

July 2024

The inclusion of climate in development budgets: competing priorities and compromised impact.

Discussion Paper

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Introduction

Over the last decade, the volume of international climate finance disbursed by donor countries and multilateral organisations has risen substantially to combat the growing global effects of climate change. This rise was driven by setting the annual goal of US\$100 billion of ‘new and additional’ climate finance in 2009, which was reached for the first time in 2022.

However, most of the world’s international climate finance since the benchmark was introduced in the Copenhagen Accord in 2009 has been included within donors’ international development aid budgets, formally known as Official Development Assistance (ODA). This inclusion was naturally based on the many shared synergies between climate and development objectives. The two are often complementary to each other and lead to several aligned outcomes – after all, a stable climate is integral to global development and is emphasised in several of the Sustainable Development Goals. However, the inclusion of climate finance within pre-existing development budgets, which were originally intended for more “traditional” development objectives, brings into question the additionality of these flows, as well as whether these increases are drawing resources away from development priorities within their designated budgets.

Recent estimates are clear that climate finance has increased at a faster rate than total development finance, both in absolute terms and relative to GNI¹. This implies that some development finance has been repurposed as climate finance. On the other hand, controversies in how climate finance is reported – which indicate that some of it is wrongly reported, and even more is spent on projects that would likely have been funded anyway for development purposes² – suggest that this shift is less pronounced than the headline numbers suggest. This might assuage the concerns of those who worry about diversion away from a focus on poverty reduction, but also suggests that climate finance is not being spent optimally for meeting its objectives. Tackling both sets of problems which impact both development and climate objectives adequately requires a scale up of resources.

As climate finance continues to become an increasingly important priority for donors due to political and environmental factors, the implications for its inclusion within aid budgets needs to be unpacked to ensure both climate and development finance are allocated as optimally as possible. In this paper, we will explore the implications of this dynamic within both development and climate objectives. It is divided into three sections. The first summarizes the theoretical, conceptual and practical implications of having development and climate finance integrated in the same budget. In the second section we look at trends in climate finance since 2009, using the UK, a key donor in this space, as a case study to illustrate how development priorities can be compromised when climate and development finance are included in the same budget. Lastly, we look at the other side of the coin to understand how climate objectives are also being compromised as a result of a joint climate-development pool of resources. For this, we use the World Bank as a case study delving into how IDA’s approach to climate-marking and its attempts to achieve both development and climate priorities can also compromise climate objectives leading

to less efficient projects. While the literature available till date has been focusing on either side of the argument with a view skewed towards favouring climate or development priorities (and so advocacy efforts), with this paper we attempt to provide a more nuanced view of the bigger issue by alerting policy makers and advocates in either spectrum of the challenges and compromises of trying to address issues which are fundamentally different from each other and have different objectives. Ultimately, this paper also alerts that the world needs hugely scale up financing and transformation of the global financial architecture to meet various competing priorities across development, climate and humanitarian needs.

For more information about the case studies chosen for this paper as well as details on the data and methodology, see [About the data](#)

Including climate and development in the same budget: a few concerns

It is essential that the world acts to reduce greenhouse gas emissions wherever they occur, and that wealthier countries provide finance to support the efforts of low- and middle-income countries to reduce their emissions. At the same time, it also remains imperative to assist those in poverty and contribute to economic development. However, while there may be some opportunities to contribute to both objectives at once, what might be best for climate action will not always be what is best for development objectives, and vice versa. This is especially problematic when climate finance is being derived from existing development budgets, that have not increased enough to accommodate it. In this section we look at the theoretical, conceptual and practical concerns which arise when climate and development are included in the same budget.

1. Development and climate finance have different motivations and objectives

Development aid is in its essence based on the principle of solidarity, i.e., developed countries provide assistance to developing countries. On the other hand, underlying the motivation for climate action is the notion of ‘common but differentiated responsibilities’ or “fair shares”, i.e. countries most responsible for the climate crisis should be the most responsible to alleviate their effects³.

Development aid and climate finance are therefore fundamentally distinct flows with different objectives. The primary objective of development aid is to promote the economic development and welfare of developing countries, as stated by the OECD. Particularly, this involves measures which are intended to reduce poverty and generate economic growth. By contrast, the objective of climate finance, which is split into adaptation and mitigation, is to address the effects of climate change. While the goal of the former is to anticipate the effects of climate change and minimise their damage, the latter is primarily concerned with reducing greenhouse gas emissions to limit global temperature rises⁴. The distinct purposes between climate finance and ODA suggest that what is best for climate change might not necessarily be best for country-specific socio-economic development, and vice-versa⁵.

Climate adaptation projects are typically designed around issues which impact developing countries directly and often focus on the climate effects which disproportionately impact the poor⁶. This implies that using the development budget for these projects fits better within the traditional purpose of ODA⁷. However, for many,

including mitigation finance within the ODA budgets is where the most significant issues between them begin to arise. Conceptually, because climate change is a Global Public Good, climate mitigation should not be included within a development budget which is aimed at improving the welfare of developing countries specifically⁸. This argument defends that projects which have the primary objective of mitigating the effects of climate change have benefits which extend beyond a local level and have global implications.⁹

There are however some reasons why donors have been deciding to include the bulk of climate finance within ODA budgets which should not be disregarded. There are concerns that treating ODA and climate finance as distinct risks creating “silos” which means that synergies between development and climate objectives are missed.¹⁰ Many mitigation projects have substantial local benefits, for example, construction of renewable energy sources that can reduce local pollution as well as expanding access to electricity¹¹. In addition, the effects of climate change are often felt most severely by countries in the Global South, which could imply that finance towards reducing emissions integral to ensure their development¹².

2. Climate action it is not the top priority sector for developing countries

Many developing countries do not consider climate action a priority for development. This was shown in a World Bank survey in 2023 concerning the development priorities of their client countries. This survey looked at responses from a range of different stakeholders including government officials, and asked participants what areas they think the World Bank should prioritise globally to have the most impact on development results. The results show that only 20% of respondents view climate change as a key priority for their countries. Climate change ranked as the 11th priority on a list of 17 items, with education, health and food security occupying the first spots as priorities in the list¹³.

While this survey does not distinguish between climate components, we know that adaptation is more of a priority for developing countries particularly when it is targeting specific populations which are most vulnerable to the effects of climate change¹⁴. Climate adaptation is better aligned with ODA’s primary objectives as it addresses the needs of vulnerable people and countries. In fact, many have argued that economic development is the best climate adaptation strategy, as wealthier countries are better able to prepare for, and withstand the effects of climate disasters¹⁵. For example, for the same magnitude hurricane, richer countries are likely to have fewer deaths than poorer ones, thanks to more robust infrastructure and means of support post disaster.

