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Trends in climate finance

Background report for policymakers

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About this report

This report has been commissioned by the Dutch Ministry of Foreign Affairs, Directorate-General International Cooperation (DGIS). This background report for policymakers discusses trends in climate finance.

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Summary

This background report for policymakers has been commissioned by Directorate-General International Cooperation (DGIS) of the Dutch Ministry of Foreign Affairs (MFA). It discusses trends in climate finance which could be relevant for Dutch policymakers to further improve the measurement of mobilized private climate finance.

Dutch mobilization of private finance

The analysis of (trends in) Dutch mobilization of private finance by public interventions is organized in three parts:

1. **Mobilization of private finance for development**

   Finance for development includes the next two categories, climate finance and finance for biodiversity, as well as finance for other development activities. For this overall category the analysis was limited to Dutch programmes and funds and multi-donor programmes and funds in which the Netherlands participates.

   In 2021, these public interventions funded by MFA mobilized EUR 369 million in private finance for development. Of this amount, Dutch programmes and funds mobilized EUR 159 million and multi-donor programmes and funds in which the Netherlands participates mobilized EUR 210 million. The overall private finance for development mobilization rate was 1 to 1, i.e. for every Euro committed by the Dutch government, another Euro was committed by the private sector

2. **Mobilization of private climate finance**

   For the climate finance category the analysis included the private finance mobilized by the Netherlands through its participation in several Multilateral Development Banks (MDBs) and the Dutch development bank FMO, next to the mobilization by Dutch programmes and funds and multi-donor programmes and funds in which the Netherlands participates.

   Public interventions funded by MFA mobilized EUR 620 million in private climate finance in 2021. Dutch programmes and funds mobilized EUR 71 million in private climate finance, and EUR 133 million in private climate finance was mobilized through the Netherlands' participation in multi-donor programmes and funds. FMO mobilized EUR 118 million in private climate finance and the Dutch participation in the MDBs mobilized EUR 297 million in private climate finance. The average mobilization rate for private climate finance was 1 to 0.67.

3. **Mobilization of private finance for biodiversity**

   The analysis for finance for biodiversity was limited to Dutch programmes and funds and multi-donor programmes and funds in which the Netherlands participates.

   Last year, public interventions funded by MFA mobilized EUR 17 million in private biodiversity finance. Of this, Dutch programmes and funds mobilized EUR 14 million in private biodiversity finance, and EUR 3 million in private biodiversity finance was mobilized through Netherlands' participation in multi-donor programmes and funds. The average mobilization rate for private biodiversity finance is 1 to 0.47, which is much lower than the average mobilization rate for private climate finance (1 to 0.67) and for finance for development (1 to 1).

International trends in private climate finance mobilization

During the Conference of the Parties (COP15) in Copenhagen in 2009, developed countries made a commitment to collectively mobilize USD 100 billion per year by 2020 to fund climate mitigation and adaptation in developing countries. These funds can either be provided by donor countries directly or mobilized by them, i.e., provided by the private sector or others.

Since 2011, the global flows from developed to developing countries have increased over the years, which can only partially be explained by the increasing number of donor countries reporting on these flows. Consistently over the years, the majority of globally reported climate finance has been directed towards Asian countries with attractive investment climates and huge infrastructure needs. The vast majority of global climate finance has been mitigation-focused. The average rate of mobilized private climate finance as a percentage of public finance over the years 2016 through 2019 across donor countries was 1 to 0.22. Although climate finance flows have been increasing overall, they remain relatively small in the broader context of other finance flows, investment opportunities and costs.

Private finance mobilization by MDBs

In earlier iterations of this annual publication, a private finance mobilization rate of 42% has been assumed for all climate finance by Multilateral Development Banks (MDBs). The *Mobilized private (climate & biodiversity) finance: 2021 report* maintained this mobilization rate for consistency of reporting and comparability with earlier years.

As this mobilization rate was based on relatively old and incomplete data and most MDBs have since then improved their reporting on their private climate finance mobilization, this report proposes to look into updating the mobilization rates used for the MDBs in next year's analysis.

Methodologies to measure mobilized private climate finance

Different methodologies are used to measure mobilized private finance for climate objectives and, broader, for development goals. These include the OECD-DAC methodology, the MDB methodology and the TOSSD methodology.

Various critics argue that the harmonisation and alignment of these different methodologies need to be furthered by for example increased transparency on the processes of data collection and reporting. Harmonisation can be facilitated by enhanced data sharing, collaboration on reporting and sharing of experiences for example. This will also allow for discussions on definitions, the eligibility and scope of activities, as well as approaches and solutions to avoid possible double counting.

No agreement has been achieved yet on definitions and approaches to track private climate finance. When such an agreement would be achieved and is understood by all stakeholders, this would help to improve data accuracy, as well as to stimulate the correct use of reporting systems and the application to own operations and data systems.

Developing country statistical capacities also need to be strengthened. Stronger capacities to collect, analyse and use data in support of their climate and sustainable development priorities are required.

Measuring financed emissions in the financial sector

Since the Paris Agreement of 2015, various initiatives are developed to measure the - positive and negative - climate impacts of loans and investments by private financial institutions. These include:

- Task Force on Climate-related Financial Disclosures (TCFD)
- GHG Protocol Corporate Reporting and Accounting Standard
- The Partnership for Carbon Accounting Financials (PCAF)
- The Paris Agreement Capital Transition Assessment (PACTA)
- The Science Based Targets initiative (SBTi)
- The EU taxonomy for sustainable activities

Especially PCAF and PACTA approaches could be interesting in the light of measuring private climate finance. Analysing the strengths and weaknesses of these two tools did not reveal a clear winner. PACTA is the more robust and forward-looking methodology, but its sector coverage is limited and it is not yet used by many banks. The PCAF has a simpler methodology, but it depends on not-very-reliable GHG emissions data and external target setting. Its sector coverage is much broader, however, and has been adopted by many more banks. Both methodologies have significant flaws that need to be remedied with refinements, among others, the alignment of target setting with a credible 1.5ºC scenario, such as the IEA 1.5ºC scenario published in May 2021.

Recommendations

Based on the overview and analysis of relevant developments in this report, recommendations are made to improve the methodologies for measuring the mobilization of private climate finance. As the Netherlands in most cases cannot implement these suggestions unilaterally, they should be read as suggestions for positions the Netherlands could take in further international discussions:

- In the framework of the USD 100 billion per year commitment, complement collecting and analysing figures on investments in climate mitigation by collecting and analysing figures on investments in climate aggravation;
- Adjust how private climate finance mobilization by guarantees is measured, especially by empirically measuring how much public funds are required for guarantees;
- In stead of measuring commitments only, discuss how the methodologies could better capture the actual disbursements of different forms of finance;
- Consider to measure investments in climate mitigation in tons of CO_2 rather than in US dollars, as this measures the mitigation impact of a certain investment in a more granular and quantitative way than is done with the Rio Markers;
- Make the application of the Rio Markers much more granular, by creating more than three options. This could give a more nuanced understanding of the amount of finance which actually is made available for climate mitigation and for climate adaptation;
- Make use of updated calculations of private finance mobilization rates per MDB, or of an average mobilization rate for all MDBs.

Abbreviations

DAC	Development Assistance Committee (of the OECD)
DFI	Development Finance Institution
DGIS	Directorate-General International Cooperation of the Dutch Ministry of Foreign Affairs
MDB	Multilateral Development Bank
MFA	Dutch Ministry of Foreign Affairs
OECD	Organisation for Economic Cooperation and Development
PACTA	Paris Agreement Capital Transition Assessment
PCAF	Partnership for Carbon Accounting Financials
SBTi	Science Based Targets initiative
TOSSD	Total Official Support for Sustainable Development
TCFD	Task Force on Climate-related Financial Disclosures

Introduction

This background report for policymakers has been commissioned by the Dutch Ministry of Foreign Affairs, Directorate-General International Cooperation (DGIS). It discusses trends in climate finance which could be relevant for Dutch policymakers to further improve the measurement of mobilized private climate finance.

Chapter 1 summarizes the findings on the development in 2021 of the private financing mobilized by DGIS programs and contributions in general, and the mobilized private climate financing and mobilized private financing for biodiversity worldwide (via MDBs) and from the Netherlands.

The following chapters offer analyses of various developments and trends associated with the measurement of mobilized private finance for development, climate and biodiversity purposes:

- Chapter 2 analyses trends in blended finance and mobilization of private climate financing;
- Chapter 3 compares the MDB climate finance mobilization data gathered for 2020 in the Netherlands with the data published by the MDBs themselves;
- Chapter 4 discusses developments in OECD-DAC and TOSSD methodologies; and
- Chapter 5 discusses methodologies used to measure the financed emissions of (private) financial institutions, as these methodologies could provide input to the discussions on the best way to measure mobilized private climate finance.

Based on the overview and analysis of relevant developments in the previous chapters, chapter 6 draws conclusions on new possibilities and possible adjustments to the methodologies.

A summary of the findings of this report can be found on the first pages of this report.

1

Overview of private finance mobilized by the Netherlands

This chapter provides an overview of the private finance mobilized by the Netherlands in 2021 for development, climate and biodiversity. Dutch programmes and funds and multi-donor programmes and funds in which the Netherlands participates mobilized EUR 369 million in private finance for development, of which EUR 17 million in private biodiversity finance. EUR 620 million in private climate finance was mobilized by the Netherlands through its participation in several Multilateral Development Banks (MDBs) and in the Dutch development bank FMO, together with the mobilization by Dutch programmes and funds and multi-donor programmes and funds in which the Netherlands participates.

1.1 Mobilized private finance for development in 2021

The financial contribution of the private sector to achieving the Sustainable Development Goals (SDGs) is receiving increasing international attention. This is due to practical considerations (public resources are insufficient to achieve the SDGs) as well as corporate responsibility considerations, since the private sector is partly responsible for the problems that the SDGs are trying to address. Governments are therefore trying to mobilize more private resources to achieve the SDGs, while simultaneously trying to quantify the results of these efforts.

Internationally, therefore, efforts are being made to find ways to measure and clarify the mobilization of private financing through public programs and instruments. Since 2015, the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC) has developed a methodology for measuring the volume of private financing mobilized by governments for the SDGs in general, and for financing climate objectives in particular. The 2020 version of the methodology distinguishes between seven different financial instruments:

- Guarantees
- Syndicated loans
- Shares in collective investment vehicles
- Direct investment in companies
- Credit lines
- Simple co-financing arrangements, such as grants, subsidies and loans
- Project finance schemes.[1]

Profundo has used the OECD-DAC-methodology for the *Mobilized Private (Climate & Biodiversity) Finance 2021 Report* which was published by the Dutch Ministry of Foreign Affairs (MFA) in April 2022.[2] This report provides an overview of the private finance mobilized for achieving the Sustainable Development Goals by the programmes of Directorate-General International Cooperation (DGIS) of MFA, as well as the multi-donor programmes and funds MFA supports. This section provides a summary and analysis of the data on private finance mobilized for achieving the Sustainable Development Goals from this annual publication, which is published since 2018.[3]

1.1.1 General overview

In 2021, public interventions funded by MFA mobilized EUR 369 million in private finance. Table 1 provides an overview, distinguishing between two types of Dutch public development finance:

- **Dutch programmes and funds**: These are programmes and funds initiated and managed by the Dutch MFA, which mobilize private finance. Other (Dutch or foreign) public entities sometimes contribute to these programmes and funds as well, therefore the total public finance is larger than the Dutch contribution alone.
- **Multi-donor programmes and funds**: These are programmes and funds set up and managed by a group of donor countries, sometimes including MDBs as well, which mobilize private finance. The Dutch MFA is one of the participants in these funds and programmes and contributes a portion of the total public finance invested through these funds and programmes.

The columns in Table 1 show the following data for these two types of Dutch public development finance, all in millions of euros:

- **Total public finance**: The total financing amounts committed by the Netherlands and other donors and public entities participating in the selected programmes and funds through which private finance for development was mobilized in 2021;
- **Of which committed by MFA**: The financing amounts committed by the Dutch MFA (DGIS) to the selected programmes and funds through which private finance for development was mobilized in 2021;
- **Total private finance mobilized**: The total private finance for development amounts mobilized by the selected programmes and funds;
- **Of which mobilized by MFA funding**: The private finance for development amounts which are mobilized by the selected programmes and funds and which can be attributed to the financing amounts committed by the Dutch MFA (DGIS) to the selected programmes and funds; and
- **Dutch mobilization rate**: The private finance for development amounts mobilized by the Netherlands as percentage of the financing amounts committed by the Dutch MFA (DGIS).

Table 1 Mobilized private finance for development in 2021 by types of Dutch public development finance (EUR millions)

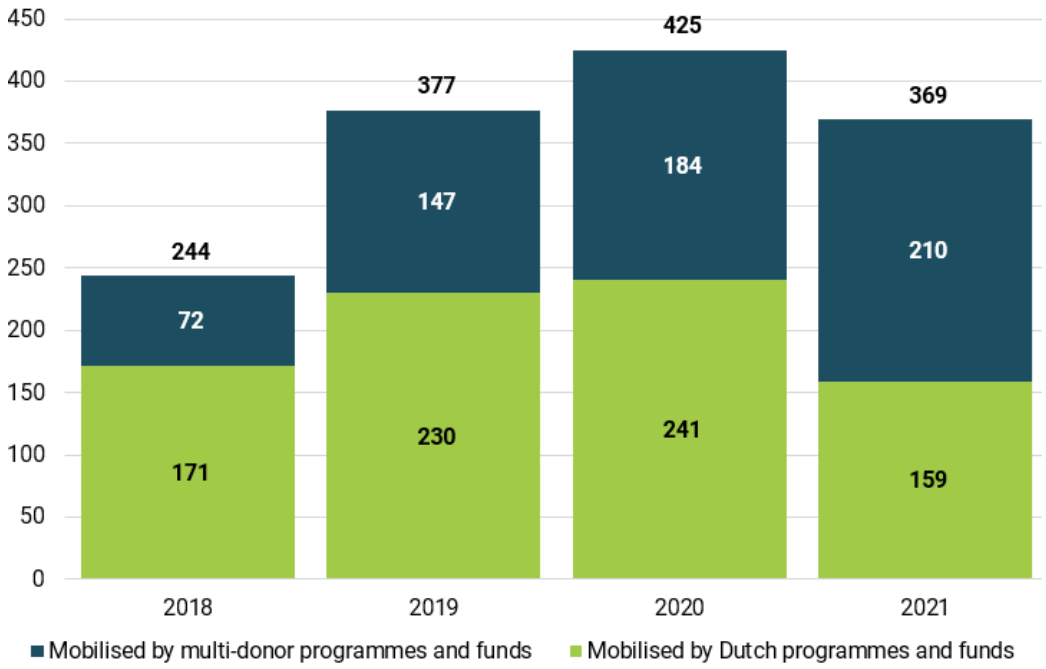
Types of Dutch public development finance	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Dutch programmes and funds	439.67	166.45	327.19	159.30	96%
Multi-donor programmes and funds*	8,424.32	203.78	5,902.04	209.92	103%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

* In previous reporting year PIDG transactions were not included in the calculations for 'mobilized private development finance by NL'. For reporting year 2021 the PIDG data have been attributed to DGIS, and are hence included in the calculations.

Table 1 shows that Dutch programmes and funds mobilized EUR 159 million in private finance for development in 2021 and multi-donor programmes and funds in which the Netherlands participates mobilized EUR 210 million in private finance for development. The overall private finance for development mobilization rate was 100%, i.e. for every Euro committed by the Dutch government, another Euro was committed by the private sector.

Figure 1 shows the trends in private finance for development which was mobilized by the two types of Dutch public development finance in the period 2018-2021. It shows that the highest levels of mobilized private finance occurred in 2020. In this period the proportion of total mobilized private financing mobilized by Dutch programmes and funds decreased from 70% in 2018 to 43% in 2021. The proportion of private finance mobilized by multi-donor programmes and funds increased in the same period from 30% to 57%.

Figure 1 Mobilized private finance for development 2018-2021 by types of Dutch public development finance (EUR millions)



Note: Climate Investor One figures in 2018 have been added to multi-donor programmes and funds figures to be consistent with reporting in later years.

1.1.2 Mobilization per financial instrument

Table 1 showed that the Netherlands in 2021 committed EUR 370 million in public development finance to programmes and funds that mobilized private finance. The Dutch public funds mobilized private finance for an amount of EUR 369 million. Table 2 breaks down these figures per financial instrument.

Table 2 Mobilized private finance for development 2021 - Per financial instrument (EUR million)

Financial instrument	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Standard grant	3,648.66	121.81	1,675.81	109.37	90%
Standard loan	762.11	101.29	279.88	70.91	70%
Reimbursable grant	27.28	0.75	144.04	2.24	300%
Subordinated loan	43.17	11.91	83.89	20.31	170%
Preferred equity	26.28	1.49	116.28	2.46	165%
Common equity	952.54	54.08	588.20	25.71	48%
Shares in CIVs	3,403.94	78.90	3,046.00	43.40	55%

Financial instrument	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Guarantee/insurance	-	-	295.12	94.82	100%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

In 2021, the Netherlands provided most public funding for development through standard grants (EUR 122 million), followed by standard loans (EUR 101 million) and shares in Collective Investment Vehicles (EUR 79 million). Interestingly, these financial instruments mobilized lower than average amounts of private finance, with mobilization rates of respectively 90%, 70% and 55%.

The highest mobilization rates are shown by reimbursable grants, subordinated loans and preferred equity, with 300%, 170% and 165% respectively. Because of the low amounts of Dutch public finance disbursed through reimbursable grants and preferred equity, subordinated loans is the most noteworthy of these three financial instruments.

1.1.3 Mobilization per country of origin

Error! Reference source not found. presents the private finance for development mobilized by Dutch public finance in 2021, broken down by country of origin of the mobilized private finance. It shows that the highest value of private finance mobilized by Dutch public finance came from multiple countries of origin (EUR 149 million), followed by recipient countries (EUR 87 million), and the Netherlands (EUR 62 million). The mobilization rates were the highest for private financing from recipient countries (198%) and multiple countries of origin (166%). The high mobilization rate for private financing from recipient countries could indicate that Dutch public finance provided different types of investors in recipient countries with sufficient confidence and trust in particular projects and initiatives to allow them provide additional financing.

Table 3 Mobilized private finance for development 2021 - Per country of origin (EUR million)

Country of origin of the mobilized private finance	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Provider country	85.21	73.31	79.14	62.28	85%
Recipient country	124.24	44.05	164.24	87.15	198%
Third country - high income/OECD	1,291.00	144.11	670.71	45.10	31%
Third country - other	4.01	0.74	3.12	0.60	81%
Multiple countries	3,752.10	89.52	2,516.52	148.74	166%
No data available	3,607.43	18.51	2,795.49	25.35	137%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

1.1.4 Mobilization per type of investor

In 2021 the programmes funded by the Netherlands tried to report more consistently on the types of investors from which private finance was mobilized. Table 4 shows that, where it was reported, Dutch public finance mobilized most private finance from multiple investors (EUR 116 million), commercial banks (EUR 58 million), SMEs (EUR 36 million) and impact investors (EUR 23 million). Looking at mobilization rates, Dutch public finance was most successful in mobilizing private finance from charitable organizations (562%), private equity funds (159%) and asset managers (144%). However, it should be noted that the amounts mobilized from these types of investors

were very small.

Table 4 Mobilized private finance for development 2021 - Per type of investor (EUR million)

Type of investor	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Commercial banks	217.61	59.28	222.66	58.09	98%
Asset managers	1.10	1.10	2.83	1.59	144%
Private equity funds	6.64	1.64	4.10	2.60	159%
Large companies	4.13	4.13	4.52	4.52	109%
SMEs	48.99	44.21	37.99	36.11	82%
Foundations	52.62	17.68	10.74	5.27	30%
Impact investors	238.56	71.48	46.55	22.74	32%
Charitable organisations	0.03	0.02	0.15	0.13	562%
HNWIs/individual investors	2.51	2.51	3.88	3.48	139%
Multiple investors	3,113.91	63.75	2,891.87	115.81	182%
Unknown	5,177.88	104.44	3,003.94	118.88	114%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

1.1.5 Mobilization per economic sector

Table 5 presents the private finance for development mobilized by Dutch public finance in 2021, broken down by economic sector. The highest levels of private finance were mobilized for cross-cutting sectors (EUR 95 million), the energy sector (EUR 67 million) and agriculture (EUR 67 million). In terms of mobilization rates, Dutch public finance was most successful in mobilizing private finance for industry (356%), transport (319%) and water and sanitation (236%) sectors. Researching why the mobilization rates for these sectors were particularly high, was not within the scope this project.

Table 5 Mobilized private finance for development 2021 - Per economic sector (EUR million)

Sector	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Energy	2,211.78	75.66	964.94	67.31	89%
Transport	507.15	4.38	1,151.73	13.97	319%
Industry	5.96	3.53	15.75	12.59	356%
Agriculture	217.22	107.81	242.03	66.77	62%
Forestry	0.65	0.65	0.32	0.32	50%
Water and sanitation	39.55	16.17	57.22	38.22	236%
Cross-cutting sectors	2,287.67	108.88	1,747.15	94.91	87%
Unknown	3,594.01	53.15	2,050.07	75.12	141%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

Table 6 provides more details on mobilized private finance for development per purpose code.

