SWEDISH AND INTERNATIONAL CLIMATE FINANCE

Key facts, figures and concerns

CONCORD SWEDEN

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Author: Göran Eklöf
Editors: Matilda Hald, Åsa Thomasson and Isabelle Beckman, CONCORD Sweden
Layout: Gabriel Holmbom

Method and sources: This brief is primarily based on published sources that are included in hyperlinks throughout the text. Additional information has been obtained through interviews with representatives of the Swedish Ministry for Foreign Affairs, the Swedish Environment Protection Agency, the Swedish Energy Agency and Sida, as well as in CONCORD Sweden's discussions with the Swedish delegation to the UNFCCC.

Stockholm, September 2022

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CLIMATE FINANCE AND DEVELOPMENT COOPERATION – A COMPLICATED MATCH

Sweden is one of the largest providers of international climate finance in relative terms. In 2021, the government announced a doubling of climate finance until 2025, compared to 2019 levels. Members of CONCORD Sweden have generally welcomed these promises, not least because of the increasing needs for support to adaptation in the most affected countries. At the same time, concerns have been raised that the climate finance is not additional to the budget for international aid.

While the international commitments regarding official development assistance (ODA) and climate finance are separate, in policies and practice they overlap. In the political debate in Sweden, 'climate finance' and 'climate aid' are largely used interchangeably, and most political parties promise more climate focus in their international development policies. At the same time, the longstanding goal of providing 1% of Sweden's gross national income for international development cooperation is being threatened, explicitly by some parties and indirectly by others through excessive deductions for in-donor country refugee costs. Increasing volumes of climate finance must be additional to ODA and not divert resources from other pressing development objectives.

Internationally, many aspects of climate finance are debated, including the failures to deliver on promised amounts, as well as who has access to the funds, on what conditions and how they are reported. The imbalance between finance for mitigation and adaptation, lack of commitments on loss and damage finance, and finance through loans rather than grants are concerns frequently raised. Sweden delivers climate finance through both bilateral and multilateral channels, and these concerns apply to both to varying degrees. In addition, the scattered information and complicated reporting make both commitments and implementation difficult to follow up and scrutinise.

Purpose of the brief

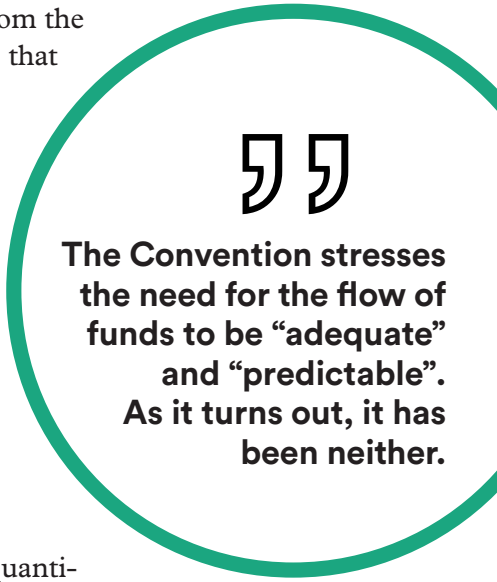
Swedish civil society interacts with decision makers to promote high levels and high quality of both ODA and climate finance. In this work, clarity on the facts and figures is an important asset for advocates seeking to understand Swedish climate finance policies. This brief intends to give an accessible overview of the commitments, status and challenges of climate finance, both internationally and in Sweden.

Matilda Hald - policy advisor, Environmental and climate justice, CONCORD Sweden
Åsa Thomasson - policy advisor, AidWatch and development finance, CONCORD Sweden

INTERNATIONAL CLIMATE FINANCE

2.1 COMMITMENTS

The UN Framework Convention on Climate Change (UNFCCC), adopted in 1992, sets out developed[1] countries' obligation to assist developing countries in covering the costs of dealing with climate change. This obligation is derived from the principle of common but differentiated responsibilities, which means that while all states have a responsibility to address global environmental problems, those states that have contributed more to the problems, and/or have greater ability (financial or otherwise) to address them, will have to take a greater share of the responsibility.



According to the Convention, developed countries shall provide "new and additional" financial resources to help developing countries implement measures under the Convention, and to assist them in meeting costs of adaptation to the adverse effects of climate change. The Convention stresses the need for the flow of funds to be "adequate" and "predictable". As it turns out, it has been neither.

Another 17 years passed before the developed countries made any quantified commitments to meet their obligations. In the Copenhagen Accord in 2009, and the more detailed Cancun Agreement on long-term climate finance in 2010, developed countries committed to provide USD 30 billion in fast-start finance for the period 2010-2012, and to jointly mobilise USD 100 billion a year by 2020.

Six years later, with the adoption of the Paris Agreement in 2015, parties decided to "continue their existing mobilization goal through 2025", effectively moving the goalpost forward from 2020. A new quantified goal, from a floor of USD 100 billion per year, will be agreed at the Conference of the Parties (COP) in 2024.

In 2016, a large group of developed countries – including Sweden – presented a "Roadmap to US$ 100 Billion", based on projections published by the OECD. The Roadmap concluded: "We are confident we will meet the US$100 billion goal from a variety of sources, and reaffirm our commitment to doing so through the range of actions outlined in this Roadmap." This confidence was, unfortunately, unfounded. The Glasgow Climate Pact in November 2021 noted, "with deep regret", that the USD 100 billion goal had not been met.

