Climate Finance Thematic Briefing: Adaptation Finance

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Climate Finance Fundamentals 3

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The costs of adaptation to climate change in developing countries are substantial. Developed countries have committed to scale up support for adaptation in developing countries, particularly in LDCs and SIDS. They promised to double adaptation finance between 2014 and 2020 under a roadmap presented for COP 22. The largest sources of approved funding for adaptation projects are currently the Pilot Program for Climate Resilience (PPCR) of the World Bank's Climate Investment Funds and the Least Developed Countries Fund (LDCF) administered by the Global Environmental Facility. Developed countries' contributions to these funds remain low compared to those funds supporting mitigation; at a global level, adaptation remains underfunded. The Green Climate Fund (GCF) is increasingly becoming a major source of adaptation finance; set to devote 50% of its USD 10 billion initial resource mobilisation to adaptation, with half of that going to the SIDS, LDCs and African states (see CFF 11). The GCF approved the largest volume of adaptation finance this year, with USD 400 million for nine projects targeting adaptation. The amount of cumulative finance approved for adaptation from key climate funds tracked by CFU has grown to USD 3.9 billion in 2017. Directing adaptation funding to countries most vulnerable to the impacts of climate change as well as to the most vulnerable people and population groups within recipient countries remains an imperative, with grant financing continuing to play a major role.

Introduction

While efforts to mitigate climate change are crucial, it is also essential to assist developing countries to adapt to the impacts of climate change already being experienced due to past and current GHG emissions. Finance is necessary to fund activities that respond to impacts such as flooding, cyclones, coastal erosion, droughts and increased variability of precipitation. Currently about 25% of the financing approved since 2003 flowing from the dedicated climate finance initiatives that CFU monitors supports adaptation. The provision of this finance is made more complex by the unequal distribution of climate change impacts with some of the poorest countries affected worst, especially Small Island Developing States (SIDS) and Least Developed Countries (LDCs), as noted in the IMF World Economic Outlook (IMF, 2017). These countries also have differing institutional capacities to respond to climate change and to ensure that financing is utilised effectively and equitably, including with attention to gender, and vulnerable and marginalised groups.

Which climate funds support adaptation?

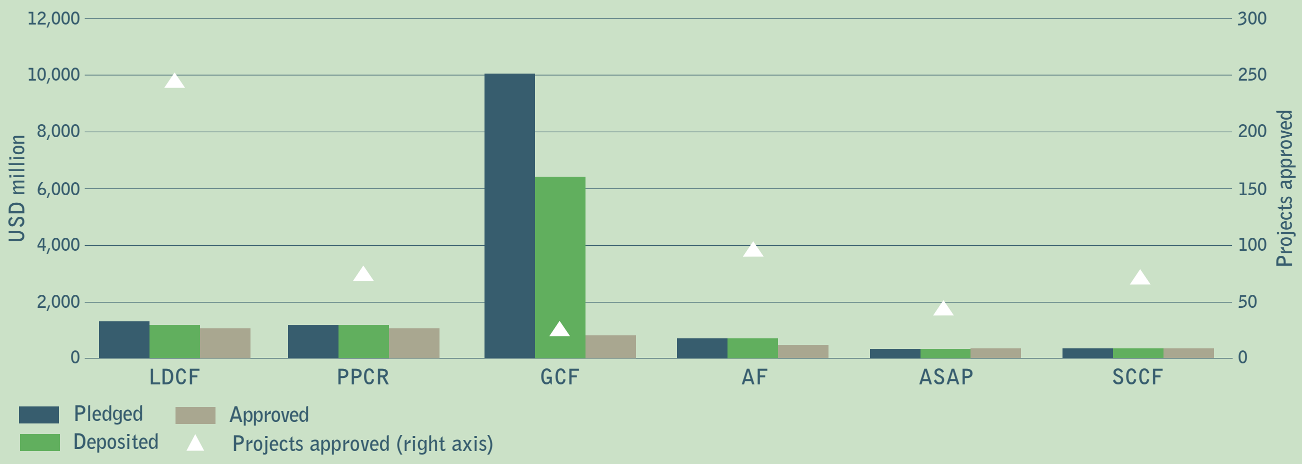
The adaptation finance architecture includes finance flows and mechanisms from private finance, public finance, as well as resources from development finance institutions and increasingly from insurance and risk pooling mechanisms (Figure 2). Sources have varying information availability.

