Observations of Climate Adaptation Finance Spending

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Introduction

- Considerable focus on fund raising and on the type of money this should be – e.g. Grants not loans, public not private, delivered through direct access modalities, additional
- This focus has yet to be informed by a robust discussion and by evidence on what modalities are actually effective in supporting adaptation on the ground.
- Presentation focuses on 7 observations of adaptation spending to help shape effectiveness perspective.

There is a big difference between pledged, approved and disbursed adaptation finance

- Lack of common definition of ‘pledged’, ‘approved’ and ‘disbursed’.
  - *Pledged* ~ US$3-4 bn (fast start),
  - *Approved* ~ US$1bn
  - *Disbursed* ~ US$350m
  - *Reached poor and vulnerable people ~ ?*

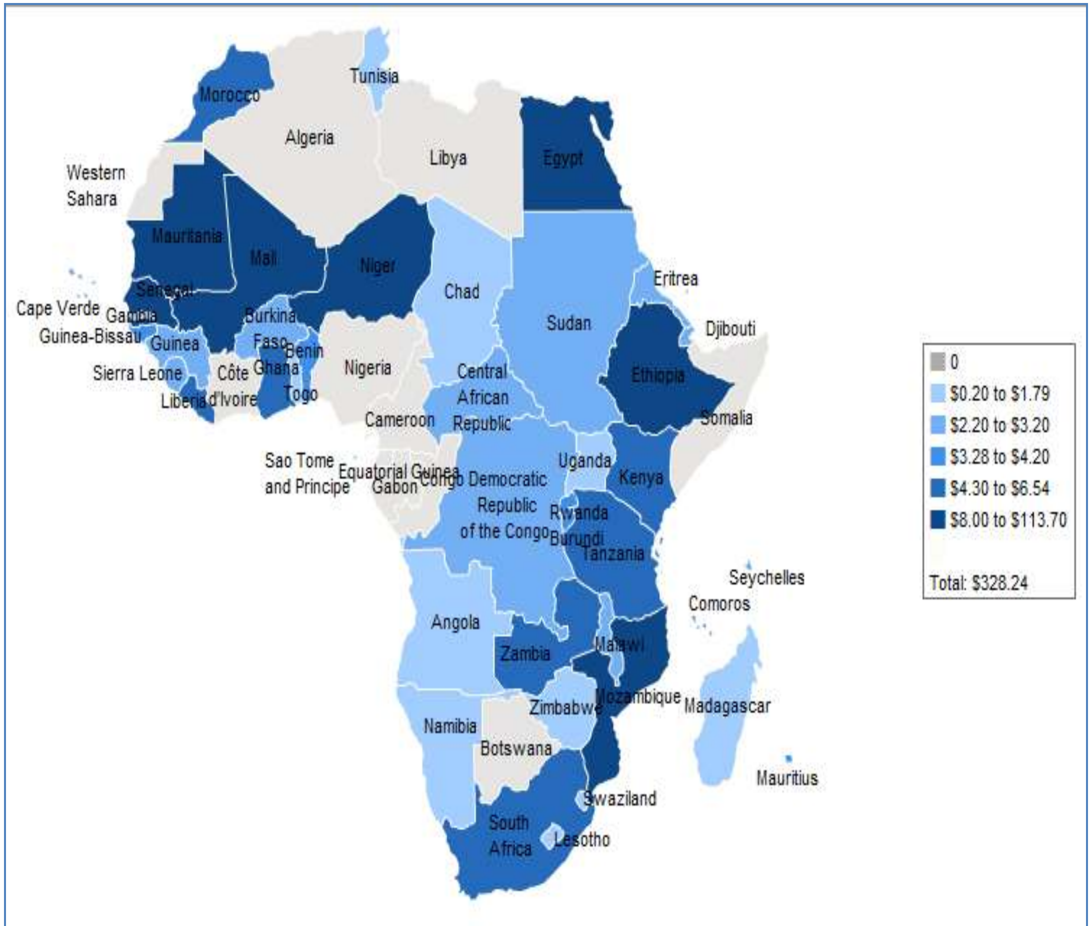
- Currently approved adaptation finance is 13.2% of total approved climate finance. 21.2% when considering disbursed (CFU)

