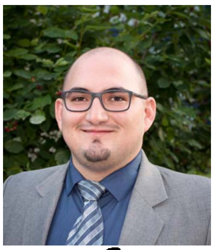
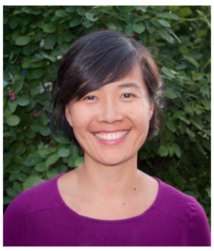
Adaptation Finance
under the United Nations Framework Convention on Climate

Information note by the UNFCCC's Adaptation Committee and Standing Committee on Finance

Adaptation to climate change, and its adverse impacts, is a challenge faced by all Parties to the United Nations Framework Convention on Climate Change (UNFCCC). Enhanced action and support for adaptation, and in particular scaled-up financial support, is urgently required to enable the planning and implementation of adaptation actions aimed at reducing vulnerability and building resilience in developing countries.

Established in 2010, the Adaptation Committee seeks to promote enhanced adaptation action both within and outside of the Convention, including by providing information and recommendations on adaptation finance. Also established in 2010, the Standing Committee on Finance (SCF) aims at improving coherence and coordination in the delivery of climate change financing and mobilizing financial resources, among others, thus resulting in more effective and accessible adaptation finance for developing countries.

With this information note the two Committees wish to provide a snapshot of the state of adaptation finance under the Convention. We hope that readers - whether from inside or outside of the adaptation and finance communities, from governments, the private sector, research or civil society - will find this note helpful in understanding the Convention's role in adaptation finance.

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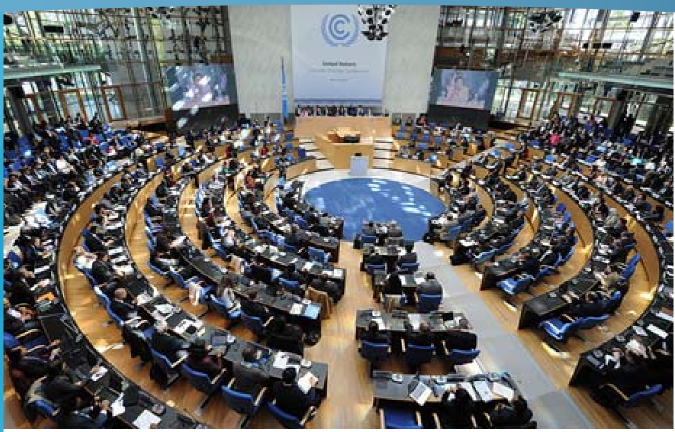

Introduction

The climate is changing at a rate unprecedented in recent human history and will continue to do so for the foreseeable future. Adaptation is needed in all countries to combat the adverse impacts of climate change that are happening now, to increase resilience to future impacts and to enable climate-resilient socio-economic development. Since its entry into force in 1994, the UNFCCC has shaped and supported global action on adaptation.

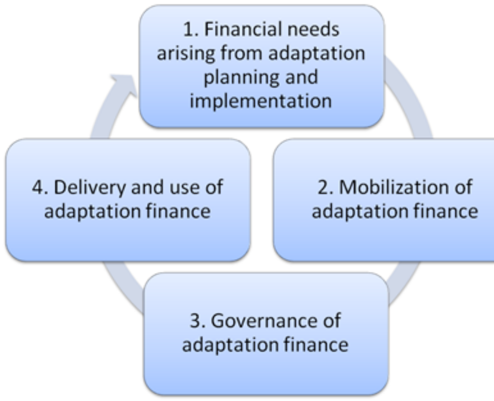

Figure. Key aspects of adaptation finance under the convention

As the contribution of countries to climate change, and their capacity to prevent and cope with its consequences, vary enormously, the Convention, in its Article 4.3, commits developed country Parties to provide new and additional financial resources, including for mitigation, adaptation and technology transfer activities, and further commits them in Article 4.4 to assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects. Such financial assistance is vital for developing countries to plan for, and implement, adaptation measures. The figure illustrates key aspects of adaptation finance under the Convention.

Financial needs arising from adaptation planning and implementation

According to the Summary for Policymakers of Working Group II's contribution to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, a gap between global adaptation needs and the funds available for adaptation exist. There is a need for a better assessment of global adaptation costs, funding, and investment. Studies estimating the global cost of adaptation are characterized by shortcomings in data, methods, and coverage.

