment, consequently intensifying the climate crisis.

One solution is more concessional financing - and resources available are available

Moreover, the [Stern-Songwe report \(p. 5\)](#) mentions that concessional financing plays a crucial role in climate finance, but unfortunately, it is also claimed that concessional financing is a limited resource. Concessional financing is a broad framework covering funding provided on terms lower than market rates, including grants. A brief look at the statistics may lead one to wonder why there would be a lack of money in the world to finance climate solutions through concessional financing. As documented by Oxfam, the world's five richest men have doubled their fortunes since 2020. During the same period, nearly five billion people have become poorer. The world's total wealth is thus increasingly concentrated among the richest ([INEQUALITY INC INC p. 38](#)).

The reason for this concentration is due to several trends. As Thomas Piketty has shown, the return on invested capital has been higher than general economic growth in recent decades. This means that wealth is increasingly concentrated among those with the most assets ([Capital is back: wealth-income ratios in rich countries 1700-2010](#)). Alongside this development, tax policies globally have favored the wealthiest segment of the population. An analysis by Oxfam shows that both the highest income taxes, taxes on capital gains (e.g., stock income), inheritance tax, and corporate tax have all been significantly reduced since 1980. At the same time, the share of global income held by the top 1 percent has increased ([Survival of the richest p. 22](#)). Focusing on OECD countries, the corporate tax rate has fallen from 48% in 1980 to 23.1% in 2022 ([INEQUALITY INC p. 4](#)).

These examples underscore that if there is a willingness to change global tax policy, there is enough money in the world for fair climate finance. Thus, concessional financing is not a limited resource due to a lack of money but rather due to the lack of political will in rich countries to collect taxes and use the money to take responsibility for the pollution they have emitted over decades and continue to emit. Fortunately, some of the world's largest political actors are starting to take responsibility, including the [G20](#), which is working to introduce a global wealth tax on the world's wealthiest individuals.

Need for Climate Adaptation and Loss and Damage Finance

When the [Stern-Songwe report \(p.4\)](#) mentions that the primary task is to create "investable pipelines of projects", this entails a focus on projects that reduce greenhouse gas emissions. While this is certainly a core task, adaptation to climate change is equally important according to the Paris Agreement, since it has an embedded goal of equal prioritization between financing for adaptation and financing for mitigation. Unfortunately, nearly two-thirds of climate finance goes to mitigation, while only one-third goes to adaptation ([Climate Finance Shadow Report 2023 p. 21](#)). Financing for adaptation has been so insufficient that in 2021, it was decided to double adaptation financing by 2025 compared to 2019. Unfortunately, rich countries are not on track to meet that goal either. In fact, international

financial support for climate adaptation in developing countries decreased by 15% from 2020 (\$25.2 billion) to 2021 (\$21.3 billion). Another troubling trend is the significant overreporting of financing for climate adaptation. A recently released analysis of 15 climate projects between 2021 and 2022 under the Asian Development Bank reveals that the financing is overreported by 44%. When the Asian Development Bank overreports to such a high extent, one should also be skeptical of the global reporting of financing for adaptation. Therefore, the primary task should not be to create "investable pipelines of projects". Instead, greater efforts should be made to finance climate adaptation to achieve the right balance between the two forms of financing.

In addition, there is a need for new and additional financing for the new loss and damage fund, which aims to help vulnerable populations cope with loss and damage caused by climate change (Climate Finance Shadow Report 2023 p. 21). While it is positive that the report acknowledges the importance of the Loss and Damage Fund, it is unfortunate that it does not mention that the money for the fund should be additional. It is crucial to emphasize that if the money is not additional, they will be taken from existing development budgets, resulting in reduced finance in other critical areas such as health and education.

Furthermore, the Stern-Songwe report overlooks an opportunity to highlight concrete measures that can ensure sufficient financing in the future. One concrete measure in connection with the new climate finance target, to be adopted at COP29, could be to ensure the adaptation of needs-based thematic sub-goals for reductions, adaptation, and loss and damage are adopted, along with setting quantified minimum targets for the provision of grants for each of these three sub-goals. Grants will indeed be particularly necessary to finance adaptation and the management of loss and damage.

The Carbon Credit Market

The Stern-Songwe report (p.22) also highlights that the carbon credit market plays an important role in the financial strategy for the green transition; an approach that one should be critical of. There are several challenges associated with the carbon credit market. One challenge is that governments and companies hide behind unrealistic and unreliable schemes for carbon capture, while failing to reduce their emissions quickly and significantly enough to prevent catastrophic climate change. Another concern is that the carbon credit market may rely on utilizing large land areas in low-income countries to capture CO₂ emissions, which will allow the largest emitters to avoid significant cuts in their own emissions (Tightening the Net p. 23; 'Net zero' carbon targets are dangerous distractions from the priority of cutting emissions says new Oxfam report). At the same time, large land acquisitions can be harmful to certain populations, as it cannot be ignored that land is a limited resource that is crucial for millions of indigenous people, local farmers, and rural communities. Consequently, net-zero commitments can have significant negative consequences for these populations by violating their rights to food and land. Moreover, it is

crucial to note that even if trees were planted on all agricultural land worldwide, it would still not suffice to achieve net-zero emissions by 2050 ([Tightening the Net p. 7](#)).

Regarding the voluntary carbon market, there is a particular challenge concerning intermediaries. According to the report [Discredited: The Voluntary Carbon Market in India \(p. 89-90\)](#), profits from the voluntary carbon market are increasingly directed towards intermediaries, contrary to the intended goal of benefiting local communities.

Finally, an [evaluation of the CDM](#) (Clean Development Mechanism) reveals that only a few CDM projects contribute to greenhouse gas reduction. The evaluation indicates that in 85% of CDM projects, there is a low probability that they contribute to additional emission reductions, i.e., reductions that would not have happened otherwise. Thus, for the vast majority of projects, it is likely that they do not contribute to the green transition, as they are not supplementary.

When all these experiences regarding the carbon credit market are gathered, unfortunately, a picture emerges that in far too many cases it serves as a cover for the lack of real action against climate change.