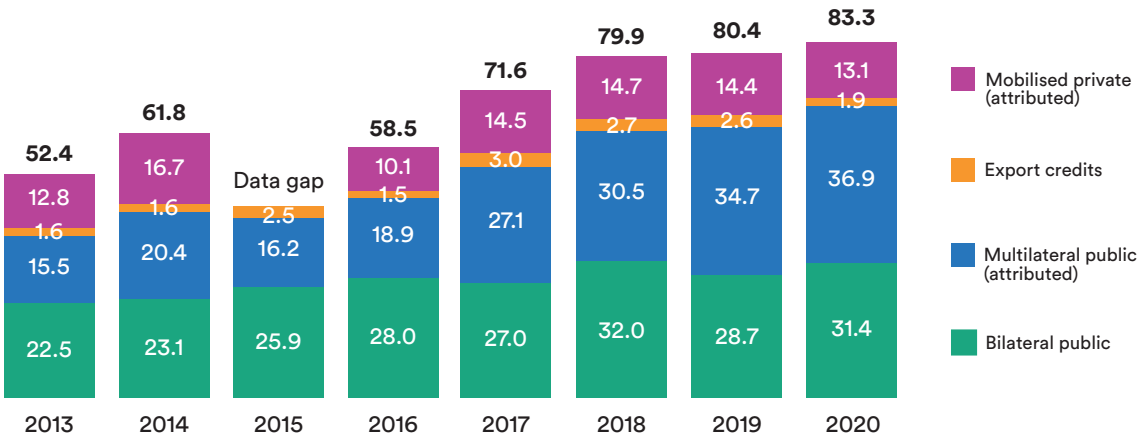
In a joint Declaration ahead of COP26 in Glasgow, the OECD DAC committed to align development cooperation with the goals of the Paris Agreement, and to improve the accountability and transparency in how they define, account for and report official development assistance (ODA) related to climate, biodiversity and the environment. The Declaration was welcomed by the DAC CSO Reference Group, which also provided suggestions on the need to go further with more specific goals and actions.

1 The categorisation of countries as "developed" and "developing" is used in the Convention and its agreements, and will henceforth be used in this document.

2.2 STATUS OF CLIMATE FINANCE TODAY

The total amount of climate finance "provided and mobilised" in 2020, as reported by the OECD DAC on the basis of UNFCCC rules, was USD 83.3 billion (an increase of only 2.9 billion compared to 2019). As the diagram below shows, the largest and growing share of climate finance is provided through multilateral bodies such as the multilateral development banks (MDBs), UN institutions and global climate funds. Bilateral support represents 38% of the funding. Private capital that is mobilised with public support (guarantees, etc.) and officially supported export credits make up the rest.

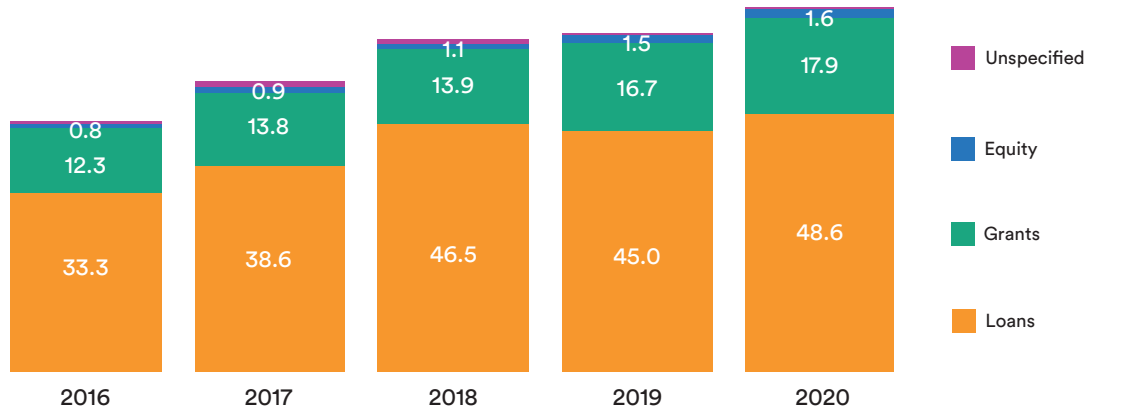
FIGURE 1: CLIMATE FINANCE PROVIDED AND MOBILISED (USD BILLION)



Note: Attributed refers to the share of climate finance that can be attributed to developed countries.
Source: OECD (2022).[2]

Most reported public climate finance – 71% in 2020 – was provided in the form of loans and other non-grant instruments, and only 26% as grants. The share of loans in bilateral public finance was lower (on average 58% in 2016-2018) than in finance provided through multilateral channels (88%).

FIGURE 2: PUBLIC CLIMATE FINANCE PER INSTRUMENT, EXCLUDING EXPORT CREDITS (USD BILLION)



Note: Equity is climate finance provided through the purchase of shares in a company.
Source: OECD (2022).

2 Figures 1-3 are taken from OECD (2022): Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020.

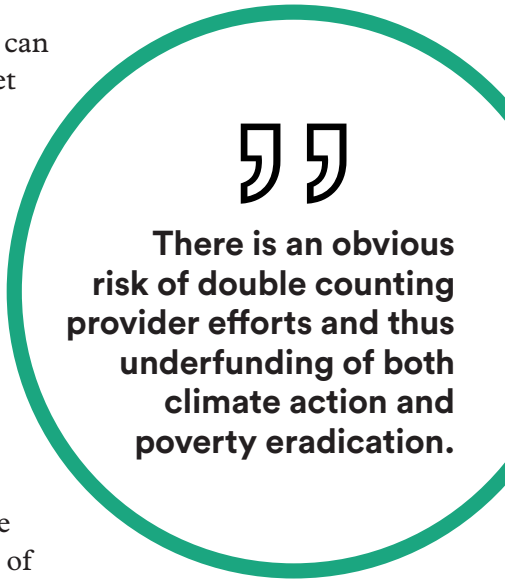
2.3 ISSUES WITH REPORTING AND ACCOUNTABILITY

The reported statistics raise several questions, which can only be described briefly here.