Table 6 Mobilized private finance for development 2021 - Per purpose code (EUR million)

Purpose code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
12220=Basic health care	7.50	7.50	25.00	16.67	222%
12230=Basic health infrastructure	14.89	14.89	14.80	14.80	99%
12240=Basic nutrition	39.29	17.84	16.13	8.48	48%
14015=Water resources conservation (including data collection)	0.79	0.79	1.14	1.14	145%
14020=Water supply and sanitation - large systems	7.51	1.44	5.52	0.55	38%
14021=Water supply - large systems	4.86	1.60	2.65	0.87	55%
14030=Basic drinking water supply and basic sanitation	0.09	0.09	0.05	0.05	52%
14031=Basic drinking water supply	0.27	0.27	0.52	0.52	191%
14032=Basic sanitation	0.50	0.50	1.22	1.22	243%
14040=River basins' development	30.19	0.60	0.47	0.37	62%
14050=Waste management/disposal	8.83	3.20	4.41	1.60	50%
14081=Education and training in water supply and sanitation	3.83	3.22	36.15	30.32	943%
15170=Women's equality organisations and institutions	-	-	220.74	35.32	-
16040=Low-cost housing	8.83	1.04	22.76	12.58	1207%
21012=Public transport services	504.43	3.86	1,149.60	13.65	354%
21020=Road transport	2.90	0.69	2.16	0.35	50%
21040=Water transport	2.30	1.28	0.53	0.30	23%
21061=Storage	0.23	0.23	0.08	0.08	33%
22020=Telecommunications	0.96	0.96	0.85	0.85	89%
23112=Energy sector policy, planning and administration	4.23	0.05	0.55	0.00	9%
23210=Energy generation, renewable sources - multiple technologies	789.29	16.24	439.73	16.26	100%
23220=Hydro-electric power plants	104.88	9.54	40.20	2.82	30%
23230=Solar energy	1,372.62	29.00	1,149.53	46.45	160%
23230=Solar energy for centralised grids	124.65	0.41	3.32	0.01	3%
23240=Wind energy	476.59	24.15	281.80	7.93	33%
23270=Biofuel-fired power plants	32.32	0.14	10.22	0.05	32%
23630=Electric power transmission and distribution	3.71	0.44	2.86	0.34	77%
23630=Electric power transmission and distribution (centralised grids)	15.01	0.07	1.10	0.00	7%
23642=Electric mobility infrastructures	152.29	0.58	60.25	0.23	40%

Purpose code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
24030=Formal sector financial intermediaries	6.77	6.77	8.26	6.61	98%
25010=Business support services and institutions	1.59	1.59	0.57	0.57	36%
25030=Business development services	19.66	0.88	23.38	1.17	133%
31120=Agricultural development	114.94	61.05	150.88	29.63	49%
31161=Food crop production	12.96	11.74	30.47	18.67	159%
31162=Industrial crops/export crops	0.10	0.10	0.04	0.04	34%
31163=Livestock	627.14	2.70	27.43	2.26	84%
31165=Agricultural alternative development	0.35	0.35	0.59	0.59	169%
31182=Agricultural research	0.20	0.20	0.15	0.15	75%
31191=Agricultural services	2.45	1.57	3.08	2.13	136%
31193=Agricultural financial services	117.96	15.78	98.68	6.57	42%
31220=Forestry development	422.59	3.08	50.84	0.80	26%
31320=Fishery development	1.40	0.70	2.11	0.66	94%
32120=Industrial development	0.12	0.12	0.03	0.03	25%
32130=Small and medium-sized enterprises (SME) development	268.77	62.69	89.77	12.72	20%
32161=Agro-industries	1.07	1.07	0.71	0.71	67%
32164=Chemicals	338.08	3.75	576.07	12.62	337%
33110=Trade policy and administrative management	2.03	2.03	3.01	3.01	148%
33210=Tourism policy and administrative management	0.60	0.60	0.15	0.15	25%
41010=Environmental policy and administrative management	226.52	1.91	116.84	1.46	76%
41030=Biodiversity	81.23	0.49	30.61	0.18	38%
41030=Bio-diversity	11.01	4.23	5.17	1.81	43%
43032=Urban development	23.34	0.65	0.55	0.01	2%
52010=Food aid/Food security programmes	47.93	12.02	59.95	15.04	125%
Multiple sectors	2,795.32	22.51	1,427.16	16.95	75%
99810=Sectors not specified	5.35	0.01	0.25	0.00	5%
998=Unallocated/Unspecified	20.73	11.05	28.12	20.87	189%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

1.1.6 Mobilization per DAC income group

Table 7 presents the private finance for development mobilized by Dutch public finance in 2021, broken down by DAC income group. The highest levels of private finance for development were mobilized for lower middle-income countries (LMICs, EUR 143 million), low-income countries (LICs,

EUR 56 million) and least developed countries (LDCs, EUR 54 million). In terms of mobilization rates, Dutch public finance was most successful in mobilizing private finance for low-income countries (LICs, 360%), upper middle-income countries (UMICs, 211%) and lower middle-income countries (LMICs, 108%). Determining why the mobilization rates for these groups of countries were particularly high, was outside the scope of this project.

Table 7 Mobilized private finance for development 2021 - Per DAC income group (EUR million)

DAC Income Group	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
LDCs (Least Developed Countries)	1,824.30	74.94	662.46	53.73	72%
LICs (Low-Income Countries)	54.27	15.57	288.23	55.96	360%
LMICs (Lower Middle-Income Countries)	3,436.52	132.30	1,794.60	142.81	108%
UMICs (Upper Middle-Income Countries)	1,585.91	21.36	1,943.37	45.10	211%
HICs (High-Income Countries)	62.74	0.54	22.26	0.28	51%
Unknown	1,900.26	125.52	1,518.31	71.34	57%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

Table 8 provides more details on the private finance for development mobilized per recipient country.

Table 8 Mobilized private finance for development 2021 - Per recipient country (EUR million)

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Afghanistan	0.86	0.02	0.46	0.01	53%
Albania	5.78	0.02	2.29	0.01	40%
Algeria	0.07	0.07	0.05	0.05	68%
Angola	0.74	0.74	0.35	0.35	48%
Argentina	1.15	0.03	0.61	0.01	53%
Armenia	15.01	0.07	1.10	0.00	7%
Azerbaijan	16.19	0.06	0.88	0.00	5%
Bangladesh	17.09	3.51	9.44	3.89	111%
Belarus	30.09	0.18	12.35	0.14	81%
Belize	0.53	0.01	0.28	0.01	53%
Benin	41.59	0.45	0.26	0.00	1%
Bhutan	1.57	0.02	0.70	0.01	49%
Bolivia	21.74	0.19	11.48	0.10	53%
Bosnia and Herzegovina	18.60	0.08	0.10	0.00	1%
Botswana	1.54	0.04	0.95	0.02	63%
Brazil	16.00	0.73	32.61	13.39	1845%

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Burkina Faso	1.40	0.24	0.68	0.07	29%
Burundi	25.36	0.73	0.84	0.05	7%
Cabo Verde	0.98	0.02	0.52	0.01	53%
Cambodia	0.30	0.28	0.11	0.10	35%
Cameroon	0.81	0.02	0.43	0.01	53%
Central African Republic	0.72	0.02	0.38	0.01	53%
China (People's Republic of)	150.79	1.88	310.60	6.82	364%
Colombia	63.89	0.89	6.43	0.11	12%
Congo	9.41	0.09	5.07	0.05	56%
Costa Rica	504.44	3.87	1,149.67	13.71	355%
Côte d'Ivoire	3.07	0.93	1.56	0.43	46%
Cuba	0.35	0.01	0.18	0.00	53%
Democratic Republic of the Congo	18.59	0.29	3.38	0.06	20%
Djibouti	113.31	2.85	90.28	1.52	53%
Dominican Republic	0.74	0.01	0.44	0.01	57%
Ecuador	9.69	0.04	3.83	0.01	40%
Egypt	0.36	0.36	0.06	0.06	17%
Eritrea	0.95	0.02	0.51	0.01	53%
Eswatini	0.23	0.01	0.12	0.00	53%
Ethiopia	12.50	1.54	21.34	7.69	498%
Fiji	34.55	0.21	0.88	0.01	3%
Gabon	0.63	0.01	0.33	0.01	53%
Gambia	1.13	0.03	0.60	0.01	53%
Ghana	22.41	1.62	11.90	0.92	57%
Grenada	7.96	0.03	3.15	0.01	40%
Guinea	64.58	0.27	12.96	0.05	20%
Guinea-Bissau	11.46	0.16	3.09	0.05	28%
Haiti	91.23	0.35	0.58	0.00	1%
Honduras	368.16	0.13	19.85	0.06	47%
India	690.86	42.33	488.47	33.75	80%
Indonesia	240.72	4.36	24.42	3.76	86%
Iraq	0.22	0.22	0.07	0.07	29%
Jamaica	0.80	0.02	0.43	0.01	53%
Jordan	36.51	1.53	4.73	0.90	59%
Kenya	119.94	16.58	99.24	44.04	266%
Kyrgyzstan	14.92	0.08	0.53	0.00	4%

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Lebanon	0.40	0.40	0.10	0.10	26%
Lesotho	5.30	0.07	9.56	0.13	180%
Liberia	56.51	0.65	0.82	0.01	2%
Madagascar	101.14	0.77	23.65	0.27	34%
Malawi	0.03	0.02	0.00	0.00	3%
Malaysia	34.27	0.21	12.91	0.08	38%
Maldives	69.83	0.28	3.36	0.01	5%
Mali	36.19	1.41	1.40	0.62	44%
Mauritania	19.10	0.12	2.65	0.02	14%
Mexico	215.90	1.61	158.73	3.29	205%
Micronesia	0.69	0.02	0.37	0.01	53%
Moldova	18.41	0.03	0.81	0.00	4%
Mongolia	633.17	2.55	26.73	0.14	5%
Montenegro	0.88	0.01	0.33	0.00	38%
Morocco	0.35	0.01	0.18	0.00	53%
Mozambique	18.00	2.87	10.11	1.65	57%
Myanmar	2.10	1.19	1.58	0.69	58%
Namibia	7.84	1.57	2.12	0.72	46%
Nepal	74.01	0.77	15.62	0.19	24%
Nicaragua	108.13	5.84	141.57	13.76	236%
Niger	6.09	0.52	0.63	0.04	7%
Nigeria	38.91	2.18	18.27	1.10	51%
Pakistan	55.10	0.86	31.83	17.63	2060%
Palau	0.23	0.01	0.12	0.00	53%
Panama	52.91	0.27	6.52	0.05	17%
Papua New Guinea	21.27	0.11	0.40	0.00	2%
Paraguay	25.29	0.12	3.27	0.02	13%
Peru	72.84	1.08	14.01	0.28	26%
Philippines	84.99	1.84	44.13	1.17	64%
Rwanda	1.32	1.32	2.38	2.38	180%
Saint Lucia	0.23	0.01	0.12	0.00	53%
Samoa	21.01	0.11	0.18	0.00	1%
Sao Tome and Principe	9.01	0.11	0.44	0.01	5%
Senegal	49.74	4.23	7.48	1.65	39%
Serbia	11.61	0.05	2.65	0.01	23%
Seychelles	11.02	0.16	13.36	0.19	119%

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Sierra Leone	16.82	2.43	14.67	1.28	53%
Solomon Islands	24.55	0.23	0.62	0.01	3%
Somalia	1.27	0.03	0.67	0.02	53%
South Africa	111.32	1.71	180.72	4.01	234%
South Sudan	0.45	0.45	0.30	0.30	66%
Sri Lanka	47.99	0.29	15.29	0.11	40%
Sudan	0.16	0.16	0.10	0.10	66%
Suriname	17.35	0.17	9.16	0.09	54%
Tanzania	180.99	7.02	106.41	5.84	83%
Thailand	76.92	5.23	21.97	2.62	50%
Togo	0.69	0.02	0.37	0.01	53%
Tonga	0.56	0.01	0.30	0.01	53%
Tunisia	73.61	0.41	8.98	0.16	40%
Turkey	0.35	0.01	0.18	0.00	53%
Tuvalu	7.77	0.07	0.15	0.00	2%
Uganda	119.15	12.59	47.42	8.86	70%
Uzbekistan	42.45	0.21	9.08	0.06	26%
Vanuatu	0.47	0.01	0.25	0.01	53%
Venezuela	2.31	0.05	1.23	0.03	53%
Viet Nam	343.81	19.01	196.76	8.33	44%
West Bank and Gaza Strip	35.67	4.41	58.89	3.64	83%
Yemen	1.08	0.02	0.57	0.01	53%
Zambia	0.44	0.44	0.15	0.15	33%
Zimbabwe	1.04	0.02	0.55	0.01	53%
Africa, regional	1,105.12	71.42	1,134.95	95.64	134%
Asia, regional	46.48	9.09	32.89	4.23	47%
Caribbean & Central America, regional	17.31	0.18	4.76	0.05	29%
Central America, regional	0.37	0.37	0.60	0.60	161%
Developing countries, unspecified	1,472.45	92.74	1,199.80	45.08	49%
Eastern Africa, regional	3.05	1.90	2.00	1.25	66%
Far East Asia, regional	398.21	15.48	273.27	6.13	40%
South & Central Asia, regional	2.30	1.28	0.53	0.30	23%
South America, regional	34.17	0.19	4.01	0.03	16%
South Asia, regional	0.26	0.26	0.95	0.95	366%
Western Africa, regional	0.70	0.70	0.70	0.70	100%
Total	**8,863.99**	**370.23**	**6,229.23**	**369.22**	**100%**

1.2 Mobilized private climate finance in 2021

The financial contribution of the private sector to achieve climate goals is receiving increased international attention. This is due to practical considerations (public resources are insufficient to achieve climate goals) as well as corporate responsibility considerations, since the private sector is partly responsible for climate change. Governments are therefore trying to mobilize more private resources to achieve climate goals and trying to quantify the results of these efforts.

This is in line with the commitments made during the Conference of the Parties (COP15) in Copenhagen in 2009, when developed countries (Annex 1 countries) made a commitment to collectively mobilize USD 100 billion per year by 2020 to fund climate mitigation and adaptation in developing countries (non-Annex 1-countries).[4] This commitment was reaffirmed and extended until 2025 during COP21 in Paris (2015), where a new, more ambitious goal was set.[5] Article 9 of the Paris Agreement stipulates that developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation.[6]

As part of this renewed commitment, the participating donor countries also recognised the need for increased transparency and reporting on this mobilization, as well as a common methodology for tracking contributions. In the 2015 the Joint Donor Statement on Tracking Progress towards the USD 100 billion goal, donor countries committed to assessing the amount of private finance mobilized on an activity-by-activity basis and to report on private finance associated with activities where there is a clear causal link between a public intervention and private finance.[7] The methodology of the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC) mentioned earlier in section 1.1, is used to measure the volume of private climate finance mobilized by public finance.

Profundo has used the OECD-DAC-methodology for the *Mobilized Private (Climate & Biodiversity) Finance 2021 Report* which was published by the Dutch Ministry of Foreign Affairs (MFA) in April 2022.[8] This report provides an overview of the private climate finance mobilized by the programmes of Directorate-General International Cooperation (DGIS) of MFA, as well as the multi-donor programmes and funds MFA supports. This section provides a summary and analysis of the data on private climate finance mobilized from this annual publication.

1.2.1 General overview

In 2021, public interventions funded by MFA mobilized EUR 322 million in private climate finance. Table 9 provides an overview, distinguishing between four types of Dutch public climate funding:

- **Dutch programmes and funds**: These are programmes and funds initiated and managed by the Dutch MFA, which mobilize private finance. Other (Dutch or foreign) public entities sometimes contribute to these programmes and funds as well, therefore the total public finance is larger than the Dutch contribution alone.
- **Multi-donor programmes and funds**: These are programmes and funds set up and managed by a group of donor countries, sometimes including MDBs as well, which mobilize private finance. The Dutch MFA is one of the participants in these funds and programmes and contributes a portion of the total public finance invested through these funds and programmes.
- **FMO-A**: FMO is the Dutch development bank structured as a bilateral private-sector international financial institution based in the Hague, the Netherlands. FMO manages funds for the Ministries of Foreign Affairs and Economic Affairs of the Dutch government to maximize the development impact of private sector investments. This study only looks at investments on the balance sheet of FMO, indicated as FMO-A.

- **Multilateral Development Banks**: The Netherlands participates in the capital of several Multilateral Development Banks. A corresponding share of the private climate finance mobilized by the MDBs can therefore be assigned to Dutch public funds (see chapter 3 for more details).

The columns in Table 9 show the following data for these four types of Dutch public finance, all in millions of euros:

- **Total public finance**: The total financing amounts committed by the Netherlands and other donors and public entities participating in the selected programmes and funds targeting climate change mitigation and/or adaptation through which private climate finance was mobilized in 2021;
- **Of which committed by MFA**: The financing amounts committed by the Dutch MFA (DGIS) to the selected programmes and funds targeting climate change mitigation and/or adaptation through which private climate finance was mobilized in 2021;
- **Total private finance mobilized**: The total private climate finance amounts mobilized by the selected programmes and funds;
- **Of which mobilized by MFA funding**: The private climate finance amounts which are mobilized by the selected programmes and funds and which can be attributed to the financing amounts committed by the Dutch MFA (DGIS) to the selected programmes and funds; and
- **Dutch mobilization rate**: The private climate finance amounts mobilized by the Netherlands as percentage of the financing amounts committed by the Dutch MFA (DGIS).

Table 9 provides details on results per types of Dutch public finance. It shows that Dutch programmes and funds mobilized EUR 71 million in private climate finance, while the Netherlands mobilized EUR 133 million in private climate finance through its participation in multi-donor programmes and funds. FMO-A mobilized EUR 118 million in private climate finance and the Dutch participation in the MDBs mobilized EUR 297 million in private climate finance.

In terms of mobilization rates, Dutch public finance was most successful in mobilizing private climate finance through Dutch programmes and funds (130%), followed by its participation in multi-donor programmes and funds (74%) and FMO-A (48%). The average mobilization rate for these three types of Dutch public climate funding is 67%. This mobilization rate excludes the private finance mobilized by the Netherlands via its participation in the MDBs, as it is unknown how much public finance was involved in mobilizing the reported amount of private climate finance.

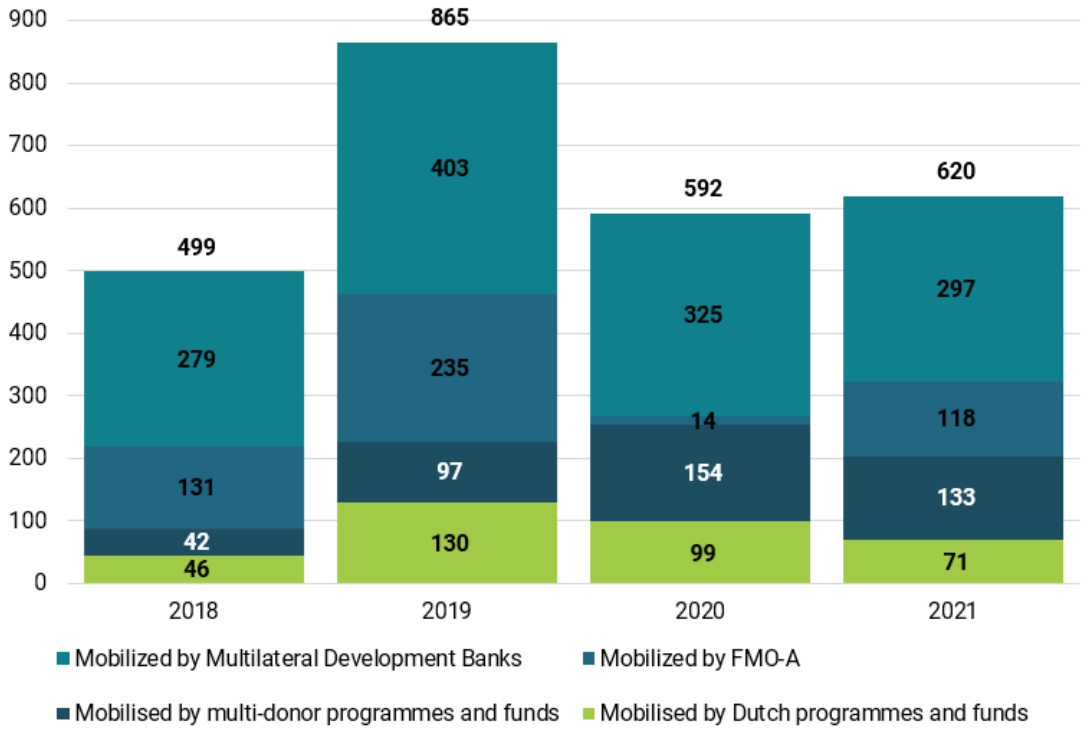
Table 9 Mobilized private climate finance in 2021 by types of Dutch public finance (EUR millions)

Types of Dutch public finance	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Dutch programmes and funds	118.93	54.29	169.75	70.81	130%
Multi-donor programmes and funds*	7,723.02	179.42	4,986.19	133.30	74%
FMO-A	1,364.44	247.86	403.18	118.26	48%
Multilateral Development Banks	-	-	-	297.28	-
Total	**9,206.38**	**481.56**	**5,559.12**	**619.65**	**67%****

* In previous reporting years PIDG transactions were not included in the calculations for 'mobilized private development finance by NL'. For reporting year 2021 the PIDG data have been attributed to DGIS, and are hence included in the calculations.

