DT TOOLKIT

Funding climate change adaptation:
Tools for advocates on the road to COP26

THE BASELINE:

Summary of donors' bilateral ODA for climate change adaptation from 2010-2019

This resource is intended to provide advocates with information on how bilateral official development assistance (ODA) is being used to fund climate change adaptation in ODA-eligible countries. This analysis focuses exclusively on concessional bilateral financing of climate change adaptation to assess the degree to which donors are incorporating climate change adaptation objectives into the activities they fund directly.

It should be noted that donors' bilateral financing for climate change adaptation is just one small contributor to the larger pot of international climate finance (which includes private and public, concessional, and non-concessional, and domestic and international flows). As well as bilateral funding, donors also provide concessional funding for climate change adaptation through multilateral channels. The multilateral development bank (MDB) methodology for tracking and reporting on commitments to climate finance is more granular than the OECD DAC policy markers meaning it only counts the component of the project that directly relates to adaptation. According to the latest annual joint report of the MDBs, major MDBs provided US$13.3 billion of climate finance to low- and middle-income countries in 2020 including both concessional and non-concessional financing.

As set out in the Donor Tracker's previous analysis of climate finance, bilateral concessional financing for climate change can be estimated using the Organisation for Economic Co-operation and Development's (OECD's) Rio markers for climate (see Box: 'The OECD DAC Rio markers for climate'). This analysis focuses on donor countries' bilateral programable ODA derived from the OECD's Creditor Reporting System (CRS).

Only 15% of donors' bilateral allocable ODA targets climate change adaptation

In 2019, DAC donors committed US$19.6 billion in bilateral allocable ODA to projects that have been marked with the principal or significant marker for climate change adaptation (see Figure 1).[1] US$8.3 billion or 40% of this was also tagged with the climate change mitigation marker indicating projects with dual mitigation and adaptation objectives. Since 2010, total funding for climate change adaptation projects has increased from US$8.0 billion to US$19.6 billion, a 145% increase in nine years but from a very low base. As a proportion of total bilateral allocable ODA, funding for projects explicitly "formulated or adjusted" to account for climate change adaptation objectives has increased from 7% in 2010 to 15% in 2019, demonstrating some increase in mainstreaming of climate change adaptation objectives into DAC donors' bilateral development efforts.

However, the increase in bilateral ODA targeting climate change adaptation has largely been driven by increases in funding for projects that "significantly" rather than "principally" target climate change adaptation. In 2019, only US$5.1 billion in funding went to projects which were marked with the principal marker, indicating that they were undertaken with climate adaptation as a fundamental or explicit goal, only US$2 billion more than when[1] the OECD started tracking adaptation flows in 2010 (see Figure 1). These principal sums represent just 7% of the US$70 billion (total, including domestic flows) estimated in the UN Environment Programme Adaptation Gap Report to be needed annually by 2030 for low- and middle-income countries to adapt to the impacts of climate change.

Both the total and principal figures presented above are also likely to be an overestimation of the volume of funds donors have mobilized through ODA for climate change adaptation for two reasons. First of all, while most DAC donors use the Rio markers when reporting on their fi-

The OECD DAC Rio markers for climate

The Rio markers for climate (adaptation and mitigation) in the OECD DAC CRS are an important source of information on the degree to which ODA and Other Official Flows target climate action.

The OECD DAC has been tracking bilateral ODA financing for climate mitigation since 1998 but only introduced the adaptation policy marker in 2010. Donors apply the climate change adaptation marker to activities that support recipients in responding to and anticipating the impacts of climate change, for example, crop diversification or adapting to rising sea levels.

Each marker has three possible scores:

- **Principal:** for projects in which climate change adaptation is a fundamental and explicitly stated goal. This score applies to activities that would not have been undertaken or designed in that way except for the explicit objective of climate adaptation.
- **Significant:** for projects in which climate change adaptation is not a key driver but is still an explicitly stated goal. This applies to projects which are not principally undertaken in pursuit of climate objectives, but which have been explicitly 'formulated or adjusted' in support of climate objectives.
- **Not targeted**: applies to projects which do not include climate change adaptation objectives. According to the OECD's handbook, this should include projects where climate objectives are 'extremely limited' or 'superficial' with respect to the project's overall intent.

