Thermo-solar power plant (Dana Smillie/World Bank/Flickr)

The awkward arithmetic of Australia’s climate finance promise

By Terence Wood

Scott Morrison’s COP26 pledge of $500 million on top of the $1.5 billion promised in 2020, means the Australian government has said it will give $2 billion in climate finance between 2020 and 2025. $2 billion isn’t much: about six cents in every hundred dollars of government spending over five years. It’s enough though, to bring some awkward aid arithmetic in its wake.

Climate finance can come from private finance, other official flows or aid.

Private finance is business spending in developing countries, leveraged by donor governments, which helps tackle climate change. The climate finance sections of Australia's 2019 Biennial Report to the United Nations Framework Convention on Climate Change (UNFCCC) include no private finance, although they say the government will work on it in the future. (The 2019 report is the most recent, the next report should be submitted later this year.) The Australian aid program's own reporting says $17 million of private finance was mobilised by aid in 2019-20 (p. 67 here), but it's not clear how much, if any, was climate related.

Perhaps private finance is part of the $2 billion promise. Nothing in existing documents suggests it will be a large part though. It would be odd if it was: promises involving other people's money are hard to keep. Large amounts of private finance would also mean the Australian government's own efforts were even more paltry than they look.

Then there's other official flows (OOF). OOF includes government grants that are so obviously commercial they can't be called aid. It also includes non-concessional loans, which are nothing to be proud of: "we've wrecked the climate, but we'll lend you money to cope. Don't be late with repayments!" The one genuinely laudable type of OOF is payments to certain international bodies.

In past UNFCCC reporting (see pp. 143-167) the only Australian OOF claimed as climate finance has been in this final category. These seem legitimate payments, but they're small. If OOF was to become a large part of Australia's climate finance, very questionable spending would be required. Even a pessimist like me thinks it's unlikely.

That leaves aid.

Australian aid isn't increasing. Australia looks set to spend $21 billion on aid between mid-2020 and mid-2025. Climate finance is meant to be "new and additional" – money on top of existing spending. Because its aid isn't increasing, $1 billion of Australia's $2 billion promise won't be in any way additional. (I say $1 billion won't be additional because Australia gave $1 billion of climate finance over the five years prior to 2020.)

Purely in terms of Australian efforts to tackle both poverty and climate change, this is bad. There's more though. Because the aid budget isn't increasing, existing and planned aid work with other objectives will need to be replaced by climate change projects to meet climate finance promises. This will be hard in a hurry, particularly in a pandemic. If projects aren't replaced, something else will have to happen.

And something else does appear to be happening. To see this, we need to look at the composition of the $2 billion being promised.

One way of devoting aid to climate finance is to give core funding to eligible multilateral institutions that work on climate change. On the basis of advice I've received, it appears Australia will give about $450 million in multilateral climate finance between 2020 and 2025. That estimate is a fall from previous years. However, all the problems I'm about to detail still exist if more multilateral funding is ultimately provided.

Assuming $450 million will come from multilateral aid, about $1.55 billion worth of climate finance will need to be sourced from bilateral aid.

(From here on I'll work off OECD data. The data aren't identical to Australia's UNFCCC reporting, but they're close enough to be fit for purpose. And – although Australian UNFCCC reports meet that organisation's standards – OECD data are the only data detailed enough to analyse. My data and calculations are here.)

Like most donors, Australia draws on its reporting to the OECD to work out how much of its bilateral aid counts as climate finance (see p. 77). In particular, it uses something called the Rio Markers which track whether individual projects are either 'principally' or 'significantly' focused on helping countries reduce net emissions or adapting to climate change.

The Rio Markers involve self-reporting, and the OECD doesn't audit donors' claims. The OECD is clear about when the markers can be used though.

For a project to be 'principal', climate change should be "explicitly stated as fundamental in the design of, or the motivation for, the activity." To be 'significant', climate change should be "explicitly stated but … not the fundamental driver or motivation". Significant projects can have other central objectives, but need to have been "formulated or adjusted to help meet the relevant climate concerns".

Australia treats 100% of the costs of projects classified 'principal' as climate finance. It estimates of the share of projects classified 'significant' that will be counted as climate finance on a project-by-project basis. Its default is 30% (see p. 80).

In 2019 OECD reporting, Australia classified none of its aid as principally to do with climate change. This must be an error. Information I've gathered indicates at least $9 million of 2019 aid will be climate change 'principal', and possibly more. Because of 2019 data issues, I'm going to use the 2018 figure of $54 million instead in my calculations. (It's similar to preceding years). Rounding up and multiplying by five years, I get $275 million.

$275 plus $450 million in multilateral spending sums to $725 million.

That leaves $1275 million needed to reach $2 billion. Which is where projects classified as 'significant' come in.

The value of Australian aid projects tagged with the 'significant' Rio marker shot up from $346 million to $659 million between 2018 and 2019. 659*0.3*5=$988.5 million.

Combining all three categories: $450 from multilateral + $275 from principal + $988.5 from significant = $1713.5 million. This still falls short of $2 billion. But the gap's a lot smaller thanks to climate change 'significant' projects, which are 58% of the total.

My numbers involve assumptions, particularly that 30% of 'significant' project costs are claimed as climate finance. It's the best that can be done with available data. Ideally, the Australian government would – in the name of transparency – list all projects and the share claimed as climate finance, and make the information public.

Regardless of assumptions, 'significant' projects will be integral to meeting Australia's promises.

Yet when I investigated the Pacific projects Australia classified as climate change 'significant' in 2018 OECD reporting, I found some large projects with no obvious relationship to climate change (see p. 21). A recent Greenpeace report found the same for 2019. And the mere fact Australia's climate change 'significant' aid could increase by 90% in one year, without aid volumes rising rapidly, or a tectonic change in aid practice, suggests something's afoot with reporting.

The most generous take is that Australia's now "mainstreaming" climate change into more of its aid, then classifying projects where mainstreaming has occurred as climate change 'significant'.

Mainstreaming climate issues into aid is worthwhile. And DFAT's Climate Change Action Strategy, is encouraging. But, unless project design and implementation are meaningfully modified, it's inappropriate to classify projects as climate change ‘significant’. Once again, hundreds of millions of dollars’ worth of projects being substantially altered so quickly would require a dramatic shift in aid practice: unlikely in the space of a year. And mainstreaming, while worthwhile, isn’t the same as actually giving more to help.

That’s the awkward arithmetic of Australia’s $2 billion climate finance promise. The government can’t promise private finance. OOF is unlikely. Rapidly diverting other aid to climate change projects is neither easy nor desirable. That leaves aid reporting and dubious claims about aid projects being climate change ‘significant’ – claims that are likely to become more common as the aid program struggles to meet the remaining gap to reach the $2 billion promise.

Australia is not the only donor to make reporting do the legwork in its climate finance (see here, here, here and here). But there’s a better approach: meet the promise by actually increasing aid. Six more cents in every hundred dollars wouldn’t be hard.

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About the author/s

Terence Wood
Terence Wood is a Research Fellow at the Development Policy Centre. His research focuses on political governance in Western Melanesia, and Australian and New Zealand aid.