** This mobilization rate excludes the private finance mobilized by the Netherlands via its participation in the MDBs, as it is unknown how much public finance was involved in mobilizing the reported amount of private climate finance by the MDBs. In earlier reports it was assumed that the mobilization rate of the MD was 1 to 0.42, but data reported more recently by several MDBs lead to a different conclusion. This is discussed in chapter 3.

Figure 2 Mobilized private climate finance for 2018-2021 by Dutch public interventions (EUR millions)



Note: Climate Investor One figures in 2018 have been added to multi-donor programmes and funds figures to be consistent with reporting in later years.

Figure 2 shows the trends in private climate finance mobilized by Dutch public climate funds in the period 2018-2021. It shows that the highest levels of mobilized private finance occurred in 2019 (EUR 865 million). This was driven by high levels of mobilized private climate finance from the MDBs (EUR 403 million) and FMO-A (EUR 235 million).

Throughout the period, the proportion of mobilized private climate finance attributable to the MDBs varied between 56% and 47%. The proportions attributable to FMO-A varied between a low of 2% in 2020 and a high of 27% in 2019. The proportions of mobilized private climate finance attributable to multi-donor programmes and funds appears to be growing from 8% and 11% in 2018 and 2019 respectively to 27% and 22% in 2020 and 2021. The proportions attributable to Dutch programmes and funds varied between 9% and 15% in 2018 and 2019, to 17% and 11% in 2020 and 2021.

The remainder of section 1.2 does not include an analysis of the private finance mobilized through the Dutch participation in the MDBs. This is because the MDB figures are aggregated and cannot be broken down into programme and project level details.

1.2.2 Mobilization per financial instrument

Table 9 showed that the Netherlands in 2021 committed EUR 482 million in public finance to programmes and funds that mobilized private climate finance. The Dutch public funds mobilized private climate finance for an amount of EUR 322 million. Table 10 breaks down these figures per financial instrument.

The Netherlands committed most climate funding through standard loans (EUR 256 million), followed by standard grants (EUR 83 million) and common equity (EUR 79 million). Mobilization rates for private climate finance were the highest for preferred equity (225%), shares in CIVs (163%) and standard grants (68%). (Guarantees and insurance are always put at 100%.) Further research at individual project level would be needed to determine why these instruments had comparatively higher mobilization rates.

Table 10 Mobilized private climate finance 2021 - Per financial instrument (EUR million)

Financial instrument	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Standard grant	2,959.79	83.34	1,112.83	56.92	68%
Standard loan	1,166.59	256.19	399.62	93.34	36%
Reimbursable grant	0.35	0.35	0.12	0.12	34%
Preferred equity	25.18	0.39	113.46	0.88	225%
Common equity	1,182.68	78.91	717.07	25.42	32%
Shares in CIVs	3,871.80	62.38	3,148.90	101.43	163%
Guarantee/insurance	-	-	67.11	44.26	100%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

1.2.3 Mobilization per country of origin

Table 11 presents the private climate finance mobilized by Dutch public finance in 2021, broken down by country of origin of the mobilized private finance. It shows that the highest value of mobilized private climate finance came from multiple origins (EUR 171 million), followed by recipient countries (EUR 67 million) and the Netherlands (EUR 36 million). The mobilization rates were the highest for private climate finance from recipient countries (219%), other third countries (81%) and the Netherlands (66%). The high mobilization rate for private financing from recipient countries could indicate that Dutch public finance provided financiers and investors in recipient countries with sufficient confidence and trust in particular projects and initiatives to allow them to provide additional financing.

Table 11 Mobilized private climate finance 2021 - Per country of origin (EUR million)

Country of origin of the mobilized private finance	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Provider country	66.06	54.30	60.94	35.98	66%
Recipient country	86.80	30.44	157.35	66.63	219%
Third high income/OECD country	1,050.00	75.40	622.84	23.31	31%
Other third country	4.01	0.74	3.12	0.60	81%
Other/multiple origins	4,392.08	302.17	1,919.38	170.55	56%
Unknown	3,607.43	18.51	2,795.49	25.31	137%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

1.2.4 Mobilization per type of investor

In 2021 the programmes funded by the Netherlands tried to report more consistently on the types of investors which provided the mobilized private climate finance. Table 12 shows that, where it was reported, commercial banks (EUR 40 million), SMEs (EUR 22 million) and impact investors (EUR 5 million) committed most private climate finance. Looking at mobilization rates charitable organizations (562%), foundations (276%) and private equity (146%), had the highest private finance mobilization rates. (In future editions of this study, programmes funded by the Netherlands will be encouraged to report on mobilization per type of investor in more detail where possible.)

Table 12 Mobilized private finance 2021 - Per type of investor (EUR million)

Type of investor	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Commercial banks	181.94	54.86	162.57	40.27	73%
Insurance companies	12.76	8.52	4.24	1.77	21%
Private equity funds	3.51	1.01	2.22	1.47	146%
Large companies	112.06	10.36	35.22	1.49	14%
SMEs	31.31	26.52	24.14	22.32	84%
Foundations	0.25	0.25	1.72	0.69	276%
Impact investors	75.83	52.46	17.90	4.83	9%
Charitable organisations	0.03	0.02	0.15	0.13	562%
Multiple investor types	4,272.50	229.31	3,206.19	189.82	83%
Unknown	4,516.20	98.25	2,104.75	59.59	61%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

1.2.5 Mobilization per economic sector

Table 13 presents the private climate finance mobilized by Dutch public finance in 2021, broken down by economic sector. The highest levels of private climate finance were mobilized for the energy sector (EUR 160 million), water and sanitation (EUR 35 million) and agriculture (EUR 35 million).

In terms of mobilization rates, Dutch public finance was most successful in mobilizing private finance for industry (716%), transport (335%) and water and sanitation (233%). Why the mobilization rates for these sectors were particularly high, could not be researched for this study.

Table 13 Mobilized private climate finance 2021 - Per economic sector (EUR million)

Economic sector	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Energy	3,081.13	147.28	1,166.57	160.08	109%
Transport	506.93	4.15	1,151.66	13.89	335%
Industry	3.81	1.38	13.56	9.91	716%
Agriculture	205.07	95.71	230.74	35.02	37%
Forestry	0.65	0.65	0.32	0.32	50%

Economic sector	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Water and sanitation	38.64	15.26	54.49	35.49	233%
Cross-cutting	1,971.25	19.99	1,411.70	21.38	107%
Unknown	3,398.90	197.13	1,530.08	46.28	23%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

Table 14 provides more details on mobilized private climate finance per purpose code.

Table 14 Mobilized private climate finance 2021 - Per purpose code (EUR million)

Purpose code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
14015=Water resources conservation (including data collection)	0.44	0.44	0.15	0.15	33%
14020=Water supply and sanitation - large systems	7.51	1.44	5.52	0.55	38%
14021=Water supply - large systems	4.86	1.60	2.65	0.87	55%
14032=Basic sanitation	0.30	0.30	0.05	0.05	16%
14040=River basins' development	30.19	0.60	0.47	0.37	62%
14050=Waste management/disposal	8.83	3.20	4.41	1.60	50%
14081=Education and training in water supply and sanitation	3.83	3.22	36.15	30.32	943%
16040=Low-cost housing	8.83	1.04	22.76	12.58	1207%
21012=Public transport services	504.43	3.86	1,149.60	13.65	354%
21020=Road transport	2.50	0.29	2.06	0.24	82%
21040=Water transport	2.30	1.28	0.53	0.30	23%
23112=Energy sector policy, planning and administration	4.23	0.05	0.55	0.00	9%
23210=Energy generation, renewable sources - multiple technologies	1,544.86	78.84	606.43	107.48	136%
23220=Hydro-electric power plants	104.88	9.54	40.20	2.82	30%
23230=Solar energy	1,486.40	38.02	1,184.47	47.99	126%
23230=Solar energy for centralised grids	124.65	0.41	3.32	0.01	3%
23240=Wind energy	476.59	24.15	281.80	7.93	33%
23270=Biofuel-fired power plants	32.32	0.14	10.22	0.05	32%
23630=Electric power transmission and distribution	3.71	0.44	2.86	0.34	77%
23630=Electric power transmission and distribution (centralised grids)	15.01	0.07	1.10	0.00	7%

Purpose code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
23642=Electric mobility infrastructures	152.29	0.58	60.25	0.23	40%
24020=Monetary institutions	190.41	104.11	38.54	9.61	9%
24030=Formal sector financial intermediaries	53.50	30.50	18.00	2.76	9%
24040=Informal/semi-formal financial intermediaries	12.76	8.52	4.24	1.77	21%
25030=Business development services	19.66	0.88	23.38	1.17	133%
31120=Agricultural development	108.61	54.72	142.44	16.20	30%
31161=Food crop production	7.82	6.59	28.75	10.22	155%
31162=Industrial crops/export crops	0.10	0.10	0.04	0.04	34%
31163=Livestock	627.14	2.70	27.43	0.95	35%
31165=Agricultural alternative development	0.35	0.35	0.59	0.59	169%
31182=Agricultural research	0.20	0.20	0.15	0.15	75%
31191=Agricultural services	2.45	1.57	3.08	1.64	104%
31193=Agricultural financial services	117.63	15.45	98.13	3.66	24%
31220=Forestry development	380.45	2.90	45.89	0.57	20%
31320=Fishery development	1.40	0.70	2.11	0.26	38%
32164=Chemicals	128.37	1.14	169.71	1.46	128%
33110=Trade policy and administrative management	2.03	2.03	3.01	1.21	59%
41010=Environmental policy and administrative management	226.52	1.91	116.84	0.88	46%
41030=Biodiversity	81.23	0.49	30.61	0.07	15%
41030=Bio-diversity	11.01	4.23	5.17	1.81	43%
43032=Urban development	23.34	0.65	0.55	0.01	2%
52010=Food aid/Food security programmes	47.93	12.02	59.95	6.01	50%
Multiple	2,385.84	19.42	1,161.22	9.89	51%
99810=Sectors not specified	241.42	30.76	138.66	9.02	29%
998=Unallocated/Unspecified	17.26	10.12	25.07	14.92	147%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

1.2.6 Mobilization per DAC income group

Error! Reference source not found. presents the private finance for development mobilized by Dutch public finance in 2021, broken down by DAC income group. The highest levels of private climate finance were mobilized for Lower Middle-Income Countries (LMICs, EUR 226 million), Least Developed Countries (LDCs, EUR 34 million) and Upper Middle-Income Countries (UMICs, EUR 30 million).

In terms of mobilization rates, Dutch public finance was most successful in mobilizing private finance for Lower Middle-Income Countries (84%), Low-Income Countries (67%) and Least Developed Countries (61%). It was beyond the scope of this study to research why mobilization rates differed per DAC income group.

Table 15 Mobilized private climate finance 2021 - Per DAC income group (EUR million)

DAC income Group	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
LDCs (Least Developed Countries)	1,690.96	55.73	609.21	34.00	61%
LICs (Low-Income Countries)	65.62	19.89	72.33	13.25	67%
LMICs (Lower Middle-Income Countries)	4,310.77	269.84	1,991.46	225.75	84%
UMICs (Upper Middle-Income Countries)	1,387.05	56.38	1,532.60	29.76	53%
HICs (High-Income Countries)	49.80	0.37	7.40	0.03	8%
Unknown	1,702.18	79.35	1,346.13	19.57	25%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

Table 16 provides more details on the private climate finance mobilized per recipient country.

Table 16 Mobilized private finance 2021 - Per recipient country (EUR million)

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Afghanistan	0.86	0.02	0.46	0.00	21%
Albania	5.78	0.02	2.29	0.01	40%
Angola	0.70	0.70	0.30	0.30	43%
Argentina	1.15	0.03	0.61	0.01	21%
Armenia	125.18	8.54	35.00	0.94	11%
Azerbaijan	16.19	0.06	0.88	0.00	2%
Bangladesh	14.74	1.16	7.09	1.54	133%
Belarus	30.09	0.18	12.35	0.13	74%
Belize	0.53	0.01	0.28	0.00	21%
Benin	41.59	0.45	0.26	0.00	0%
Bhutan	1.57	0.02	0.70	0.00	20%
Bosnia and Herzegovina	18.60	0.08	0.10	0.00	0%
Botswana	0.84	0.02	0.45	0.00	21%
Brazil	16.00	0.73	32.61	5.39	743%
Burkina Faso	1.40	0.24	0.68	0.06	25%
Burundi	25.36	0.73	0.84	0.05	7%
Cabo Verde	0.98	0.02	0.52	0.00	21%

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Cambodia	0.30	0.28	0.11	0.10	35%
Cameroon	0.81	0.02	0.43	0.00	21%
Central African Republic	0.72	0.02	0.38	0.00	21%
China (People's Republic of)	102.39	0.69	67.26	0.40	58%
Colombia	44.03	0.80	5.83	0.07	9%
Costa Rica	517.20	12.39	1,153.91	15.44	125%
Côte d'Ivoire	2.81	0.67	1.43	0.15	22%
Cuba	0.35	0.01	0.18	0.00	21%
Democratic Republic of the Congo	18.47	0.17	3.37	0.02	10%
Djibouti	113.31	2.85	90.28	1.52	53%
Dominican Republic	0.50	0.01	0.26	0.00	21%
Ecuador	9.69	0.04	3.83	0.01	40%
Eritrea	0.95	0.02	0.51	0.00	21%
Eswatini	0.23	0.01	0.12	0.00	21%
Ethiopia	12.50	1.54	15.27	1.51	98%
Gabon	0.63	0.01	0.33	0.00	21%
Gambia	1.13	0.03	0.60	0.01	21%
Ghana	0.79	0.79	0.51	0.50	64%
Grenada	7.96	0.03	3.15	0.01	40%
Guinea	64.58	0.27	12.96	0.02	8%
Guinea-Bissau	11.46	0.16	3.09	0.02	11%
Haiti	91.23	0.35	0.58	0.00	0%
Honduras	354.95	0.02	12.87	0.00	4%
India	1,244.69	39.51	609.69	98.27	249%
Indonesia	181.20	2.53	22.27	1.74	69%
Jamaica	0.80	0.02	0.43	0.00	21%
Jordan	35.14	0.15	3.85	0.01	9%
Kenya	118.39	15.03	97.81	42.30	281%
Kyrgyzstan	14.92	0.08	0.53	0.00	1%
Liberia	56.51	0.65	0.82	0.01	1%
Madagascar	50.65	0.38	4.27	0.02	6%
Malaysia	34.27	0.21	12.91	0.03	15%
Maldives	61.52	0.21	2.91	0.01	5%
Mali	36.01	1.22	1.30	0.52	43%
Mauritania	19.10	0.12	2.65	0.02	14%
Mexico	155.33	1.34	149.54	1.30	97%
Micronesia	0.69	0.02	0.37	0.00	21%

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Moldova	18.41	0.03	0.81	0.00	2%
Mongolia	733.22	37.80	43.77	2.05	5%
Montenegro	0.88	0.01	0.33	0.00	15%
Morocco	0.35	0.01	0.18	0.00	21%
Mozambique	17.75	2.63	10.06	1.20	46%
Myanmar	1.39	0.48	0.69	0.20	42%
Namibia	7.84	1.57	2.12	0.72	46%
Nepal	74.01	0.77	15.62	0.18	24%
Nicaragua	161.49	27.92	172.85	35.35	127%
Niger	2.36	0.50	0.55	0.01	3%
Nigeria	66.02	28.56	24.85	4.97	17%
Pakistan	54.62	0.37	29.71	15.46	4125%
Palau	0.23	0.01	0.12	0.00	21%
Panama	52.91	0.27	6.52	0.02	7%
Papua New Guinea	21.27	0.11	0.40	0.00	1%
Peru	56.65	0.29	3.70	0.01	4%
Philippines	57.31	0.33	25.58	0.10	31%
Rwanda	9.58	5.61	6.34	2.16	38%
Saint Lucia	0.23	0.01	0.12	0.00	21%
Samoa	21.01	0.11	0.18	0.00	0%
Sao Tome and Principe	9.01	0.11	0.44	0.00	2%
Senegal	46.70	1.19	6.28	0.44	37%
Serbia	11.61	0.05	2.65	0.01	23%
Seychelles	0.58	0.01	0.31	0.00	21%
Sierra Leone	15.04	0.65	14.01	0.60	93%
Solomon Islands	24.55	0.23	0.62	0.00	1%
Somalia	1.27	0.03	0.67	0.01	21%
South Africa	78.06	1.04	24.57	0.54	52%
South Sudan	0.30	0.30	0.26	0.26	87%
Sri Lanka	47.99	0.29	15.29	0.05	18%
Tanzania	183.59	6.56	107.12	6.04	92%
Thailand	76.92	5.23	21.97	2.61	50%
Togo	0.69	0.02	0.37	0.00	21%
Tonga	0.56	0.01	0.30	0.00	21%
Tunisia	73.61	0.41	8.98	0.16	38%
Turkey	53.85	30.51	18.18	2.76	9%
Tuvalu	7.77	0.07	0.15	0.00	1%

Recipient country code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Uganda	100.99	12.43	37.83	8.75	70%
Uzbekistan	84.60	38.14	13.30	2.02	5%
Vanuatu	0.47	0.01	0.25	0.00	21%
Venezuela	2.31	0.05	1.23	0.01	21%
Viet Nam	330.79	18.87	179.38	7.17	38%
Yemen	1.08	0.02	0.57	0.01	21%
Zambia	0.44	0.44	0.15	0.15	33%
Zimbabwe	1.04	0.02	0.55	0.01	21%
Africa, regional	960.57	19.43	859.90	13.83	71%
Asia, regional	74.24	16.60	24.88	0.32	2%
Caribbean & Central America, regional	17.31	0.18	4.76	0.02	12%
Central America, regional	0.37	0.37	0.60	0.24	65%
Developing countries, unspecified	1,538.85	105.74	1,208.29	33.04	31%
Eastern Africa, regional	3.05	1.90	2.00	1.25	66%
Far East Asia, regional	398.21	15.48	273.27	6.13	40%
South & Central Asia, regional	2.30	1.28	0.53	0.30	23%
South America, regional	31.68	0.17	2.21	0.00	3%
Western Africa, regional	0.70	0.70	0.70	0.70	100%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

1.2.7 Mobilization for adaptation and mitigation

Table 17 focuses in on the objectives of the mobilized private climate finance, showing that the majority of financing was mobilized for mitigation (EUR 192 million) followed by adaptation (EUR 81 million). However, financing for adaptation had the highest mobilization rate (77%) compared to mitigation (65%). Why the mobilization rate for adaptation was slightly higher than for mitigation was not researched in this research project.

Table 17 Mobilized private climate finance 2021 - Per objective (EUR million)

Objective	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Adaptation	1,717.99	105.00	936.96	80.53	77%
Mitigation	5,588.72	293.89	4,257.67	192.44	65%
Cross-cutting	1,899.67	82.67	364.49	49.40	60%
Total	**9,206.38**	**481.56**	**5,559.12**	**322.37**	**67%**

Note: This table does not include funds mobilized by the MDBs.

1.3 Mobilized private biodiversity finance in 2021

The financial contribution of the private sector to achieve biodiversity goals is receiving increased international attention. This is due to practical considerations (public resources are insufficient to achieve biodiversity goals) as well as corporate responsibility considerations, since the private sector is partly responsible for many threats to biodiversity. Governments are therefore trying to mobilize more private resources to achieve biodiversity goals and trying to quantify the results of these efforts.

Profundo has used the OECD-DAC-methodology for the *Mobilized Private (Climate & Biodiversity) Finance 2021 Report* which was published by the Dutch Ministry of Foreign Affairs (MFA) in April 2022.[9] This report provides an overview of the private biodiversity finance mobilized by the programmes of Directorate-General International Cooperation (DGIS) of MFA, as well as the multi-donor programmes and funds MFA supports. This section provides a summary and analysis of the data on private biodiversity finance mobilized from this annual publication.

1.3.1 General overview

In 2021, public interventions funded by MFA mobilized EUR 17 million in private biodiversity finance. Table 18 provides an overview, distinguishing between two types of Dutch public biodiversity funding:

- **Dutch programmes and funds**: These are programmes and funds initiated and managed by the Dutch MFA, which mobilize private finance. Other (Dutch or foreign) public entities sometimes contribute to these programmes and funds as well, therefore the total public finance is larger than the Dutch contribution alone.
- **Multi-donor programmes and funds**: These are programmes and funds set up and managed by a group of donor countries, sometimes including MDBs as well, which mobilize private finance. The Dutch MFA is one of the participants in these funds and programmes and contributes a portion of the total public finance invested through these funds and programmes.