Funding for projects not screened against the Rio markers falls into the 'not screened' category.

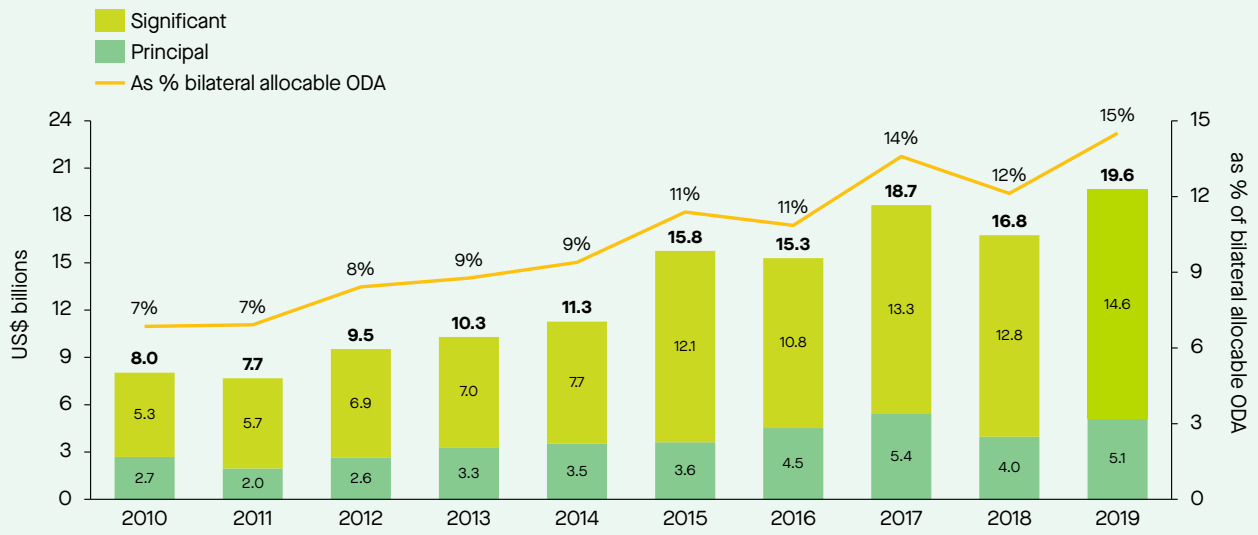
Given the qualitative and self-reported nature of scoring activities, there is a degree of subjectivity in how donors mark and score activities. To mitigate this, the OECD provides criteria for eligibility against the markers and examples of qualifying activities and scoring rationale by sector. In addition, the DAC secretariat intermittently reviews of donors' submissions to improve the consistency of reporting.

Source: OECD DAC Rio Markers for Climate Handbook

1. OECD climate-related development finance data are reported on a commitment basis. Commitments are recorded in the full amount of expected transfer irrespective of the time required for the completion of disbursements and provide a good indicator of providers' current allocation practices.

Figure 1. Total bilateral allocable ODA for climate change adaptation

DAC donors, US$ billions*



*Source: Based on OECD CRS (activity-level data). Commitments; 2019 prices *30 DAC members*

Note: Rio markers are not applicable to flows for general budget support, imputed student costs, debt relief except debt swaps, administrative costs, development awareness, and refugees in donor countries, these flows are thus excluded from the estimated figures.

nancial commitments in support of the UNFCCC, there is a degree of subjectivity in how donors mark and score activities. As pressure to fund adaptation increased following the Paris Agreement, donors may have chosen to tag more existing projects with the adaptation marker, making it seem like funding was rising more than it was in reality. A Center for Global Development analysis of the climate mitigation marker found some evidence of this, suggesting that the upward trend of ODA for adaptation should not be taken at face value. Secondly, despite their use in UNFCCC reporting, the OECD policy markers were not designed to be a quantitative measure of flows as they tag and count funding at the project level, meaning that the whole value of a project is counted even when only a subsection of the funding is actually devoted to climate change adaptation. For example, in 2019, a total commitment of US$953 million by EU Institutions towards health, protection, socio-economic support, and municipal infrastructure under the Facility for Refugees in Turkey was tagged and counted as climate change adaptation ODA even though it is unlikely that the full value of this project was, in fact, relevant for climate change adaptation.