Definitions: There is no consensus on how to define "new and additional" climate finance. Even within Europe, states use a wide variation of definitions. Sweden and Norway refer to a definition of "new and additional" as finance that exceeds the commitment to contribute 0.7% of gross national income as ODA. In contrast, a recent overview of 29 DAC climate finance providers showed that 13 of them count any annual amount provided through new budget appropriations, rendering the concept of "new and additional" completely meaningless.

Baselines: There is also no agreed baseline against which progress can be assessed. Several countries refer to the year 2009, when the target of USD 100 billion in "new and additional" climate finance was first agreed. However, funding is reported without any adjustment for what was already provided in 2009.

Double counting: Donor countries have made two separate pledges: to provide 0.7% of GNI as ODA, and to mobilise USD 100 billion in "new and additional" climate finance. However, they are largely using the same money to deliver on both pledges. It is positive when development assistance becomes more "climate proof" and reformed to better contribute towards climate resilience. Increasing volumes of ODA thus become eligible to also be reported as climate finance. It is equally positive that climate finance is provided for programmes that comply with the standards of ODA. Nevertheless, unless the combined volumes of ODA and climate finance rise towards the aggregate sum of the two commitments – which currently stands at just over USD 640 billion[3] – there is an obvious risk of double counting provider efforts and thus underfunding of both climate action and poverty eradication. Also, increasing focus on climate finance in ODA budgets can risk crowding out funding for other equally pressing needs.



Over-reporting of climate relevance: Most developed countries base their bilateral reporting to the UNFCCC on the Rio Marker system, in which projects are tagged to indicate if they include climate change as a principal objective (Rio Marker 2), as a significant objective among others (Rio Marker 1), or not at all. "Principal" projects are usually reported as being 100% climate finance. Most countries report 30-50% of "significant" projects as climate finance (Sweden reports 40%), while some report 100%, even though the marker explicitly means that the climate is not the primary objective. To further complicate things, the same project may also be assigned a score 2 for the equivalent Rio Marker on biodiversity, thus counting

Rio Markers
Development finance flows with environmental purposes are monitored through five markers. Since 1992, DAC members have been asked to use a general environmental marker for activities with such objectives. In 1998, three "Rio Markers" were established to help members report on their activities related to the Rio convention on biodiversity, climate change mitigation and desertification. A marker for climate change adaptation have been in use since 2010. The markers are used for both ODA and OOF (Other Official Flows). **Source:** OECD

3 Reported ODA in 2021 was USD 178.9 billion. This was equivalent to 0.33% of DAC donors' combined GNI. The 0.7% commitment for ODA would thus be USD 542 billion.

as 100% financing for both. Building on a number of studies, Oxfam estimates that donors over-report bilateral climate finance by up to 50%.

Climate finance provided through multilateral development banks (MDBs) and other international institutions – "imputed multilateral contributions" – are calculated by estimating the share of the organisation's portfolio that is climate-related and attributing it back to bilateral providers, based on their core contributions. However, the methods used by the MDBs are not transparent, preventing accountability and independent scrutiny of these huge volumes of climate finance.

Over-reporting of loans: While some countries only report the grants provided, others also report large volumes of loans. Loans can be reported to the UNFCCC as directly equivalent to grants, which they are not. The OECD uses a methodology for only reporting the grant equivalents[4] of loans as ODA. If this method were applied to the figures reported to the UNFCCC, the climate finance provided as loans by EU and EFTA member states in 2018 would drop by almost 50% (from EUR 22.5 billion to EUR 12.3 billion). The non-concessional loans from MDBs would count as zero.

Overall, these issues point to an urgent need for more stringent standards and rules for accounting and reporting, as well as more precise target-setting in future rounds of negotiation.

2.4 KEY CONCERNS ABOUT CURRENT CLIMATE FINANCE

Imbalance between mitigation and adaptation

States have made repeated commitments to achieve balance in the allocations for adaptation and mitigation[5]: in Copenhagen 2009 for the fast-start funding 2010-2012, in the Paris Agreement 2015, and in Glasgow 2021. This balance is important for several reasons. Adaptation to already severe effects of climate change is urgent in the most affected low-income countries and communities. However, mitigation projects attract funding more easily for multiple reasons, among which are the self-interests of all countries to reduce emissions, and the potential of such projects to generate profit.

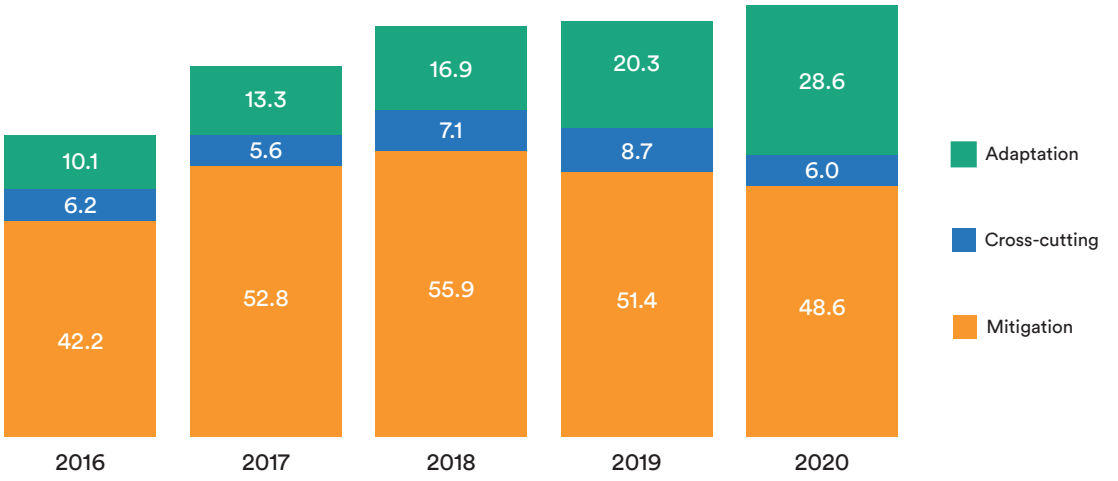
Outcome documents from Glasgow urged all developed nations to significantly scale up adaptation finance, and requested those who had not already done so to "consider doubling" their collective provision with the aim of achieving balance between adaptation and mitigation.

