A FAIR SHARE OF CLIMATE FINANCE? THE ADAPTATION EDITION

COUNTRY BRIEFING: ITALY

Research by ODI and recommendations by ECCO

NOVEMBER 2023

This briefing is a collaboration between:

ODI which developed the methodology and conducted the analysis of the report to which this briefing refers to - 'A fair share of climate finance? The adaptation edition'.

The Zurich Flood Resilience Alliance which commissioned and financed the ODI research with funds from international philanthropy.

ECCO which developed and provided the recommendations for Italy.

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ODI RESEARCH

CONTEXT

In 2009, developed countries committed to providing and mobilising $100 billion of climate finance each year by 2020. Subsequently, the target was extended to 2025, when a new goal will be adopted.

Failure to deliver on the climate finance goal has been laid at the feet of developed countries collectively. Instead of fostering climate ambition as intended, the collective nature of developed countries' climate finance commitments has in practice enabled some states to evade their responsibilities.

ODI and the Zurich Flood Resilience Alliance have developed a methodology to **assess which developed countries are still not providing their fair share of climate finance**.

The report developed by ODI to which this briefing refers - 'A fair share of climate finance? The adaptation edition' - **looks at the climate finance provided in 2021 to evaluate each country's progress against the $100 billion goal**.

In addition, we produce new evidence to evaluate each country's adaptation finance provision against the aim of at least doubling adaptation finance from 2019 levels by 2025, which we set at $40 billion – double the $20 billion reported in 2019.

The fair share is calculated from a composite index of the country's contribution to the collective gross national income of developed countries, cumulative CO_2 emissions, and population.

This briefing focuses on the performance of Italy. In collaboration with ECCO, we provide recommendations for making new commitments and closing the existing gaps ahead of COP28.

KEY FINDINGS

In 2021, Italy provided 64% of its fair share of climate finance and 62% of its fair share of adaptation finance (see Table 1). The methodology used to assess Italy's and developed countries' progress towards their fair share of climate finance and adaptation finance can be found in annex 1.

Table 1 – Italy's progress towards its fair share of the $100 billion and doubling of adaptation finance in 2021.

Italy	Fair share based on a composite index (US$ billions)	Finance provided (US$ billions in 2021)	Progress towards fair share (%)
$100bn goal	4.73	3.02	64%
$40bn goal	1.89	1.17	62%

Source: Pettinotti, L., Cao, Y., Kamninga, T., Colenbrander, S. (2023)

Only eight developed countries provided their fair share of climate finance in 2021 – one year after the target should have been reached – and eleven stepped up to their fair share of adaptation finance in the first year of aiming to double adaptation finance.

While the difference in methodology precludes direct year on year comparison, it is worth underlining that some countries have consistently paid more than their fair share since 2017: Sweden, Norway and Germany; a few were close to paying their fair share and have now done so since 2019: France, the Netherlands, Denmark. But similarly, **the countries which have lagged on their fair share and are most responsible for the shortfall in absolute terms are still the same: the US, Australia, Canada, Spain and UK**.

Italy is in 15th position in terms of climate finance contributions in 2021 and in 16th position for adaptation finance contributions. This all points to the need for detailed and transparent delivery plans to finally reach at least a $100 billion a year.

The climate finance data counts loans at face value, meaning that some, if not most - depending on the level of concessionality of the finance - is ultimately reimbursed to the lending developed country. **Using loans for climate finance**

adds to the debt burden of developing countries which have constrained fiscal spaces to pay for critical government expenditure (health, education etc).

Loans and other debt instruments are not necessarily counterproductive to finance climate action in developing countries but may not be appropriate when it comes to adaptation which can have limited monetised returns. If the data was adjusted for grant equivalence – that is the finance effectively given by developed countries – all countries would be making less progress towards their fair share.

Finally, no matter where the country ranks and its progress on providing its fair share, greater accountability entails improved reporting from developed countries to the OECD: clarity on the terms of lending if the finance is provided as loans, and ultimately assessment of its effectiveness.

ECCO RECOMMENDATIONS FOR ITALY

Based on ODI research, ECCO suggests that Italy should take the following actions in view of COP28:

- **Accelerate the operationalisation of the Italian Climate Fund** (ICF) to which Italy has committed to investing €840 million per year from 2022 to 2026:
  - Ensure that the fund is managed with integrity and transparency, involving both Italian civil society and the local communities benefiting from the funding in decision-making.
  - Establish transparent and verifiable criteria to help understand the effectiveness of the Fund in contributing to the achievement of the Paris Agreement goals.
  - Ensure balanced financing between mitigation and adaptation activities, by strengthening financial incentives for the private sector to invest in adaptation actions.
- Confirm the pledge to contribute to the **second refinancing period of the Green Climate Fund by doubling the previous contribution to €600 million**. Italy, together with the United States, is the only G7 country that has not yet announced its contribution.
- In 2023, Italy chaired the board of the **Adaptation Fund**. To demonstrate continued support for the Fund and given the record demand for projects from developing countries, **Italy should increase its contribution to €60 million per year** and commit to renewing it annually.
- **Support the swift operationalisation of the new Loss and Damage Fund** agreed at COP27, **with an initial funding of €50 million**.