CFU data shows an additional USD 579 million in multilateral funding approved for adaptation during 2017 from the funds in Table 1, Figure 1. The PPCR, one of the largest adaptation funds, approved an additional USD 32 million this year. This fund's pilot approach involves

Table 1: Multilateral funds supporting adaptation (2003-2017, USD millions)[1]

Fund	Pledged	Deposited	Approved	Projects approved
Least Developed Countries Fund (LDCF)	1251.05	1199.52	1,001.5	242
Pilot Program for Climate Resilience (PPCR)	1152.81	1126.02	1,000.1	75
Green Climate Fund (GCF)	10009.72	6412.6	828.8	26
Adaptation Fund (AF)	649.27	649.27	460.9	95
Adaptation for Smallholder Agriculture Program (ASAP)	307.52	290.13	322.0	45
Special Climate Change Fund (SCCF)	367.79	362.79	292.8	70

Figure 1: Multilateral Climate Funds supporting Adaptation (2003-2017)[1]

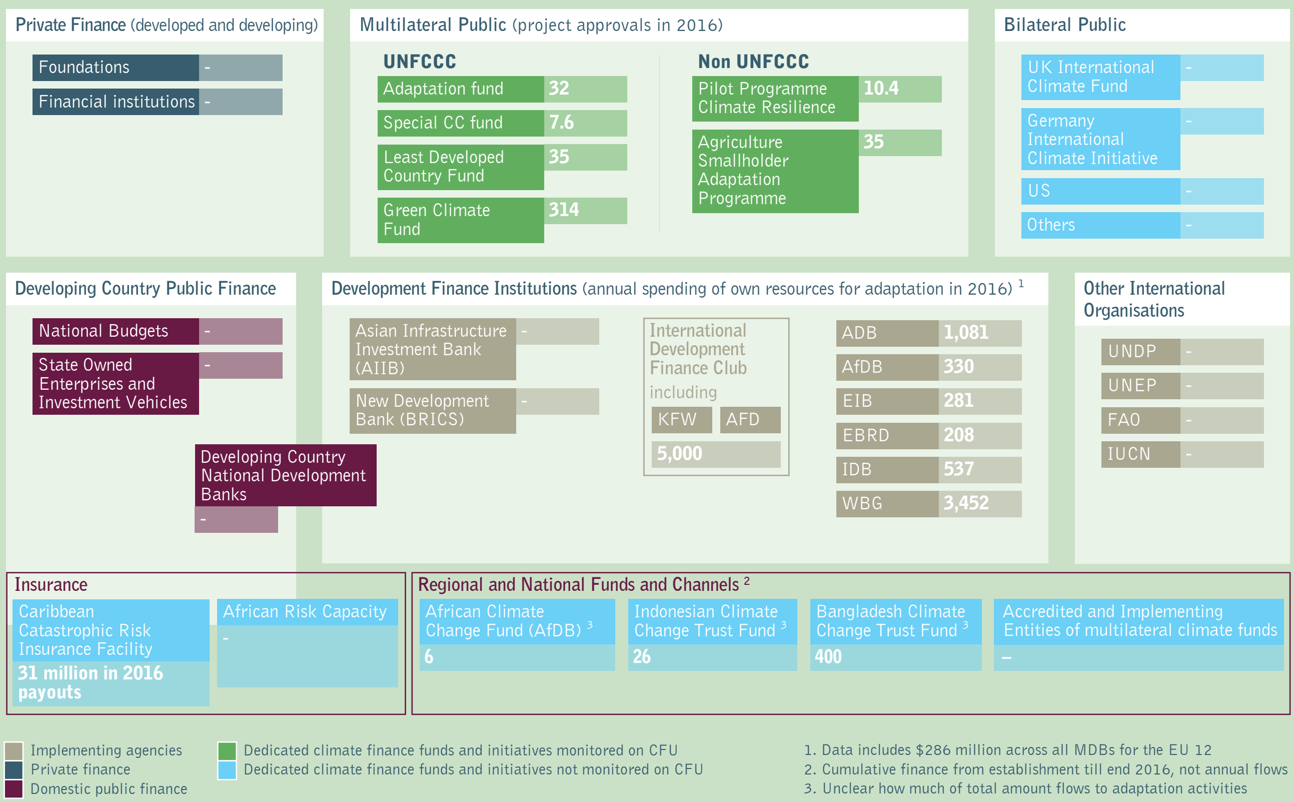


supporting only a few countries with programmatic funding. In contrast, the LDCF has the highest number of projects approved at 242, although individual project funding is small. The LDCF approved USD 30 million this year. The SCCF had one new project approved, whilst the AF approved USD 104 million this year, for 15 new projects. ASAP also showed a slight increase of USD 12 million. Although a multi-thematic fund, the GCF has greatly increased adaptation finance (see CFF11), approving the largest amount of USD 400 million for nine adaptation projects in 2017 (and a further USD 210 million for five projects with both adaptation and mitigation components).

Who pledges and deposits adaptation finance?