The latest available data shows an increase in adaptation finance, but still far from a 50-50 balance. In 2016, 28% of climate finance was allocated to adaptation or cross-cutting initiatives (projects, programmes or mechanisms that combine adaptation and mitigation components). Four years later, the figure still stood at less than 42%. This also includes the mitigation components of cross-cutting projects.

4 A grant equivalent is the estimated value of how much a loan or other transaction is subsidised, compared to a transaction on commercial terms.

5 Mitigation means reducing the causes of climate change, and adaptation means reducing vulnerability to its effects.

FIGURE 3: OBJECTIVES OF THE CLIMATE FINANCE PROVIDED AND MOBILISED (USD BILLION)



Source: OECD (2022)

The calls for balance have been coupled with an aspiration for more adaptation finance to the most vulnerable countries. This is happening to a greater extent. In 2016-2019, the share of adaptation finance was larger in the least developed countries (LDCs) and small island developing states (SIDS) than the adaptation share of the total climate finance. However, while SIDS received large amounts of climate finance relative to their population sizes, in 2016-2020 the yearly median of climate finance per capita for LDCs and fragile states were smaller than the average for all recipient countries.

FIGURE 4: YEARLY MEDIAN CLIMATE FINANCE PER CAPITA PROVIDED AND MOBILISED IN 2016-2020

Source: OECD (2022)

Negative effects on people

Climate mitigation measures need to respect the rights and interests of indigenous peoples and local communities. However, experience shows that local people have been negatively affected by several different types of mitigation measures. Examples include, but are not limited to, involuntary displacement due to the construction of hydroelectric dams or the establishment of plantations for biofuel production, and restricted access to land and resources when forests are reduced to serving as carbon sinks only.

There is also concern that some adaptation actions can backfire and make people more, rather than less, vulnerable to climate change. This is known as maladaptation. Examples include projects that reinforce or redistribute existing inequalities, and those that intro-

duce new risks (e.g. the construction of levees to protect people from floods). Maladaptation may happen for reasons such as: insufficient understanding of vulnerability contexts and power relations; retrofitting existing development interventions to incorporate adaptation goals; or little or no participation by groups that are particularly vulnerable to the effects of climate change in the design and implementation of adaptation projects. Ensuring active and meaningful participation of affected communities and groups is essential to avoid the risk of maladaptation.

Local-level access to finance

Working to improve access to climate finance by local actors and civil society groups is high on the agenda of many civil society organisations (CSOs) and social movements. A study by the IIED indicated that less than 10% of the finance committed from global climate funds by 2016 targeted local-level climate action. Furthermore, even if projects are locally orientated, the local actors can lack involvement in the design, execution, or even as direct beneficiaries of approved financing. In another study, CIDSE has highlighted civil society's limited access to the Green Climate Fund (GCF). They found the barriers for CSOs to access GCF funds to be "systemic, massive and evident in practice".

The Global Commission on Adaptation developed a set of principles, based on more than a year of consultations, to strengthen locally led adaptation. The principles have been endorsed by over 70 governments, institutions and CSOs, including the Swedish International Development Cooperation Agency (Sida)[6]. While the focus is on adaptation, most of these principles – such as devolving decision making to the lowest appropriate level, investing in local capabilities, providing predictable funding that can be accessed more easily, and addressing structural inequalities – are equally valid for actions to address mitigation.

71% of the reported public climate finance in 2020 was in the form of loans and other non-grant instruments.

Increasing debt

As mentioned above, 71% of the reported public climate finance in 2020 was in the form of loans and other non-grant instruments. Furthermore, 79% of the financing provided by the MDBs in 2019 came from non-concessional loans. These large volumes of loans are likely to augment the debt burden of many recipient countries. This is particularly true for adaptation projects, many of which do not generate any significant revenue through which loans can be repaid. Many low- and middle-income countries' debt has already risen to record levels due to the Covid pandemic and other causes, and the effects of the war in Ukraine on the prices of food, energy and other essential commodities are making matters worse.

Mobilised private finance

The USD 83.3 billion reported for 2020 included USD 13 billion in private climate finance that was mobilised through bilateral and multilateral public finance institutions. The methodologies deployed by the OECD for determining mobilised private sector climate finance have evolved but remain unclear. Determining a causal attribution of the mobilised private finance for climate purposes to a public finance instrument can also be problematic: would the investment take place in the absence of public finance? Furthermore, there is little transparency at the project detail level to verify the amounts and allocations of this finance.

6 In 2017, Sida also published a guide on how to support access to finance for climate action.

Lack of transparency and unclear methodologies are also of concern regarding the 1.9 billion USD in loans, guarantees and insurance provided by countries' official export credit agencies in 2020. Export credits and guarantees cannot be reported as ODA, primarily as they are not guided by development objectives. Also, export credit guarantees are in fact not issued to the buyer but to the exporting company, usually located in the provider country. Some countries, including Sweden, do not count export credits as climate finance (see section about Swedish climate finance).

