Briefing

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Policy pointers

If donors want their climate finance commitments to be trusted, they must invest in improving the transparency of their reporting to allow independent analysis, including by recipients.

Current data on climate finance is inadequate to support accountability or learning. Bilateral donors could adopt the transparency standards they require from the multinationals they fund.

Donors and delivery partners need to provide meaningful information about their intentions for investments, by linking programme documents and using terms consistently to explain how investment supports adaptation.

Good practices across donors could be developed into a shared standard. The Global Commission on Adaptation's Principles for Locally-led Adaptation offers a framework for better articulating intentions behind investments.

Trust in climate finance requires meaningful transparency

Donors committed to provide US$100 billion a year by 2020 to support climate action in developing countries and will now be setting new commitments. But data on climate finance is poor. For example, we could only verify that US$5.9 billion of the US$16.2 billion that donors reported as adaptation investment was invested in projects with adaptation as the primary objective. Multilateral donors are better than bilateral overall, but varying reporting approaches make the data hard to understand. Unclear information on how adaptation money is being invested will stymie recipients' ability to plan and deliver transformational adaptation. And without meaningful project information, development partners will struggle to learn from each other and improve. Greater transparency and independent analysis are crucial for building trust in climate finance.

The United Nations Convention on Climate Change (UNFCCC) Paris Agreement is premised on five-year cycles to progressively increase the ambition of climate action. To maintain momentum on delivering this ambition donors committed to provide US$100 billion a year by 2020, and they are being asked to set a more ambitious long-term climate finance target in 2021. Adaptation however remains chronically underfunded, with the 46 Least Developed Countries (LDCs) receiving just 14% of climate finance.[1] Donors must be accountable for the composition and quality of investment reaching the poorest countries.[2,3]

Transformational adaptation will need rapid learning that builds on effective interventions, and this requires transparency. Transparency is also essential to build trust between donors and developing countries in the climate finance system — critical to the balance of the deal done under the Paris Agreement.

Interrogating the data

The LDCs' 2050 Vision sets out their 'offer' and their 'ask'. The ask on "high-quality, predictable and accessible finance" is for donors to ensure 70% of finance supports locally led climate action by 2030, and to commit to the shared principles of subsidiarity and radical transparency.[4] To set a baseline against which to better understand the current flows of adaptation finance to LDCs, IIED is analysing the information donors provide on climate finance, and on their intentions in supporting adaptation. If LDCs are to trust climate finance, they must be able to verify how and where money is used. And if they are to deliver their vision for transformational adaptation, they also need to learn rapidly from ongoing support.

We analysed the development finance database held by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC).[5] We analysed projects from 24 bilateral donors over five years (2014–18) coded as 'primary' adaptation finance (where adaptation is the central objective, as set out in the Rio markers[6]) and coded with the LDC category.[7] We also looked at 13 multilateral donors' climate-related finance for adaptation in the LDCs over the same period[8] — this was largely coded as 'climate components' (multilateral donors do not use the term 'principal'). For this dataset of 4770

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different entries (representing an estimated 1792 projects[9]), we then searched for secondary information sources based on the project names in the OECD DAC database, such as the International Aid Transparency Initiative (IATI), donors' aid transparency portals and wider websites.

Inconsistency in how donors report climate finance created challenges. For example, the USA tends to tag multi-country programmes that include LDCs as LDC-focused, even if not all finance goes to LDCs. By contrast, the UK generally does not tag multi-country programmes as LDC if non-LDCs are covered. However, our sample represents over 70% of adaptation finance received by LDCs between 2014–2018 that was labelled as 'principal' by bilateral donors or as a climate component by multilaterals.

Varying transparency

We scored each project's data for donor transparency, based on the information they or their partners published. The scoring typology used was: 0 = not enough information to review; 1 = short description (OECD or IATI database); 2 = information could be gleaned from a news article; 3 = short project profile; 4 = detailed project documents. Table 1 presents the mean score for each donor based upon the review of their portfolio with a red-amber-green rating.