The United Kingdom, Germany, and the United States represent 57% of finance pledged to adaptation funds in Table 1 (excluding the multi-foci GCF) (Figure 3). These figures do not capture the country contributions to multi thematic funds such as the GCF or GEF, however. The amount that the AF has obtained through the sale of CERs from the Clean Development Mechanism (2% of CERs from all projects), although small compared to what was expected, still amounts to USD 198 million.

Figure 2: Adaptation finance architecture diagram



1. Data includes $286 million across all MDBs for the EU 12
2. Cumulative finance from establishment till end 2016, not annual flows
3. Unclear how much of total amount flows to adaptation activities

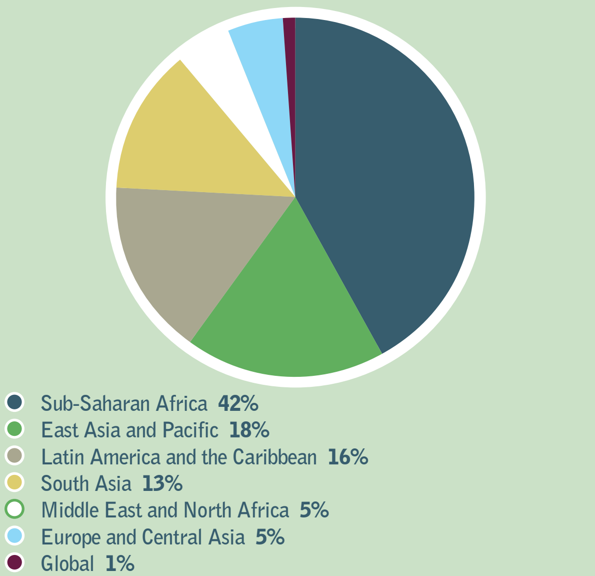
Figure 3: Pledges and deposits to funds supporting adaptation (2003-2017)[2]

Who is receiving the money and what kinds of adaptation projects are funded?

Regionally, adaptation finance has primarily been directed to Sub-Saharan Africa, East Asia and the Pacific, and Latin America and the Caribbean, followed by programs and activities in South Asia (Figure 4). The top twenty recipients of adaptation finance (out of 125 countries) received 48% of the total amount approved, which represents a much lower concentration of funding than for mitigation finance (where the top twenty recipients receive 75% of total approved finance). Top recipients Bangladesh, Niger, Cambodia, Tanzania, Nepal, Mozambique, Samoa, Bolivia and Zambia have all received more than USD 100 million each since 2003 (all are PPCR recipient countries except Tanzania). Some of the most vulnerable developing countries receive very little adaptation finance: for instance, Somalia and Central African Republic, both Fragile and Conflict-Affected States, and among the world's most vulnerable countries according to various vulnerability indexes[3], have received only USD 18 and USD 10 million respectively from dedicated adaptation funds.