Specifically, to close the adaptation gap of $720 million per year (€680 million), it is recommended to:

- Increase the share of grants within the ICF, aimed at facilitating interventions in fragile or conflict-affected contexts that are particularly vulnerable to climate shocks and stresses.
- Increase the share of Official Development Assistance (ODA) from 0.3% in 2022 to 0.5% by 2025 and 0.7% by 2030, aligning all cooperation with climate objectives.

In view of the imminent start of the Italian G7 Presidency and as a demonstration of its leadership on climate, Italy should sign the COP28 Presidency's initiative on the ***Climate Relief, Recovery, and Peace Declaration*** and follow up with concrete announcements on its intention to contribute its fair share to the fight against climate change as promised last year at COP27.

ANNEX 1

DATA SOURCES AND METHODOLOGY

We use three metrics to assess each developed country's fair share of the climate finance goal and adaptation finance aim:

- Gross National Income (GNI) in current US dollars for 2021 as a proxy for ability to pay (using World Bank, 2023a).
- Cumulative territorial carbon dioxide emissions, including land use, land use change and forestry ($GtCO_2$) between 1990 and 2021 as a proxy for historic responsibility for climate change (using Friedlingstein et al., 2022).
- Population in 2021, which is the simplest way of assessing fair share as it allocates equal responsibility for climate finance provision to all people living in developed countries (using World Bank, 2023b).

Each of these metrics speaks to different ways of understanding how responsibility for climate and adaptation finance could be apportioned.

We use the OECD climate related finance dataset to estimate each country's provision of climate finance through bilateral and multilateral channels. We use each country's capitalisation share into multilateral development banks and multilateral climate funds to attribute the outflow finance back to each country. All data is deflated with Rio markers coefficients as reported to the OECD by each developed country.

Table 2 below shows Italy's fair share of what it should contribute towards the $100bn goal and the doubling of adaptation finance, based on the country's share of developed countries' collective GNI, cumulative CO_2 emissions and population.

***Table 2** – Metrics for apportioning responsibility for the annual $100bn and doubling of adaptation finance (data 2021).*

	Gross National Income		Cumulative CO2 emissions (1990-2019)		Population		Fair share based on a composite index (%)
	US$ trillions (2021)	Share of developed countries	$GtCO_2$ (1990-2021)	Share of developed countries	Millions (2021)	Share of developed countries	
The $100 bn a year goal							
Italy	2.155	4.11%	13.6	3.88%	59.1	6.21%	4.73%
Doubling of adaptation finance, assuming a $40bn goal per year							
Italy	2.155	4.11%	13.6	3.88%	59.1	6.21%	4.73%
Total developed countries	52.46	100%	351.2	100%	952.27	100%	n.r

Source: Pettinotti, L., Cao, Y., Kamninga, T., Colenbrander, S. (2023)

SOURCE

- Colenbrander, S., Pettinotti, L. and Cao, Y. (2022) A fair share of climate finance? An appraisal of past performance, future pledges and prospective contributors. Working Paper 2. London: ODI (https://cdn.odi.org/media/documents/A_fair_share_of_climate_finance.pdf
- Friedlingstein, P. et al. (2022) 'Global carbon budget 2022' Earth System Science Data 14(11): 4811–4900 (https://doi.org/10.5194/essd-14-4811-2022.
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- World Bank (2023a) 'GNI (current US$)'. DataBank (https://data.worldbank.org/indicator/ NY.GNP.MKTP.CD).
- World Bank (2023b) 'Population, total'. DataBank (https://data.worldbank.org/indicator/ SP.POP.TOTL).

ODI Report
Pettinotti, L., Cao, Y., Kamninga, T., Colenbrander, S., (2023) A fair share of climate finance? The adaptation edition. ODI Working Paper. London: ODI (www.odi.org/en/publications/a-fair-share-of-climate-financethe-adaptation-edition)

Organisations involved
ODI is an independent, global think tank. We work to inspire people to act on injustice and inequality. Through research, convening and influencing, we generate ideas that matter for people and planet. Find out more at https://odi.org/.

Zurich Flood Resilience Alliance (ZFRA) is a multi-sectoral partnership focusing on finding practical ways to help communities in developed and developing countries strengthen their resilience to flood risk. Find out more at www.floodresilience.net.

ECCO is the first independent Italian, non-profit climate change think tank. It was founded in 2021 with the mission of accelerating climate action in Italy and around the world. Find out more at https://eccoclimate.org/.

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