Finance for loss and damage

Developing countries and civil society have for many years pointed to the fact that the UNFCCC does not have a mechanism for compensating countries and communities that experience loss and damage associated with impacts of climate change. It is a fundamental matter of climate justice for the developed countries, which have contributed most to the problems, to provide relief to the countries and communities that are hardest hit. Developed countries have been reluctant to put this issue on the negotiating table.

The 2013 COP established the Warsaw International Mechanism for Loss and Damage and – as part of the same decision – the Santiago Network, to promote the development and implementation of approaches for addressing loss and damage. Two years later, the COP in Paris decided on a process for establishing the Fiji Clearing House for Risk Transfer, which was launched in 2017 as a "repository for information" on risk management strategies.

While Article 8 of the Paris Agreement speaks of cooperation and facilitation to enhance "understanding, action and support" with respect to loss and damage, the Paris COP explicitly stated that this article "does not involve or provide a basis for any liability or compensation". COP26 in Glasgow "reiterated the urgency" of the issue and urged climate finance providers to scale up enhanced and additional support for addressing loss and damage, but it fell short of deciding on any process towards firm commitment on funding levels or mechanisms.

Ahead of COP27 in November 2022, the host country, Egypt, has put the issue high on the agenda and called for the prioritisation of decisions on loss and damage finance. There are also strong calls from civil society globally to put loss and damage finance on the formal agenda of COP27.

SWEDISH OFFICIAL CLIMATE FINANCE

Note: Data on Swedish climate finance in 2020 is drawn from the draft Fifth Biennial Report to the UNFCCC. These figures are preliminary and may be adjusted before the report is submitted.

3.1 POLICY PRIORITIES AND REPORTING

Swedish climate finance has more than doubled since 2015. Ahead of COP26, the Social Democrat/Green Party government announced that Sweden would again double the provision of climate finance, from SEK 7.5 billion to 15 billion by 2025. The new government that was formed shortly after the Glasgow meeting has confirmed this commitment. However, in April 2022, the government decided to reallocate 9.2 billion SEK of the aid budget to cover domestic costs for Ukrainian refugees. Severe cuts were made in budget lines that provide substantial amounts of climate finance, such as sustainable development, support through CSOs, and regional strategies for Africa and Asia. Also, budgeted climate finance for the Green Climate Fund (GCF), Global Environment Facility (GEF) and Climate Investment Fund (CIF) was reduced by SEK 1 billion. A total of 4.2 billion SEK was returned to the aid budget in June and August, and the allocation freezes to all global climate funds were lifted. It remains unclear how severely the remaining cuts will affect the 2022 allocation of bilateral climate finance, but a decrease compared to previous years appears more likely than the promised increase.

The Swedish priorities for development cooperation, as expressed in the budget bill for 2022, include actions to phase out fossil fuels and support for renewable energy, energy efficiency and energy distribution. The 2018-2022 Swedish strategy for ODA to environment, climate and natural resources lists climate priorities such as mitigation of greenhouse gas emissions, sustainable energy systems, increasing resilience and reducing the vulnerability of people living in poverty. A new thematic strategy for environment, climate and biodiversity in Swedish ODA for the period 2022-2026 was launched in June 2022, announcing increased ambitions and similar focus areas.

The 2017 Swedish Climate Policy Framework sets quantified emissions targets for the sectors covered by the EU Effort Sharing Regulation, which aims at a fair distribution of climate mitigation efforts among EU member states. In doing so, it allows for parts of these goals to be achieved through investments in climate projects abroad and other "supplementary measures" – 8 and 2 percentage points, respectively, of the emission reduction goals by 2030 and 2040. In other words, a share of Swedish international climate finance may be used for meeting domestic emissions targets.

In the international climate negotiations, Sweden supports demands for mandatory reporting on gender inclusion to the UNFCCC. Sweden has also pushed for a doubling of adaptation finance, but not for a specific target for adaptation in the post-2025 goal. On the issue of loss and damage, Sweden and a group of other countries are engaged in a dialogue on how to move forward. The group is likely to be formalised in a way similar to the Champions Group on Adaptation Finance that was launched in 2021. While Sweden agrees that funding is needed for loss and damage, the government does not want to see an additional mechanism or channel for such finance.

Reporting

Reporting to the UNFCCC is coordinated by the Swedish Environmental Protection Agency (Naturvårdsverket, SEPA), based on submissions from the Ministry for Foreign Affairs, the Swedish International Development Cooperation Agency (Sida), and the Swedish Energy Agency (Statens energimyndighet, STEM).

The larger reports called "National Communications" are submitted every four years, while Biennial Reports are submitted every two years. The latest available reports are the Seventh National Communication, covering the years 2013-2016, and the Fourth Biennial Report covering 2017 and 2018. The reports for 2017-2020 and 2019-2020 respectively should normally have been submitted in December 2021, but the deadline has been moved to September 2022 to allow countries to include full data of the parties' greenhouse gas inventories for the target year 2020. Preliminary data for 2019 and 2020 were shared for the compilation of this brief.