The GCF has approved USD 400 million in 2017 for nine adaptation-focused projects. This amount includes, for the first time, USD 57 million in concessional loan finance to a project in Argentina. Three LDCs benefited this year, with sustainable water management featuring strongly, including in this year's biggest adaptation project in Tanzania, where USD 121 million of grant finance will support a community-driven approach that will target the most vulnerable in both urban and rural populations.

Figure 4: Regional distribution of approved adaptation finance (2003-2017)



In addition to the series of 12 Climate Finance Fundamentals, these recent ODI and HBS publications may be of interest:

- **Six development finance proposals to expand climate investment**. Ilmi Granoff, Darius Nassiry, Neil Bird, Chris Humphrey, Paddy Carter, Alberto Lemma and Annalisa Prizzon describe six promising finance proposals to support greater ambition for low-carbon development. Available at: **http://bit.ly/2n4VLm8**
- **Budgeting for NDC action: initial lessons from four climate-vulnerable countries**. Neil Bird examines the evidence of resourcing NDC policies and actions in four sub-Saharan African countries; Ethiopia, Ghana, Kenya and Uganda. Available at: **http://bit.ly/2EtPkWC**
- **Resource Guide for NDC Finance**. James Rawlins with Matthew Halstead and Charlene Watson present a selection of resources on financing nationally determined contributions (NDCs). Available at: **http://bit.ly/2EbuPKU**
- **Financing our shared future: navigating the humanitarian, development and climate finance agendas**. Charlene Watson outlines what we know about the financing targets and needs, where there is agreement between the agendas on financing issues and where tensions may emerge. Available at: **http://bit.ly/2FTADcD**
- **Promoting Rights-Based Climate Finance for People and the Planet.** A joint discussion paper by hbs and the OHCHR's Right to Development Division outline how existing climate financing mechanisms, including the GCF as a case study, can strengthen their integration of human rights considerations. Available at: **http://bit.ly/2nQPsFq**
- **Financing Loss and Damage: A Look at Governance and Implementation Options.** Julie-Anne Richards and Liane Schalatek discuss categorizations of loss and damage approaches, financing options and whether existing climate funds could channel loss and damage financing. Available at: **http://bit.ly/2nT55wa**
- **Contracts for Sustainable Infrastructure.** In this joint publication by hbs and IISD, Martin Dietrich Brauch outlines how public private partnership (PPP) contracts need to be constructed to ensure the economic, social and environmental and climate co-benefits of infrastructure investments. Available at: **http://bit.ly/2nQNBjQ**

Contact us for more information at **info@climatefundsupdate.org**

References and useful links:

Climate Funds Update: www.climatefundsupdate.org (data accessed in December 2017)

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UNFCCC (2017) 'Third Review of the Adaptation Fund. Technical paper by the Secretariat' http://unfccc.int/resource/docs/2017/tp/06.pdf

UNFCCC (2016). Biennial Assessment and Overview of Climate Finance Flows Report. UNFCCC Standing Committee on Finance, Bonn, Germany. http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/8034.php

End Notes

1. Due to its significant resource potential, the GCF is included here as 50% of the pledge will be programmed towards adaptation. Other multi-foci and bilateral funds are not included here, e.g. ICI
2. Including pledges to the PPCR, LDCF, AF, ASAP and SSCF only. It is not possible to determine the share of pledges arising from particular countries for the GCF channelled to adaptation.
3. Global Adaptation Institute (GAIN) (http://index.gain.org/) and DARA indexes (https://daraint.org/climate-vulnerability-monitor/climate-vulnerability-monitor-2012/monitor/Indices).

The Climate Finance Fundamentals are based on Climate Funds Update data and available in English, French and Spanish at **www.climatefundsupdate.org**

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