Doubling Adaptation Finance

UNFCCC Standing Committee on Finance

Report Submission

July 2023

1. Preamble

We, on behalf of ACT Alliance, Ban Ki-moon Centre for Global Citizens, Bread for the World, Global Citizen, Oxfam, and the United Nations Foundation, hereby express our sincere gratitude to the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat for providing us with the opportunity to submit our comments and contribute to the ongoing dialogue on adaptation finance. This submission is in response to the call of the Standing Committee on Finance for inputs titled "Information and Data for the Preparation of the Report on the Doubling of Adaptation Finance."

We believe that actions to at least double adaptation finance are important to close the mitigation–adaptation balance gap and demonstrate the leadership of developed countries in the context of the unmet US$100 billion per year goal. The Glasgow Climate Pact urges developed countries to at least **double the funding provided to developing countries for adaptation** by 2025, compared to a 2019 baseline. A reference to article 9.4 of the Paris Agreement in this commitment sets out the terms that must be met in the context of this goal: public and grant-based finance that is responsive to country strategies, needs and priorities.

Importantly, the doubling of adaptation finance is premised on mandates and clearly set expectations under the Convention and the Paris Agreement. It should prioritize countries that have contributed least to climate change, ensuring that the provision, mobilization, and delivery of finance do not harm the fiscal space of vulnerable nations. Instead, it should facilitate poverty eradication and promote sustainable development.

2. Context of adaptation finance and main challenges

While the share of adaptation finance grew over recent years – reaching 41% of climate finance mobilized by developed countries in 2020 – the **scale of adaptation finance** available falls drastically short of what is required to address the needs of vulnerable states. The latest UNEP Adaptation Finance Gap report notes that international adaptation finance to developing countries reached a total of US$28.6 billion in 2020. However, actual adaptation needs are currently five to ten times higher than adaptation finance flows. This gap is projected to worsen as annual adaptation costs are estimated to reach US$160–340 billion by 2030 and US$315–565 billion by 2050. Further, there is evidence that adaptation finance figures are over reported and that reported "adaptation" projects do not always deliver adaptation benefits.

Moreover, **the accessibility of adaptation finance** has emerged as a significant concern for many developing countries. Complicated access procedures, including time-consuming accreditation processes and lengthy time horizons, pose major challenges. Consequently, a significant portion

of committed adaptation finance remains undisbursed. For instance, less than half of the pledged adaptation finance for Africa has been disbursed from multilateral funds to date. Additionally, climate-vulnerable countries, such as small island developing states, face unique obstacles due to high transaction costs and small project sizes, making it particularly challenging to attract investments. Furthermore, despite their severe climate impacts and high levels of indebtedness, these countries often face limited eligibility for concessional finance and overseas development assistance, as they are classified as middle or high-income nations.

The **quality of adaptation finance** is another critical issue that demands attention. Furthermore, an analysis by Oxfam on adaptation finance highlights that between 2017-2018, the share of grants-based finance dedicated to adaptation was only 33%, and 51% if half of cross-cutting finance is also included. In addition, only 15% (US$ 2.1 billion) of adaptation finance by multilateral development banks was grant-based in 2019-2020. This poses a central concern, especially for countries already burdened with high levels of debt.

Importantly, adaptation finance is often short-term, inflexible, and not adaptative enough – in other words, it is **not fit for purpose.** Adaptation projects tend to focus on specific sectors, failing to recognize the need for harmonized, cross-cutting activities. In Africa, for example, adaptation-related funding has largely neglected vital sectors like education, biodiversity and health, despite the recognition that climate finance is most effective when addressing multiple sectoral priorities in a comprehensive manner.

Finally, adaptation finance frequently fails to **effectively reach** the places where it can have the greatest impact. Instead of prioritizing local communities and elevating locally led decentralized approaches, there is often a tendency to favor top-down approaches in project implementation. Only one out of every ten dollars committed from climate funds support local level climate action despite a growing recognition that local communities are effective agents in delivering activities that build long-term resilience. Furthermore, fragile states receive a significantly lower average of just over two US dollars per person in adaptation financing, in stark contrast to the US$162 allocated to non-fragile states. This inequitable distribution can further exacerbate the challenges fragile and conflict affected states are experiencing.