The columns in Table 18 show the following data for these two types of Dutch public development finance, all in millions of euros:

- **Total public finance:** The total financing amounts committed by the Netherlands and other donors and public entities participating in the selected programmes and funds targeting biodiversity through which private biodiversity finance was mobilized in 2021;
- **Of which committed by MFA:** The financing amounts committed by the Dutch MFA (DGIS) to the selected programmes and funds targeting biodiversity through which private biodiversity finance was mobilized in 2021;
- **Total private finance mobilized:** The total private biodiversity finance amounts mobilized by the selected programmes and funds**;**
- **Of which mobilized by MFA funding:** The private biodiversity finance amounts which are mobilized by the selected programmes and funds and which can be attributed to the financing amounts committed by the Dutch MFA (DGIS) to the selected programmes and funds; and
- **Dutch mobilization rate:** The private biodiversity finance amounts mobilized by the Netherlands as percentage of the financing amounts committed by the Dutch MFA (DGIS).

Table 18 provides details on results per types of Dutch public finance. It shows that Dutch programmes and funds mobilized EUR 14 million in private biodiversity finance, while the Netherlands mobilized EUR 3 million in private biodiversity finance through its participation in multi-donor programmes and funds.

In terms of mobilization rates, Dutch public finance was most successful in mobilizing private biodiversity finance Dutch programmes and funds (76%) followed by its participation in multi-donor programmes and funds (16%). The average mobilization rate for these two types of Dutch public biodiversity funding is 47%, which is much lower than the average mobilization rate for private climate finance (67%, see Table 9). Why the mobilization rates for private biodiversity finance are much lower than those for private climate finance, could not be researched for this study.

It should be noted that the figures for mobilized private climate finance (Table 9) and mobilized private biodiversity finance (**Error! Reference source not found.**) cannot be added up. These figures should be reported separately. This is for two reasons. Firstly, mobilized private finance and mobilized private biodiversity finance were not calculated for the MDBs, and mobilized private biodiversity finance was not calculated for FMO-A. Moreover, mobilized flows can be attributed to both climate and biodiversity finance. The OECD-DAC Rio Marker Methodology therefore states that the figures must be reported separately to avoid double counting.[10]

Table 18 Mobilized private biodiversity finance in 2021 by types of Dutch public finance (EUR millions)

Types of Dutch public finance	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Dutch programmes and funds	61.07	18.38	96.36	13.94	76%
Multi-donor programmes and funds*	525.21	16.44	307.33	2.60	16%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

* In previous reporting year PIDG transactions were not included in the calculations for 'mobilized private development finance by NL'. For reporting year 2021 the PIDG data have been attributed to DGIS, and are hence included in the calculations.

1.3.2 Mobilization per financial instrument

Table 18 showed that the Netherlands in 2021 committed EUR 35 million in public finance to programmes and funds that mobilized private biodiversity finance. The Dutch public funds mobilized private biodiversity finance for an amount of EUR 17 million. Table 19 breaks down these figures per financial instrument.

The Netherlands committed the most funding through standard grants (EUR 18 million), followed by standard loans (EUR 13 million) and shares in Collective Investment Vehicles (CIVs) (EUR 3 million). Mobilization rates for private biodiversity finance were the highest for standard grants (47%) and shares in CIVs (27%).

Table 19 Mobilized private biodiversity finance 2021 - Per financial instrument (EUR million)

Financial instrument	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Standard grant	61.07	18.38	68.19	8.62	47%
Standard loan	28.55	13.24	9.33	1.73	13%
Shares in CIVs	496.66	3.20	298.00	0.86	27%
Guarantee/insurance	-	-	28.18	5.32	100%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

1.3.3 Mobilization per country of origin

Table 20 presents the mobilized private biodiversity finance by country of origin of the mobilized private finance. It shows that the highest value of mobilized private biodiversity finance came from recipient countries (EUR 10 million). The mobilization rates were also the highest for private biodiversity finance from recipient countries (82%). The high mobilization rate for private financing from recipient countries could indicate that Dutch public finance provided financiers and investors in recipient countries with sufficient confidence and trust in particular projects and initiatives to allow them to provide additional financing.

Table 20 Mobilized private biodiversity finance 2021 - Per country of origin (EUR million)

Country of origin	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Provider country	-	-	11.40	1.82	-
Recipient country	48.41	12.50	78.53	10.23	82%
Third high income/OECD country	40.75	18.66	15.12	3.36	18%
Other/multiple origins	0.47	0.47	0.65	0.26	56%
Unknown	496.66	3.20	298.00	0.86	27%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

1.3.4 Mobilization per type of investor

In 2021 programmes funded by the Netherlands tried to report more consistently on the types of investors which provided the mobilized biodiversity finance. Table 21 shows that, where it was reported, commercial banks (EUR 5 million) and multiple investors (EUR 7 million) committed the most private biodiversity finance. Looking at mobilization rates, Dutch public finance was most successful in mobilizing private biodiversity finance from foundations (276%), multiple investors (45%) and large companies (29%). However, the mobilized biodiversity finance value for foundations and large companies is low in comparison to commercial banks and multiple investors.

Table 21 Mobilized private biodiversity finance 2021 - Per type of investor (EUR million)

Type of investor	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Commercial banks	-	-	28.18	5.32	-
Large companies	1.78	1.78	1.29	0.52	29%
SMEs	0.09	0.09	0.05	0.02	20%
Foundations	0.25	0.25	1.72	0.69	276%
Impact investors	28.55	13.24	9.33	1.73	13%
Multiple investors	544.59	15.22	357.95	6.88	45%
Unknown	11.01	4.23	5.17	1.38	33%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

1.3.5 Mobilization per economic sector

Table 22 presents the private biodiversity finance mobilized by Dutch public finance in 2021, broken down by economic sector. Private biodiversity finance was only mobilized for agriculture (EUR 8 million), cross-cutting sectors (EUR 7 million) and water and sanitation (EUR 1 million).

In terms of mobilization rates, Dutch public finance was most successful in mobilizing private biodiversity finance for the cross-cutting sectors (141%), water and sanitation (33%) and the agriculture (31%) sector.

Table 22 Mobilized private biodiversity finance 2021 - Per economic sector (EUR million)

Economic sector	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Agriculture	76.58	25.36	69.33	7.76	31%
Water and sanitation	11.01	4.23	5.17	1.38	33%
Cross-cutting	498.69	5.23	329.18	7.39	141%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

Table 23 provides more details on mobilized private finance per purpose code.

Table 23 Mobilized private biodiversity finance 2021 - Per purpose code (EUR million)

Purpose code	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
31161=Food crop production	0.09	0.09	22.92	4.49	4803%
31163=Livestock	-	-	5.30	0.85	-
31193=Agricultural financial services	28.55	13.24	9.33	1.73	13%
33110=Trade policy and administrative management	2.03	2.03	3.01	1.21	59%
41030=Bio-diversity	11.01	4.23	5.17	1.38	33%
52010=Food aid/Food security programmes	47.93	12.02	59.95	6.01	50%
Multiple	496.66	3.20	298.00	0.86	27%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

1.3.6 Mobilization per DAC income group

Table 24 presents the private finance for development mobilized by Dutch public finance in 2021, broken down by DAC income group. The highest levels of private biodiversity finance were mobilized for Upper Middle-Income Countries (UMICs, EUR 6 million) and Low-Income Countries (LICs, EUR 6 million).

In terms of mobilization rates, Dutch public finance was most successful in mobilizing private finance for UMICs (245%) and LMICs (58%).

Table 24 Mobilized private finance 2021 - Per DAC income group (EUR million)

DAC income group	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
LDCs (Least Developed Countries)	28.64	13.34	9.38	1.75	13%
LICs (Low-Income Countries)	47.93	12.02	59.95	6.01	50%
LMICs (Lower Middle-Income Countries)	1.66	1.66	2.41	0.96	58%
UMICs (Upper Middle-Income Countries)	7.33	2.58	32.69	6.31	245%
Unknown	500.72	5.22	299.26	1.49	29%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

Table 25 provides more details on the private finance mobilized per recipient country.

Table 25 Mobilized private biodiversity finance 2021 - Per recipient country (EUR million)

Recipient country	Total public finance	Of which committed by MFA	Total private finance mobilized	Of which mobilized by MFA funding	Dutch mobilization rate (%)
Brazil	-	-	28.18	5.32	-
India	0.80	0.80	1.96	0.78	98%
Kenya	0.09	0.09	0.05	0.02	20%
Namibia	3.97	1.53	1.85	0.29	19%
Nigeria	0.86	0.86	0.45	0.18	21%
South Africa	2.98	0.67	2.05	0.46	69%
Africa, regional	51.99	14.05	61.22	6.65	47%
Central America, regional	0.37	0.37	0.60	0.24	65%
Developing countries, unspecified	525.21	16.44	307.33	2.60	16%
Total	**586.28**	**34.82**	**403.69**	**16.53**	**47%**

2

Trends in blended finance and private climate finance mobilization

This chapter describes trends in the fields of climate finance and private finance mobilization which could be relevant for achieving the pledge by donor countries to mobilize USD 100 billion per year in the form of public and private financing for climate mitigation and adaptation in developing countries.

2.1 Mobilizing (private) climate finance

Since the United Nations Framework Convention on Climate Change (UNFCCC) entered into force in 1994, the urgency of mobilizing climate finance to realise climate adaptation and mitigation goals was recognized at different Conferences of the Parties. As developing countries have less resources to cope with climate change, while they are much less responsible for the GHG emissions which are causing climate change, this realisation was soon complemented by a call for financial assistance from countries with more financial resources to those that are more vulnerable and require additional resources.

The Kyoto Protocol already in 1998 recognised that developed countries should support developing countries with financial resources to implement the Convention, establishing a Financial Mechanism to provide these funds to developing countries.[11] During the Conference of the Parties (COP15) in Copenhagen in 2009, developed countries (Annex 1 countries) made a commitment to collectively mobilize USD 100 billion per year by 2020 to fund climate mitigation and adaptation in developing countries (non-Annex 1-countries).[12] Later it became understood that these funds would include public and private, bilateral and multilateral, and alternative sources of funding directed towards supporting climate adaptation and mitigation efforts in developing countries, in particular the Least Developed Countries (LDC).

This commitment was reaffirmed and extended until 2025 during COP21 in Paris (2015), where a new, more ambitious goal was set.[13] Article 9 of the Paris Agreement stipulates that developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation.[14] As part of this renewed commitment, the participating donor countries also recognised the need for increased transparency and reporting on this mobilization, as well as a common methodology for tracking contributions. In the 2015 the Joint Donor Statement on Tracking Progress towards the USD 100 billion goal, donor countries committed to assessing the amount of private finance mobilized on an activity-by-activity basis and to report on private finance associated with activities where there is a clear causal link between a public intervention and private finance.[15]

Operational definitions of climate finance have shifted over the years, but at its core is a general consensus that climate finance aims at reducing emissions and enhancing sinks of greenhouse gases, and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts. These functions are also interpreted as climate *mitigation* and *adaptation*. According to the UNFCCC, a balance between mitigation and adaptation funding and activities is desirable to both reduce global warming while simultaneously adapt to rising temperatures.[16]

In this context, the mobilization of private funds for climate adaptation and mitigation is increasingly seen as important, recognising that the private sector plays a crucial role in funding, facilitating and assisting international development finance. According to the UNFCCC, private finance is estimated to be the largest source of global climate finance flows, although data is underdeveloped.[17]

Originally, the USD 100 billion per year commitment by developed countries would be largely funded by public funds through development budgets. But later the UNFCCC encouraged that support for developing countries be either provided by donor countries or mobilized by them, i.e., provided by the private sector or others. Similarly, in international discussions on financing for development, it is recognised that funding may come from a wide variety of sources, including private business and finance.

One key tool to mobilize private finance is referred to as blended finance, which the OECD defines as the strategic use of development finance for the mobilization of private finance towards sustainable development in developing countries. Blended finance attracts commercial capital towards projects that contribute to sustainable development, while providing financial returns to investors and enlarging the total amount of resources available to developing countries. The OECD classifies blended finance instruments as equity instruments, debt instruments, mezzanine instruments, guarantees and insurance, hedging, and grants and technical assistance. In addition, the OECD identifies four types of blended finance mechanisms: funds, syndication, securitisation and public-private partnerships (PPPs).[18]

Multilateral development banks and development finance institutions mobilize the largest share of private sector investments through blended finance, though a wider range of diverse actors are engaging in blended finance, from foundations and philanthropic investors to commercial actors, institutional investors, commercial banks, private equity and venture capital funds, hedge funds, and companies.[19]

2.2 Trends in global climate finance 2011-2020

Since 2014, the Standing Committee on Finance (SCF) of the UNFCCC has prepared biennial assessments and overviews of climate finance flows to promote transparency as to how, where and for what purpose, climate finance is mobilized and spent. The SCF differentiates between global total climate finance mobilized on the one hand and the flows from developed to developing countries on the other hand. The SCF reports on key characteristics of the climate finance flows, including financial instruments, geographic distribution, thematic distribution, including distinction between climate mitigation and adaptation, and channels from both public and private sources. UNFCCC's most recent reporting on climate finance was published in 2020, covering the years 2017 and 2018 as more recent data is not yet available.[20]

The biennial assessments by the UNFCCC are complemented by the annual reports published since 2015 by the Organisation for Economic Cooperation and Development (OECD) on climate finance provided and mobilized by developed countries towards the USD 100 billion per year goal. The OECD figures combine UNFCCC data with statistics from the OECD DAC (Development Assistance Committee) and capture four distinct components of climate finance provided and mobilized by developed countries:

- bilateral public climate finance,
- multilateral public climate finance attributed to developed countries,
- climate-related officially supported export credits, and
- private finance mobilized by bilateral and multilateral public climate finance, attributed to developed countries.

The most recent report published in October 2021 covers the years 2013 through 2019. [21]

Comparing the findings from the OECD and UNFCCC reports on climate finance since 2011, the following key observations can be made:

- **Global volumes of climate finance**

  Since 2011, there has been an overall increase in the amount of global climate finance flows over the years. Annual figures cannot be compared directly due to significant changes in the consistency of reporting, geographical coverage, granularity and proportion of parties reporting, which means that particularly data from earlier years is less complete compared to more recent aggregates. Nevertheless, the UNFCCC has observed overall increases in climate finance flows, most particularly driven by private investments in renewable energy.[22]

- **Flows from developed to developing countries**

  The flows from developed to developing countries have increased over the years, which can only partially be explained by the increasing number of donor countries reporting on these flows. According to the UNFCCC, climate-specific financial support which was reportedly disbursed through bilateral, regional and other channels, increased from USD 23.1 billion in 2013 to 31.8 billion in 2018.[23]

  According to the OECD, the total climate finance provided and mobilized by developed countries for developing countries have increased significantly over the years, though it remains far below the committed USD 100 billion per year at a total of USD 79.6 billion in 2019.[24]

- **Regional distribution of climate finance**

  Consistently over the years, the majority of dedicated climate finance has been directed towards Asian countries with attractive investment climates. In 2017-2018, the region received on average 30% of funding commitments from bilateral flows, multilateral climate funds and MDBs. Sub-Saharan Africa received an average of 24% of commitments across the sources in the same period, followed by Latin America and the Caribbean with 17% and the remainder going to the Middle East and North Africa; Central, Eastern and South-Eastern Europe; the South Caucasus; and Central Asia.[25]

- **Finance for climate mitigation and adaptation**

  The vast majority of climate funding has been mitigation-focused, particularly among the funds directed towards developing countries. In the past ten years, adaptation finance has consistently remained at between 20% to 25% of committed concessional finance across all sources. However, more recently public climate finance flows increasingly target projects that simultaneously target mitigation and adaptation objectives, particularly across multilateral and bilateral channels. The changes in measuring adaptation versus mitigation as well as the new cross-cutting category of projects that target mitigation and adaptation simultaneously make it difficult to track progress in scaling up adaptation finance. Nevertheless, it is clear that the intended balance between finance for adaptation and mitigation objectives is far from being achieved.[26]

  Looking specifically at the flows from developed to developing countries, adaptation finance has increased significantly by 20% in 2019 compared to 2018, although mitigation still represents two-thirds of total climate finance provided and mobilized by developed countries, driven notably by finance for activities in the energy and transport sectors.[27]

- **Mobilization of private climate finance**

  According to the OECD, volumes of private climate finance mobilized by developed countries' public climate finance dropped by 4% in 2019 compared to 2018 and 2017 (Table 26). As a percentage of total climate finance, the share of private finance also dropped between 2018 and 2019, from 18.6% to 17.6% respectively. However, due to the difficulties associated with

data collection on mobilized private finance, changes in measurement methods since 2016, and inconsistencies across years and reporting countries, it is difficult to draw conclusions based on these aggregate figures. In particular, findings from 2013-2015 should not be directly compared with later years. In addition, there remains significant uncertainty on what factors impact the effectiveness of public finance in mobilizing private finance.[28]

For these reasons, the OECD has calculated the average rate of mobilized private finance as a percentage of public finance over the years 2016 through 2019 to predict future levels. The average mobilization rate across donor countries in these years was 22%.[29]

Over the years, private finance mobilized by bilateral public climate finance via direct investment in companies and projects, simple co-financing schemes, and credit lines increased, although a recent decrease in guarantees and syndicated loans was observed between 2018 and 2019.[30]

Table 26 Climate finance provided and mobilized by developed countries for developing countries (USD billion)

Climate finance provided and mobilized	2013	2014	2015	2016	2017	2018	2019
Public climate finance	**37.9**	**43.5**	**42.1**	**46.9**	**54.5**	**61.6**	**62.9**
Bilateral public climate finance	22.5	23.1	25.9	28.0	27.0	32.0	28.8
Multilateral public climate finance attributable to developed countries	15.5	20.4	16.2	18.9	27.5	29.6	34.1
Climate-related officially-supported export credits	1.6	1.6	2.5	1.5	2.1	2.1	2.6
Private climate finance mobilized	**12.8**	**16.7**	**N/A**	**10.1**	**14.5**	**14.6**	**14.0**
Private climate finance mobilized by bilateral public climate finance	6.5	8.1	N/A	5.0	3.7	3.8	5.6
Private climate finance mobilized by multilateral public climate finance attributable to developed countries	6.2	8.6	N/A	5.1	10.8	10.8	8.4
Total	**52.2**	**61.8**	**N/A**	**58.6**	**71.2**	**78.3**	**79.6**

Source: OECD (2021), *Climate Finance Provided and Mobilized by Developed Countries: Aggregate trends updated with 2019 data - Climate Finance and the USD 100 Billion Goal,* Paris, France: OECD Publishing, p. 6.

- **Climate finance in the broader context of finance flows**

  Although climate finance flows have been increasing overall, they remain relatively small in the broader context of other finance flows, investment opportunities and costs. Across all years, the UNFCCC concludes that climate finance accounts for only a small proportion of the overall finance flows and is considerably below what would be expected in view of the investment opportunities and needs that have been identified.[31]

  In this context it is particularly important to look at investments in what we could call *climate aggravation*: all investments in for instance fossil fuels, electricity, transport and agriculture which are increasing the greenhouse gas emissions of developing countries. Investments in climate mitigation and investments in climate aggravation are two sides of the same coin, both will play a crucial role in determining if developing countries will meet their pledges under the UNFCCC. Leaving the investments by developed countries in climate aggravation (in particular in developing countries) out of the measurement of “climate finance” therefore leads to a very incomplete picture. This is further discussed in section 6.1

- **Data gaps and uncertainties**

  Despite improvements in the collection, aggregation and analysis of climate finance data over the years, significant gaps and uncertainties remain resulting from inconsistencies in reporting, a lack of broad geographic coverage, differences in tracking methods, and changing methods for estimating energy efficiency and sustainable transport. In addition, further gaps are caused by the lack of transparency of data for determining private climate finance, difficulties in estimating adaptation finance, and the classification of sustainable or green finance, amongst others. These significant gaps and uncertainties, in particular in relation to private climate finance, necessitate further progress in improving data collection and measurement to enhance the availability of granular and consistent data.[32]

2.3 Dutch mobilization of (private) climate finance

As a high-income country, the Netherlands has committed to mobilizing and providing climate finance to developing countries and reporting on these efforts as part of the Joint Donor Statement on Tracking Progress towards the USD 100 billion goal. The Netherlands heeded the call by the OECD to report data on the mobilized private climate finance annually to the OECD DAC from reporting year 2016 onwards.[33]

Although the Netherlands does not have a dedicated budget for international climate action, its considerations and objectives are mainstreamed into other development budgets, such as food security and water management. The Dutch government has not set a formal target for climate finance but aims to contribute its 'fair share' towards the USD 100 billion goal, which was calculated at EUR 1.25 billion per year from 2020.[34] The Netherlands aims to contribute around 50% of this amount from public sources and aims to mobilize approximately 50% from private sources, far above the average share currently achieved across donors (22% between 2016-2019)[35] In fact, Dutch mobilization of private climate finance equalled the Dutch public climate finance since 2017, and in 2019 the 50% target (i.e. EUR 625 million) for the mobilization of private climate finance was significantly exceeded (see Table 27). In the last two years, less private climate finance was mobilized, but its share remained on or above the 50% target. The main instruments to mobilize private finance were direct investments in companies or project finance special purpose vehicles, guarantees and syndicated loans.[36]

Table 27 Public and private development climate finance mobilized by the Netherlands (EUR million)

Climate finance for development	2015	2016	2017	2018	2019	2020	2021
Public finance	428	472	394	578	570	596	638
Mobilized private finance	73	209	405	498	864	592	620
Total	**501**	**681**	**799**	**1,076**	**1,434**	**1,188**	**1,258**

Source: Ministry of Foreign Affairs of the Netherlands (2021, May*), IOB Evaluation: Funding commitments in transition, Dutch climate finance for development 2016-2019*, The Hague, Netherlands: Policy and Operations Evaluation Department (IOB), p. 50; Bolscher, H., T. Zell, L. Korteweg and J. Moerenhout (2021, May), *Mobilized private (climate & biodiversity) finance report 2020*, Rotterdam, the Netherlands: Trinomics, p. 14; Ministry of Foreign Affairs of the Netherlands (2021, May), Homogene Groep Internationale Samenwerking - Jaarverslag 2020, The Hague, Netherlands: Ministry of Foreign Affairs of the Netherlands, p. 8; Figure 2.