On the other hand, mitigation is generally less of a priority for developing countries. Low-income countries only account for only roughly 0.6% of the world’s greenhouse gas emissions¹⁶. Considering the other pressing needs in these countries, it might not be cost-effective to engage in climate mitigation activities with countries which already have extremely low emissions.¹⁷ When both climate mitigation and development are included

in the same budget, attempting to achieve goals within these two areas at once is likely to lead to inefficiencies on either side¹⁸.

It is difficult to track which volume of climate-marked ODA is ‘new and additional’ which might lead to competing priorities

When commitments for both climate and development components derive from the same pool of limited resources, the “boundary” between *new and additional* climate finance and *existing* development budget becomes blurred. In addition, this will lead to competition between priorities within restricted budgets.

Donors have been engaging in work which could be considered climate-relevant long before climate finance became an acknowledged component of ODA and debate around its inclusion started to intensify. Consequently, it becomes much easier for donors to now simply add a climate marking to existing projects as to increase the total volume of climate finance without committing to any additional resources. In fact, there has been a significant amount of evidence which shows examples of existing projects being re-marked as climate to inflate the total volume of funding¹⁹.

On the other hand, there are new climate specific projects emerging which opens another door of concern around competing priorities for the best uses of ODA. In the last decade, there have been a handful of examples of donors maintaining their ODA levels at 0.7% of their GNI over several years, while simultaneously increasing the share of climate financing within these budgets²⁰. If these projects are indeed focusing primarily on climate, we argue that they are substituting what could be used for other non-climate development priorities. We will be looking at evidence on this in the next chapter.

[BOX 1] The issue of ‘new and additional’ climate finance.

When donors committed themselves to providing US\$100 billion of ‘new and additional’ climate finance by 2020, an internationally agreed-upon definition for additionality (or definition of climate finance for that matter) was never established. This has been a constant source of tension at UNFCCC negotiations, and developing countries have argued that this lack of definition has eroded trust between parties. At the time of this paper’s publication, there have yet to be any official quantitative guidelines from the UNFCCC (United Nations Framework Convention on Climate Change) which indicate what flows should count towards this goal, or where these increases should be sourced from. In the absence of a common understanding of the additionality of climate finance, donors started using their own interpretations. In the time since, there have been a range of understandings for how increases in climate finance should be counted. Some donors such as Sweden consider this share as being additional to the 0.7% ODA/GNI target²¹, while Australia at one point counted all its climate finance as ‘new and additional’²². The UK on the other hand opted for a middle ground approach, including most of its climate finance within its ODA budget but committing to financing their ‘fair share’ US\$100 billion target²³. However, the standard interpretation of ‘new and additional’ finance refers to commitments being over and above previous annual volume²⁴, meaning climate finance would have grown significantly while aid budgets would remain relatively stable.

3. Climate and development finance are monitored by different entities and have distinct financial targets

Climate and development follow different monitoring processes. On one hand, the OECD is the main entity responsible for monitoring and publishing most ODA data. On the other hand, climate finance commitments must be officially reported to the UNFCCC, meaning the OECD has no formal role in this monitoring process. The list of countries reporting to both entities is not identical either; there are several non-DAC countries which are some of the world's largest GHG emitters (particular in the case for China or Saudi Arabia) and do not report to OECD.

In addition, while climate finance advocacy has been looking at efforts towards achieving an annual US\$100 billion target²⁵ (now expired), ODA advocates look at ODA/GNI shares. There have been suggestions for donor countries to agree on a target with separate tiers for traditional development priorities and global public goods (including climate mitigation) but so far nothing has been agreed²⁶.

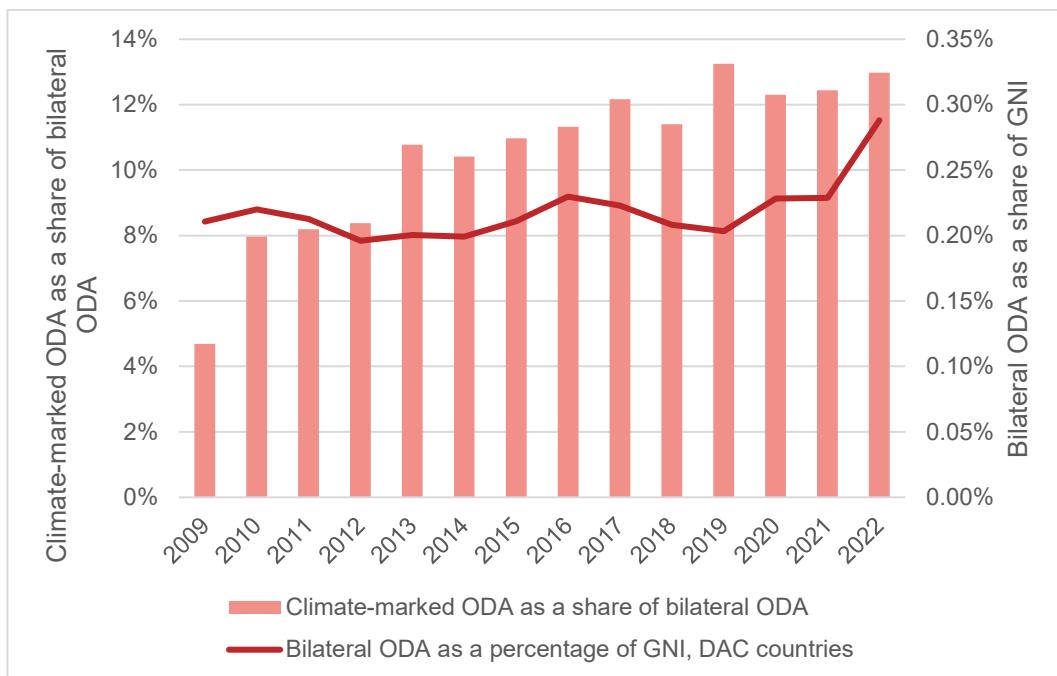
Compromised development objectives

The previous chapter highlighted key theoretical and conceptual concerns of including climate and development aid in the same budget. The purpose of this chapter is to provide evidence showing that competing priorities arise when both flows are included in the same budget which can compromise development objectives. To do so we start by unpacking climate finance trends since the Copenhagen Accord in 2009 for bilateral donors, followed by looking specifically at the UK's approach to climate finance to illustrate how increasing climate finance within stagnant development aid can lead to diversion of resources away from other development objectives. For more details on the data used in this paper see [About the data](#).

Increases in climate finance over the years have not been met by proportional increases in overall aid

Since the Copenhagen Accord in 2009, where the annual US\$100 billion target was established²⁷, disbursements from DAC donors marked as climate finance have increased substantially. Between 2009 and 2022, bilateral climate-marked ODA increased from US\$4.2 billion to US\$21.2 billion²⁸, roughly a fivefold increase. As a share of total bilateral ODA, this represented a rise from 5% to 13%. During the same time, bilateral ODA has remained roughly around 0.21% of GNI, before an increase to 0.29% in 2022 (which was driven by sharp rises in aid to Ukraine and in-donor refugee costs).