Just over half of climate change adaptation funding focuses on projects in three sectors: agriculture, water and sanitation, and environmental protection

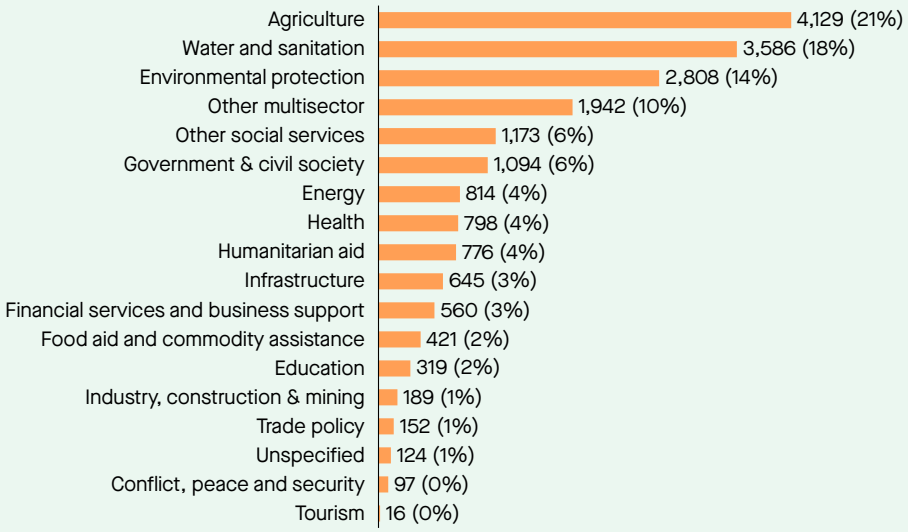
In 2019, activities in the agriculture sector attracted the largest share (21%) of DAC donors' commitments to climate change adaptation. This includes activities related to agricultural development, agricultural policy and administration, and forestry policy and administration, which collectively accounted for half of the US$4.1 billion in adaptation funding to the sector. Water and sanitation (18% or US$3.6 billion), and Environmental protection (14% or US$2.8 billion) accounted for the second-and third-largest share respectively. More than half (55%) of funding to water and sanitation was committed towards large-systems water supply and sanitation.

Integration of climate change adaptation objectives is highest in projects focused on environmental protection, water and sanitation, and agriculture

Absolute levels of adaptation funding to a specific sector give only a partial picture of the degree to which donors