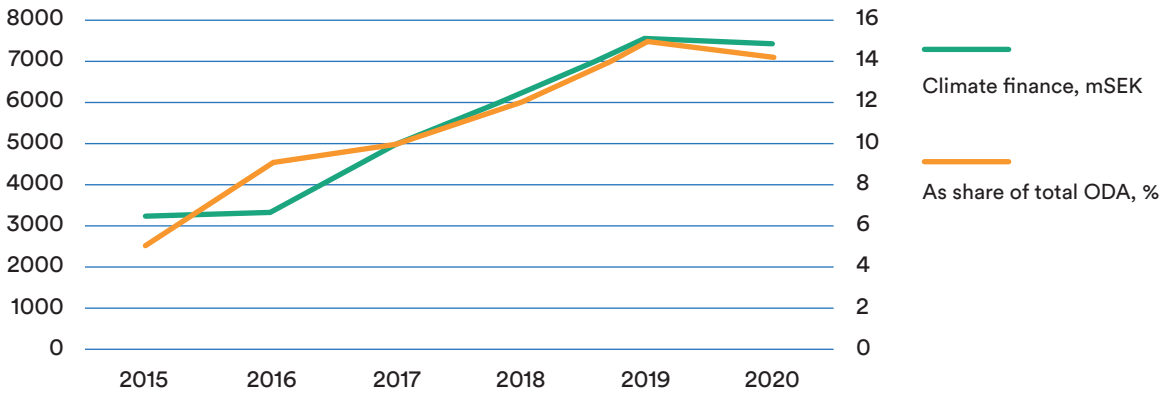
SEPA also reports annually to the EU, under the new Regulation on the Governance of the Energy Union and Climate Action. Unlike earlier reports, which included a narrative, the reports are now in the form of a data sheet only. Sweden's latest report was submitted in October 2021.

Reporting to the OECD DAC on climate-related development finance is coordinated by Sida with input from all relevant institutions.

Increasing volumes of finance

In 2009, the year of the Copenhagen Climate Change Conference, the Swedish government allocated SEK 4 billion in climate finance from the ODA budget to be spent over three years. By the time of the Paris Agreement, the annual contribution stood at 3.2 billion SEK. Since then, Sweden has once again more than doubled its climate finance contributions. The table below shows the amount of climate finance that Sweden has reported to the UNFCCC, and its share of total Swedish development assistance, since 2015.

FIGURE 5: REPORTED SWEDISH CLIMATE FINANCE 2015-2020



Sources: Sweden's Third, Fourth and Fifth (draft) Biennial Reports to the UNFCCC

Finance is provided through four primary channels, as listed in the table below. Figures for 2020 are preliminary.

TABLE 1: SWEDISH CLIMATE FINANCE IN 2020, DIVIDED BY CHANNEL

Channel	Reported for 2020, billion SEK
Multilateral climate change funds	1.293
Multilateral financial institutions	1.446
Specialised United Nations bodies	0.204
Bilateral, regional, and other channels	4.482
TOTAL	7. 425

Source: Sweden's Fifth (draft) Biennial Report to the UNFCCC

Given the percentages of MDB and GCF financing from non-grant instruments, a rough estimate suggests that less than 80% of climate finance from Sweden is provided as grants.

The Overseas Development Institute (ODI) calculates the fair share of countries' climate finance contributions towards the USD 100 billion goal based on their gross national income, cumulative carbon dioxide emissions and population size. According to their calculations, Sweden's fair share is USD 906 million annually. The current level of Swedish climate finance, as reported to the UNFCCC, constitutes 80% of that amount.

3.2 BILATERAL CLIMATE FINANCE

Preliminary figures for 2020 indicate that contributions through bilateral, regional, and other channels amounted to SEK 4.5 billion, distributed across 727 separate grants. Most of this is managed by Sida, but it also includes a share of the capital contribution to the development finance institution Swedfund and some of the costs for projects funded by the Swedish Energy Agency.

Sida

Sida's disbursements in 2020 to activities with climate action as the primary objective (Rio Marker 2) amounted to SEK 2.5 billion, while support to initiatives with climate as a "significant objective" (Rio Marker 1) was SEK 4.6 billion. As mentioned above, individual projects may be scored as "2" on climate policy markers, as well as on markers for other purposes such as biodiversity and gender. This is also done by Sida. So, even when climate is scored as the "principal objective", it is not necessarily the only main objective.

The appropriation directions to Sida for 2022 instruct the agency to increase its provision of climate finance to contribute towards the national goal. Sida has only just started to discuss and consult on how this can best be done.

Climate finance provided by Sida is clearly geared towards low-income countries. Five of the six countries on the two respective "top five recipients lists" in 2019 and 2020 are LDCs. Five are located in Africa, and one in Asia.

In their narrative reports to the UNFCCC, Sweden includes information about climate-relevant guarantees issued by Sida, and the capital that they mobilise from private and public actors. The current guaranteed volume is approximately SEK 5 billion, mobilising

about SEK 14.7 billion of additional capital. However, owing to the lack of methodologies for tracking mobilised climate finance, these figures are not included in the statistical tables. Sweden does not report export credits or guarantees as climate finance.

In 2020, Sida presented its report on a government assignment to analyse how to better align Sweden's bilateral ODA with the Paris Agreement. Sida noted the persistent lack of a common definition of what such alignment would encompass. Key findings included the need to work with contributions that are marked "0" for the climate Rio Markers to ensure these do not have a negative climate impact; to develop and clarify tools for assessing the transformative potential of contributions; and opportunities for Sida to have a higher profile in the normative dialogue with multilateral organisations. Sida followed up with further analysis of their interventions, approaches and tools in 2021.

Swedfund

In accordance with agreed DAC rules, capital contributions to Swedfund – the development finance institution of the Swedish state – can be reported as ODA at face value. The MFA reports these contributions to the UNFCCC as one project, with the Rio Marker score 1. Consequently, 40% of the contributions are reported as climate finance (SEK 320 million in 2020). This percentage corresponds well to the 38% share of the Energy & Climate sector in Swedfund's current portfolio. Although it is not clear to what extent the accumulated investments in the portfolio have a climate profile, the five new investments that were made in 2021 focus on renewable energy, energy efficiency and energy storage.