Figure 1. Climate finance as a share of total bilateral aid against bilateral ODA as a share of GNI for DAC donors, 2009-2022 (constant 2022 prices)



Source: Development Initiatives' analysis of OECD CRS and DAC1 data.

Notes: ODA = Official Development Assistance. The OECD tracks reported climate finance using the Rio markers, which are applied to each individual activity. Activities can have the following Rio marker scores²⁹: 2 (marked as a principal climate objective); 1 (significant climate objective); and 0 (no climate objective). For activities which are marked as having a significant climate share, their coefficients listed by the UNFCCC are applied. For donors which do not have a constant significant coefficient listed, we estimate their share as being 40%. For this analysis we use bilateral ODA as a share of GNI, an alternative measure to the standard total ODA/GNI (which includes multilateral aid) for consistency with our analysis of bilateral climate finance

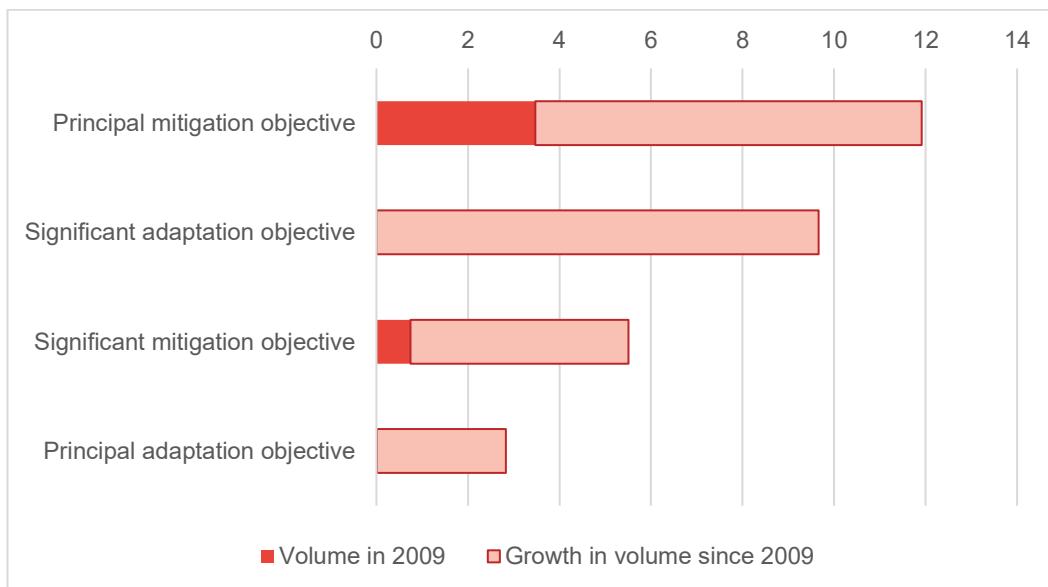
While climate finance has almost tripled as a share of bilateral aid for DAC countries, bilateral ODA as a share of GNI has remained relatively stable. Moreover, the rise in bilateral ODA in 2022 was in response to the conflict in Ukraine and rising refugee costs, meaning this recent increase is less proportional to climate finance than the figure might suggest. Figure 1 shows that the strong increase in climate has not been met by proportional overall budget increases. Rather, this increase is for the most part being funded from existing resources within ODA budgets³⁰. However, whether this compromises development objectives depends on how this climate finance is spent, in particular the split between mitigation and adaptation.

A substantial part of climate finance growth in the last decade comes from climate mitigation

Since the Copenhagen Accord, projects with a principal mitigation objective account for the largest volume of climate-marked ODA. Between 2009 and 2022, the total volume of bilateral ODA under this marker has increased from US\$4.3 billion to US\$11.9 billion. Alongside the significant growth in disbursements, the volume of principal mitigation finance has been notably higher than for the other Rio markers³¹. Throughout the period, disbursements marked as having a significant adaptation objective have also experienced strong growth and were the second highest climate allocation in 2022. The

other two Rio markers are comparably lower in volume (Figure 2). Furthermore, since the adaptation marker was introduced in 2010, the volume of flows marked as significant under this marker has increased from US\$1.4 billion in 2010 to US\$9.6 billion in 2022.

Figure 2. Growth in bilateral climate gross disbursements by climate marker, 2009-2022 (constant 2022 prices)



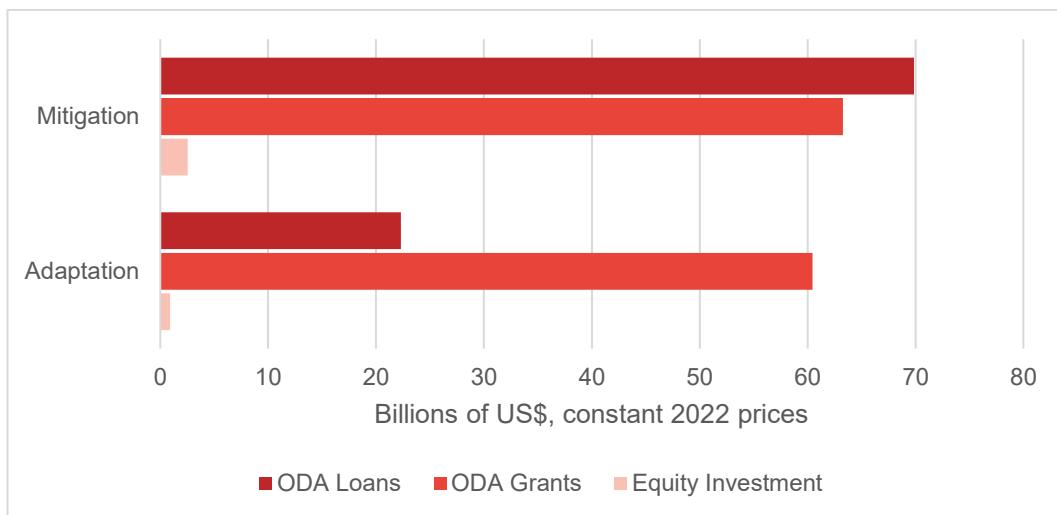
Source: Development Initiatives' analysis of OECD CRS data.

Notes: ODA = Official Development Assistance. The OECD tracks reported climate finance using the Rio markers, which are applied to each individual activity. Activities can have the following Rio marker scores: 2 (marked as a principal climate objective); 1 (significant climate objective); and 0 (no climate objective). For projects which are marked as having a significant climate share, their coefficients listed by the UNFCCC are applied. For donors which do not have a constant significant coefficient listed, we estimate their share as being 40%. "Principal mitigation objective" includes activities with mitigation Rio marker 2. "Significant mitigation objective" includes activities with mitigation Rio marker 1. "Principal adaptation objective" includes activities with adaptation Rio marker 2. "Significant adaptation objective" includes activities with adaptation Rio marker 1. Some activities are marked as more having both adaptation and mitigation objective, meaning there is some overlap between these figures.