Figure 2. DAC Donors' climate change adaptation-related ODA by sector, 2019

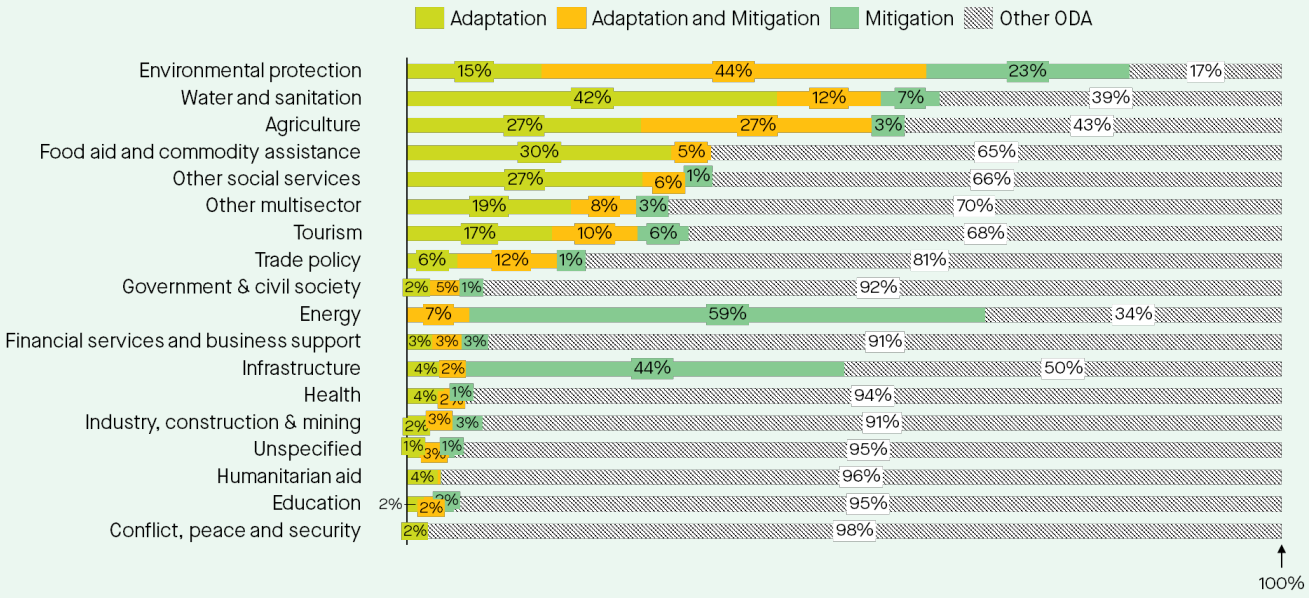
DAC donors, US$ millions



Source: Source: OECD CRS (activity-level dataset).

Figure 3. DAC donors' climate change adaptation-related ODA by sector and focus areas, 2019

DAC donors, US$ millions



*Source: OECD CRS (activity-level dataset). Commitments; 2019 prices. *Includes forestry, fishing, and rural development*

have explicitly integrated climate change adaptation objectives within a sector. To understand donors' sector-specific emphasis on climate change adaptation more fully, it is also interesting to look at adaptation funding as a proportion of the total ODA the donor is providing to a sector.

The degree of integration of climate change adaptation objectives varies among recipient sectors (see Figure 3). The share of total funding marked with the Rio marker for adaptation ranged from more than 50% in sectors such as Environmental protection (59%), Water and Sanitation (54%), and Agriculture (54%), down to less than 10% in sectors like Infrastructure (6%) and Conflict peace and security (2%). In the case of infrastructure, in particular, this is surprisingly low given the imperative of ensuring that investments in this sector are resilient to extreme weather events.

The environmental protection sector has a notable amount of funding marked as having both an adaptation and mitigation focus, including US$508 million (or 25%) marked as principally targeting both issues. This includes projects which focus on institutional reforms and strengthening to include climate aspects in policies and regulations.

Some of the ODA funding that is not marked with the climate change adaptation marker could be supporting wider resilience, for example, investments in building new hospitals are unlikely to justify a significant adaptation marker but they can help to build resilience to the impacts of climate change as they form an essential part of the health care response required to address climate emergencies.

Only about one-quarter of climate change adaptation funding is allocated to countries with the highest level of vulnerability

Overall, in 2019 65% (US$12.7 billion) of DAC donors' bilateral ODA targeting adaptation was allocated to individual countries, while the remaining 35% (US$6.9 billion) was allocated at a regional level or for multiple countries. Middle-income countries were the primary recipients of climate change adaptation funding allocable to individual countries, with 42% of the US$13 million going to lower-middle-income countries (LMICs), and 35% to upper middle income (UMICs). Only 23% went to low-income countries. The top five recipients of funding were Turkey (US$1.2 billion), Ethiopia (US$554 million), India (US$545 million), Indonesia (US$505 million), and the Philippines (US$471 million; see Figure 4). Collectively, they received 26% of DAC donors' bilateral adaptation funding to individual countries.

