

# Backgrounder

## Governance; Climate change

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Farmers from Tabi, a small Mayan community who are finding it harder and harder to grow food due to increasingly unpredictable weather patterns and higher temperatures. Credit: Ainhwa Goma/Oxfam, via Flickr, CC BY-NC-ND 2.0

## Fair share of adaptation finance in 2025

*Climate finance providers have promised to double adaptation finance. Are they on track?*

Adaptation finance is critical for developing countries to adapt to the increasing impacts of climate change and to support the rapid shift to climate-resilient development pathways. Developed country Parties committed in 2009 to provide US\$100 billion per year in climate finance to developing countries by 2020. This finance has been slow to materialise but renewed commitments were made at COP26, including a promise to double their adaptation finance to US\$40 billion per year compared to 2019. But our estimates, based on current bilateral pledges, show that whilst providers will increase their contributions to adaptation finance by over two thirds, the projected total will still fall short of the collective US\$40 billion target. Analysis highlights the challenge of working with the reported climate finance data. Improving the transparency and consistency of reporting will both facilitate meaningful comparison and ensure that the most ambitious and progressive providers of adaptation finance are acknowledged for their efforts.

We conducted our own comparative analysis (see sidebar on page 2) of providers' reported and pledged adaptation finance using one consistent method so that recipients can compare these. By modelling current levels of adaptation finance as well as new pledges made by the close of COP26, we estimate that combined bilateral and multilateral adaptation finance in 2025 will only reach US\$21.8 billion — a shortfall of US\$18.2 billion.

### What are the disparities between providers?

Can this ambition be kept alive? And if yes, where will the money come from? Our analysis suggests that France and Sweden's pledges exceed their fair share, once their commitments have been adjusted to reflect the likely 'significant' component of finance. Other providers, such as the UK, have pledged an amount that would exceed their fair share, but this total was adjusted down on account of

### VITAL STATISTICS

- **US\$40 billion:** the amount of adaptation finance providers agreed to give developing countries in 2025 based on their COP26 commitment to double adaptation finance.
- **US\$3.5 billion:** the projected increase in bilateral funding by 2025, a 68% increase on reported flows in 2019.
- **US\$21.8 billion:** the projected total of adaptation finance likely to be achieved in 2025. Bilateral providers are on track to provide US\$10.8 billion and multilateral providers US\$11 billion.
- **US\$18.2 billion:** the adaptation finance shortfall — these pledges still fall short of the stated ambition to double finance flows to US\$40 billion in 2025 and bilateral providers must work towards closing this gap.

### KEY TERMS

- **Adaptation finance:** public finance from developed country Parties to developing countries to support them to adapt to the impacts of climate change and shift to climate-resilient development pathways.
- **Principal adaptation finance:** climate finance where adaptation is the principal objective of the action, where 100% is included in reporting.
- **Significant adaptation finance:** climate finance where adaptation is a significant objective of the action, providers vary what amount they report — we assume 40% for all providers.
- **Bilateral provider:** national government climate finance provider.
- **Multilateral provider:** intergovernmental climate finance provider.

the high proportion of their adaptation finance that is recorded as significant in their reporting to the OECD DAC (see sidebar on page 2). Five providers have made pledges that are within 50% of their fair share and a further 15 are more than 50% short of their fair share.

The USA has pledged US\$3 billion in 2025, which we have adjusted to US\$1.4 billion due to the historical proportion of significant tagged finance. This is 88% short of their fair share of US\$1.6 billion. Australia, Canada, Italy and Japan are also all G20 member countries that are on track to provide well below their fair share and to which recipients of finance will look to, to raise their ambition. This is a major barrier towards collective progress on adaptation finance. It is imperative that providers raise their ambition to the extent that it is politically feasible to do so in order to close the adaptation finance gap. Bilateral providers ultimately must meet this gap, either by directly providing more adaptation finance to the countries and communities that urgently need it or by increasing their core commitments to the multilateral finance providers.

### Transparent and consistent reporting

Our analysis will not match the providers' own figures, as it is not possible to replicate how different providers calculate their adaptation finance, rendering comparisons difficult. We estimated how much climate finance is 'true adaptation' by modelling a share of principal and significant activities because we do know there are issues with overcounting.<sup>1</sup> Alternatively, if we re-run this analysis but count all pledged adaptation finance at face value, the total adaptation finance in 2025 rises by US\$10 billion to US\$31.7 billion. This is our own comparative analysis of the finance gap based on publicly available data from providers, but arriving at these estimates

<sup>1</sup> Shakya, C and Smith, B (2021) Trust in climate finance requires meaningful transparency. IIED, London. [pubs.iied.org/17774iied](https://pubs.iied.org/17774iied)

<sup>2</sup> The Organisation for Economic Co-operation and Development's creditor reporting system for country members of the Development Assistance Committee.