Principles not being followed, additionality creating parallel structures

Five principles of aid effectiveness	Ten principles of climate finance
• National ownership	• Polluter pays
• Alignment	• Additionality
• Harmonisation	• Transparency
• Managing for results	• Accountability
• Mutual accountability	• Equitable representation
	• National ownership
	• Timeliness
	• Appropriate
	• Fair distribution
	• Complementarity

Source: Bird and Glennie 2011

Money is being directed to poor and vulnerable countries but picture is patchy



Strategy: VAs, capacity, willingness to engage

+ Easy to access, willing LDCs and SIDs (top 5 - Bang, Niger, Mozambique, Senegal, Ethiopia)

- Fragile/conflict affected states, MENA, C/West Africa and C. Asia
- Frustration from lower middle income countries

Source: Climate Funds Update

Supply and demand is not well aligned

Sector or Theme	NAPA needs		Adaptation projects and programmes	
	USD millions	% of total	USD millions	% of total
Food Security	231	12%	57.57	6%
Water Resources	189	10%	72	7%
Coastal Zones and Marine Ecosystems	176	9%	72.74	7%
Terrestrial ecosystems	172	9%	46	5%
Early warning and Disaster Management	188	9%	45.73	5%
Cross-sectoral	808	41%	325	32%
Education and Capacity Building	74	4%	107.55	11%
Infrastructure	79	4%		0%
Health	34	2%	22.89	2%
Other	34	2%	235.5	23%
Enabling (money to prepare NAPAs)			30.44	3%
Total	**1,985**	100%	**1,015**	100%

Source: Climate Funds Update – new analysis

Grants may not always be as effective or as popular as loans among recipients

Grants	Concessional Loans
Low levels of income	Higher levels of income
High levels of inherited debt	Low levels of inherited debt
High risks of economic volatility	Low risk of economic volatility
Low capacity to manage loans	Capacity to manage loans
Challenges to fiscal discipline	Stronger fiscal discipline
When supporting pilot projects, capacity building or projects with high risk	When providing direct support to revenue generating projects with high upfront financial demands
Net Present Value may be lower given frontloading, depending on structuring of project finance	Net Present Value may be higher depending on structuring of loan across finance period.
Potentially more onerous reporting and monitoring requirements, and may be used less flexibly	Potentially less onerous reporting requirements given financial return and may be used more flexibly

Source: Baudenville 2009

There is limited agreement on what adaptation finance is supposed to achieve

- MRV of adaptation poorly developed and multiple actors working on M&E of adaptation at different scales.
- Executing adaptive actions under uncertainty vs. Building adaptive capacity
- Are we confident process-based indicators are accurate?
- Is a poverty reduction metric also vital from perspective of UNFCCC?
- Little understanding of adaptation of international systems (e.g. impacts on trade/supply chains)

Evidence on the relative effectiveness of delivery channels and instruments is missing

- Bilateral programming – dominance of short-term, project-based investments. Normally small amounts of money, mainly grants (US1m – US$10m)
- Multilateral channels – some grant finance, mainly concessional and commercial loans
- UNFCCC and Kyoto mechanisms – insignificant overall flows, important politically, governance mechanisms influential
- Some move towards programmatic finance – largely signalled by PPCR and integration of adaptation into larger MDB loans
- Almost no analysis of the comparative benefits of projects vs programmatic finance for adaptation effectiveness, or of sources, delivery channels and national allocation mechanisms where these are in existence.
- Nationally, concerns over poor co-ordination between difference financing actors.

Conclusions

- Little evidence and limited discussion of what actually is effective when spending adaptation finance at scale
- A robust assessment of effectiveness of spending is being overshadowed by 'moral and equity' arguments of the type of finance and its delivery channels.
- While volumes are vital, equally as vital are effective ways of spending the money.
- Is it time for a AGF on spending climate finance effectively?
- Critical input to the design of the Green Climate Fund Adaptation Window
- Focus on finance should not detract from the ultimate aim – emissions reduction.