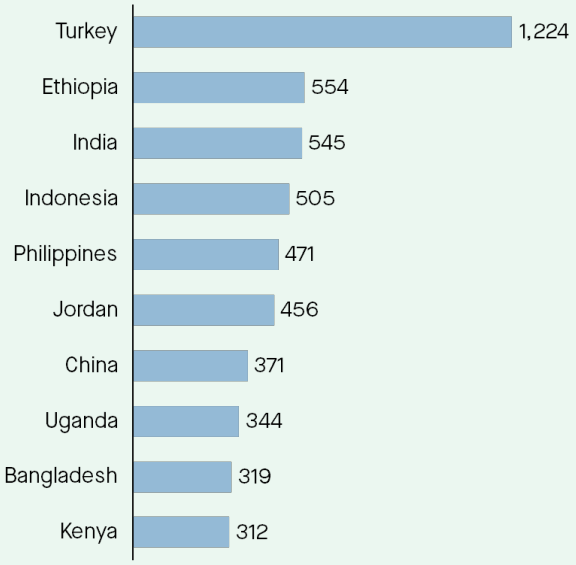
In 2019 only 25% of bilateral ODA for adaptation was allocated to countries with the highest level of vulnerability to climate change (i.e., the uppermost quartile of countries, based on vulnerability scores as measured by the Notre Dame Environmental Change Initiative). This indicates only a weak correlation between funding for climate change adaptation and partner countries' vulnerability to climate change and might suggest that the vulnerability of the recipient countries has a limited effect on the bilateral allocation of adaptation finance. Turkey, for example, was the largest recipient of bilateral adaptation funding in 2019 but ranked as one of the least vulnerable to climate change, only above Kazakhstan, Kyrgyzstan, Belarus, and Chile.

EU Institutions and Germany are the largest donors to climate change adaptation

According to OECD data, the largest donors of ODA targeting climate change adaptation in absolute terms in 2019 were the EU Institutions (US$4.7 billion), Germany (US$4.6 billion), France (US$2.6 billion), United Kingdom (US$1.5 billion), and Netherlands (US$1.2 billion). Collec-

Figure 4. Top 10 recipient countries of DAC donors' bilateral adaptation-related ODA, 2019

All DAC donors, US$ millions*



*Source: OECD CRS (activity-level dataset). Commitments; 2019 prices. *30 DAC members*

tively, commitments from these donors account for 75% of total bilateral climate change adaptation funding from all DAC members.

Donors vary considerably on the proportion of their bilateral ODA portfolios that they devote to climate change adaptation. While the **Netherlands** is only the fifth-largest DAC donor to climate change adaptation in absolute terms, it committed 34% of its overall bilateral allocable ODA in support of climate change adaptation in 2019, making it the best performing DAC donor in relative terms (DAC average: 15%). **Belgium** (33% of bilateral allocable ODA), **Iceland** (32%), and **Sweden** (27%) also demonstrated a strong commitment to using their bilateral ODA to invest in projects related to climate change adaptation.