Since 2009 mitigation has received more than three times the volume of loans than adaptation

Since 2009, adaptation and mitigation finance have had a comparable volume of grants from DAC donors (see Figure 3). However, the rise in mitigation finance has been also accompanied by a rise in ODA loans: since 2009, mitigation received more than three times the volume of loans than adaptation finance during the same period reaching US\$70 billion in 2022.

Figure 3. Total gross disbursements of DAC climate-marked finance by flow type, 2009-2022 (constant 2022 prices)



Source: Development Initiatives' analysis of OECD CRS and DAC1 data.

Notes: ODA = Official Development Assistance. For projects which are marked as having a significant climate share, their coefficients given by the UNFCCC are applied. For donors which do not have a constant significant coefficient listed, we estimate their share as being 40%. All projects marked as either mitigation or adaptation are included in this figure, meaning there is some overlap in projects accounted by each component.

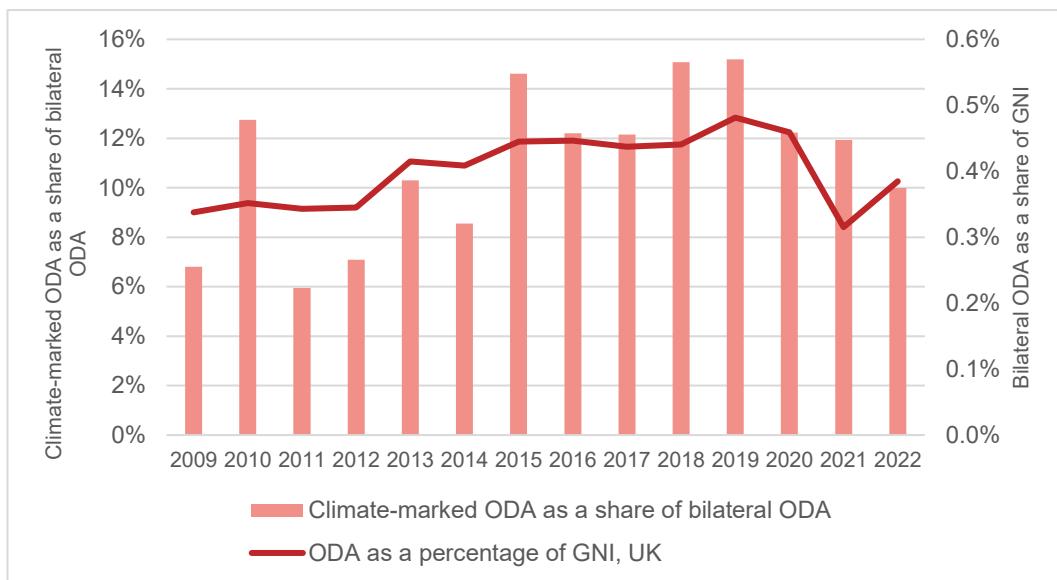
This section showed that increases in climate finance over the years have not been met by proportional increases in overall aid and a substantial part of that comes from climate mitigation. Furthermore, the rise in mitigation-marked ODA is attributed to an increase in bilateral ODA loans directed towards the marker. This evidence alerts for trends in development aid which might be compromising its impact on the countries most in need. In order to better illustrate this point we look closely at UK climate and development trends.

Case study 1: United Kingdom's climate and development budget

In this paper we have chosen to use the case of the UK spending to illustrate the compromises which can arise from including climate finance in a development budget. The UK treats the ODA/GNI ratio as floor/ceiling which gives more visibility to how additional the increase in climate finance might be. Secondly, it is important to flag that there are several transparency and reporting issues within the approach donors take to marking climate finance. Specifically, evidence has shown how many projects marked as climate do not actually have much to do with climate action. However, there is evidence suggesting that the UK is reasonably consistent and accurate in how it marks projects as climate which allow us to better illustrate our argument using it as a case study³².

Since 2009 the UK has increased its climate finance share while its bilateral ODA/GNI ratio has remained relatively stable

Figure 4. Climate finance as a share of total bilateral aid against the bilateral ODA/GNI ratio for the United Kingdom, 2009-2022 (constant 2022 prices)



Source: Development Initiatives' analysis of OECD CRS and DAC1 data.

Notes: ODA = Official Development Assistance. Notes: ODA = Official Development Assistance. The OECD tracks reported climate finance using the Rio markers, which are applied to each individual activity. Activities can have the following Rio marker scores: 2 (marked as a principal climate objective); 1 (significant climate objective); and 0 (no climate objective). We estimate a significant Rio marker coefficient of 40% for the United Kingdom.

While UK's bilateral aid has remained relatively stable since 2009 its climate finance roughly doubled. This growth difference is especially apparent between 2013 and 2020, when bilateral aid remained around 0.45% of total GNI, while climate finance grew from 10% to 15% of bilateral aid. In terms of volume, climate finance grew from US\$1 billion to US\$1.5 billion between 2013 and 2020, a 45% increase. Given that ODA as a share of GNI remained stable, it is likely that this growth in climate finance might have been at the cost of other development objectives.

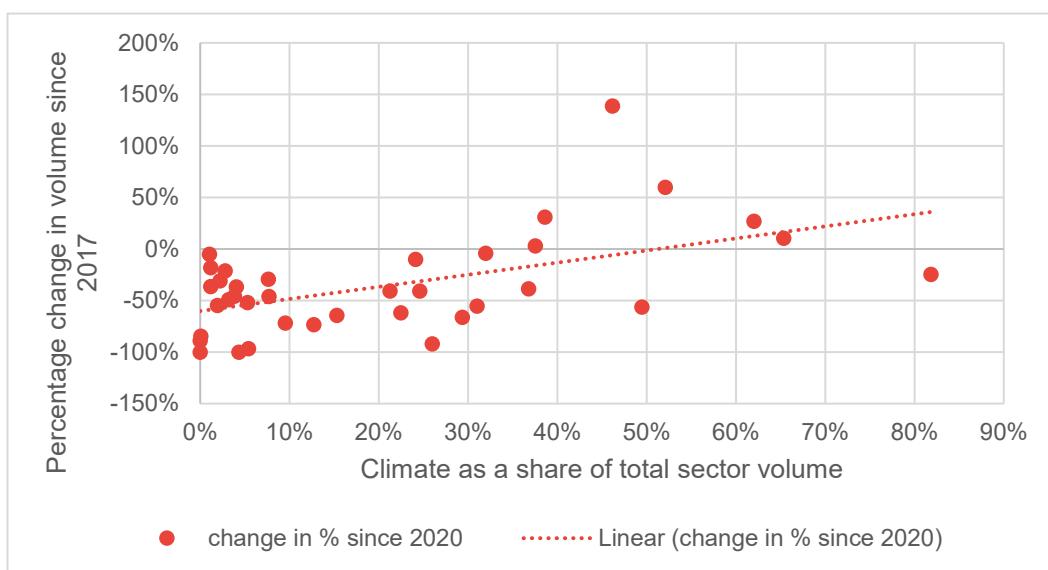
Out of the few sectors which have experienced an increase in UK bilateral aid in recent years, most tend to be marked more heavily as climate finance

In 2021, the UK significantly decreased its overall ODA disbursements in response to financial uncertainties during the pandemic. This has significantly impacted many sectors which the UK had previously focused on, while climate action was relatively protected. Out of the 40 sectors listed by the OECD Creditor Reporting System, only 7 have

experienced an increase in UK bilateral ODA since 2020 and most financing towards these 9 sectors was marked as having a climate objective too.