<sup>3</sup> UK Government (2021) COP26 Presidency Compilation of 2021-2025 Climate Finance Commitments. <https://bit.ly/3LRNQNQ>

<sup>4</sup> Colenbrander, S, Cao, Y, Pettinotti, L and Quevedo, A (2021) A fair share of climate finance? Apportioning responsibility for the \$100 billion climate finance goal. ODI, London. <https://bit.ly/3ajM41z>

involved a range of assumptions due to the ambiguity of pledges and lack of transparency on how donors translate their pledges into annual spending budgets for investments with a principal adaptation objective or where it is only for a component of a programme (so counted as significant). We call on providers to increase the clarity and granularity in reporting such that recipients can better understand adaptation finance flows. We look forward to working with providers and incorporating their inputs in follow-up work.

Related to this, climate finance reporting should be more transparent where the use of 'cross-cutting' as a tag is concerned. These are activities with adaptation and mitigation components, but the relative weight of each is not apparent. Finally, providers should separate out their public finance from private finance and indeed be explicit about the grant equivalence. For many recipients, the grant equivalence is a central concern so they are not forced to increase their indebtedness to respond to climate impacts. A central recommendation is that providers use a single consistent reporting method to ensure meaningful transparency and consistency.

### Looking ahead

Fair share analysis is a powerful tool to understand how the pledges of providers of climate finance stack up. It shows some providers have pledged over their fair share — but most have more to do. Trust in progress towards doubling adaptation finance by 2025 will require all providers to agree the collective target with recipients, a common method to calculate fair shares and a single method to report their contributions. This clarity will immediately increase trust between providers and recipients as well as assist providers to make the case domestically on what is needed. Together, this will increase the likelihood that in 2025 we will be celebrating success in achieving the collective ambition to double adaptation finance.



### Knowledge Products

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### FAIR SHARE ANALYSIS: HOW DOES IT WORK?

Our fair share analysis used finance providers' own reporting to the OECD DAC CRS database.<sup>2</sup> We developed a consistent method to enable finance recipients to compare providers. This method counts 100% of climate finance tagged as having a principal adaptation objective and 40% of that tagged as significant. We excluded 'cross-cutting' climate finance due to the lack of transparency over the percentage attributable to adaptation. We modelled the adaptation finance pledges made at COP26<sup>3</sup> to increase incrementally across 2021–2025 to project a 2025 total.

We adjusted these pledges to reflect each providers' historical proportions of finance reported as having principal or significant objectives, to arrive at a realistic estimate for adaptation finance in 2025. Where providers' pledges also included private finance, we also made an adjustment to assume how much of their pledge came from public finance. This gives us two totals for each provider in 2025: their own pledge and a second that is adjusted for their historical patterns of spend. This second is lower than their own officially communicated projections, highlighting the wide range of possible interpretations of climate finance data. In some instances, we did not adjust the pledged amount because it fell below reported flows in 2019. For Germany, Finland, the Netherlands and Switzerland, we therefore revert to 2019 numbers. This reflects that some providers have historically counted a larger share of investment where climate action was a significant but not principal objective. We then combined the 2025 bilateral pledges with the multilateral pledges in the US\$100 billion delivery plan to arrive at a baseline total of US\$21.8 billion, revealing the finance gap.

Applying ODI's fair share methodology<sup>4</sup> to establish a baseline allocation enabled us to explore how providers' pledges compared to their relative share of their collective commitment to double adaptation finance by 2025. We projected a share of US\$13.1 billion of the 2025 target for the EU institutions and the multilateral development banks and then calculated each bilateral providers' share of the remaining US\$26.9 billion. This approach combines 2019 gross national income, 2018 population and cumulative greenhouse gas emissions between 1990–2019 to generate a 'fair share' of the adaptation target for each country.

### FIND OUT MORE

Our work on adaptation finance is being undertaken as part of the 'Money where it matters' work programme run by IIED's Climate Change Group and partners. Find out more about our work on climate finance and governance at: [www.iied.org/climate-change](http://www.iied.org/climate-change)