As a result, adaptation action is small in scale, incremental, sector-specific, designed to respond to current impacts or near-term risks, and focused more on planning rather than implementation, as noted in the most recent report of the Intergovernmental Panel on Climate Change (IPCC).

In 2021, the Glasgow Climate Pact "note[d] with concern that the current provision of climate finance is insufficient" to meet the needs of developing countries. In response to this concern, developed countries pledged to at least double their collective provision of climate finance to from 2019 levels by 2025. This goal offers a unique opportunity to carve out specific adaptation finance goals within the New Collective Quantified Goal on Climate Finance (NCQG). An ambitious adaptation finance goal is central in the path forward to meet increasing adaptation needs globally.

3. Latest trends and data on adaptation finance[1]

Though adaptation-related bilateral official development assistance (ODA) has increased on aggregate and across top donors, principal adaptation funding[2] remained flat, indicating that finance flows with adaptation as a fundamental objective have not increased (Figure 1). The largest bilateral adaptation ODA increase in the last two years can be mainly attributed to growth in loan-based infrastructure projects funded by Japan. However, this reported increase must be taken with caution and is likely an overstatement due to deviating reporting practices.

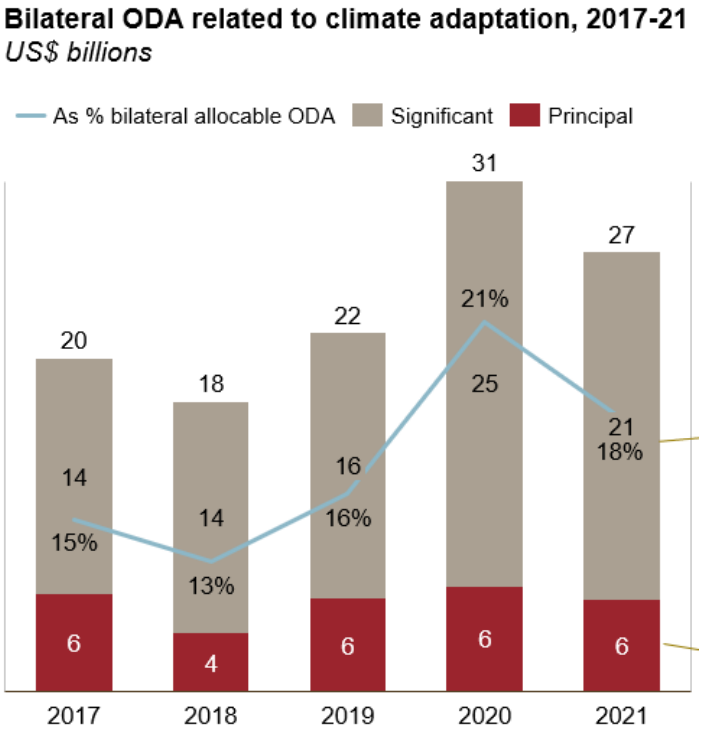


Figure 1. Bilateral ODA related to climate adaptation 2017-2021

Source: OECD CRS. Aid activities targeting global environmental objectives: climate change adaptation (principal and significant). Includes cross-cutting activities. Commitments, in 2021 Prices. Includes funding from all DAC members.

Not only is adaptation funding not growing fast enough, there are also growing concerns whether these resources truly benefit those that need it the most. Loan provision has become more prevalent over the past five years which may further exacerbate current debt crises and fiscal challenges in countries already in high distress (Figure 2). Meanwhile, donor disbursements are consistently lagging, raising doubts about the adequacy and speed of these funds in meeting the pressing needs of climate adaptation (Figure 3). Further, there is a concerning mismatch of demand and supply of funding across sectors (Figure 4).

[1] Data sources used for the analysis of this section (SEEK Development): On historic trends, OECD data was used as it allows analyzing the sectors, instruments, disbursements and gender components. On progress towards the DAF goal, UNFCCC data was used as donors' baselines and targets were based on UNFCCC input.