Most sectors which experienced an increase between 2020 and 2022 (such as *Energy policy, General Environmental Protection, and Forestry, and Forestry*) were marked for adaptation or mitigation too (this excludes in-donor refugee costs, an outlier during this time). At the same time, most of the sectors with “less direct links with climate” such as health, education, and humanitarian assistance faced severe cuts. As shown in Figure 5, sectors with over 40% of their disbursements marked as climate have all experienced a greater increase in their volumes between 2020 and 2022, than most sectors with a lower climate share.

Figure 5. Change in the volume of UK bilateral aid by sector against each sector's share of climate-marked finance since 2020-2022 (constant 2022 prices)



Source: Development Initiatives' analysis of OECD CRS data.

Notes: ODA = Official Development Assistance. Notes: ODA = Official Development Assistance. The OECD tracks reported climate finance using the Rio markers, which are applied to each individual activity. Activities can have the following Rio marker scores: 2 (marked as a principal climate objective); 1 (significant climate objective); and 0 (no climate objective). We estimate a significant Rio marker coefficient of 40% for the United Kingdom.. This figure omits the outlier sector Refugees in Donor Countries (sector code 930). This exclusion was made as this area experienced severe increases which were due to unforeseeable reasons unrelated to climate.

This chapter showed evidence that increases in climate finance over the years have not been met by proportional increases in overall aid. In addition, a substantial part of climate finance growth in the last decade comes from climate mitigation, an area which is less of a priority for developing countries. Furthermore, the rise in mitigation-marked ODA is attributed to an increase in bilateral ODA loans directed towards the marker which might raise financial concerns. Using the UK as a case study we found that out of the few sectors which have experienced an increase in bilateral aid in recent years, most tend to

be marked heavily as climate finance. In other words, it appears that in the last years the UK has shifted their bilateral spending towards areas which are more suitable more climate marking, while financing other important development areas have stagnated. While it is understandable that cuts to the aid budget might compromise some areas more than others, it seems that it is impacting more on the traditional areas of development.

The evidence presented in this chapter suggests that:

1. A significant amount of the increase in climate finance has not been 'new and additional' and is instead being derived from existing resources meant for development.
2. As climate continues to become a greater priority for donor countries, sectors which have less observable contributions to adaptation and mitigation goals will likely be deprioritized

Compromised climate objectives

In the previous chapter we provided evidence that the increasing share of development budgets spent on climate finance has led to a shift in sectoral focus favouring climate action and have used the UK to illustrate this case. However, at the same time that pressures for donors to prioritise and increase their volume of climate-related spending to reach their financing targets have grown, so have issues regarding the accuracy of how climate projects are marked. Notably, many have alerted to significant transparency issues within climate marking, which often involve a project's environmental benefit being exaggerated by the donor to increase the volume of climate finance. In other words, development projects which have little or no relevant climate objectives can be counted as climate finance, inflating the figure's total volume. This issue has been discussed in depth in other DI outputs³³, and evidence suggests that the headline numbers reported for increases in climate finance might mask important reporting details.

What if climate finance has not come at the expense of development objectives after all, as it is funding the same types of activities that would have been carried out in the name of development? In this chapter we unpack this issue using data from the World Bank IDA in order to explore if projects labelled as climate finance are still primarily aimed at promoting development, and are therefore likely to compromise climate objectives (see [About Data](#) for details on the WB data and approach to its climate marking)

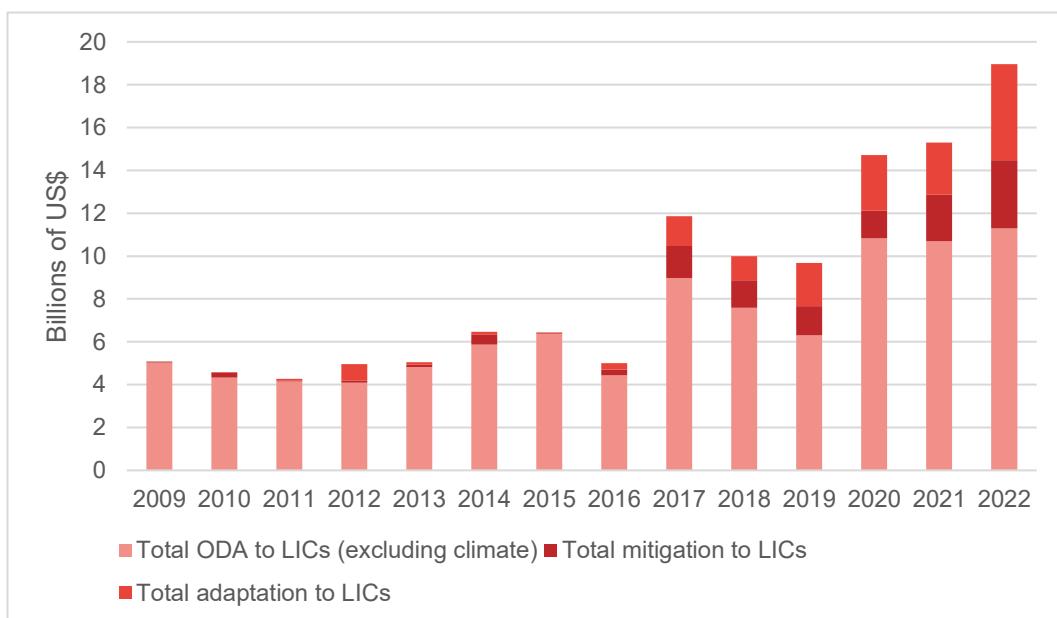
Case study 2: IDA's competing priorities climate and development: a marking issue?

With the significance of climate action continually growing, many multilaterals which have been traditionally focusing on development have begun to finance more climate-oriented projects. The World Bank, a key player in development finance, is no exception. Under the Climate Change Action Plan, which was renewed for the years 2021-2025³⁴, the bank wants 35% of all its finance to be climate-related with half going for adaptation³⁵. Furthermore, under this plan, better aligning development and climate finance is a key priority for the Bank's strategy going forward. In this paper we look at IDA in particular, the concessional arm of the World Bank, given its mission and targeting particularly the countries most in need.