The Swedish Energy Agency

The Swedish Energy Agency (STEM) established Sweden's program for international climate initiatives in 2002, to support emission reduction projects in other countries whilst contributing to Sweden's mitigation targets under the Kyoto Protocol. Funding is provided by the Ministry of the Environment. The appropriation for 2022[7] is SEK 151.6 million, two thirds of which is earmarked for projects under the mechanisms of the Kyoto Protocol[8] already approved by STEM, and one third for new collaborations under Article 6 of the Paris Agreement. An official inquiry report has proposed that the STEM programme should continue through the 2020s, with annual funding of SEK 400 million.

From 2002 to 2021, Sweden financed energy projects in developing countries worth SEK 1.9 billion. By the end of 2021, these projects had achieved emission reductions equivalent to 31.6 million tonnes of CO_2. A total of 26.9 million of the certified reduction units[9] acquired by STEM have been annulled. STEM's payments for these units are eligible to be reported as climate finance to the UNFCCC. However, due to problems with the time gaps between procurement, annulment and reporting, only a small part of the payment, SEK 492 million, have been reported. This is the only Swedish climate finance that is not reported as ODA, but as Other Official Flows (OOF) instead. OOF are international flows of finance reported to the OECD which do not fulfil the definition of official development assistance.

7 Appropriation 1:12
8 Clean Development Mechanism (CDM) and Joint Implementation (JI)
9 These units have different names under different programmes, but one unit always represents one metric tonne of CO2-equivalent emission reductions.

3.3 MULTILATERAL CLIMATE FINANCE

Multilateral climate finance is mainly managed by the Ministry for Foreign Affairs, and includes core support to global funds, international financial institutions and United Nations bodies.

Global funds

In 2020, SEK 1.4 billion was allocated to global climate funds. In the budget for 2022, the government allocated SEK 2.5 billion to five global climate funds: GCF, GEF, CIF, LDCF and the Adaptation Fund. As mentioned above, the allocations to the GCF, GEF and CIF were reduced in April and returned in August.

Global climate funds

GCF: Green Climate Fund

GEF: Global Environment Facility

CIF: Climate Investment Funds

LDCF: Least Developed Countries Fund

Adaptation Fund

The Swedish government has adopted strategies for its collaboration with the GCF and the GEF. The largest recipient among the funds is the GCF. The fund was launched in 2009 and mandated by the UNFCCC as its primary channel for climate finance, but resourcing has been limited. By April 2022, the GCF had committed a total of USD 10.2 billion for 192 projects. Out of this, projects worth 7 billion have begun implementation, but only 2.5 billion has yet been disbursed. To date, only 42% of GCF funding has been provided as grants, with 58% as loans and through other non-grant instruments.

With only 33% of commitments devoted to adaptation in the past five years, the fund has quite some way to go before it can achieve its goal of a 50/50 balance between adaptation and mitigation. The fund is close to realising its minimum goal of 50% of adaptation commitments to LDCs and SIDS, having achieved 45% in the last five years. However, only 29% of total committed finance went to LDCs.

The GCF gender policy requires gender assessments to be made, and the findings to be reflected in the design and implementation of all projects.

International financial institutions

The shares of climate finance provided through multilateral funds and institutions for which Sweden provide core support are calculated using coefficients provided by the OECD DAC.[10] The largest recipient, by far, among the multilateral financial institutions is the World Bank. The total Swedish allocation for 2022 is very close to SEK 3 billion, of which approximately SEK 900 million counts as climate finance. This contribution was not affected by the budget cuts in 2022. The World Bank and the regional development banks are the main channels through which Sweden provides climate finance as loans.

As the Swedish contributions to these institutions are mainly in the form of core grants, Sweden has no direct say in how the money is spent. Instead, strategies have been developed to direct Sweden's influence in its role as shareholder and/or dialogue partner. Swedish ambitions in the cooperation with the World Bank Group include: to increase initiatives in sectors where they can have the greatest climate impact; to promote a sus-

10 The OECD DAC calculates, and updates on an annual basis, the percentages of the total financial commitment by each individual multilateral institution that is climate-related development finance.

tainable energy transition and strengthened adaptive capacity in the poorest and most vulnerable countries; to phase out investments in fossil fuel-based energy systems and significantly increase investments in renewable energy; as well as to contribute to increased access to sustainable energy to reduce energy poverty. The Swedish strategies for support to the African and Asian Development Banks express similar ambitions.

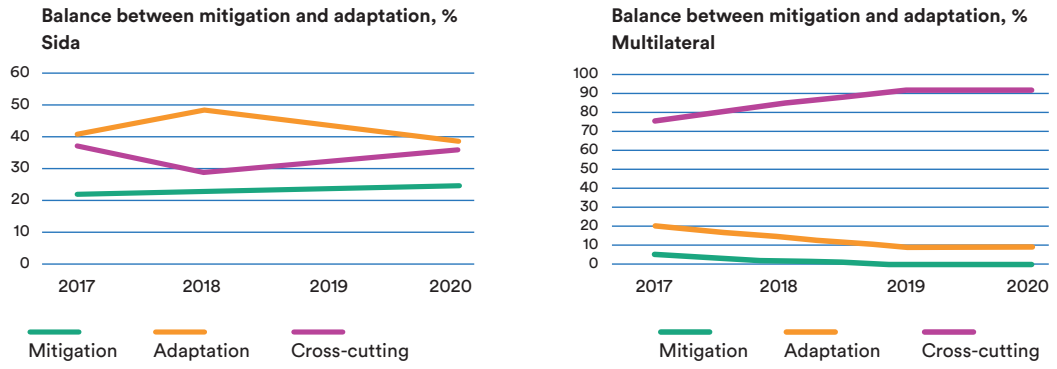
3.4 DISTRIBUTION ACROSS THEMES AND SECTORS

Balance between mitigation and adaptation

The balance between mitigation and adaptation is radically different in Sida's bilateral contributions compared to funding provided through multilateral channels. Sida almost reached the target of 50% of financing for "pure" adaptation projects in 2018, but the share has declined to 39% since then. Nevertheless, assuming that adaptation constitutes at least 25% of Sida's cross-cutting projects, the portfolio still maintains the balance.