[2] Principal funding = projects in which climate change mitigation or adaptation is a fundamental and explicitly stated goal; Significant funding = projects in which climate change mitigation or adaptation is not a key driver but still an explicitly stated goal (source: SEEK)

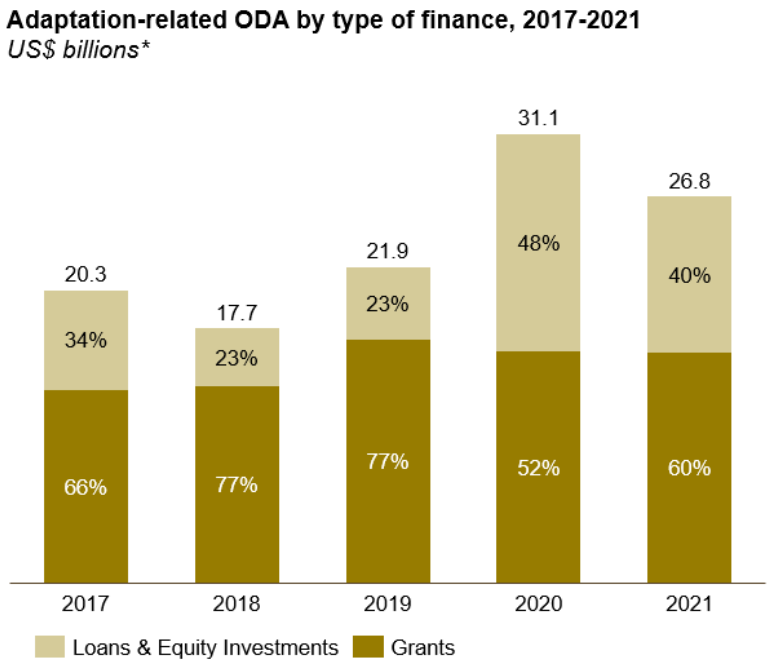


Figure 2. Adaptation-related ODA by type of finance, 2017-2021

Source: OECD CRS. Aid activities targeting global environmental objectives: climate change adaptation (principal and significant). Includes cross-cutting activities. Commitments, in 2021 Prices. Includes funding from all DAC members.
* Shows face value of loans

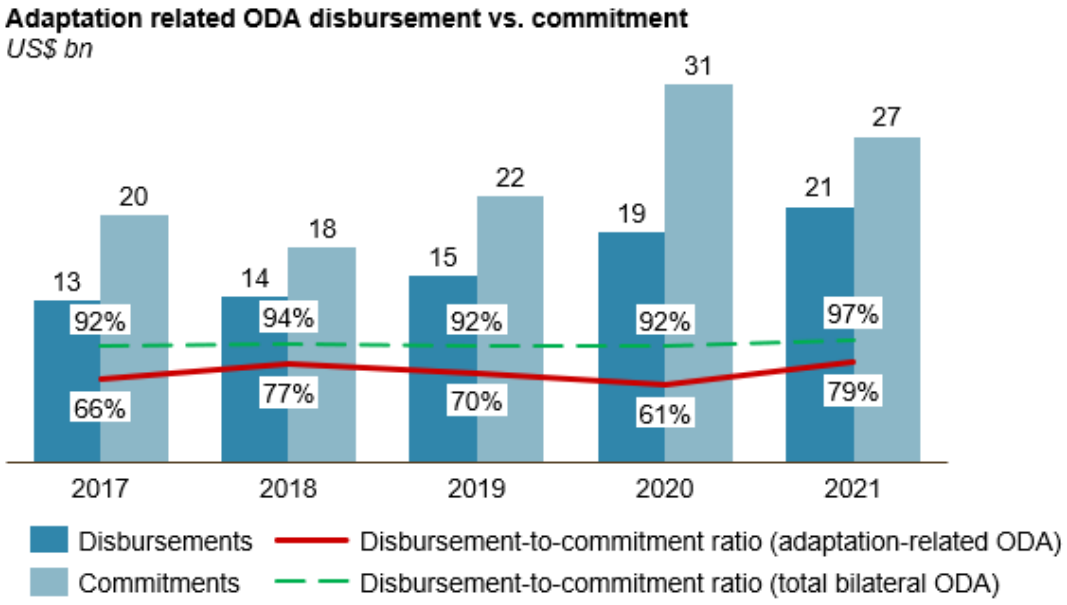


Figure 3. Adaptation related ODA disbursement vs. commitment

Source: OECD CRS. Aid activities targeting global environmental objectives: Climate change adaptation (principal and significant). Includes cross-cutting activities. Commitments, in 2021 Prices. Includes funding from all DAC members.

