Donor countries must do more to bring development finance in line with climate goals, raising the share used for climate action and reducing to zero the amount that supports new fossil fuel activities, according to a new OECD report.

Aligning Development Co-operation and Climate Action: The Only Way Forward finds that only 20% of development finance provided each year by members of the OECD Development Assistance Committee (DAC) over 2013-17 included a focus on climate change. For multilateral providers such as U.N. agencies and international development banks, 40% of finance included a climate focus. Overall, while development finance used for renewables and energy efficiency is rising, this continues to be undermined by the financing of new fossil fuel-based energy.

"It is encouraging to see donors moving in the right direction to bring development finance in line with climate goals, but we must not rest until we have zero aid going to fossil fuels and more going to tackle climate change," said OECD Secretary-General Angel Gurría. "Given the climate emergency we are facing, and the fact developing countries will suffer some of the greatest impacts, there is simply no excuse for using foreign aid to subsidise fossil fuels."

The report looks at both concessional (grants and loans on generous terms) and non-concessional development finance from DAC-members, non-DAC members and multilateral providers.

It finds that globally, countries have roughly doubled flows of development finance going to support renewable energy since the 2015 Paris Agreement, from an average of USD 5.6 billion per year in 2014-15 to USD 12.2 billion per year in 2016-17.

Yet in 2016 and 2017, an annual average of USD 3.9 billion – 1.4% of total development finance of USD 283 billion – was used for fossil fuel activities. Of that amount, 23% was bilateral aid from DAC members. Almost all of the remaining 77% was development finance from multilateral providers.

Momentum is growing as more bilateral and multilateral providers commit to aligning development flows with the Paris Agreement. A number of multilateral providers are reducing financing for coal-fired power generation and making further commitments to steer more finance away from fossil fuels. For example, the European Investment Bank Group (EIB) recently committed to align all financing activities with Paris Agreement goals by 2020 and stop financing fossil fuel energy projects from the end of 2021. A survey of aid providers carried out for the report found that a third of respondents have exclusion lists for fossil fuel intensive activities.

Yet progress is not happening quickly enough, and many donors still lack mandates,

resources, incentives and strategies to ensure they are factoring in climate change. In addition to development flows, export credits are a major public instrument for trade promotion that undermine climate goals. According to an analysis of OECD countries that have reported data, 58% of official export credits that support energy production benefit fossil fuel technologies.
Aid activities that are inconsistent with the Paris Agreement, such as financing infrastructure or economic activities that are high-emitting and not climate resilient, risk locking countries into development pathways that will exacerbate and increase vulnerability to climate change. These risks create stranded assets and debt distress, making it harder to achieve the 2030 Sustainable Development Goals. Low-emissions, climate-resilient pathways are the only sound option for achieving sustainable energy access and poverty reduction goals.
Source: moderndiplomacy.eu