Countries are increasingly looking at the regional and national level in line with the Convention's invitation to plan, prioritize and implement adaptation actions and to undertake assessments of their respective financial needs. The least developed countries (LDCs) assessed their initial financial needs as part of their national adaptation programmes of action (NAPAs), which provide a process for LDCs to identify and communicate priority activities that respond to their urgent and immediate adaptation needs. As at April 20, 2014, of the 50 countries that have completed and submitted their NAPAs[1], 48 LDCs have accessed a total of USD 817.25 million from the LDC Fund (LDCF) for 150 projects, which require a total of USD 4.6 billion, in support of the implementation of their NAPAs. In line with the NAPA priorities, some 29 per cent of LDCF resources have been directed towards enhancing the resilience of agricultural production and food systems. Natural resources management, water resources management and coastal zone management are other priority sectors for LDCF financing, each having received between 13 and 17 per cent of the funding approved as at April 20, 2014[2].

Following the NAPA process, the Conference of the Parties (COP) recognized the need for LDCs to also identify medium- and long-term adaptation needs and to develop and implement strategies and programmes to address those needs. Consequently, it established an iterative, continuous, country-driven process for LDCs to formulate and implement national adaptation plans (NAPs). It also invited other developing countries to employ the modalities formulated, to support their own NAP processes. The initial guidelines for the formulation of NAPs (decision 5/CP.17) envision the assessments of medium- and long-term adaptation needs, and, as appropriate, development needs and climate vulnerabilities; activities aimed at integrating climate change adaptation into national and sub-national development and sectoral planning; and strengthening institutional and regulatory frameworks to support adaptation. It is expected that NAP processes will generate a con-

1. Three of which have since graduated from the LDC group, namely Cabo Verde, the Maldives and Samoa.
2. See GEF/LDCF.SCCF.16/04 "Progress report for the LDCF and the SCCF" available at <www.thegef.org/gef/node/10491>.

	LDCF	SCCF Adaptation	Adaptation Fund
In operation	Since 2002	Since 2004	Since 2009
Cumulative pledges (USD)	879 million (as of February 2014)	333 million (as of February 2014)	396 million, including 190 million from CER proceeds (as of March 2014)
Funding approved for projects (USD)	836 million, including 12 for NAPA preparation, 817 for NAPA implementation and 7 for NAP formulation (as of April 2014)	236 million (as of April 2014)	226 million (as of May 2014)
Number of projects	205 (199 national, 2 regional and 4 global) (as of April 2014)	56 (42 national, 11 regional and 3 global) (as of April 2014)	34 (34 national) (as of May 2014)
Number of benefitting countries	51 for NAPA preparation and 48 for NAPA implementation (as of April 2014)	75 (as of April 2014)	33 (as of May 2014)

Table. Overview of active adaptation funds under the Convention and Kyoto Protocol*

tinuous demand for financial resources.

Mobilizing adaptation finance

In 2010, the COP decided that scaled-up, new and additional, predictable and adequate funding shall be provided to developing countries, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change. The COP also recognized that developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries and agreed that funds provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources (decision 1/CP.16, section IV.A).

Voluntary multilateral and bilateral public funding constitutes a large share of adaptation finance. Additional private-sector resources are generated through a levy on the proceeds from the Kyoto Protocol's Clean Development Mechanism. The role of the private sector in adaptation is growing, particularly as it invests in vulnerable sectors, including through micro-finance and green bonds, and as it embeds climate considerations into its own risk management frameworks and investment decisions. These investments, if properly planned, can help to reduce exposure to climate risks and contribute to effective adaptation. In addition, the private sector can be engaged in developing and implementing financial risk management mechanisms, including insurance and other financial protection instruments.