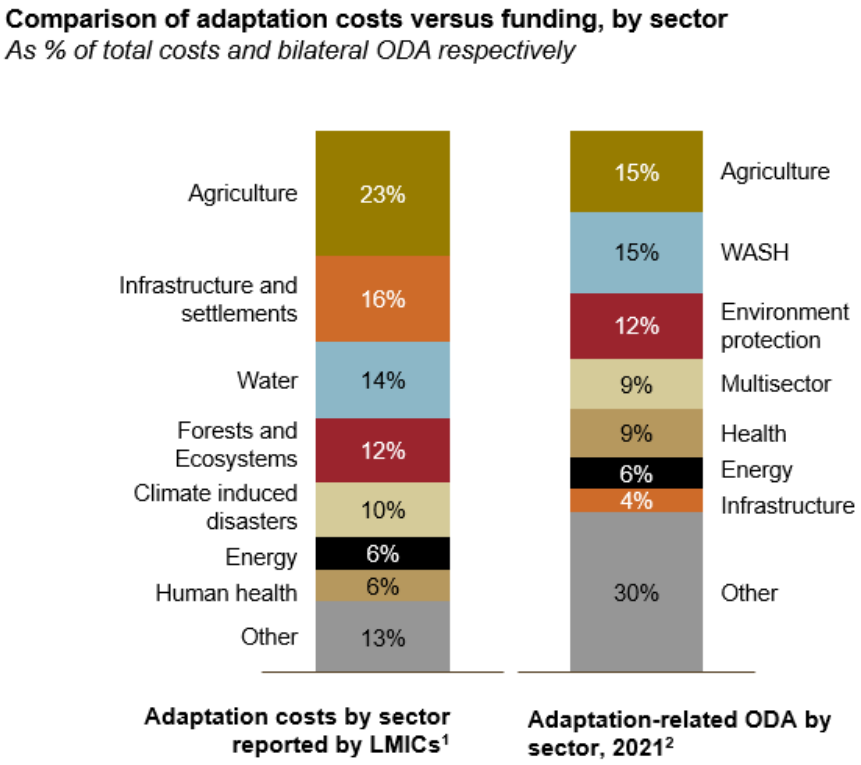


Figure 4. Comparison of adaptation costs versus funding, by sector

Source: OECD CRS. Aid activities targeting global environmental objectives: Climate change adaptation (principal and significant). Includes cross-cutting activities. Commitments, in 2021 Prices. Includes funding from all DAC members.

Despite the call for inclusive adaptation actions, the proportion of gender-sensitive adaptation funding in bilateral ODA has largely remained flat over time (Figure 5). Agriculture and health have more gender-sensitive funding than others (WASH, Infrastructure).

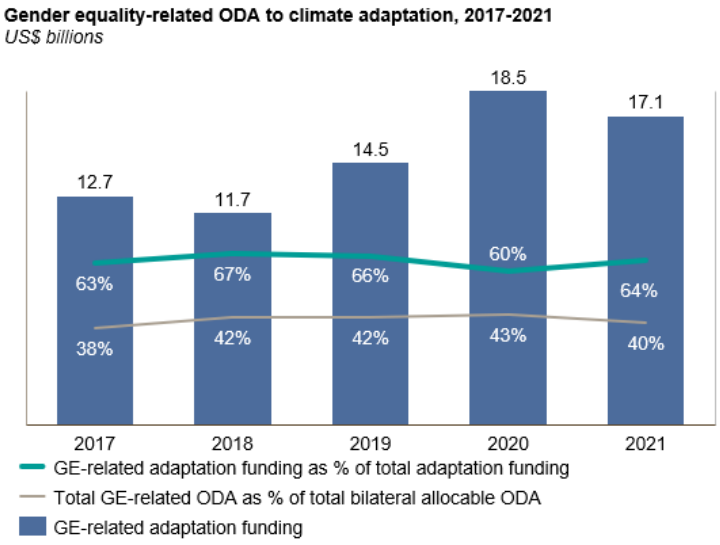


Figure 5. Gender equality-related ODA to climate adaptation, 2007-2021

Source: OECD CRS. Aid activities targeting global environmental objectives: Climate change adaptation (principal and significant). Includes cross-cutting activities. Commitments, in 2021 Prices. Includes funding from all DAC members.