Bilateral donors performed less well on transparency overall compared with the multilaterals with an aggregate score of 1.6 versus 3.8. Donor scores conceal wide differences in data quality within their portfolios. However, only 15% of the projects financed directly by bilaterals scored 4 for transparency compared to 88% for multilateral projects. This discrepancy is mirrored at the bottom end of the transparency scale. Nearly half (45%) of bilateral projects had insufficient data to review compared to 3% of the multilateral projects.

Most bilateral donors are rated amber or red, and the variability within donors as well as between them demonstrates the inconsistency of reporting. Both France and Germany, for example, have one agency that performs better than others. Many donors used different project names on their own aid transparency portals to those found in the OECD DAC website, making it impossible to track the finance. Ireland reports their climate finance to all partner governments, which is outstanding, but does not link this to detailed project information. The USA scored highly through publishing project information on IATI. But even they have room to improve, with only 54% of the projects achieving top marks for data quality.

Table 1. Transparency scorecard (average based on number of projects)

Donor	Number of reviewed projects	Data quality scoring
Bilateral donors		
Italy	40	0.6
Germany	179	0.7
Ireland	110	0.7
France	117	0.8
Portugal	16	0.9
Korea	50	1.0
Poland	6	1.0
Czech Republic	11	1.1
Luxembourg	14	1.3
Spain	92	1.3
Australia	16	1.6
Japan	21	1.6
Norway	105	1.6
The Netherlands	19	1.9
New Zealand	7	1.9
Austria	23	2.3
Finland	12	2.3
Switzerland	7	2.3
Canada	38	2.6
Denmark	12	2.6
Sweden	59	2.6
United Kingdom	49	3.0
Belgium	39	3.1
United States	119	3.1
Multilateral donors		
EIB	13	3.0
GGGI	9	3.0
EU	38	3.2
AfDB	90	3.3
IADB	12	3.5
NDF	13	3.5
Adaptation Fund	10	3.9
ADB	77	4.0
CIF	23	4.0
GCF	23	4.0
GEF	83	4.0
IFAD	23	4.0
World Bank	187	4.0
		Average: 2.3

Green (3–4): good transparency/high quality and readily available information on adaptation activities; **amber (1–2)**: limited information/high-level data only which does not allow for a full review of the project/programme, but there is some information available for review, and; **red (0)**: there is inadequate information to undertake a review.

These differences in transparency scoring between multilateral and bilateral donors suggest

significant improvements would be achieved if the bilaterals adopted the transparency standards that they require from the multilaterals they fund.

Lack of clarity

To understand donor intentions, we looked at objectives, activities and envisaged results in the available documentation for all projects in the OECD DAC database labelled as having adaptation as a primary objective in a project for LDCs (or as the primary objective of a project component).[10] We categorised projects into 'primary' if it was clear that 50% or more of the entire project were adaptation-focused; 'significant' if finance was being mainstreamed into a project with a wider development purpose, and represented a smaller percentage of the investment. 'Unknown' was used where adaptation was not an explicit objective or there was insufficient information. For each donor, we added up the value of the project spend in each category, and present these as percentages of the total spend coded as 'primary' or a 'climate component' in Table 2.

From our analysis, only 35% of donor reported finance in the OECD DAC database was invested in projects where adaptation was a primary objective.[2,3] This means of nearly US$16.2 billion labelled as adaptation investments by donors, only around US$5.9 billion was invested in projects stating adaptation as a primary objective. Donors may be mainstreaming adaptation support into sectoral programmes, which may be a valid approach in some instances. However, there is evidence to suggest that interventions that do not tackle the underlying drivers of vulnerability, and only consider current climate risks in business as usual development approaches, rather than aiming to transform the development pathway for the range of climate futures, can lead to maladaptation.[11]

Bilateral donors. We analysed bilateral donors reported spend and verified that just 17% of the adaptation finance had a clear primary objective for adaptation in the project documentation, and 13% had too little information or just did not make a plausible justification for it being climate finance.[12] Over half the bilateral donors (including France, Italy and Japan) did not provide meaningful information about most of their adaptation finance. For example, a school building project in Zambia provided no justification for being labelled as adaptation. Some bilateral donors were stronger at setting out their intentions (UK, Finland and Canada). Others could learn from them. Notably, good transparency did not always translate into meaningful information, with the USA and Belgium doing poorly in this analysis compared to the UK.