IDA Climate-marked flows have significantly increased as a share of total IDA commitments in recent years

Since 2009, IDA's climate finance has risen significantly both in volume and as a share of total IDA commitments to low-income countries (LICs). During this period, total IDA commitments to LICs grew from US\$5.1 billion to US\$19.0 billion. Climate mitigation and adaptation-marked commitments grew from nearly zero in 2009 to US\$3.2 billion and US\$4.5 billion in 2022, respectively with the most notable rise taking place in 2017 (Figure 6). In 2022, flows towards adaptation and mitigation accounted for 24% and 17% of the total volume of IDA commitments towards LICs respectively, their highest point ever. This is comparably higher than the DAC's average climate share of 13% the same year.

Figure 6. Total climate and non-climate IDA commitments to LICs, 2009-2022 (constant 2022 prices)



Source: Development Initiatives' analysis of World Bank Project list and API data.

Notes : Please see [About Data](#) for more details on IDA's approach to climate marking

However, it is not always clear why some projects have been marked as climate finance

In Table 1, we present the sectors which received the largest IDA climate commitments in 2022. The table summarizes data from 506 observed IDA projects (which accounted for roughly 28% of climate finance in 2022) grouped by sector with details on the average mitigation and adaptation share within each sector and income group which received the

most commitments within each sector. We have done this by examining individual project level data and complemented by looking at appraisal documents which have information on projects' results. The purpose of this exercise was to get an insight into why funding for the project has been counted as climate finance, and whether the project was attempting to address development and climate objectives simultaneously. For instance, often, mitigation projects will have emission reduction targets which will guide their progress tracking. However, for some projects, it is not obvious why they have been marked as climate finance based solely on the results indicators, suggesting either mis-categorization, or an insufficient focus on impact. Please see [About Data](#) for more details on the data.

Table 1. Top 5 largest sectors of IDA climate finance commitments, 2022

Sector	Climate commitment (billions of US\$, 2022 prices)	Average mitigation Vs adaptation share (%)	Largest income recipient group and their share of the sector's total climate finance (%)
Public Administration - Transportation	2.60	19.6% Vs 39.0%	Low-income countries (49.5%)
Other Public Administration	2.24	17.8% Vs 30.1%	Middle-income countries (60.7%)
Rural and Inter-Urban Roads	2.14	3.5% Vs 40.1%	Low-income countries (54.5%)
Sub-National Government	2.10	13.6% Vs 27.2%	Low-income countries (66.3%)
Public Administration - Energy and Extractives	2.07	72.9% Vs 8.1%	Low-income countries (61.7%)

Source: Development Initiatives' analysis of World Bank Project list and API data.

Notes: IDA's projects are marked as climate via percentage shares, meaning every project will have a given share which is assumed to be directed towards climate goals. Climate commitments are calculated by multiplying the total commitment of the project by its climate share (which is the sum of adaptation and mitigation shares). Average climate share is the average of all climate shares for all project shares for the given sector. Largest recipient group and their share of the sector's total climate finance gives the income group which has received the largest commitment by sector, and then shows what share of the sector's climate commitment was given to that income group. The grey headings in the second column mark the highest share within each sector (adaptation or mitigation). More details can be found in the [About data](#) section

Across the top 5 sectors, adaptation usually has a higher share than mitigation, with the only exception being energy-related sectors. The sector receiving the largest climate commitments is transportation, with more projects marked for adaptation and mostly directed towards LICs. Investments in transport infrastructure are considered very effective in sparking economic growth and have clear implications for development goals. On the other hand, investing in transportation is known for being one of the least cost-effective investments for emissions reduction, costing on average almost \$200 per ton of CO₂ saved³⁶. Despite this, in 2022 transportation received the largest amount of climate mitigation finance from IDA rightly after the energy and extractive sector which is naturally better linked to climate action.

Box X – A close look at some IDA projects: the case of transportation

We have chosen to examine transport projects as they receive the largest sectoral share of IDA's total climate finance. The largest IDA transportation project which the World Bank finances is the Cameroon-Chad Transport Corridor, committing to US\$538 million in 2022 and remaining active at the time of this paper's publication. This project aims to improve the road and railway infrastructure along the Douala-N'Djamena corridor and results indicators include reduced costs and transport times, safer travel, and increased access to markets, all of which are important development objectives. At the same time, 46% of this project (US\$247m) was marked as climate mitigation. The project appraisal document estimates that over the lifetime of the project, 142,685 tonnes of CO_{2e} would be averted as a result of road users switching to rail. While this merits inclusion as a mitigation project, the amount counted as mitigation implies a cost per tonne averted of around US\$1,734, orders of magnitude higher than the cost-effectiveness of other mitigation interventions³⁷. In addition, reducing GHG was not included in the results indicators.

Similarly, IDA committed US\$450 million to Nepal Strategic Road Connectivity and Trade Improvement Project in 2020. 10% of this project was counted as mitigation, despite all indicators pertaining to development outcomes (such as reduced annual road fatalities and shorter average travel times). The project appraisal document estimated that 137,500 tonnes of CO_{2e} would be averted over its lifetime, implying a cost per tonne of CO_{2e} averted of US\$327. While lower than the previous project, this is still significantly less cost effective than estimates from GCF projects.

These projects are examples of the World Bank (IDA) trying to align climate and development objectives. While there are synergies between the two which should be encouraged, examples such as these reflect the difficulty in tackling two different priorities within the same project leading to inaccurate marking. These examples demonstrate that while many projects target both development and mitigation outcomes (for example, by both reducing journey times and cutting greenhouse gas emissions) there might be compromises on the desired impact of climate or development goals than if a project was purposely chosen for a primary component. For instance, replacing an old infrastructure with a more sustainable one is likely to have a large impact on emissions, but does not necessarily expand people's access to that service (effective for emissions, limited impact on development outcomes). By contrast, creating an entirely new infrastructure from scratch where it did not already exist will expand access, but will have a limited impact on emissions.

Some projects labelled as climate finance are still primarily aimed at promoting development, and are unlikely to have substantial impacts on climate goals.

Critics to the World Bank's approach to climate marking are not new. In 2023, CGD published a paper which analysed the World Bank's climate marking trends using a similar weighting-to-indicator approach. Looking at the World Bank's climate portfolio between 2000 and 2022 and after scrutinizing 2554 projects, the paper found out that a large portion of these projects had no obvious connection to climate change. According to their methodology, out of all projects which had little to no mention of climate change in their description or objectives, 816 were marked with a climate share of less than 25%, and 523 were marked with a share of more than 75%. The paper concludes that "there is very little in the project-level reporting that suggests a consistent approach to conveying the climate value of a project"³⁸, which is an issue when estimating the impact of the IDA's total volume of climate finance commitments.

Whether or not these poorly marked projects have primary climate objectives, the lack of substantial progress indicators in place ultimately undermines their impact, or at least our understanding thereof. If anything, it shows that these projects were likely not intended to be for climate finance in the first place, it was what was already happening, and it was expedient to tag them as such. This is where lack of effectiveness/competing priorities comes in: it is not that these projects don't have an impact on climate, but if climate was the main focus, the World Bank would have chosen different projects.