The high mobilization rate of private climate finance relative to Dutch public finance compared to the international average suggests that Dutch public funds are highly effective at mobilizing private funds. It should be noted that Table 27 does inflate the mobilization rate, as the private climate finance mobilized by FMO and MDBs is included, but not the Dutch funding of these development banks. In chapter 3 a mobilization rate of 35% is calculated, which is closer to the international average of 22%.

It is also debatable whether a highest possible share of private funding is necessarily more

desirable. Despite the importance of private financing, public funding has more potential to fulfil development objectives, particularly those related to the most vulnerable countries and groups, as well as adaptation and resilience, which private funds tend to underserve. In 2019, former Minister of International Trade and Development, Sigrid Kaag, stated that a maximum mobilization of private sector funding will not and should not be set, though the Ministry of Foreign Affairs did recognise in 2020 that this indicator should be measured to inform decision-making.[37] But it is imperative that a large private mobilization should not be used as a reason to reduce public climate funding, as this would come at the cost of adaptation measures in the most vulnerable countries.

In addition, it should be noted that the high private finance mobilized compared to other countries can also be partially explained by the fact that the Netherlands includes finance mobilized through its contributions to MDBs, whereas other countries, like Switzerland, state that this should not be counted because of difficulties determining attribution per donor. Other differences in data collection and measurement methods also make it difficult to draw direct comparisons between countries.[38]

The total amount of Dutch climate finance increased between 2015 and 2020, partly due to better reporting, partly due to the mainstreaming of climate interventions, but also due to an increase of dedicated climate finance and an increase in the amount of private finance mobilized. As such, the Netherlands is one of the biggest contributors to climate finance for developing countries, ranking eighth in the EU in 2019.[39] The majority of Dutch funds are directed to Sub-Sahara African countries. Of the Dutch climate finance in 2019 for which the recipient countries could be identified, 60% was directed to low-income countries, followed by lower middle-income (33%) and upper middle-income (7%) countries. Since a substantial part of Dutch climate finance goes non-earmarked to MDBs, the actual percentage is not known.[40]

Although there is also no formal target on the balance between adaptation and mitigation, Prime Minister Rutte advocated for an equal balance in January 2021, suggesting that the Dutch government is striving for a 50/50 division between climate adaptation and mitigation in its climate finance.[41] However, at the moment, Dutch public climate finance for development emphasises adaptation over mitigation, in contrast to trends in other developed countries. This can partly be explained by the fact that the Netherlands spends a relatively large share of its public climate finance in the agricultural sector, followed by the water sector.[42] This large dedication to adaptation compared with other countries has been applauded by civil society organisations such as Oxfam, which have noted that the lack of funding for adaptation poses significant risks to vulnerable communities most at risk of the negative impacts of climate change.[43]

There are no historical data on the split between mitigation and adaptation in private climate finance mobilized by the Netherlands, as this was only measured for the first time in 2021.However, there are some indications that private climate finance mobilized by Dutch public funds tends to focus more on mitigation. Of the official development aid (ODA) spent on activities that mobilized commercial finance in 2019, relatively more (44%) was spent on mitigation. Of the ODA spent on activities that did not mobilize commercial finance, more (78%) was spent on adaptation.[44]

The private finance mobilizing activities occurred relatively more in lower middle-income countries (28%) and upper middle-income countries (25%), compared to activities that did not mobilize private finance, which focused more on low-income countries and least developed countries.[45] Nevertheless, considering the Dutch activities in 2019, the international concern that activities mobilizing commercial finance would focus mostly on renewable energy and on middle-income countries is not fully confirmed. Although private funding is directed towards renewable energy and middle-income countries, a substantial share is still spent on climate adaptation (41%) and spent in LICs (47%).[46] By contrast, it may be difficult to attract private sector finance for climate adaptation in subsistence agriculture, communal forest management or in the water sector. The private sector's appetite will also depend on the context. In middle-income countries with a favourable business climate, where a sector is already developed, there is much more scope for private and commercial involvement in climate action.[47] These findings confirm the continued need for public funding alongside private financing for its ability to fund adaptation initiatives in low-income countries.

For 2020 for the first time, the mobilization of private finance for biodiversity was measured alongside the mobilization for climate adaptation and mitigation. It was found that EUR 12.1 million of private biodiversity finance was mobilized by Dutch public spending in 2020.[48] In 2021, this figure had increased to EUR 16.5 million of mobilized private finance relevant for biodiversity.[49]

2.4 Future scenarios

In October 2021, the OECD published a forward-looking projection of the progress towards the USD 100 billion per year goal for the years 2021 to 2025. The projection is based on two distinct scenarios:[50]

- **Scenario 1** assumes that public finance for climate is scaled up in line with commitments made by countries and multilateral development banks (MDBs).
- **Scenario 2** assumes that the joint impact of several factors, including macroeconomic risks, capacity constraints and intended shift in funding portfolios, results in lower-than-targeted levels of climate finance. Compared to Scenario 1, this scenario combines relatively lower levels of public climate finance with a progressively decreasing ratio of mobilized private finance to public finance.

Regarding private finance, the OECD assumes for scenario 1 a mobilization rate over the 2021-2025 period of 22%, which means 0.22 unit of mobilized private finance per unit of public climate finance. This factor is based on the minimum levels of mobilized private finance in the years 2016-2019 (see section 2.2). In contrast, scenario 2 combines relatively lower levels of public climate finance with a progressively decreasing ratio of mobilized private finance to public finance, reaching a low of 0.177 by 2025. The decreasing ratio of mobilized private finance in the second scenario can be explained by the progressively larger share of activities with low or no private finance mobilization potential.[51]

In both scenarios, public climate finance provided by bilateral and multilateral providers converges over time towards their stated intentions, pledges and targets, albeit with some delays under Scenario 2. However, while the difference between the public finance numbers in both scenarios, therefore, shrinks over time, the difference between the mobilized private finance numbers grows.[52]

3

Updating the MDB private finance mobilization rate

In the *Mobilized private (climate & biodiversity) finance: 2021 report*, and earlier iterations of the annual publication, a private finance mobilization rate of 42% is applied to all MDB climate finance. The OECD report *2020 Projections of Climate Finance Towards the USD 100 Billion Goal,* estimates of private co-finance attributable to developed countries were given for the years 2013-2014. The average of these mobilization rates is 42%. However, it is suggested that due to improved reporting from the MDBs on their private mobilization an updated mobilization rate, and specific mobilization rates per MDB could be used instead.

3.1 Private climate finance mobilized through MDBs attributable to the Netherlands

It is only possible to analyse the Dutch mobilization of private finance through their share in the core contributions to the Multilateral Development Banks (MDBs) for *climate finance*, not for *biodiversity finance*. This because information on biodiversity finance mobilization is currently not yet being reported by the MDBs.

The MDB joint report on climate finance forms the basis of the calculations to determine private sector climate finance mobilization attributable to the Netherlands through their share in the core contributions to the MDBs. At the moment of study, the most recent joint report available was for 2020.[53] For further details on the methodology, please see *Mobilized private (climate & biodiversity) finance: 2021 report*.

Table 28 presents the findings of mobilization through the MDBs. In total, the Netherlands mobilized EUR 297.28 million of private climate finance through its contributions to the MDBs.

Table 28 MDB Climate Finance in 2020 – Attribution to the Netherlands (EUR million)

	Non-concessional window		Concessional window		Total	
Bank	MDB climate finance attributed to NL	Mobilized private climate finance (est.)	MDB climate finance attributed to NL	Mobilized private climate finance (est.)	MDB climate finance attributed to NL	Mobilized private climate finance (est.)
ADB	30.90	12.98	-	4.95	30.90	17.93
AfDB	11.26	4.73	18.61	7.81	29.87	12.55
AIIB	10.49	4.41	-	-	10.49	4.41
EBRD	44.45	18.67	-	-	44.45	18.67
EIB	139.36	58.53	-	-	139.36	58.53
IDB (IDBG)	2.17	0.91	0.33	0.14	2.50	1.05

Bank	Non-concessional window		Concessional window		Total	
	MDB climate finance attributed to NL	Mobilized private climate finance (est.)	MDB climate finance attributed to NL	Mobilized private climate finance (est.)	MDB climate finance attributed to NL	Mobilized private climate finance (est.)
IDB Invest (IDBG)	4.34	1.82	-	-	4.34	1.82
IFC (WBG)	65.14	27.36	-	-	65.14	27.36
IBRD / IDA (WBG)	148.88	62.53	220.09	92.44	368.97	154.97
Total	**456.99**	**191.94**	**239.03**	**105.35**	**696.02**	**297.28**

3.2 Updating the mobilization rate

In the *Mobilized private (climate & biodiversity) finance: 2021 report*, and earlier iterations of the annual publication, the private finance mobilization rate applied to MDB financing was 42%. This mobilization rate is derived from previous years' reporting. In the OECD report *2020 Projections of Climate Finance Towards the USD 100 Billion Goal*, estimates of private co-finance attributable to developed countries were given for the years 2013-2014.[54] The average of these mobilization rates is 42%. This mobilization rate implies that for each EUR 1 of climate finance provided by the MDBs, private sector actors contribute a further EUR 0.42 of climate finance. The *Mobilized private (climate & biodiversity) finance: 2021 report* maintained this mobilization rate for consistency of reporting and comparability with earlier years.

However, improved reporting from the MDBs on their private mobilization may allow for an updated mobilization rate, or potentially mobilization rates per MDB and a proxy median or average mobilization rate for MDBs that do not report in sufficient detail on private sector mobilization. The *2020 Joint Report on Multilateral Development Banks' Climate Finance*, reports on both 'Climate finance' figures and on 'Private climate finance mobilized' figures.

Table 29 presents these figures and calculates the mobilization rates. It reveals that the private climate finance mobilization rates vary greatly between the MDBs, and when considering direct and indirect mobilization.

Table 29 MDB private climate finance mobilization values and mobilization rates for low- and middle-income countries (2020)

MDB	Private direct mobilization (US$ mln)	Private indirect mobilization (US$ mln)	Total private mobilization (US$ mln)	Climate finance (US$ mln)	Private direct mobilization rate	Private indirect mobilization rate	Total private mobilization rate
AfDB	3	203	206	2,062	0%	10%	10%
ADB	-	2,219	2,219	5,310	0%	42%	42%
AIIB	-	50	50	1,115	0%	4%	4%
EBRD	1	453	454	2,283	0%	20%	20%
EIB	196	242	438	3,230	6%	7%	14%
IDBG	334	1,816	2,150	2,498	13%	73%	86%
IsDB	-	-	-	259	0%	0%	0%
WBG	3,021	2,657	5,678	21,252	14%	13%	27%

MDB	Private direct mobilization (US$ mln)	Private indirect mobilization (US$ mln)	Total private mobilization (US$ mln)	Climate finance (US$ mln)	Private direct mobilization rate	Private indirect mobilization rate	Total private mobilization rate
Total	**3,555**	**7,640**	**11,195**	**38,009**	**9%**	**20%**	**29%**
Average	**-**	**-**	**-**	**-**	**4%**	**21%**	**25%**

Source: African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank, New Development Bank and World Bank Group (2021, June), *2020 Joint Report on Multilateral Development Banks' Climate Finance*, London: European Bank for Reconstruction and Development, p. 12, 28.

The joint report defines private direct and indirect mobilization as follows:

- **Private direct mobilization**

  "*Financing from a private entity on commercial terms due to the active and direct involvement of an MDB leading to commitment. Evidence of active and direct involvement includes mandate letters, fees linked to financial commitment or other valid or auditable evidence of an MDB's active and direct role leading to commitments by private financiers. Private direct mobilization does not include sponsor financing.*"[55]

- **Private indirect mobilization**

  "*Financing from private entities supplied in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment of the private entity's finance. Private indirect mobilization includes sponsor financing, if the sponsor qualifies as a private entity.*" [56]

Based on these definitions of private direct and indirect mobilization and in the spirit of the *USD 100 billion goal* it seems reasonable to base the updated mobilization rate on the "Total private finance mobilized" (i.e. both direct and indirect private mobilization).

It should be noted that the average mobilization rate of 25%, would imply that private finance mobilization by the Netherlands through its contributions to the MDBs may have been overestimated by approximately 17%, depending on the MDB. However, a private climate finance mobilization rate per MDB could allow for a more accurate estimate of private finance mobilization by the Netherlands through its contributions to the MDBs.

It is not possible to use only the "Total private mobilization" figures as the basis when estimating the private finance mobilization by the Netherlands through its contributions to the MDBs. As noted in the *Mobilized private (climate & biodiversity) finance: 2021 report*, as several MDBs provide concessional and non-concessional finance. Funding of concessional finance programmes are based on a "money-in, money-out" principle. This means that the fund relies on regular replenishments (i.e. contributions from donors), as well as reflows of internal capital. Non-concessional finance programmes raise capital on international markets to finance their programmes. Non-concessional finance is an attractive instrument to finance initiatives such as climate change mitigation or adaptation programmes compared to private capital markets as the terms (e.g. repayment periods, grace periods, etc) are better.

Since the Netherlands supports both concessional and non-concessional windows through their contributions to the MDBs, both windows were calculated separately. Moreover, for the calculations the proportions of financing attributable to the Netherlands must use the MDB own account figures rather than the total MDB climate finance figure. This is because the Netherlands only contributes to the MDB own accounts, and the total MDB climate finance figures also include MDB-managed external resources.

It is suggested that future editions of the *Mobilized private (climate & biodiversity) finance* reports could make use of updated calculations of private finance mobilization rates as reported in the *Joint Report on Multilateral Development Banks' Climate Finance* where available. Where not available, reporting from 2020 could be used, or an average mobilization rate based on data from MDBs that publish this information. This divergence could potentially cause inconsistency in reporting. However, this could be resolved by re-calculating and re-stating the MDBs private climate finance mobilization rates using the updated mobilization rates in the next *Mobilized private (climate & biodiversity) finance* report.

4

Methodologies to measure mobilized private climate finance

This chapter offers an analysis of different methodologies used to measure mobilized private climate finance. As far as possible, the weaknesses and risks of these methodologies will be examined. It will be examined whether changes to the methodology are possible or desirable to address the weaknesses and risks, so that development and climate objectives remain paramount.

4.1 Introduction

Tracking the private investment and financing mobilized for climate mitigation and adaptation is a key task to monitor progress in the international effort to address climate change. It is even more crucial to measure progress towards the commitment by developed countries to collectively mobilize USD 100 billion per year (in the form of public and private finance) for climate mitigation and adaptation in developing countries. A consistent and understandable measurement framework enhances its accuracy, reliability, relevance, and comparability.

But establishing an adequate measurement framework for (private) climate finance is a complex endeavour. There are risks of double counting or inappropriately attributing climate finance to the wrong parties, due to the variety of actors and complexity of interactions. In the years which have passed since the USD 100 billion commitment was first made in 2009, different stakeholders have explored methodologies to deal with this challenge. Up till now there is still a lack of uniformity in donor reporting, which makes it difficult to assess the true amount of climate finance being mobilized by developing countries.

The two most important methodologies until recently are the OECD-DAC methodology and the methodology developed by a group of Multilateral Development Banks (MDBs). More recently, the Total Official Support for Sustainable Development (TOSSD) methodology is being developed to come to a joint methodology supported by all donor countries and multilateral financial institutions.

The development of these methodologies is a work in progress. Common climate finance definitions and principles have been developed, and progress is made towards the development of a common methodology. This chapter describes the different methodologies, strengths and weaknesses, and related risks and advises on how these weaknesses and risks can be addressed and mitigated.

4.2 OECD DAC methodology

4.2.1 Overview of the OECD DAC methodology

Since 2013, Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD DAC) has been working on the development of an international standard for measuring amounts mobilized from the private sector by official development finance interventions. This methodology covers all finance for development, including finance for climate-related activities. Since 2020 biodiversity finance is included as well.

By 2020, the OECD DAC – notably the OECD DAC Working Party on Development Finance Statistics (WP-STAT) - has developed seven instrument-specific methodologies which are used to report on mobilized private finance (not only climate finance). The seven instruments are used by donor countries and Development Finance Institutions (DFIs) to stimulate sustainable developments in developing countries, often with the intention to mobilize additional private finance for the same objectives. The seven instruments are:

- guarantees;
- syndicated loans;
- direct investments in companies;
- shares in collective investment vehicles;
- credit lines;
- simple co-financing arrangements (grants and loans); and
- project finance via special purpose vehicles (SPVs).

For each instrument, the OECD DAC had defined guidelines on how the amount of mobilized private finance can be measured.[57]

4.2.2 Limitations

Trinomics (2021) reports a number of 'caveats' in the current OECD DAC methodology to measure private mobilization.

First of all, some components of the methodology remain multi-interpretable and the results are susceptible to double counting.[58] The methodology doesn't optimally reflect the mobilization impact of public interventions, because the impact of a guarantee is lower than the impact of grants or loans. However, guarantees can lead to identical levels of reported mobilized private finance as other - more impactful - instruments. The methodology also doesn't measure indirect 'catalytic effects' of public interventions, such as grants for policy support, technical assistance, and feed-in-tariffs development. These indirect effects are however very difficult to statistically measure.

Trinomics also notes that there is a risk of overestimating actual investments because the methodology defines the commitments as the preferred point of measurement. These amounts are on average substantially higher than actual disbursements. And finally, the reporting method can influence the political and operational choices for different instruments when programmes aim to maximise the amounts of mobilized private finance within the given reporting rules. It is unclear if (and to what extent) projects and financial instruments with a higher mobilization potential generate more positive development and/or climate impacts than projects with a lower mobilization potential.[59]

4.3 Methodology of the Multilateral Development Banks

4.3.1 Overview of the MDB methodology

Several Multilateral Development Banks (MDBs) such as the World Bank and the EBRD started to jointly report on their own climate financing activities in annual reports since 2012. From their 2014 report onwards, the MDB methodology has included reporting on private climate finance mobilized by MDB climate finance.[60] Whereas the first eight editions of the report provided climate finance data solely on emerging and developing economies, the scope has broadened from the 2019 report onwards, reporting on all economies where these banks operate. The reporting provides a disaggregation of the results by income level, by region and by infrastructure and other sectors.

The *Joint Reports on Mobilization of Private Finance* are based on a jointly developed MDB tracking methodology, which has been gradually updated and detailed. Since the adoption of the "From Billions to Trillions" agenda in 2016, the MDBs have focused on mobilizing private capital to meet the SDG investment needs. In April 2017, MDBs published the reference guide From Billions to Trillions: Transforming Development Finance to explain how they calculate and jointly report private investment mobilization beyond climate finance. The MDBs are implementing the definitions and recommendations of the MDB Taskforce on Private Investment Mobilization also for tracking the private share of climate co-finance.[61]

Unlike the OECD DAC methodology, the MDB framework distinguishes between 'private direct mobilization' (PDM), where a causal link can be made to the active and direct involvement of an MDB, and 'private indirect mobilization' (PIM), where there is co-investment in a deal, but no causal claim is made. Together they represent the private share of climate co-finance.[62]

The attribution to the MDB is made because the project design, de-risking, and initial financing are viewed as paving the way for this additional investment. For financial products, the report also distinguishes between long-term finance, with tenors of one year or more, and short-term finance, which is offered through revolving facilities such as trade finance and working capital facilities.[63]

4.3.2 Limitations

The MDBs exchange information on mobilized projects to enable appropriate attribution and avoid double-counting, but limitations on data systems mean that some double-counting may remain in annual data.[64]

A more fundamental limitation obviously is that the MDB methodology is not consistent with the OECD DAC Methodology. Donor countries can therefore not simply add their share (as shareholders) in the climate finance which is committed and mobilized by the MDBs to their own climate finance figures.