Swedish finance provided through multilateral channels is inclined towards mitigation – even if the share marked as such is very small. Cross-cutting contributions in this case are largely in the form of core grants to multilateral funds and institutions that – except for a few small, dedicated adaptation funds – generally spend considerably more on mitigation than on adaptation.

FIGURE 6: **BALANCE BETWEEN MITIGATION AND ADAPTATION, %**



Sources: Sweden's Fourth and Fifth (draft) Biennial Reports to the UNFCCC.

Gender integration

COP25 saw the agreement on an enhanced work programme on gender, and a stronger Gender Action Plan. The plan recognises that "the full, meaningful and equal participation and leadership of women…is vital for achieving long-term climate goals."

Gender is tracked in the reporting of development assistance to the OECD using a system of gender policy markers, similar to the Rio Markers on climate. While there is no specific requirement in the UNFCCC reporting system to track gender responsiveness, Sweden has chosen to do so voluntarily. The level of gender integration increased sharply in 2014, with the introduction of a Swedish feminist foreign policy, and has remained high at an average of 85% during 2017-2020. There is, however a slightly decreasing trend, possibly because of Sida's increased efforts to ensure the quality of assessments. Preliminary figures for 2020 show that 79% of Sida's climate contributions were considered gender-integrated, of which 9.5% had gender equality as a primary objective.

A recent study by five ACT Alliance members found a much higher proportion of gender integration in adaptation financing than in mitigation financing across the Nordic countries, but the difference is smallest for Sweden (89% and 80% respectively, with cross-cutting objectives falling in between). LDCs were much more likely to receive gender-responsive climate finance from the Nordics than countries with higher levels of income, but no separate figures are presented for Sweden. The study also found that climate finance delivered by CSOs is most likely to be gender-responsive, while finance delivered by the private sector is least likely to be so.

The Swedish Energy Agency has not made any gender assessment of their projects. The agency has, however, funded a pilot project with the women-led international network WOCAN, and is considering a new pilot on the application of their W+ Standard certification in emission reduction projects. The agency is also drawing on WOCAN's experiences in discussions about gender integration in processes related to Article 6 of the Paris Agreement.

SEPA hosts the national focal point for gender and climate change. In 2021, the SEPA proposed a strategy and a plan for integrating gender into climate policies. While the focus is on implementation of the Paris Agreement in Sweden, a few aspects of international cooperation and negotiations are also covered.

Other parameters

There are many other aspects of Swedish climate finance that could justifiably be monitored and analysed. These include the distribution of contributions between regions and country income groups, access by local actors and civil society groups, targeting of disadvantaged and frequently marginalised groups, and the degree of integration of child rights perspectives. Some such data is available for some of the Swedish providers of climate finance – Sida's provision to LDCs has been mentioned above, and the Swedish Energy Agency reports distribution across sectors – but it is not done systematically and can thus not be aggregated.

4

LOOKING FORWARD

The USD 100 billion target is far from enough to meet the need for climate finance to developing countries, even if it were new and additional money. For renewable energy alone, the International Energy Agency has estimated that investments need to double by 2030, from around USD 300 billion to 600 billion per year. Much of these additional investments are needed in developing countries, both to meet increasing demand and to ensure energy access for all.

It is equally clear that adaptation needs - and costs - are rising. UNEP puts the current annual adaptation costs in developing countries at USD 70 billion. This is expected to reach 140 to 300 billion by 2030 and 280 to 500 billion by 2050. The Global Commission on Adaptation, headed by former UN Secretary General Ban Ki-moon, has called on providers to invest USD 1.8 trillion in five key areas for adaptation by 2030.[11] Adding to this are the increasing costs for climate induced loss and damage, which come with growing expectations for loss and damage finance commitments.

The magnitude of these volumes underscores the importance of ensuring that climate finance is provided over and above international commitments for ODA. CSOs and movements working for equitable development and climate justice have important roles to play in influencing the shape of climate finance over the coming years.

11 Early warning systems, climate-resilient infrastructure, improved dryland agriculture crop production, global mangrove protection, and investments in making water resources more resilient. They acknowledge that these areas are not intended to exclude other aspects of adaptation such as health systems or small-scale agriculture.

4.1 SUGGESTED FURTHER READING

ACT Alliance-EU (2020): Falling Short – Seven ways in which the EU should improve its climate support to developing countries

Act Alliance-EU (2021): Setting the Standard: Climate finance from EU and EFTA member states

Brian Tomlinson (2021): International Climate Finance and Development Effectiveness: Reflections on climate finance and effective development cooperation

CARE Denmark & CARE Climate Justice Center (2022): That's Not New Money: Assessing how much public climate finance has been "new and additional" to support for development

DanChurchAid, CARE Denmark and Oxfam IBIS (2017): Analysis of Danish climate finance

IIED (2022): Financing locally-led action for people, nature and climate in the Decade of Action | International Institute for Environment and Development (iied.org)

Norwegian Church Aid, Rainforest Foundation Norway, WWF Norway and the Norwegian Forum for Development and Environment (ForUM) (2017): Counting what counts: Analysis of Norwegian Climate Finance and International Climate Finance Reporting

OECD (2022): Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020.

Oxfam (2020): Climate Finance Shadow report 2020 – Assessing progress towards the $100 billion commitment

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