This chapter showed evidence that IDA Climate-marked flows have significantly increased as a share of total IDA commitments in recent years. However, it is not always clear why some projects have been marked as climate finance suggesting some inflated numbers for this sector. In fact, some projects labelled as climate finance are still primarily aimed at promoting development, and are unlikely to have substantial impacts on climate goals therefore compromising its impact. As such this paper suggests that a large amount of climate finance might not represent a genuine shift away from development priorities, but instead a reclassification of the same types of activities that have always been core to other important development priorities. This may assuage the fears of those that are concerned that the recent shift towards spending more on climate finance is at the expense of development goals such as poverty reduction and economic growth. However, it also suggests that climate finance is not being spent as effectively as it could be. This may help to explain mitigation finance's weak impact on greenhouse gas emissions trajectories³⁹.

Conclusion

It is essential that the world acts to reduce greenhouse gas emissions wherever they occur, and that wealthier countries provide finance support the efforts of low and middle income countries to reduce their emissions. It also remains a moral imperative to assist those in poverty and contribute to economic development. But while there may be some opportunities to contribute to both objectives at once, the set of projects that target climate objectives most effectively will probably not be the same as that which does the most for development, and vice versa. This makes it especially problematic that climate finance is coming from existing development budgets, that haven't increased enough to accommodate it.

This paper has found evidence that the increasing share of development budgets spent on climate finance has led to a shift in sectoral focus. However, while many have been concerned about the pivot away from core development objectives that this implies, this paper has also found some evidence that some projects labelled as climate finance are still primarily aimed promoting development, and are unlikely to have substantial impacts on climate goals. Often, projects are misclassified, as has been noted by other researchers⁴⁰. In other cases, classifying these projects as climate finance may be narrowly justifiable based on estimated impact on emissions. But the cost of achieving these emissions reductions via these projects is orders of magnitude higher than would be possible with projects aimed directly at reducing emissions.

This does not make them “bad” projects, but highlights the difficulty in targeting of two separate objectives at once. While synergies should be sought where possible, donors need to provide new and additional climate finance, not just as a matter of justice, but to ensure that climate finance has the impact it needs to and that more development ODA that is prioritized by developing countries is spent optimally in countries and sectors most in need.

About the data in this paper

About OECD DAC data

This paper uses data from the Organisation for Economic Cooperation and Development's Development Assistance Committee (OECD DAC) which provides verified and complete ODA data, and thus an important and detailed picture of the aid landscape over time. At the time of this analysis, disaggregated OECD DAC data is available up until 2022. The OECD DAC data for all donors presented in this paper is in USD, constant 2022 prices. DAC members, which include all the main bilateral donor countries plus agencies of the EU, are obligated to report ODA data to these databases. In addition, all the main multilateral organisations voluntarily report their ODA commitments and disbursements. ODA data reported to the DAC is governed by a comprehensive set of reporting directives which means the data is standardised and comparable across different donors. Some countries which are not DAC members also report to the DAC, but many do not, (including large providers such as China and Brazil).

This paper uses two OECD datasets for its figures: the [Creditor Reporting System](#) and [DAC1](#). For this paper when using DAC data we've chosen to focus on bilateral aid because donors have direct control over which projects they decide to engage in. Moreover, data for bilateral aid is more accessible and comparable between donors from OECD sources. For most figures OECD DAC figures, we use gross disbursements, rather than grant equivalent. The difference between gross disbursements and the grant-equivalent measure is how ODA loans are accounted for. Gross disbursements means the full face value of the loan is reported, whereas the grant equivalent measure means only a percentage of the loan is counted as ODA. This percentage depends on how concessional the loan is – the softer the loan, the higher the percentage counted as ODA. Gross disbursements are used in this analysis as that is more reflecting of the amount of money actually transferred in the year concerned. The only exception to this is for Figures 1 & 4, where the shares of aid are calculated using net disbursements for these figures. This is to keep units constant with one another, as GNI is only available as net disbursements within OECD data. You can find more information on the [OECD DAC's creditor reporting system database](#), and see the [full data for download](#).

About the World Bank IDA data

This paper uses data from the World Bank Projects & Operations list, which provides verified data for International Development Association (IDA) and International Bank for Reconstruction and Development (IDBR) projects. To our knowledge, this data has only one compiled dataset officially available, which gives the total list of projects and their total commitments from each organisation. As a result, this dataset does not have the same level of information as the OECD datasets mentioned above. The details missing from this dataset, including commitment years and performance indicators, are available on the individual project pages on the World Bank website, and are not present in the

officially available compiled dataset. To circumvent this issue and create a more comprehensive compiled dataset, DI has assembled the climate coefficients (for both adaptation and mitigation finance) from each individual World Bank project page and added them to the available list of roughly 22,000 IDA/IBRD projects, allowing us to identify which projects count towards the aggregate climate finance figures¹. This dataset adds several variables which enhance the quality of data and opens up project-level data to aggregate analysis.

OECD Rio markers' climate marking methodology

The Rio markers are used by the OECD to report which projects have a climate objective. Activities can be marked as two separate climate components: climate mitigation (introduced in 1998) and climate adaptation (introduced in 2010). Activities can be marked as having either a 'principal' (shown as 2) or a 'significant' (shown as 1) climate objective. Activities with no climate objective are marked as 0². For activities with a principal climate objective, it generally assumed that the project's main focus is its climate aspect, to the point where the project would not exist without it. Activities with a significant marker are seen as having a beneficial climate outcome, however that is not the main focus of the project.

To represent this difference in focus between principal and significant marked projects, several DAC donors have created climate coefficients to represent how much of each Rio-marked activity is being directed towards its climate objectives. These coefficients are aggregated for most donors, meaning the shares stay constant between projects, while others report projects on a case-by-case basis. For donors which have an aggregated reporting method, projects marked with a principal climate objective are assumed to have 100% of the project's finance directed towards climate action (the only exception to this is Switzerland, which counts 85%). The share of climate finance for significant-marked finance varies, however is mostly in the range of 30-50% for each country. For countries which have a case-by-case reporting method, their project shares are not given by OECD data. Therefore, for this analysis we assume a principal coefficient of 100% and a significant coefficient of 40% for these donors.

IDA's climate marking methodology

The IDA's approach to climate marking is different than the Rio markers used by the OECD, as it marks each project by a given percentage on a case-by-case basis instead of giving it a principal or significant score. Because these shares are estimated ex-ante, many consider⁴¹ this marking system more precise than the OECD methodology (while some DAC donors also use a case-by-case basis for climate shares, these are not shown by CRS data). When taking the World Bank's assessment at face value and using a project's adaptation or mitigation share as a coefficient, we can estimate the volume of financing from the activity which is directed towards climate action.