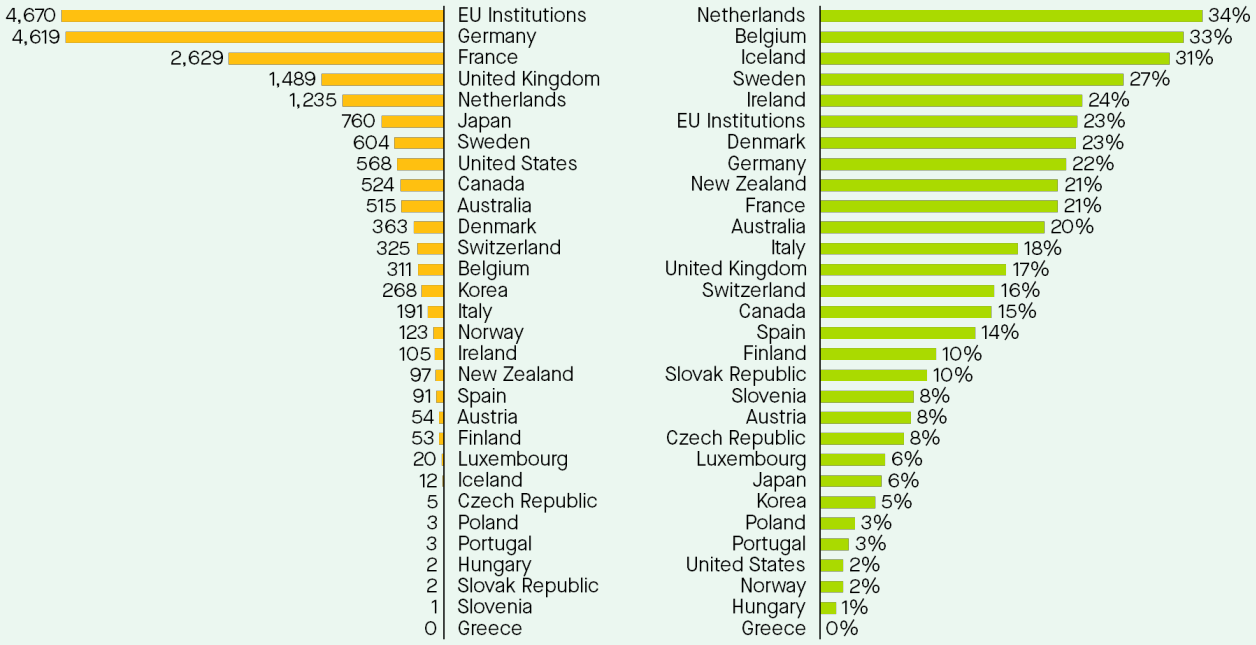
EU Institutions' ODA commitments to climate change adaptation doubled to US$4.2 billion in 2016 following the Paris Agreement in the previous year. Since 2016, the EUI's commitments made to climate change adaptation continued its upward trajectory, reaching US$4.7 billion in 2019. This represents 23% of their total bilateral allocable ODA, above the DAC average of 15%. In its strategy on climate change adaptation, adopted in February 2021, the EU Commission outlines its plan to scale up resources and intensify its support for climate change adaptation in partner countries. It also commits to making the EU's external investments and actions "climate-proof", which should imply a significant increase in the degree of adaptation mainstreaming in its ODA programming.

Germany's commitment to climate change adaptation has been on the rise since 2016. At the G7 summit in June 2021, it committed to increasing the budget allocations for international climate finance from the current level of around €4.0 billion (US$4.8 billion) to €6.0 billion (US$7.2 billion) annually by 2025, at the latest. However, details of the pledge remained vague. The new commitment also did not include a promise to earmark 50% of all climate finance in support of adaptation by 2025, despite repeated calls from NGOs for the government to set this target.

Japan has historically been a significant donor to climate change adaptation, committing between US$1.4 billion to 3.6 billion a year (10-23% of DAC donors' total bilateral funding) to adaptation in the period 2010-2018. However, Japan's commitment dipped in 2019 to only US$760 million (only 4% of DAC donors' adaptation-related funding). Japan has a much stronger emphasis on funding climate change mitigation projects, focusing in particular, on projects related to low-carbon infrastructure and energy.

Figure 5. DAC donors bilateral ODA targeting climate change adaptation and as % of bilateral allocable ODA, 2019

DAC donors, US$ millions



Source: OECD CRS (activity-level dataset). Commitments; 2019 prices.

Although the largest absolute donor of development assistance, the US provides relatively little ODA (2% of its bilateral allocable ODA in 2019) in support of climate change adaptation. In the two years following the Paris Agreement, it committed an average of US$1.0 billion (2016-2017 average) in ODA to adaptation; however, in the subsequent two years, its commitments dropped by nearly 50% to US$516 million (2018-2019 average) following President Donald Trump's announcement of his plan to withdraw the country from the Paris Agreement in June 2017. In 2021, this decision was rescinded by President Joe Biden, who has made climate change one of his top foreign policy priorities. As part of his International Climate Finance Plan, Biden committed to increasing US funding for international climate finance, including tripling adaptation finance by 2024. This renewed engagement from the US is expected to lead to increases in ODA-related funding for climate change adaptation.