Governing adaptation finance

The Convention, in its Article 11, defines a financial mechanism to provide financial resources to support actions by developing countries in addressing climate change and which is to be operated by one or more entities. Initially, countries entrusted the operation of the financial mechanism to the Global Environment Facility (GEF). Based on guidance from the COP, the GEF operates three funds supporting adaptation and enhancing resilience to a varying degree: these are the GEF Trust Fund, the LDCF and the Special Climate Change Fund (SCCF). As part of the Kyoto Protocol, the CMP established the Adaptation Fund (AF), which supports adaptation projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate change, and which is managed by its own Board. Finally, in 2010, Parties established the Green Climate Fund (GCF) as an additional operating entity and decided that the GCF should receive a significant share of new multilateral funding for adaptation. The Board of the GCF is currently taking the necessary steps to ensure the Fund is made operational, and has agreed to aim, over time, for a 50:50 balance between mitigation and adaptation and a floor of fifty per cent of the

* Information for the LDCF and SCCF was obtained from document GEF/LDCF.SCCF.16/04 Progress report for the LDCF and the SCCF available at <www.thegef.org/gef/node/10491>. Information for the Adaptation Fund (AF) on funds approved, projects and beneficiaries was obtained from the AF's project website available at <www.adaptation-fund.org/funded_projects/interactive> accessed on 27 May 2014 and from the March 2014 AF's Trustee report available at <http://fiftrustee.worldbank.org/webroot/data/AF_TR_03_14.pdf>.

adaptation allocation for particularly vulnerable countries, including LDCs, small island developing States and African States.

In addition to the channels available under the Convention, developed country Parties may also provide, and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels. Such channels include for example the Pilot Program for Climate Resilience under the Climate Investment Funds, the European Comission's Global Climate Change Alliance or Japan's Cool Earth Partnership.

Delivering and using adaptation finance

Together, the adaptation funds under the Convention assist developing country Parties through supporting enabling activities (GEF Trust Fund), preparation and implementation of NAPAs and support for activities to enable the NAP process for LDCs (LDCF), adaptation responses particularly in water resources, land, agriculture, health, infrastructure development, disaster preparedness, and in fragile ecosystems and coastal zones and support for activities to enable the NAP process in non-LDC developing countries (SCCF), and adaptation projects and programmes (AF).

Once the initial resource mobilization for the GCF will have been finalized, the Fund will support developing countries in pursuing project-based and programmatic approaches in accordance with climate change strategies and plans, including as reflected in the NAP process, with a view to promoting a paradigm shift towards climate-resilient development pathways. The table provides an overview of the active adaptation funds under the UNFCCC.

Adaptation finance is delivered either directly to countries or indirectly through regional or international implementing agencies. While project support currently predominates the delivery of adaptation finance and has been valuable for piloting adaptation actions in countries and sectors, it may be less suitable for delivering the scaled-up financial resources required for national adaptation planning and action. Recently, there has been a shift towards more programmatic approaches in order to make best use of the full range of means of implementation for adaptation actions available and to allow for implementation at scale. Programmatic approaches and possible budget-support modalities offer countries the opportunity to plan and implement adaptation more comprehensively across levels and sectors and in alignment with their broader development strategies.

Conclusions and the future of adaptation finance

Despite the existing funding avenues under the Convention and Kyoto Protocol, challenges to financing adaptation persist. According to the GEF, for example, the supply of resources under the LDCF and SCCF continues to fall short of current and projected demand. Likewise, as the proceeds from CDM are decreasing, so is the availability of resources under the Adaptation Fund. According to the Adaptation Fund Board, at current CER prices and estimated CER issuance levels, it is estimated that the Adaptation Fund would receive approximately the equivalent of USD 18–34 million in cumulative additional revenue up to 2020.

Options for mobilizing additional adaptation finance are being considered by Parties as part of the negotiations on the new 2015 agreement. The SCF Forum on "Mobilizing adaptation finance", mandated by Parties, is a clear example of the fact that Parties are considering adaptation finance as a priority, and that there is a wealth of experience and information to be shared.

National policies are key for strategic adaptation planning and implementation, and to mobilizing public and private finance. They can help to create an enabling environment that ensures that scaled-up financial resources are optimised, used to support the integration of adaptation in sectoral and development planning, and shifted towards those activities that hold the greatest promise for reducing vulnerability. The NAPA process, for example, has given rise to institutional strengthening at the national level and has strengthened the ability of LDCs to respond to adaptation concerns in general. The NAP process has the potential for becoming an important national vehicle for adaptation planning and for facilitating the necessary institutional arrangements in developing countries through which finance is mobilized for the implementation of adaptation action.

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