¹ <https://devinit.org/blog/opening-up-world-bank-climate-finance-data/>

² <https://web-archive.oecd.org/temp/2023-05-22/658061-rioconventions.htm>

World Bank IDA was chosen for this analysis due to their accessible and detailed project-level data. Alongside a more precise marking system, the World Bank also provides a large amount of information around the context, objectives, and implementation of each project they initiate, which is given in the Project Appraisal Documents. These documents are very useful for their results indicators, which are measurements or goals used to track the progress of a given project. These provide an insight into why funding for the project has been counted as climate finance, and whether the project is attempting to address development and climate objectives simultaneously. Often, mitigation projects will have emission reduction targets which will guide their progress tracking. However, for some projects, it is not obvious why they have been marked as climate finance based solely on the results indicators, suggesting either mis-categorization, or an insufficient focus on impact.

Notes

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- ¹ <https://www.cgdev.org/blog/100-billion-climate-finance-provided-fact-or-fiction>
- ² <https://devinit.org/resources/climate-finance-earning-trust-through-consistent-reporting/>
- ³ <https://www.britannica.com/topic/common-but-differentiated-responsibilities>
- ⁴ <https://www.eea.europa.eu/en/about/contact-us/faqs/what-is-the-difference-between-adaptation-and-mitigation#:~:text=In%20essence%2C%20adaptation%20can%20be,of%20climate%20change%20less%20severe.>
- ⁵ Michaelowa, K. and Namhata, C., 2022. Climate finance as development aid [Online]. Handbook of International Climate Finance. Cheltenham, UK: Edward Elgar Publishing, pp.62–82. Available from: <https://doi.org/10.4337/9781784715656.00009>.
- ⁶ <https://www.devex.com/news/bjorn-lomborg-the-climate-contrarian-who-puts-poverty-first-106385>
- ⁷ Michaelowa, K. and Namhata, C., 2022. Climate finance as development aid [Online]. Handbook of International Climate Finance. Cheltenham, UK: Edward Elgar Publishing, pp.62–82. Available from: <https://doi.org/10.4337/9781784715656.00009>.
- ⁸ <https://www.cgdev.org/publication/gpgs-and-where-fund-them-startling-implications-financing-global-public-good-provision>
- ⁹ For example, if a project's principal goal is to reduce carbon emissions, the effects of that reduction are both non-excludable and non-rivalrous, meaning it is impossible for one beneficiary to exclude other individuals from benefitting from the same reduction in emissions.
- ¹⁰ <https://committees.parliament.uk/writtenevidence/36330/pdf/>
- ¹¹ At the same time, these projects could just as easily be detrimental to local populations, by potentially displacing communities or being less efficient/more costly than previously existing sources – globally beneficial, but locally undesirable
- ¹² <https://www.devex.com/news/bjorn-lomborg-the-climate-contrarian-who-puts-poverty-first-106385>
- ¹³ <https://www.worldbank.org/en/programs/world-bank-country-opinion-surveys/context-data>
- ¹⁴ <https://www.theigc.org/blogs/climate-priorities-developing-countries/climate-change-mitigation-and-adaptation-not-enough#:~:text=This%20creates%20a%20disconnect%20whereby,escaping%20fragility%2C%20and%20promoting%20growth.>
- ¹⁵ <https://foreignpolicy.com/2022/11/06/climate-cop27-emissions-adaptation-development-energy-africa-developing-countries-global-south/>
- ¹⁶ <https://ourworldindata.org/inequality-co2>
- ¹⁷ <https://toddmoss.substack.com/p/misplaced-virtue-signaling>
- ¹⁸ <https://www.cgdev.org/blog/dont-trade-climate-mitigation-and-development>
- ¹⁹ <https://www.cgdev.org/blog/coming-out-greenwash-how-much-does-climate-mitigation-marker-tell-us>
- ²⁰ Michaelowa, K. and Namhata, C., 2022. Climate finance as development aid [Online]. Handbook of International Climate Finance. Cheltenham, UK: Edward Elgar Publishing, pp.62–82. Available from: <https://doi.org/10.4337/9781784715656.00009>.
- ²¹ https://unfccc.int/sites/default/files/resource/Fourth%20Biennial%20report_%20Sweden.pdf
- ²² https://unfccc.int/files/national_reports/biennial_reports_and_iar/submitted_biennial_reports/application/pdf/australia_second_biennial_report.pdf
- ²³ Source needed
- ²⁴ <https://policy-practice.oxfam.org/resources/climate-finance-shadow-report-2023-621500/>
- ²⁵ <https://devinit.org/resources/climate-finance-earning-trust-through-consistent-reporting/> There is also no official link between the US\$100 billion climate target and DAC donors' goal of a 0.7% ODA/GNI ratio. In addition, the Rio markers, which are OECD measures used to track climate finance, are not underpinned by the

UNFCCC agreement, further separating the flows from a quantitative perspective. The motivations behind the mechanisms are also distinct from one another. <https://devinit.org/resources/climate-finance-earning-trust-through-consistent-reporting/>

²⁶ [Investing in a common future - regjeringen.no](#)

²⁷ <https://www.oecd.org/en/topics/sub-issues/climate-finance-and-the-usd-100-billion-goal.html>

²⁸ It should be noted that due to the coefficients applied to projects with a significant Rio marker, these figures represent the share of finance under this marker which is directed towards climate. For example, in 2022 the total volume of finance marked as climate was reported at US\$32.6 billion, however after applying the OECD climate coefficients, only US\$21.2 billion is estimated to be directed towards climate action, while the remainder is assumed to be toward other development objectives.

²⁹ [Rio Markers explanation- to be completed](#)

³⁰ <https://devinit.org/resources/climate-finance-earning-trust-through-consistent-reporting/bilateral-climate-finance-reporting-a-qualitative-review/>

³¹ This is the case when DAC climate coefficients are applied to climate-marked activities. Without these coefficients applied, projects marked significant adaptation received the largest financing.

³² <https://devinit.org/blog/climate-finance-wrongly-reported-ai-world-bank-fcdo/>

³³ <https://devinit.org/resources/climate-finance-earning-trust-through-consistent-reporting/>

³⁴ <https://openknowledge.worldbank.org/entities/publication/ee8a5cd7-ed72-542d-918b-d72e07f96c79>

³⁵ <https://openknowledge.worldbank.org/entities/publication/ee8a5cd7-ed72-542d-918b-d72e07f96c79>

³⁶ [GCF data which Euan looked at](#), found on [this document](#) on page 15

³⁷ <https://www.cgdev.org/blog/new-money-green-climate-fund-how-tackle-climate-change-more-effectively>

³⁸ <https://www.cgdev.org/blog/how-does-world-bank-spend-its-climate-money>

³⁹ <https://www.cgdev.org/sites/default/files/does-mitigation-oda-reduce-emissions.pdf>

⁴⁰ Climate report, Oxfam shadow report, Weikmans, [etc etc](#)

⁴¹ <https://datacommons.one.org/climate-finance-files>

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