We coded a third of bilateral adaptation finance as 'secondary' rather than 'primary' as adaptation was not the primary objective of the projects. Rather, adaptation was mainstreamed into a project with a wider development purpose and represented a small percentage of the investment. Mainstreaming climate action into development projects has a vital role, but the Rio marker guidance states it should be coded as 'significant' not 'principal'.[6] Some bilaterals

Table 2. IIED's review of donor adaptation spend in LDCs (as percentage of overall donor reported primary finance)

Donor	IIED calculation of adaptation spend (primary [green], secondary [amber], unknown [red])		
Bilateral donors			
Australia	20%	7%	73%
Austria	64%	17%	19%
Belgium	17%	12%	71%
Canada	58%	34%	8%
Czech Republic	3%		97%
Denmark	44%	36%	20%
Finland	57%	37%	6%
France	12%	10%	78%
Germany	27%	14%	59%
Ireland	4%	58%	38%
Italy	1%		99%
Japan	19%	14%	67%
Korea	17%	10%	73%
Luxembourg		16%	84%
The Netherlands	32%	2%	66%
New Zealand	18%		82%
Norway	43%	28%	29%
Poland	1%		99%
Portugal	11%		89%
Spain	15%	2%	83%
Sweden	48%	33%	19%
Switzerland	60%		40%
United Kingdom	69%	18%	13%
United States	19%	25%	56%
Multilateral donors			
Adaptation Fund	100%		
ADB	4%	22%	74%
AfDB	12%	43%	45%
CIF	52%	42%	6%
EIB	24%	37%	39%
EU	24%	54%	22%
GCF	84%	16%	
GEF	96%	3%	1%
GGGI	4%	36%	60%
IADB	16%	76%	8%
IFAD	48%	52%	
NDF	56%	44%	
World Bank	42%	45%	13%
Average spend across all donors	35%	38%	27%

appear to support adaptation largely through mainstreaming (including UK, Ireland and Finland).

Multilateral donors. The multilaterals are comparatively stronger at articulating their intentions — with 9 of 13 establishing adaptation intentions from investment clearly. Most use a shared methodology, which requires them to label their investments as significant not principal in the OECD DAC database, but their reporting is based on granular analysis of the climate relevance. Unsurprisingly, given some multilaterals are climate funds, we found 40% of their finance was invested in projects where adaptation is the primary objective. Development banks, in contrast, largely finance large-scale infrastructure projects as a route to economic growth. So 40% of multilateral spend is mainstreaming climate considerations into wider projects, such as IFAD into agricultural investment. However, even the multilaterals insufficiently justified 20% of their finance.

Fixing the system

For the LDCs to have confidence in the amount and relevance of climate finance, donors must report sufficient information. Without improved transparency, it is difficult to hold donors to their commitments. Credible climate finance is vital for the Paris Agreement, and adaptation will be undermined if learning is limited to just the subset of well-documented investments.

Good project information paints a higher resolution picture of climate finance flows. It offers verifiable detail on project characteristics, instruments, where finance is going,[13] and how it is being delivered. Efforts such as the IATI Activity Standard are helpful, but the database is only as good as its data. Without an agreed standard, transparency on spend and intentions will continue to vary. Yet, given that some donors make better use of the systems already available, improvement should be relatively straightforward.

The Global Commission on Adaptation's *Locally Led Adaptation Track* has agreed a set of principles to support better adaptation financing.[14,15] Principle 7, on meaningful transparency and accountability, proposes that development partners maximise the granularity of their finance reporting and agree standards. The aim is for all stakeholders to understand finance availability and its distribution across priorities. Adopting these principles would provide meaningful transparency on adaptation interventions' objectives and on governance of delivery mechanisms.

Alongside shared approaches to reporting adaptation expenditure, all donors must improve their consistency in reporting, including in the names of projects. If inaccuracies continue, successful adaptation activities will not be learnt from.