Conclusion and recommendations

As this analysis of the latest OECD data shows, donors could do more to ensure that adequate financing is available to catalyze adaptation efforts in low- and middle-income countries. 2020 was meant to be a "critical year for addressing climate change" as countries submitted their first, post-Paris Agreement Nationally Determined Contributions (NDCs); however, the COVID-19 crisis absorbed unprecedented levels of attention and funds from the global community meaning that this attention did not materialize. According to the OECD's preliminary estimates, US$12 billion in ODA went to COVID-19 related activities in 2020 but overall ODA volumes rose by only 3.5% in real terms compared to 2019, implying that donors took funding from existing programs to finance their COVID-19 related activities. While data is not yet available for 2021, the urgent nature of the COVID-19 crisis likely continued to distract donor attention from critically important but less immediately salient issues like climate change adaptation. As COP26 finally happens and the acute phase of the pandemic hopefully ends in donor countries, OECD donor countries have a responsibility to ensure that their development efforts support a climate-resilient global recovery. Concretely, donor countries should consider the following:

1. **Increase funding for projects that principally target climate change adaptation.** Principal funding for climate change adaptation has fluctuated between US$3.5 billion and US$5.4 billion since 2014 despite the Paris Agreement commitments to do more. Annual adaptation costs in low- and middle-income countries are expected to double by 2030 and increase by up to five-fold by 2050. At a minimum, donors should commit to growing their principal funding for adaptation at least to the level of what they spend on mitigation (US$9 billion in 2019), and then ensure that their principal funding increases in line with the rising costs facing these countries.

2. **Increase mainstreaming of climate objectives into bilateral development efforts.** As this analysis reveals, only 15% of donors' bilateral funding has been explicitly formulated or adjusted to incorporate climate change adaptation objectives. This suggests very low levels of climate change adaptation mainstreaming in some client critical sectors such as infrastructure, implying that there is significant room for improvement. Given the cross-cutting nature of climate change adaptation, donors must ensure that their programming systematically considers and incorporates climate change adaptation objectives where appropriate.

3. **Ensure that donor financing for climate change adaptation targets the most vulnerable countries and populations.** Given the scale of the financing required now and in the coming decades to support countries adapt to the impacts of climate change, thoughtful and strategic allocation of the scarce resources available is key. This analysis found a weak correlation between countries' vulnerability and the volume of climate change adaptation they are receiving, indicating that donors need to do a better job of making sure that their financing is targeted to the areas where it can have the greatest impact, including to the countries and populations who are most vulnerable to the impacts of climate change.

4. **Tailor bilateral funding for climate change adaptation so that it helps to catalyze other flows.** Domestic and private financing is going to have to play a critical role

in closing the significant climate adaptation financing gap. Donors should ensure that their bilateral portfolios are helping to create an enabling environment for other flows including through investments to de-risk projects or in support of climate risk and vulnerability data.

5. **Ensure financing for climate change adaptation is new and additional.** While financing for climate change adaptation is essential, other climate and development objectives have not gone away. As the Paris Agreement sets out, it is critical that new financing for climate change adaptation does not come at the cost of funding to other areas; donors should provide ODA for climate change adaptation on top of funding for other development efforts.

6. **Donors should commit to an ambitious and measurable target for scaling up ODA-related climate change adaptation finance.** The challenge of measuring progress against the Paris Agreement US$100 billion target demonstrates that complicated or vaguely defined targets obscure accountability and are less effective at driving action. As part of COP 26, donors should agree on what they mean by "new and additional" ODA-related funding for climate change, and commit to bold and clear targets, including for climate change adaptation.