To deal with this issue of non-coherence between different methodologies and to jointly work towards better understanding of definitions and principles, in 2015, the MDBs and the International Development Finance Club (IDFC) - a group of 26 national and regional development banks from all over the world joining forces for global development including climate finance – agreed for example on a set of common principles to finance and track financing of climate mitigation and adaptation. The institutions are expected to promote these principles as their starting point and to discuss all differences transparently. The intention of the common principles is also to share them with other institutions that are looking for common approaches for tracking and reporting.

As a result of increasing demand for information on how adaptation financing flows contribute to climate resilience goals, in December 2019, the MDBs and IDFC published the joint Framework and Principles for Climate Resilience Metrics in Financing Operations. Since then, efforts to further harmonise methodologies continued. In 2021 after having reviewed the joint MDB methodology for tracking adaptation finance the MDB's started using a new methodology on 1 January 2021 for the AfDB, ADB, AIIB, EBRD, EIB, IDBG, IsDB and NDB and on 1 July 2021 for the WBG to coincide with the institutions' new fiscal year.

The new version of the methodology includes a more granular breakdown of types of eligible activities, clear criteria that must be met and additional guidance to facilitate the application of these criteria.

4.4 OECD DAC and MDB methodologies compared

Whereas there is an ongoing dialogue between OECD DAC and MDBs to harmonise their methodologies on measuring private mobilization, these methodologies do differ, mostly when it comes to additionality of mobilized capital. The MDBS give generally more weight to the lead arranging MDB. But despite these differences in methodological approaches, estimates are not expected to differ hugely at the institution level. In April 2020, the OECD and MDBs have agreed to share data on the amounts of private finance mobilized. In this section we will further explore the similarities and differences between the two methodologies.

4.4.1 Similarities

Both methods have the same basic principles. Both seek to demonstrate the private mobilization achieved through the active involvement of public interventions for the benefit of developing countries, relying on the validating evidence of the public institutions' mobilization role. Both only attribute private investment mobilization where there is a concrete link or a direct of active involvement of a public institution. Both look at the contractual and financial commitments and both strictly separate own resources from external resources to avoid double-counting. [65]

4.4.2 Differences

Key differences between the two approaches are related to what qualifies as mobilized finance: e.g. the OECD includes the full value of instruments guaranteed, while MDB only includes the proportion guaranteed. Secondly, responsibility for the mobilized funds is allocated differently between official parties. The OECD takes a pro-rata approach based on the proportion of finance provided weighted for risk. The MDBs give more weight to the lead arranging MDB, reverting to a pro-rata approach where this is unclear or not relevant. Despite quite large differences in methodological approaches, estimates for mobilized funds do not differ hugely at the institution level.[66]

The OECD and the MDBs employ different methodologies to determine the climate relevance of a public intervention or activity. Both determine climate relevance upfront, and as such only an indication of climate impacts can be provided. But the OECD DAC uses the Rio markers for climate change. These definitions consist of policy markers to monitor and statistically report on development finance flows targeting the themes of the Rio Conventions, including biodiversity, desertification, climate change mitigation and adaption. The OECD DAC is thereby distinguishing between principal and significant objectives, based on which an intervention is determined by a certain percentage of climate relevance.

The MDBs use a positive list of activities that are considered climate-relevant when it comes to mitigation. As climate adaptation activities are project- and location-specific, it is not possible to produce a standalone list of adaptation activities that can be used under all circumstances. Therefore, climate relevance is determined based on an assessment of the purpose, context, and activities in light of climate vulnerability. The OECD has been finetuning the Rio marker definitions to reflect the MDB principles.

Other noted differences are:

- The OECD approach does not differentiate between private direct mobilization (PDM) and indirect mobilization (PIM) as defined by the MDB approach. In case of a commercial or a non-commercial risk guarantee the approaches will most likely not lead to a different outcome, but only to a more differentiated result in case of the MDB approach. For example, when an MDB guarantees 70% of a loan provided by a private bank being the sole lender, the full loan amount will be attributed to the guarantor as mobilized private capital in the OECD approach. In the MBD methodology, 100% of the loan will be attributed as PIM, while 30% will be reported as PDM. In case of a syndicated loan or a collective investment vehicle, the outcome might look different. For example, when an MDB leads a syndicate with one private and one public lender and a private borrower, 50% of the private lenders' investment will be attributed to the arranger (MDB), while the other 50% is shared proportionally between all public lenders including the arranger (MDB) if applicable. This is the case with the OECD approach. In the MDB approach, 100% of the loan is attributed to the MDB as PDM. And 100% of the sponsor's equity is attributed to the MDB as PIM, while nothing is attributed to the public lender.[67]
- The OECD approach attributes private mobilization to all official development finance interventions in a project, while the MDB approach only attributes this amongst MDBs contributing to the joint report.
- The MDBs' screening operates at the level of project components while Rio markers are applied at the overall project level

Table 30 provides a systematic overview of the differences per leverage instrument between the OECD DAC and MDB methodologies.

Table 30 Differences between the OECD DAC and MDB methodologies

Leveraging instrument	OECD DAC	MDB
Guarantee	100% of the loan provided by the lender, covered by the guarantee, counts as mobilized private finance	For commercial risk guarantee, the difference between the face value of the guaranteed transaction and the guarantor's exposure value in case of default is reported as mobilized. For non-commercial risk guarantee, 100% of the face value of the transaction guaranteed is reported as mobilized.
Syndicated loans	Arranger reports 50% of syndicated private finance. Official lenders in the syndication report the remaining 50%, volume pro-rata. In the case of private arrangers, the funds mobilized are reported by official lenders pro-rata	All private finance in the syndication is reported by the arranger. In case of private arrangers, unclear how this should be reported in the MDB approach.
Shares in collective investment vehicles (CIV's)	50% of the private investment is reported by official actors in the riskiest investment tranche of the vehicle. The remaining 50% is reported by all official actors in vehicle, volume pro-rata.	Following guidance on indirect mobilization*, all private finance mobilized through CIVs is reported by investing MDBs, volume pro-rata, irrespective of the risk taken.

Leveraging instrument	OECD DAC	MDB
Direct investments in companies (DIC) Project finance Special Purpose Vehicles (SPVs) schemes	Private finance mobilized in a CIV, company or SPV which is also part of a syndication or covered by a guarantee scheme should not be included in the calculation as it is already captured by the methodologies above. NB: The OECD methodologies for shares in CIVs, DIC and project finance SPV are very similar. They have been merged and simplified for TOSSD purposes.	* Regarding shares in collective investment vehicles and investments in companies, publicly available guidance only relates private indirect mobilization. Guidance is not provided on the basis of individual leveraging mechanisms.
Credit lines	The official provider of the credit line reports the additional funds invested by the recipient of the credit line (usually a local finance institution) and, if requested by the credit line, co-investments, on a revolving basis if applicable, by end-borrowers (MSMEs).	Credit line providers report the funds added by credit line users (local finance institutions). Funds invested by end-borrowers are not considered mobilized.
Grants & loans in simple co-financing arrangements	Providers report the private co-financing, pro-rata to their financial share (provided, as for any other leveraging instrument, that a causal link can be demonstrated - e.g. in the project documentation, the financial agreement).	Following guidance on indirect mobilization, providers report the private co-financing, pro-rata to their financial share.

Source: TOSSD Reporting Instructions, May 2021, p. 40.

4.5 Total Official Support for Sustainable Development (TOSSD)

4.5.1 Overview of the TOSSD methodology

Total Official Support for Sustainable Development (TOSSD) is a relatively new international statistical metric currently being developed and intended to provide a comprehensive picture of global, official, and officially supported resource flows, to promote and support sustainable development and the SDGs in developing countries. TOSSD is supposed to better reflect the complex landscape, which sees new actors and financial instruments emerging. TOSSD reporters are bilateral as well as multilateral data providers.

Whereas the Netherlands does not directly report to TOSSD, the development process of this metric provides interesting insights and learnings when it comes to measuring financial flows for development, including mobilized capital. The limitations outlined in relation to the other methodologies are comparable to the considered weaknesses of TOSSD. Moreover, there is a more political discussion ongoing, fuelled by CSO questioning among other things the legitimacy of this metric.

The primary objective of TOSSD is to enhance transparency and accountability about the full array of officially supported development finance provided in support of the 2030 Agenda for Sustainable Development. This includes private finance mobilized through official interventions[68], including official agencies, such as governments and their executive agencies, public sector corporations over which governments have control, as well as official interventions. The TOSSD report on mobilized private finance is based on the data provided by reporters using either the OECD DAC or the MDB methodology. The reporters to TOSSD are requested to clearly indicate what methodology they have used.

The International TOSSD Task Force was created in 2017, representing experts from provider and recipient countries as well as from multilateral organisations.[69] In 2019 a first version of the TOSSD methodology was published, titled the TOSSD Reporting Instructions[70], which was updated in 2020. In March 2021, a first comprehensive set of TOSSD data on 2019 activities was published.[71] In June 2019 the OECD submitted TOSSD to the UN Statistical Commission as an indicator for SDG 17.3.

The TOSSD Reporting Instructions[72] outline what and how information is collected on mobilized private finance. Data on resources mobilized from the private sector are collected for the seven leveraging instruments/mechanisms:

- guarantees/insurance;
- syndicated loans;
- shares in collective investment vehicles (CIVs);
- credit lines;
- direct investments in companies;
- grants and loans in simple co-financing arrangements; and
- project finance schemes.

These data are supposed to be separately reported from other flows. Information collected on resources mobilized includes the leveraging instrument used, the amounts mobilized, and the origin of the funds mobilized. Reporting on mobilization is done activity by activity, which is considered essential for transparency and quality assurance.

The point of measurement of resources mobilized is at the level of the transaction with the recipient country. In the case of funds or facilities, data on resources mobilized are sought from the facilities to capture the cross-border transaction with the recipient country. Transactions are classified as official or private according to who owns or controls the financing entity.

To avoid double-counting, official actors involved in a project should only report their respective share of the private finance mobilized. Data providers are supposed to use the same methodology. For checking purposes, additional information is requested to be reported in a separate file. This includes the applied methodology (OECD DAC, MDB), total amounts invested by all official providers, total private investment mobilized, type of arranger (in case of syndicated loans), among other things.[73]

4.5.2 Strengths and limitations

TOSSD is still a work in progress. Several lessons were learnt from a data survey carried out in 2019.[74] On the positive side, it was noted that TOSSD can fill key information gaps on SDG-financing and respond to developing countries' need for information on external financing for sustainable development. The TOSSD framework is also appropriate for various providers of financing for sustainable development, including South-South Co-operation providers.

At the same time, more efforts are needed to fill remaining data gaps and to improve data quality through clarifications of the Reporting Instructions and the provision of more granular data. Some eligibility issues related to - in particular - environmental sustainability need to be solved. The report also recommended capacity building for reporters to use the TOSSD reporting frameworks.[75]

Several critical notes were also expressed in an Oxfam Discussion Paper about TOSSD (2021).[76] These considered limitations are applicable to the OECD methodology, and to a certain extent comparable to the limitations outlined by Trinomics regarding the OECD methodology.

TOSSD provides for greater transparency, but the variety of instruments and modalities are hard to reconcile and may make the result difficult to interpret. 'The reporting instructions seem to lack clarity about what should be reported as official support', says the report. CSOs have pointed out that for example guarantees only involve an expenditure if the conditions change or the investment fails. To them, neither debt cancellation nor guarantees should be included since they did not imply a resource flow.

This comment is somewhat similar to the risk considered by Trinomics in relation to the OECD methodology, of overestimating actual investments because only the commitments are measured and not the actual disbursements. Also, credit lines may be an important element of a donor's investment regime to promote its economic interests abroad. As a result, 'inclusion in TOSSD may result in an inflated perception of the official resources actually available to the recipient country'.

Other issues of concern are, according to Oxfam:

- Establishing causal links will be difficult in complex financing of infrastructure projects, which also increases the risk of double counting. The risk of double-counting is also mentioned regarding the OECD methodology, due to multi-interpretable components.
- Differences in methodologies between the OECD and the multilateral development banks. For now, providers can use either, provided they specify the methodology used.
- The need for coherence with human rights standards and development effectiveness principles. The Reporting Instructions establish no criteria or process for validating compliance with international human rights standards, in particular free, prior and informed consent by affected communities and populations in contexts of contested environmental and resource extraction. These frameworks are considered essential to protect the interests of vulnerable populations and to further the SDGs in infrastructure projects.

Whereas CSOs had requested for separate reporting, no details on this mobilized financing are currently available in the TOSSD dashboard. But the range of official mechanisms through which such financing is mobilized is quite extensive, which will enable greater transparency for the levels of mobilized financing that providers consider.

It also says that the draft TOSSD dashboard allows users to access data by recipient perspective, by pillar, by SDG, and by sector, but not by provider. Provider data are accessible by downloading and manually sorting data in a spreadsheet. While this structure is intended to reinforce the recipient perspective and ownership in the development of this metric, some providers have challenged it.[77]

There is a need for clear guidance. The Task Force had been unable to agree on more specific criteria for including or excluding specific activities (e.g. coal-related activities under climate finance). There is an ongoing discussion on the operationalisation of sustainability by focusing on fossil fuel eligibility among others.

Climate adaptation actions in the provider country or in a non-TOSSD-eligible country are generally excluded from TOSSD, given that adaptation is essentially a localised activity. If adaptation activities can be demonstrated to produce substantial benefits to TOSSD eligible countries, they can be included.

The TOSSD's reporting framework does not require providers to indicate allocations according to the DAC Gender Purpose Codes, the Climate Finance Purpose Codes, or the Biodiversity Purpose Codes. Consequently, some providers report activities that other providers exclude. According to the report, 'there is not yet a common understanding about how two to operationalise a sustainability criterion with appropriate safeguards'.[78]

In general, opinions on TOSSD vary, from CSOs being supportive to others rejecting it. TOSSD is on the one hand considered as an essential tool to enhance transparency on the financial flows for development, as well as tracking resources not covered by ODA, and to enable better policy making for Agenda 2030.

There are however concerns about the data quality, data completeness and additionality of flows. Other concerns are the increasing complexity of TOSSD, creating a disconnect between technical experts, politicians, and the public about development. Some CSOs reject TOSSD as 'politically illegitimate' considering stagnant levels of ODA.[79] From a more political and fundamental point of view critics from within the CSO community state that TOSSD can reinforce a false narrative as it does not consider other relevant financial flows such as illicit capital, trade pricing, fossil fuel investments, etc. Such fundamental questioning is somewhat beyond the scope of this report, but worth mentioning as it would also concern any other statistical methodology to measure private finance. It urges countries to think about what they want to measure and what not.

4.6 Other relevant initiatives

The OECD-hosted Research Collaborative on Tracking Private Climate Finance (RC) is a network of governments, research organisations and finance providers, and was established in 2014 to work towards improving the measurement of private climate finance mobilized by donor countries.[80] The group includes Multilateral Development Banks, bilateral development finance institutions and national development banks, as well as private sector investors. Countries are represented by their ministries of environment, foreign affairs, and finance. The Collaborative should improve the coordination of ongoing initiatives related to measuring publicly-mobilized private finance for climate action and tracking investment and financing.

In 2014, the Research Collaborative conducted an assessment of potential data sources for tracking overall volumes of climate-related private finance. Since the first report titled 'Climate finance in 2013-14 and the USD 100 billion goal', published in 2015[81], the Research Collaborative published several working papers, policy briefs, and case studies among other publications.[82]

In one of its policy briefs it concludes that 'significant progress has been made on measuring the direct mobilization of private finance by public climate finance', and work is ongoing to develop methodologies by the OECD DAC and Research Collaborative, in co-operation with public finance providers.'[83]

Continued work and collaboration on measuring private finance mobilization are assumed to not only 'enhance the depth and breadth of public finance instruments and mechanisms covered', but it will also result in institutionalising the tracking of mobilized private finance at the level of development finance institutions and countries.' It also notes that 'avoiding double counting is conditional to the use of common methodologies by public finance providers, to address issues of accounting boundaries, causality, and attribution.'[84]

To address data gaps, a clear role is ascribed to national and sub-national authorities in charge of policy design and implementation 'to strengthen efforts to collect comprehensive and granular data on private investments resulting from policies'. And finally, it notes that 'alternatives to estimating and attributing volumes of private finance mobilized have to be sought, where data and methodological constraints, as well as risks of double counting, persist.'[85]

4.7 Needs for improvement of the methodologies

In different publications on the methodologies, improvements are suggested to enhance legitimacy, credibility, transparency, and accuracy of the different methodologies. Primarily, the harmonisation and alignment of the different evolving methodologies need to be furthered by for example increased transparency on the processes of data collection and reporting. Harmonisation can be facilitated by enhanced data sharing, collaboration on reporting and sharing of experiences

for example. This will also allow for discussions on definitions, the eligibility and scope of activities, as well as approaches and solutions to avoid possible double counting.

Definitions and approaches to track private climate finance should be agreed upon and understood by all stakeholders in order to improve data accuracy, as well as to stimulate the correct use of reporting systems and the application to own operations and data systems.

Developing countries have faced challenges in accessing, processing, and monitoring timely and comprehensive data on international assistance received through diverse partnerships. So far, partner countries have also not been consulted on the consistency of the for example the TOSSD metric with their systems. This undermines the effective use of the metric by partner countries. To enhance transparency and enhance ownership of all stakeholders, the meaningful participation of CSOs and other relevant stakeholders should be ensured by the different task forces working on the methodologies.

In light of the above, developing-country statistical capacities need to be strengthened. As Oxfam noted for example, 'statistical systems have been seriously underfunded for years, particularly in the poorest countries.'[86] Their capacities to collect, analyse and use data in support of their climate and sustainable development priorities are needed to ensure meaningful engagement with the working group on these issues.[87]

And finally, these different metrics and methodologies are designed to complement existing traditional flows of official development assistance (ODA). Despite the challenges related to ODA, including the persistent well below promised contributions, the 0.7% of GNI, these new metrics and efforts should not be seen as a substitute for ODA.

5

Measuring financed emissions in the financial sector

This chapter explores the evolving field of measuring the - positive and negative - climate impact of loans and investments by private financial institutions. The chapter describes the various initiatives and developments in this field, in order to examine which insights, concepts and approaches could serve as inputs in the international discussions on better measuring the mobilization of private climate finance by public funds.

5.1 From measuring climate risks to measuring climate alignment

Before delving into climate monitoring tools for the financial sector, it is useful to identify what financial institutions are required to monitor. Interestingly, many financial institutions have recently shifted their focus away from monitoring climate-related risks to their own financial health to how they can help limit the negative impacts of climate change on society. The latter has always been the focus of civil society, but until four years ago the financial sector still focused on the potential impact of climate change on their own risk profile.

In June 2017, the *Task Force on Climate-related Financial Disclosures (TCFD)*, established by the Financial Stability Board (FSB), formulated recommendations for how financial institutions and other businesses should monitor the potential impacts of climate change on their financial well-being. The recommendations of the TCFD were very important in raising awareness in the international business and financial community about the importance of having a climate change policy and reporting on it.[88]

The TCFD made general recommendations to all businesses, as well as specific recommendations for certain types of businesses, including banks. On the topic of "Metrics and Targets Disclosure", the TCFD recommended that all businesses: [89]

- Disclose the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process;
- Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks; and
- Describe the targets used to manage climate-related risks and opportunities and performance against the targets.

For banks, the TCFD recommended:[90]

- Providing the metrics used to assess the impact of (transition and physical) climate-related risks on lending and other financial intermediary business activities in the short, medium and long term. These metrics may relate to credit exposure, equity and debt holdings or trading positions by:
    - Industry;
    - Geography;
    - Credit quality (e.g., investment grade or non-investment grade, internal rating system; and
    - Average tenor.

- Providing the amount and percentage of carbon-related assets relative to total assets, as well as the amount of lending and other financing connected with climate-related opportunities.

The TCFD recommendations have had a major impact worldwide. More and more businesses are developing a better understanding of the risks related to climate change and have started to report annually based on the TCFD recommendations. However, despite the awareness raising, there has been criticism of the TCFD recommendations.

The focus of the TCFD recommendations is on managing the ongoing risks of climate change to businesses, including financial institutions and the financial system. This is not surprising for a taskforce established by the Financial Stability Board. While the recommendations might have served as an eye opener on the importance of climate change for many businesses and regulators, they do not address the role of businesses and financiers in causing and exacerbating climate change. Civil society has been asking for public and regulatory acknowledgment of this for years.

While the TCFD was asking banks to report on how "climate-related risks" could affect their activities, civil society increasingly began to ask banks to report on the "Paris alignment" of their lending and investing portfolios. This was clearly voiced in the *Principles for Paris-aligned Financial Institutions* released in September 2020, in which a broad civil society coalition recommended the following climate-related goals for banks:[91]

- Financed companies need to be aligned with a 1.5°C scenario;
- No financing of companies involved in new fossil fuel exploration, extraction or infrastructure;
- Rapidly phase out all financing for coal companies;
- No financing of companies involved in the degradation or loss of natural forests or other natural ecosystems; and
- Reduce the bank's climate impact to zero by 2050 at the latest, and halve its impact by 2030 at the latest.