Whilst the Rio markers were not designed to track finance, some donors are successfully using the current system to justify their adaptation spend. There is scope to learn from good practice and agree detailed guidance. Climate finance credibility would be boosted if the Rio Markers better differentiated projects intentions, whether it is Paris Aligned ODA and so already adapted to climate futures, *influencing* development finance to adapt to the range of climate futures or *innovating* and *investigating* adaptation solutions. Where labelled significant, the proportion of adaptation spend within the wider development investment should be made clear.[16] Independent analysis of the data would improve trust in the system and would foster better practice by donors, so maximising accountability and opportunities for learning.

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Notes

[1] OECD (2020) Climate Finance Provided and Mobilised by Developed Countries in 2013-18. www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-18-f0773d55-en.htm / [2] Shakya, C, Soanes, M and Smith, B (2019) Calling for business unusual: reforming climate finance. IIED, London. pubs.iied.org/17736IIED / [3] Bhattacharya, A, Calland, R, Averchenkova, A, Gonzalez, L, Martinez-Diaz, L and Van Rooij, J (2020) Delivering on the $100 Billion Climate Finance Commitment and Transforming Climate Finance. Independent Expert Group on Climate Finance. un.org/sites/un2.un.org/files/100_billion_climate_finance_report.pdf / [4] LDC Group (2019) LDC 2050 vision: towards a climate-resilient future. www.ldc-climate.org/wp-content/uploads/2019/09/2050-Vision.pdf / [5] The OECD DAC database is known as the CRS — the creditor reporting system. We analysed it from the recipients' perspective. / [6] Our coding methodology uses the terms 'primary' and 'secondary', which is reflective of whether a project has adaptation as its main (primary) objective or as a secondary objective. OECD DAC Rio markers for Climate Handbook (www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf) states that an activity 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. An activity can be marked as significant when the objective (climate change mitigation or adaptation) is explicitly stated but is not the fundamental driver or motivation for undertaking it. Instead, the activity has other prime objectives but it has been formulated to help meet the relevant climate concerns. / [7] We included all bilateral donors with five projects or more coded as providing principal adaptation support to LDCs. This excluded Iceland, Slovenia and the United Arab Emirates. Limited resources prevented us from including projects labelled as significant adaptation and from analysing regional or global projects covering LDCs but not coded as LDC focused. / [8] We only included multilaterals with five or more projects with adaptation spend in LDCs. This excluded the IFC. / [9] Donors enter project spend data against input sector codes, so there can be many more than one entry per project. / [10] We assessed whether adaptation was a design feature of the project and a stated objective — we did not evaluate the quality of the action, only how the donor has coded it. / [11] Eriksen, S, Schipper, ELF, Scoville-Simonds, M, Vincent, K, Adam, HN, Brooks, N, Harding, B, Khatri, D, Lenaerts, L, Liverman, D, Mills-Novoa, M, Mosberg, M, Movik, S, Muok, B, Nightingale, A, Ojha, H, Sygna, L, Taylor, M, Vogel, C and West, JJ (2021) Adaptation interventions and their effect on vulnerability in developing countries: Help, hindrance or irrelevance? *World Development* 141, 1053832. / [12] If a project scored 0 for data quality, then we had no information to review — 34% projects have insufficient data for assessment and 12% are coded as not adaptation. / [13] Buchner, B, Clark, A, Falconer, A, Macquarie, R, Meattle, C, Tolentino, R and Wetherbee, C (2019) Global Landscape of Climate Finance 2019. Climate Policy Initiative. climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2019/ / [14] Soanes, M, Bahadur, A, Shakya, C, Rumbaitis del Rio, C, Dinshaw, A, Coger, T, Smith, B, Patel, S, Patel, S, Huq, Musa, M, Rahman, F, Gupta, S, Dolcemascolo, G and Mann, T (forthcoming) Principles for locally led adaptation: a call to action. IIED, London. / [15] Patel, S, Soanes, M, Rahman, MF, Smith, B, Steinbach, D and Barrett, S (2020) Good climate finance guide: lessons for strengthening devolved climate finance. IIED, London. pubs.iied.org/10207IIED / [16] It appears likely some donors are doing this — but as the database does not require reporting both adaptation spend and full programme spend, it is hard to ascertain.

Knowledge Products

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