FINANCIAL INCOHERENCE

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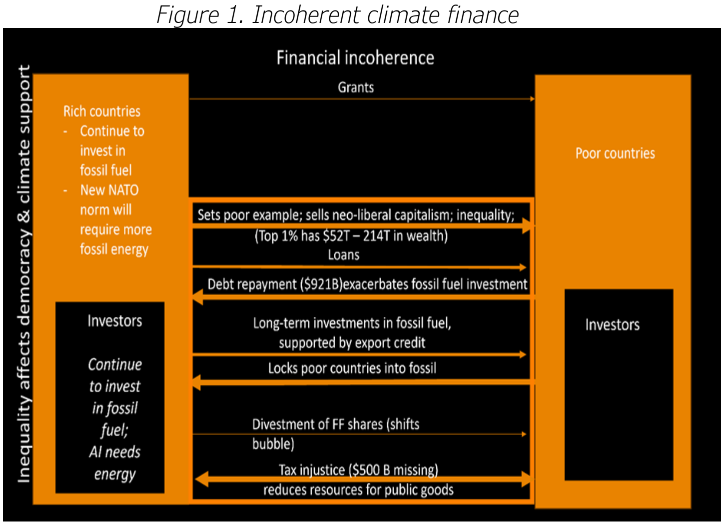
KEY MESSAGES

1. Little finance is dedicated to closing down fossil fuel infrastructure
2. Climate finance is overtaken by other investments
3. Grants are declining, loans are increasing
4. Export credit still supports fossil fuel
5. Investors continue to invest in fossil fuel
6. Debt exacerbates fossil fuel investment
7. Tax evasion and avoidance reduce resources for climate action

INTRODUCTION

The 2015 Paris Agreement calls for coherent financial flows, but research shows this has not been realized so far (see Figure 1). Though promises for funding climate finance have been made, there is a huge gap between what is needed and what is made available. Moreover, these fundings are overtaken by investments, export credit, and loans that, in fact, encourage fossil fuel investments. Furthermore, high debt in developing countries exacerbates fossil dependence, while tax injustice worldwide reduces government resources for climate action.

Figure 1. Incoherent climate finance



LITTLE FINANCE DEDICATED TO LFFU

There is very little finance dedicated to phasing out fossil fuels. There are resources for renewables and some just transition funds, but these are very limited. Fossil fuel companies are getting compensation for closing down their industry (through e.g., investment treaties), but it is unclear to what extent fossil fuel labour is getting a piece of this compensation. Shell and ExxonMobil are using investor-state arbitration to demand billions in compensation from the Dutch government for shutting down the Groningen gas field, despite having earned nearly €65 billion from decades of extraction and earthquake-related damage (Verbeek, 2025). CEOs of bankrupt fossil fuel companies walked away with millions in cash bonuses and severance – averaging USD 2.6 M each – while over 10,500 workers lost their jobs and taxpayers were left with more than USD 10 billion in cleanup costs (Zibel & Mitchell, 2021).

CLIMATE FINANCE OVERTAKEN BY OTHER FINANCE

The climate finance provided by the Global North to the Global South represents around USD 100 billion annually; the commitments at COP29 agreed to raise the commitment to 300 billion per year by 2030. However, this is a drop in the ocean compared to global trade (USD 33 trillion in 2024) and investment (USD 145 trillion of global assets under management in 2024), much of which drives ongoing or increased fossil fuel use.

GRANTS ARE DECLINING, LOANS ARE INCREASING

Climate funding was originally supposed to consist of new and additional grants beyond Official Development Assistance (ODA); however, later it became mainstreamed via ODA. But ODA is now declining rapidly. In 2024, it declined by 9%-17%. Large donors such as Germany, UK and the Netherlands have reduced ODA with the USA cancelling their ODA in 2024 (OECD, 2025). Philanthropy also has some grants, but this is also a very small percentage of the total investments of philanthropy.

EXPORT CREDIT STILL SUPPORTS FF

Export credit still supports fossil fuel in the post-1992 Climate Convention and even in the post-2015 Paris Agreement era. Although the OECD has decided to phase out export credit for fossil fuel, there still remain exceptions (see PB 31 and 32).

INVESTORS AND FF

Investors worldwide continue to invest in fossil fuel. This is because of high returns on fossil fuel, as well as a range of other arguments such as fiduciary responsibility (e.g., pension funds; banks; investment funds; see PB 21).

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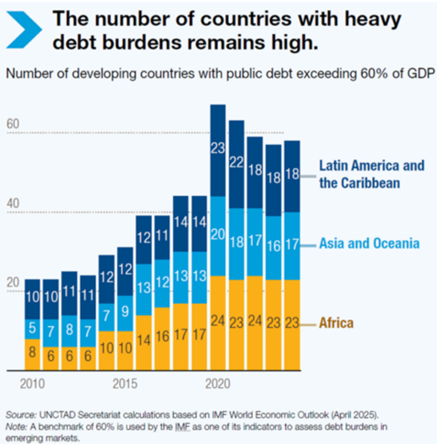
DEBT EXACERBATES FOSSIL FUEL INVESTMENTS

Figure 2. Growing debt in developing countries

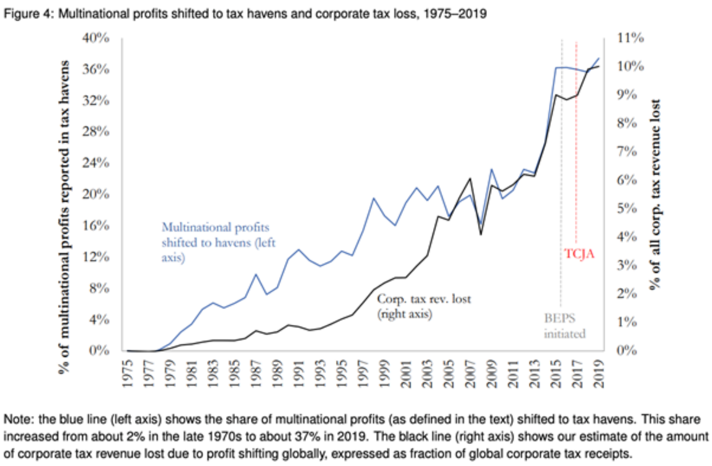


Source: UNCTAD (2025)

Developing countries have heavy debt and debt servicing responsibilities (see Figure 2). This exacerbates fossil fuel extraction and export (see PB 20).

TAX EVASION AND AVOIDANCE REDUCE RESOURCES FOR THE STATE

Figure 3: Profits shifted to tax haven



Source: Wier & Zucman (2022)

Tax evasion and avoidance imply less resources for governments to spend on global public goods like climate change. Wier & Zucman (2022) calculate that by 2019, about 37% of multinational profits had shifted to tax havens (Figure 3).

CONCLUSION

Financial incoherence is a major challenge, with small amounts of assistance going to developing countries, which are then overwhelmed by the large-scale investments in fossil fuel and debt, which implies that more money flows out of developing countries than flows into it. Some of these elements are explained in more detail in the following Policy Briefs.

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