The call for Paris alignment has resonated in the financial sector in the last few years, and has complemented or even surpassed attention on the TCFD's climate-related risks. In the *Katowice Commitment*, five European banks stated in December 2018: "We believe banks have an important role to play in scaling and accelerating the transition toward a climate-resilient world."[92] The Center for Climate-Aligned Finance in New York, established in July 2020, has started to collaborate with four major American banks on climate alignment: "Climate alignment is cementing itself as the gold standard for the financial sector, but we need to acknowledge the difficulty of putting the global economy on track to net zero on an urgent timeline."[93] In April 2021, the *Partnership for Carbon Accounting Financials* published the Strategic Framework for Paris Alignment, stating: "More and more financial institutions (FIs) are committing to align their portfolio with the Paris Agreement and setting net-zero emission targets."[94]

This shift from climate-related risks to Paris alignment is also having an impact on the climate metrics that financial institutions use. In June 2021, Dutch investor Robeco argued: "In 2017, the Taskforce for Climate-related Financial Disclosure recommended carbon intensity as the leading metric for investors. This was in line with TCFD's focus on climate risks. However, in 2021 the focus has shifted to investors' responsibility and their contribution to the Paris Agreement. In line with that shift, recent legislation and market standards converge in recommending carbon footprint as the leading metric." The carbon footprint is defined by Robeco as: "Total emissions for a portfolio, normalized by the market value of the portfolio (expressed in tons CO_2e/EUR invested). Emissions are allocated to an investor based on their share of a company's total capital." [95]

While this is not the only possible conclusion, Robeco has highlighted the importance of assessing which indicators are most suitable for financial institutions to measure their climate alignment. The following sections discuss climate monitoring tools for financial institutions in more detail.

5.2 Monitoring the climate impacts of companies

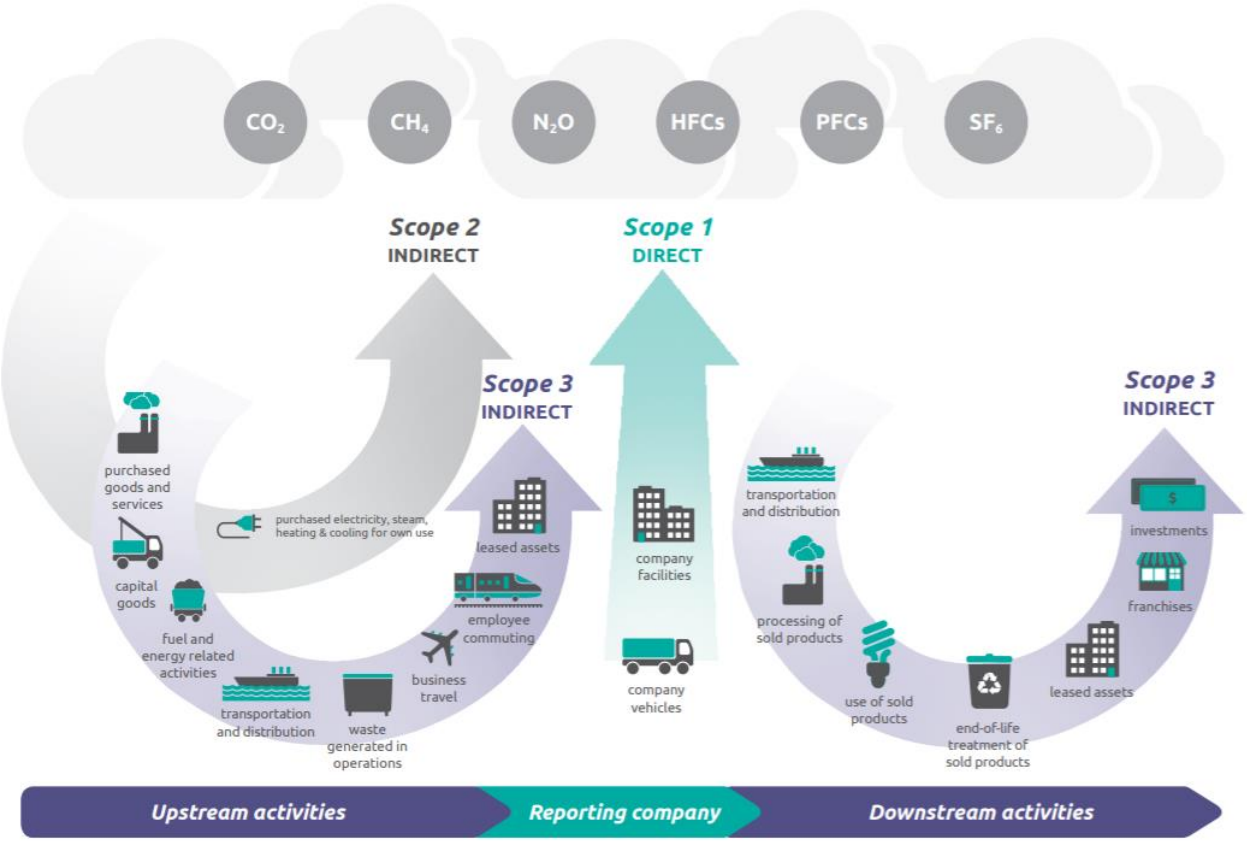
For financial institutions, climate monitoring primarily involves monitoring the climate impacts of the companies in their portfolios. After all, the GHG emissions of their own offices and business activities are not very significant. Since their greatest climate impact is the companies they finance and invest in, the quality of monitoring depends on how well the GHG emissions of these companies are tracked, either by the companies themselves or by external auditors.

The gold standard for measuring and managing corporate GHG emissions is the GHG Protocol, developed in 2001 by the World Business Council for Sustainable Development (WBCSD), an organization of more than 200 leading businesses, and research organization World Resources Institute (WRI). The *GHG Protocol Corporate Reporting and Accounting Standard* recommends that companies measure and manage three "*scopes*" of GHG emissions, such as CO_2 and CH_4 (methane):[96]

- Scope 1: direct GHG emissions of the company;
- Scope 2: indirect GHG emissions of the energy that the company uses; and
- Scope 3: indirect GHG emissions of buyers and suppliers upstream and downstream in the value chain.

Figure 1 illustrates the emissions are covered by each of the three scopes in the GHG Protocol.

Figure 1 Overview of the GHG Protocol accounting and reporting standard



Source: WRI & WBCSD (April 2013), "Corporate Value Chain (Scope 3) Accounting and Reporting Standard - Supplement to the GHG Protocol Corporate Accounting and Reporting Standard", online: https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf

Combined, a company's scope 1, scope 2 and scope 3 emissions represent the total GHG emissions related to the company's activities. That does not mean that the company is solely responsible for all these emissions. The company has control over its direct emissions (scope 1), and less control over its indirect emissions (scope 2 and 3). However, since the company has a

certain level of influence over its indirect emissions, it is important to report them. A complete GHG inventory therefore includes scope 1, scope 2 and scope 3.

The GHG Protocol allows for some double counting of emissions by different companies, which means the total emissions reported by all companies would be higher than the global total. However, double counting is restricted to the scope 3 emissions of different companies. Scope 1, scope 2 and scope 3 are mutually exclusive for the reporting company, such that there is no double counting of emissions between the scopes. Two or more companies also cannot account for the same scope 1 or scope 2 emissions. In certain cases, however, two or more companies may account for the same emission within scope 3. For example, the scope 1 emissions of a power generator are the scope 2 emissions of an electrical appliance user, which are, in turn, the scope 3 emissions of both the appliance manufacturer and the appliance retailer. Each of these four companies has different and often mutually exclusive opportunities to reduce emissions, making it important that they report on them properly.[97]

More and more companies are using the GHG Protocol to report on their GHG emissions, and since 2000, the adoption of the Protocol has been stimulated by the Carbon Disclosure Project (CDP).[98] On behalf of a large coalition of international investors who want to gain insight into the climate impacts of their investee companies, the CDP asks thousands of companies around the world to report on their GHG emissions on an annual basis. The number of companies and the quality of their reporting has increased over the years, and although there were initially significant differences in how companies reported their scope 3 emissions, this has improved. This is due in part to the organizations various guidance published by organizations behind the GHG Protocol to calculate GHG emissions, especially scope 3.[99]

Today, banks, investors and other interested parties can obtain data from the CDP on the GHG emissions of many major companies in the world. Other GHG data providers are Bloomberg, ISS Ethix, MSCI, Sustainalytics, Thomson Reuters and Trucost. These providers enter the GHG data reported by companies in their databases, often after making corrections to improve comparability, and calculating estimates for companies that do not disclose their emissions. The number of companies covered by the data providers vary: for reported emissions data between 1,800 and 4,000 companies worldwide, and for estimated emissions data between another 5,000 and 20,000 companies.[100]

It is important to note that these data providers use different methodologies and interpretations of the GHG Protocol to correct and estimate corporate GHG emissions. A recent study by the University of Hamburg comparing the emissions data of the same companies provided by the main data providers found that “data on direct emissions are more consistent than data on indirect emissions, and they are especially inconsistent for Scope 3.” This holds true for data reported by the companies themselves since data providers consider it necessary to adjust the reported data, and they all do this in different ways. This is even more true for the emission estimates of data providers for companies that do not report their emissions themselves: “third-party estimations are less consistent as compared to data stemming directly from corporate reports.”[101]

Another group of researchers from the University of Augsburg in Germany came to an even sharper conclusion in a similar research project: “As we evaluate the forward-looking carbon scores from several popular data providers, we find no evidence that these scores predict future changes in emissions. Further, we find that data on estimated emissions are at least 2.4 times less effective than reported data in identifying the worst emitters and provide little information to identify green companies in brown sectors. Our results debunk the belief that third-party estimated emissions are a satisfactory substitute for company-reported emissions and call for mandatory and audited carbon emissions disclosure.”[102]

A lack of mandatory and audited carbon emissions disclosure can have a major influence on which data provider a financial institution purchases GHG emissions data from. The next section looks at the tools that have been developed for financial institutions to monitor their climate impact themselves.

5.3 Climate monitoring tools for financial institutions

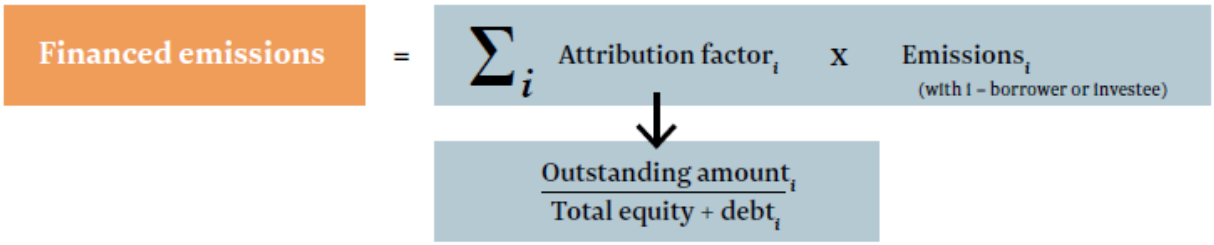
There are currently two main climate monitoring tools for financial institutions: the PCAF and PACTA. These tools are increasingly used by banks and investors around the world, and this section will discuss and compare both. We will also look at the SBTi, which, although it is not a monitoring tool, plays a crucial complementary role in climate target setting.

5.3.1 Partnership for Carbon Accounting Financials (PCAF)

The Partnership for Carbon Accounting Financials (PCAF) was established in 2015 by a small group of Dutch banks and investors. Together with consultants, they developed the PCAF methodology, which is quite closely aligned with the GHG Protocol.[103] Today, 145 banks and investors from Europe, North and South America, Africa and Asia (Bangladesh, India, Japan, Malaysia, Mongolia, Nepal, South Korea and Taiwan) use the PCAF methodology.[104]

The basic principle of the methodology is that banks and investors finance all kinds of assets: companies, projects, homes, cars, real estate and others. All these assets generate GHG emissions, which means that banks and investors should account for these emissions as scope 3 emissions in their own GHG reporting. Part of the emissions generated by these assets are therefore attributed to the banks and investors financing the assets. This is based on an attribution factor, as shown in Figure 2.

Figure 2 General approach of the PCAF to calculating financed emissions



Source: PCAF (2020, November), "The Global GHG Accounting and Reporting Standard for the Financial Industry", online: https://www.carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

For different types of financial institutions and different types of financial services, the "outstanding amount" might read as the "outstanding part of a loan", "market value of an investment in shares", etc. These amounts are divided by the company value, its total equity and debt, to attribute a share of the company's emissions to the bank or investor.[105] The PCAF methodology also provides specific guidance on six different asset classes (see Figure 3).

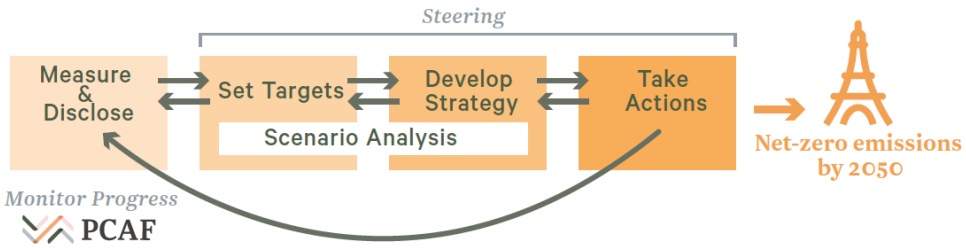
Figure 3 Asset classes covered by the PCAF methodology

Source: PCAF (2020, November), "The Global GHG Accounting and Reporting Standard for the Financial Industry", online: https://www.carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

The PCAF Global GHG Accounting and Reporting Standard for the Financial Industry (the Standard) is now being implemented in five regions: Africa, Asia Pacific, Europe, Latin America and North America. Each region has an implementation team with a clear governance structure. The lessons learned through the regional implementation will inform the refinement of the Standard.[106]

The PCAF offers more than a climate monitoring tool. The "Strategic Framework for Paris Alignment", published by the PCAF in April 2021, clearly explains the technical elements of Paris alignment for financial institutions, defines terminology used in the Paris alignment process and maps initiatives, projects, methods and tools to identify potential synergies for financial institutions. [107]

Figure 4 PCAF Strategic Framework for Paris Alignment



Source: PCAF (2021, April), "Strategic Framework for Paris Alignment", online: https://www.carbonaccountingfinancials.com/files/2021-04/strategic-framework-for-paris-alignment.pdf?515d2dd9f1

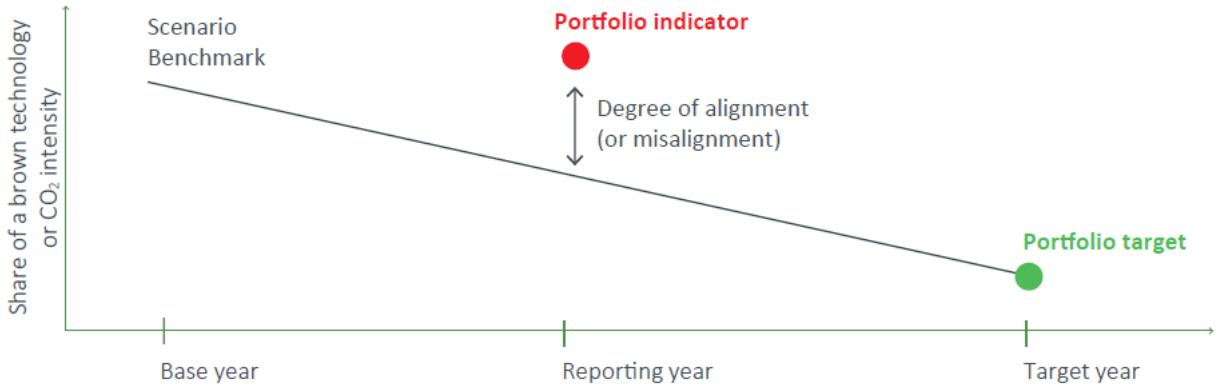
Because it is closely aligned with the GHG Protocol methodology, the PCAF methodology deals with the same corporate GHG data consistency issues discussed in section 5.2. For "Listed equity and corporate bonds" and "Business loans and unlisted equity", the PCAF methodology depends heavily on GHG emissions data provided by GHG data providers.

5.3.2 Paris Agreement Capital Transition Assessment (PACTA)

The Paris Agreement Capital Transition Assessment (PACTA) was developed by the French think-tank *2° Investing Initiative*, with backing from the *Principles for Responsible Investment*, a global organization that brings together responsible investors. PACTA takes a different approach than the PCAF. Instead of calculating which GHG emissions can be attributed to banks or investors, it develops climate scenarios for different economic sectors. These scenarios identify which technologies, products and activities that companies should invest in, and the pace at which they should invest, to ensure they make a proportionate contribution to the Paris Agreement.

For all companies in these sectors, PACTA aggregates global, forward-looking, asset-level data (such as the production plans of a manufacturing plant over the next five years) up to the parent company level, to assess whether they are on track to achieve the goals of the Paris Agreement. Some are, most are not. Depending on the combination of companies active in a certain sector which is included in the portfolio of a bank or investor, PACTA can conclude if the portfolio is following a Paris-aligned scenario for this particular sector. Based on this assessment, the bank or investor can then decide to engage more heavily with companies in a certain sector, or switch investments to other companies in the same sector that are more Paris-aligned.

Figure 5 Scenario comparison with the PACTA methodology



Source: Katowice Banks (2020, September), "Credit Portfolio Alignment - An application of the PACTA methodology by Katowice Banks in partnership with the 2 Degrees Investing Initiative", online: https://2degrees-investing.org/wp-content/uploads/2020/09/Katowice-Banks-2020-Credit-Portfolio-Alignment.pdf

PACTA was originally developed for investors and has been used by over 3,000 investors since 2018. The toolkit PACTA for Banks was launched in September 2020, which provides a granular view of the Paris alignment of corporate loan books by sector and related technologies. It has now been tested by 17 leading global banks from Europe, North and South America.[108]

The Katowice Banks, a group of five major European banks that have committed to align their portfolios with the Paris Agreement, are already applying the PACTA methodology. In a recent publication,[109] they share insights and lessons to assist and inspire other banks, including how they have used the PACTA methodology and the aspects that have been most useful.

PACTA cannot be used to assess the Paris alignment of a complete credit or investment portfolio, as it focuses on major GHG-emitting sectors: power, coal mining, oil and gas upstream sectors, auto manufacturing, cement, steel and aviation, with the shipping industry to be added soon. Collectively, these sectors account for about 75% of global GHG emissions, according to PACTA.[110]

The scenarios and targets for these sectors are sometimes set in terms of the share of a brown or green technology in the company's activities (e.g., the share of electric cars in the total production volume of a car producer or the share of renewable energy in the portfolio of an electricity producer), which can be assessed objectively based on company disclosures and market data. Some scenarios use carbon intensity as the main indicator (e.g., for steel production), but this refers only to scope 1 emissions linked to a certain production technology. Carbon intensity figures are documented transparently in scientific literature.

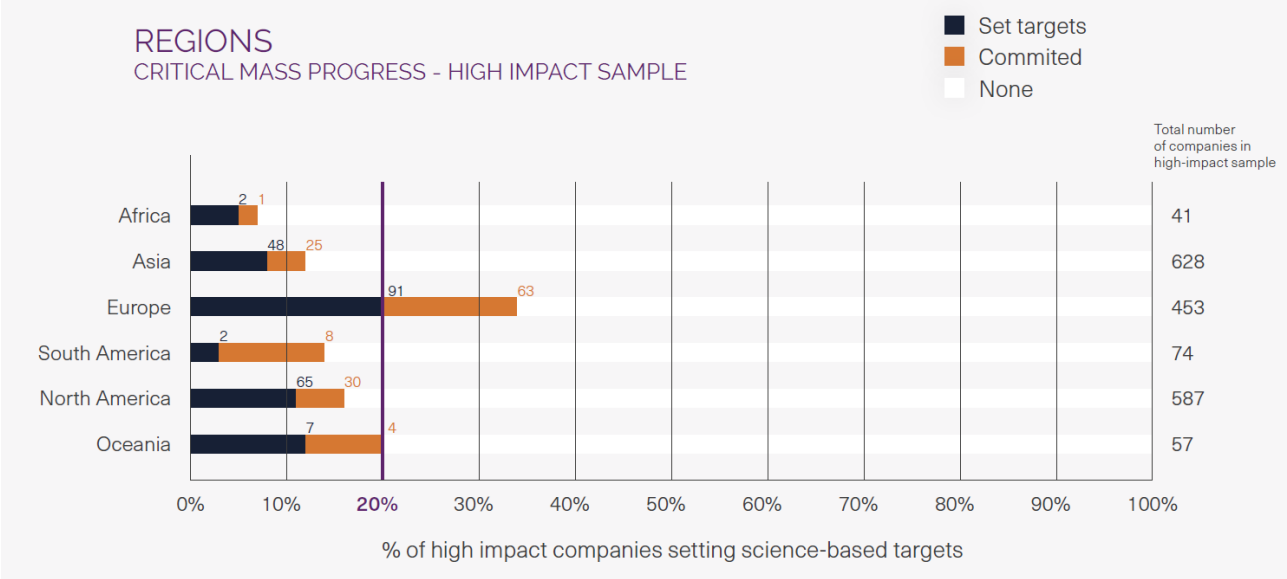
5.3.3 Science Based Targets initiative (SBTi)

Measuring climate impacts, whether by companies or financial institutions, is only effective if they know which target they want to meet (i.e., which climate impact to reduce). Globally, these targets are defined by the Paris Agreement, but how do they translate into targets for individual companies? This depends, in part, on the amount of GHGs they emit, their relative importance in the market and the technological options they have to reduce their emissions.

The Science Based Targets initiative (SBTi) helps companies gain clarity on this by setting science-based emission reduction targets in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.[111] The SBTi is a collaborative partnership of the CDP, the United Nations Global Compact (the UN initiative to support responsible business conduct), the WRI, and the World Wide Fund for Nature (WWF).[112]

Because the Paris Agreement does not prescribe how to meet climate targets, the SBTi can help companies align with a "below 2°C scenario" or with a "1.5°C scenario". In its 2020 Progress Report, the SBTi concluded that 346 companies (19%) out of a global sample of 1,840 "high impact companies" have adopted, or are working on adopting, science-based targets (see Figure 6). The company sample was based on their potential contribution to climate mitigation, determined by a combination of their GHG emissions and market capitalization.[113]

Figure 6 Share of high-impact companies adopting science-based climate targets per global region (January 2021)



Source: SBTi (2021, January), "From Ambition to Impact: How Companies Are Reducing Emissions At Scale With Science-Based Targets, online: https://sciencebasedtargets.org/resources/files/SBTiProgressReport2020.pdf

The SBTi has developed different target-setting methodologies and guidance for different economic sectors. In April 2021 it published a pilot version of its *Financial Sector Science-Based Targets Guidance*, which offers three approaches to target setting: [114]

- Sectoral Decarbonization Approach (SDA): Emissions-based physical intensity targets for real estate, power generation, cement, pulp and paper, transport, iron and steel.
- SBTi Portfolio Coverage Approach: Engagement to let investees set science-based targets to put the financial institution on a path to 100% portfolio coverage by 2040.
- Temperature Rating Approach: Determining the current temperature rating of portfolios and engaging with portfolio companies to set ambitious targets.

5.3.4 EU taxonomy for sustainable activities

The EU taxonomy for sustainable activities, which entered into force in July 2020, is a classification system set up by the European Union, establishing a list of environmentally sustainable economic activities. It can be seen as complementary to the climate monitoring tools mentioned in the previous sub-sections, as it aims to provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In this way, it should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed.

Which activities are included in the EU taxonomy is subject of ongoing discussion. A first list of climate mitigation and adaptation activities included in the EU taxonomy was published in December 2021. But already in February 2022, this list was expanded with specific nuclear and gas energy activities. The European Commission claims that "the criteria for the specific gas and nuclear activities are in line with EU climate and environmental objectives and will help accelerating the shift from solid or liquid fossil fuels, including coal, towards a climate-neutral future."[115] The inclusion of nuclear and gas in the EU taxonomy has generated a lot of cr

5.3.5 Assessment of climate monitoring tools

This section briefly analyses the strengths and weaknesses of climate monitoring tools for financial institutions. This assessment draws on a critical comparison published by the UK-based NGO ShareAction in April 2021.[116] The following aspects are relevant:

- **Sector scope**: The PCAF covers all economic sectors in which financial institutions invest or to which they provide financing. In comparison, the scope of PACTA is more limited: it covers only seven (soon eight) economic sectors. Although PACTA claims that these sectors account for 75% of global GHG emissions, important GHG-emitting sectors such as agriculture and construction are missing.
- **Financing scope**: The PCAF and PACTA both cover the main types of financing and investments: general corporate loans, project finance, equity investments and bond investments. However, ShareAction notes that "The scope of financing activities remains incomplete and underestimates transition risks. SBTi and PACTA dismiss important non-balance sheet items in banks' portfolios: capital markets underwriting and the undrawn portion of loans."[117]
- **Indicators and targets**: The PCAF simply tracks the emissions linked to a financial institution's investments and financing. These emissions are primarily the result of past corporate investment decisions, not the efforts of portfolio companies to become Paris-aligned in the future. The PCAF therefore does not assist financial institutions with realistic target setting; the SBTi should be used instead. PACTA has the advantage of more forward-looking indicators (mainly based on capital expenditure on green and brown technologies), and it also integrates targets for Paris-alignment for specific sectors.

  While both PACTA and the SBTi claim that their target-setting is based on science, ShareAction concludes that neither currently "include or recommend including a climate scenario that is compatible with a reliable 1.5°C outcome" and that "all of these methodologies rely on inevitable simplifications and assumptions".[118] It is "often assumed that climate scenarios will indeed take us to their stated temperature outcome, overlooking their odds of success and disproportionate reliance on negative emissions technologies. This has important implications for the level of ambition and type of action taken by banks." This calls for a precautionary approach to portfolio alignment and transparency about the assumptions made to arrive at certain targets.[119]

- **Reliability**: PACTA's methodology is clearly more reliable than the PCAF's for the sectors it covers. This is because it bases the methodology on indicators (capital expenditure, carbon intensity of technologies) that are subject to normal accounting rules or scientific verification. The PCAF, on the other hand, depends on reported and estimated GHG emissions data from many data providers which, as discussed in section 5.2, are not very consistent.

  The reliability of Paris-alignment methodologies is undermined by the fact that they allow for some offsetting between high-carbon and low-carbon activities, despite all the problems associated with carbon offsetting. They also do not differentiate between carbon-intensive assets – a barrel of oil sourced from the Arctic Circle or the Canadian oil sands is considered equivalent to any other barrel of oil even though it has a greater impact from an ESG perspective. [120]

  Another reliability issue is with the PCAF's use of GHG emissions data for all types of financing and investments. This invites users to calculate one overall emissions figure for a financial institution's activities, or at least for its total corporate loan portfolio. This risks drawing the wrong conclusions since loan amounts are shifted between sectors and would make overall portfolio figures incomparable over time. Separate emission figures for the different sectors the financial institution finances or invests in would be preferable.

- **Publicly available assessments**: Both PACTA and the PCAF will soon be used by more banks, including in Asia. However, not enough experience has been gathered to definitively say that this leads to better comparability of different financial institutions with regard to their climate alignment.
- **Usability by third parties**: Both tools were initially designed to be used by financial institutions to assess the climate alignment of their own portfolios. However, CSOs would also like to use the tools to validate the financial institutions' assessments and to assess the climate alignment of financial institutions that have not done so themselves. For some institutional investors, especially some pension funds, this would be feasible as they publish their full portfolio (names of companies and invested amounts per company) online each year.

  Banks around the world do not do this, despite strong pressure from civil society to be more transparent. Research organizations such as Profundo can analyse different public and commercial data sources to get a reasonable overview of the companies that banks are exposed to, especially through syndicated bank loans and underwriting syndicates. However, compiling these overviews for the full global portfolio of an international banks is time-consuming and is never complete since many bilateral bank loans (between one bank and a company) are missing. This makes it nearly impossible for CSOs to use these methodologies to assess the climate alignment of banks from the outside.

This overview of the strengths and weaknesses of the different tools does not reveal a clear winner. PACTA is the more robust and forward-looking methodology, but its sector coverage is limited and it is not yet used by many banks. The PCAF has a simpler methodology, but it depends on not-very-reliable GHG emissions data and external target setting. Its sector coverage is much broader, however, and has been adopted by many more banks. Both methodologies have significant flaws that need to be remedied with refinements, among others, the alignment of target setting with a credible 1.5ºC scenario, such as the IPCC 1.5ºC scenario published in March 2020 as well as the IEA scenario of May 2021 elaborating on this with regard to the investments needed in the energy sector.[121]

6

Conclusions and recommendations

Based on the overview and analysis of relevant developments in the previous chapters, this chapter draws conclusions on the key areas of improvement for methodologies for measuring climate finance and suggests possible improvements and adjustments. As the Netherlands in most cases cannot implement these suggestions unilaterally, they should be read as suggestions for positions the Netherlands could take in further international discussions on climate finance.

6.1 Scope of the USD 100 billion per year commitment

The scope of the USD 100 billion per year commitment is limited geographically to developing countries and is limited in terms of investment objectives as well: "Climate finance refers to local, national or transnational financing - drawn from public, private and alternative sources of financing - that seeks to support mitigation and adaptation actions that will address climate change."[122]

This definition of the scope of the commitment creates two consistency problems. The first problem is the limitation to investments in developing countries, which is not consistent with the global nature of climate change. In relation to climate adaptation, it makes sense to limit the scope to investments to certain geographies (such as developing countries), as climate adaptation impacts differ from region to region and climate adaptation interventions need to be taken on a national or regional level. But in relation to climate mitigation, it is not self-evident to limit the scope to investments in specific geographies, as climate change is a global phenomenon. Any investment in climate mitigation is advantageous to developed and developing countries alike, wherever the investments take place.

This geographical limitation of the scope can only be understood in relation to the political reality of the negotiations on the UNFCCC: each country had to make a pledge to reduce its domestic greenhouse gas emissions. As developing countries argued that they were making only a small contribution to the global emissions of greenhouse gases and that they had only limited funds to mitigate their own emissions, developed countries made this commitment to support them. The intention of this commitment therefore was to help developing countries to cope with the consequences of climate change and with meeting their pledge to reduce their own greenhouse gas emissions.

However, the pledges of developing countries to the UNFCCC consider the volume of greenhouse gases they will emit, not the amounts they will invest in climate mitigation. If would therefore make sense if the support of developed countries to developing countries in the field of climate mitigation would have been formulated in terms of reduced volumes of greenhouse gases as well, not in dollars terms.

But since this is not the case - the commitment is made in financial terms - the definition of what counts as climate finance creates a second consistency problem as it does not align with the reduction pledge made by developing countries. Where this definition is now limited to investments in climate adaptation and climate mitigation, it should also include investments in climate aggravation: all investments in for instance fossil fuels, electricity, transport and agriculture which are increasing the greenhouse gas emissions of developing countries.

Investments in climate mitigation and investments in climate aggravation are two sides of the same coin, both will play a crucial role in determining if developing countries will meet their pledges under the UNFCCC.

Since 2009, developed countries have continued to invest enormous amounts in climate aggravation worldwide. As climate change is a global problem, these investments also have a negative impact on developing countries and increase their investment need for climate adaptation measures. A part of the investments of developed countries in climate aggravation is taking place in developing countries, making it more difficult for these countries to meet their GHG reduction pledge to the UNFCCC.

Climate aggravation investments by developing countries in the past decade partly came from public funds, directly from governments or indirectly via the MDBs. Recently, developed countries and MDBs have become more reluctant in fund climate aggravation and announced a pull-out.[123] But other MDBs and governments of developed countries still continue with such investments. The Asian Development Bank for instance pulled out of coal in October 2021[124], but is still investing significantly in other fossil fuels.[125]

Additionally, developed countries also have mobilized large amounts of private investments in climate aggravation through similar instruments as used for mobilizing private investments in climate mitigation: syndicated loans, blended finance, investments, guarantees, etc. Japanese public financial institutions, such as the Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC) and Nippon Export and Investment Insurance (NEXI), are still heavily investing in fossil fuels, largely by mobilizing private investments.[126]

Among developed countries, the Netherlands was one of the first to avoid financing of climate aggravation with development cooperation funds. But taking a wider perspective at all instruments by which the Dutch government is mobilizing private finance, mobilization of private finance for climate aggravation still takes place. Development bank FMO in June 2021 announced to pull out of direct fossil fuel investments, but indirectly - through its financial intermediaries - the development bank is still involved in the fossil fuel sector.[127] Among the export credit agencies (ECAs) continuing to provide billions of euros in government-backed support to fossil projects is also the Dutch ECA Atradius DSB.[128]

Continued investments by developed countries in climate aggravation (anywhere in the world, but in particular in developing countries) go against the intention behind the USD 100 billion per year commitment. The promise which developed countries made in 2009 was to help developing countries to cope with the consequences of climate change and with meeting their pledge to reduce their own greenhouse gas emissions. Investments by developed countries in climate aggravation in developing countries therefore have two consequences:

- The promise made by developed countries is undermined; and
- The USD 100 billion per year commitment became increasingly insufficient to support developing countries with climate adaptation and with reaching their pledge on climate mitigation. This has contributed to the much higher request from developing countries to developed countries, during the COP-26 in Glasgow in November 2021, to mobilize USD 1.3 trillion per year for climate adaptation and mitigation in developing countries.[129]

The implications for methodologies which intend to measure investments in climate adaptation and mitigation are huge. These methodologies will continue to miss the mark as long as they avoid the elephant in the room: the ongoing investments in climate aggravation by developed countries. Collecting and analysing figures on investments in climate mitigation needs to be complemented by the collection and analysis of figures on investments in climate aggravation. If this structural error is not corrected, discussions about measuring investments in climate adaptation and mitigation in developing countries will lose connection with what developing countries actually need and with the progress made in that respect.

6.2 Types of instruments

In the process of harmonisation of different climate finance measurement methodologies, one import point of attention is measuring consistently how much private finance is mobilized by each of the different public instruments. These measurements should be grounded as much as possible on empirical evidence, not on assumptions.

Especially the way in which guarantees are treated generates some controversy in this respect. In the previous report on mobilized climate finance in the Netherlands, Trinomics for instance wrote: "The methodology does not optimally reflect the mobilization impact of public interventions, because the impact of a guarantee is lower than the impact of grants or loans. However, guarantees can lead to identical levels of reported mobilized private finance as other - more impactful - instruments." And as consequence of these differences, Trinomics warned from sub-optimization: "The reporting method can influence the political and operational choices for different instruments when programmes aim to maximise the amounts of mobilized private finance within the given reporting rules. It is unclear if (and to what extent) projects and financial instruments with a higher mobilization potential generate more positive development and/or climate impacts than projects with a lower mobilization potential." [130]

Profundo does not share the conclusion that "the impact of a guarantee is lower than the impact of grants or loans" on a generic level. There does not seem to be evidence to support this claim across the board, the impacts of various instruments differ according to the context in which they are applied. But we do share the concern that guarantees could become the preferred instrument for mobilizing private climate finance, as they hardly seem to require public funds and therefore seem to have the highest mobilization rate of all available instruments. This could indeed lead to sub-optimization.

Profundo thinks this challenge could be addressed with three adjustments of the methodology:

1. Empirically measuring how much public funds are required for guarantees. This requires researching historical data on the number of cases in which governments ultimately (sometimes several years later) have to compensate private parties to which they have given a guarantee. Taking these actual disbursements into account, a more accurate mobilization rate can be calculated.
2. Taking the actual investments made by private parties as the basis for assessing how much private finance is mobilized. The actual private investment can be equal to the contract value of the guarantee, but also (much) lower. This adjustment of the methodology is in line with moving the moment of measurement from commitment to disbursement (see section 6.3).
3. Assessing in a granular way in how far the guarantee contributes to climate adaptation and/or climate mitigation. This adjustment should apply to all instruments, not just guarantees, and is discussed further in section 6.6.

With these three adjustments of the methodology, guarantees will be assessed in a fair and comparable way with other instruments for mobilizing private finance. This will avoid giving perverse incentives to public bodies who have to choose between different instruments, while acknowledging the relative strengths of guarantees and other instruments in specific situations.

6.3 Moment of measurement

A weak points of all climate finance measurement methodologies is that they measure commitments rather than disbursements. There may be various reasons why disbursements will be eventually lower than commitments: because projects are cancelled or delayed, because a switch is made to other sources of funding, etc. Measuring commitments rather than disbursements therefore structurally overestimates the amounts of climate finance invested in climate adaptation and mitigation in developing countries, both from public funds and from mobilized private finance.

The main two reasons for the different methodologies to measure commitments is that these are known earlier and can be measured more easily than disbursements. Policy changes, for instance to reserve more funding for climate finance, will be shown earlier in the reporting. If only disbursement are measure, it will take longer before policy changes will be visible in reporting.

To make climate finance measurement methodologies more reliable, Profundo recommends to discuss in international fora how the methodologies could better capture the actual disbursements of different forms of finance.

6.4 Attribution to countries

Public funds invested by MDBs and other multilateral funds and instruments need to be attributed to the different (developed) countries participating in the MDB or fund. This attribution is also necessary for the private finance mobilized by the MDB or fund.

As the OECD-DAC methodology and the MDB methodology now have different approaches on how to attribute such funds to different countries, a uniform approach would be needed to come to consistent and comparable figures. The MDB methodology is most sophisticated in this respect as it for instance distinguishes between concessional and non-concessional funds, as it takes into account different factors in the attribution process. But this requires quite a complicated calculation, which is maybe not the most urgent topic to spend more time on. We therefore suggest to focus on the more simple attribution approach of the OECD-DAC methodology, which attributes pro rata of the countries' commitments to a MDB or fund.

6.5 Unit of measurement

The measurement of climate finance (both public funds and mobilized private finance) is now taking place in dollars in all methodologies. For climate adaptation this seems inevitable, but for climate mitigation it would be possible to convert such investments in avoided GHG emissions, i.e. tons of CO_2. Methodologies explored by commercial banks, such as PCAF and PACTA, could help in making this translation (see chapter 5).

The main advantage of measuring investments in climate mitigation in tons of CO_2 would be that the mitigation impact of a certain investment will be measured in a more granular and quantitative way than at present is done with the Rio Markers (see section 6.6). This implies that the impact of the (mobilized) climate finance on the GHG reduction pledges made by developing countries can be assessed more objectively.

A second advantage would be that climate mitigation investments can be compared better with climate aggravation investments. It is of crucial importance to take both into account when assessing how developed countries have contributed to the efforts of developing countries to meet their pledges to the UNFCCC (see section 6.1). By converting investments in both climate mitigation and climate aggravation in tons of CO_2, it would also be possible to deduct investment in climate aggravation (causing extra CO_2 emissions) from the emissions avoided by investments in climate mitigation.

The main disadvantage of converting climate mitigation investments (and possibly climate aggravation investments as well) in CO_2 emissions is that methodologies as PCAF and PACTA still need further development and adjustment. How specific investments should be converted into CO_2 emissions is not always undisputed. Adding this conversion to the methodology therefore adds another layer of complexity and - to some extent - subjectivity. It can be debated if this should be given priority.

6.6 Objectives of investments

To label the objectives of different forms of climate finance, now the Rio Markers are used. These determine which share (0%, 40% or 100%) of a certain investment can be included in the calculation of the total amount of climate mitigation finance or climate adaptation finance, from public funds and through private mobilization. Rio Markers are defined as follows:

- Activities can be marked as **principal** when the objective (climate change mitigation or adaptation) is explicitly stated as fundamental in the design of, or the motivation for, the activity. (100%)
- Activities can be marked as **significant** when the objective (climate change mitigation or adaptation) is explicitly stated but it is not the fundamental driver or motivation for undertaking it. (40%)
- **"0"** means that the activity was examined but found not to target the objective (climate change mitigation or adaptation) in any significant way.[131]

The Rio Markers can be applied to both climate mitigation and/or climate adaptation. This means that a project could apply a principal marker (100%) for mitigation and significant (40%) for adaptation, resulting in a figure over 100%. Therefore, in reporting the mobilized private climate finance figures, the highest marker is used when reporting on aggregated climate finance figures.

This application of the Rio Markers could be made much more granular, by creating more than three options. This could give a more nuanced understanding of the amount of finance which actually is made available for climate mitigation and for climate adaptation.

For climate mitigation, the usage of Rio Markers could potentially be replaced by converting each investment in the volume of avoided CO_2 emissions (see section 6.5). If this is not possible, a further distinction in different levels of effectiveness for climate mitigation investments could be developed.

For climate adaptation, a conversion into CO_2 emissions is not relevant. For this type of investments, it would be good to develop an assessment system with different levels of effectiveness. These could for instance be linked to the priorities set in the Nationally Determined Contributions (NDCs) of developing countries: if investments in climate adaptation are better aligned with these priorities, the percentage could be lower than for investments which are less aligned. This may lead to an additional layer of administration and assessment of a project, and may imply the need for a specific audit assessment.

6.7 Mobilization rate for MDBs

In the *Mobilized private (climate & biodiversity) finance: 2021* report, and earlier iterations of the annual publication, a private finance mobilization rate of 42% is applied to all MDB climate finance, based on 2013-2014 figures. However, improved reporting from the MDBs on their private mobilization allows for an updated average mobilization rate for all MDBs, and specific mobilization rates per MDB.

Based on the *2020 Joint Report on Multilateral Development Banks' Climate Finance*, an average mobilization rate for all MDBs of 25% in 2020 can be calculated (see Table 29). This implies that private finance mobilization by the Netherlands through its contributions to the MDBs has been overestimated by approximately 17%. Future editions of the *Mobilized private (climate & biodiversity) finance* could make use of updated calculations of private finance mobilization rates per MDB, as reported in the *Joint Report on Multilateral Development Banks' Climate Finance* where available. Where not available, reporting from 2020 could be used, or an average mobilization rate for all MDBs can be used, based on data from MDBs that publish this information.

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