Progress towards the doubling of adaptation goal and forecasts

Large donors have set individual 2025 targets, most of which fall short of doubling their 2019 baseline included in the UNFCCC 5th biannual reports (Figure 6).

Donor	Baseline US$ bn, 2020[2]	2x adaptation finance US$ bn, 2025[4]	Individual target US$ bn, 2025[3]
Japan	5.9	3.8	3
Germany	2.9	3.8	3.2
France	2.2	3.2	2.1
EC	1.3	1.6	2.1
UK	1	1.2	1.8
US	0.8	1.2	3
Netherlands	0.4	1.8	1
Canada	0.3	0.6	0.4
Norway	0.1	0.3	0.3
Total	**14.9**	**17.5**	**16.9**

Figure 6. Donor country baseline vs. target of doubling adaptation finance

Source: 2020 baseline based on UNFCCC 5th biannual reports (2022). Includes bilateral and multilateral contributions. Activities targeting both, mitigation and adaptation are included to 50%. Core contributions to multilaterals are included according to imputed multilateral shares provided by OECD. Can differ from what governments would consider their financial contributions to climate adaptation. Donor individual targets according to Climate finance delivery plan progress report. Doubling adaptation finance refers to doubling of 2019 annual contribution based on UNFCCC.

Funding from the same set of donors is expected to grow by ~5-10% by 2024 driven by their ODA outlook and prioritization of adaptation. Assuming a similar growth trajectory until 2025, bilateral funding will likely fall short of both self-determined targets and doubling of 2019 baseline (Figure 7).

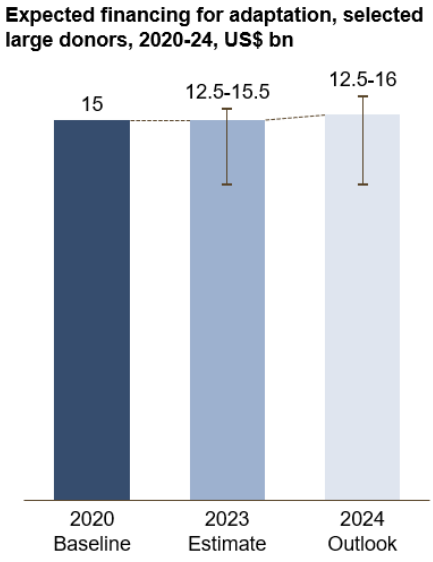


Figure 7. Expected financing for adaptation, selected large donors, 2020-2024, US $bn

Source: SEEK analysis based on UNFCCC 5th biannual reports and OECD DAC1 and CRS.

4. Opportunities and Recommendations

In the following section, selected opportunities and recommendations were chosen to highlight some of the most pressing issues on the topic.

a. Reporting on adaptation finance

Overreporting of adaptation finance should be corrected by the following actions:

I. Revising the OECD Development Assistance Committee (DAC) Rio Marker System for tracking climate finance. In most countries projects are reported on 0%, 50% or 100% which is roughly estimated. More accurate estimates of climate finance, and adaptation finance in particular, should be provided wherever possible.

II. Most countries currently provide the nominal value of loans and other non-grant instruments. Instead, developed countries should adopt the standards used for measuring Official Development Assistance (ODA) and report the grant equivalent value of climate finance. According to calculations by Oxfam, taking into account both mechanisms of overreporting, the climate specific net assistance value of adaptation finance in 2020 was US$ 9.5-11.5 billion (low/high estimate), significantly lower than the reported US$ 28.6 billion. By adopting the grant equivalent approach, we can gain a more accurate understanding of the actual climate finance being provided and allocated for adaptation efforts.

III. All donors and countries providing international climate finance should commit to report their full data set for the years 2021 and 2022 as well as provide an overview of prospective pledges for 2023, 2024 and 2025 to the OECD before the end of the summering 2023. To ensure a comprehensive understanding of climate finance landscape, the OECD should consider publishing a climate finance report by the 28th UN Climate Change Conference (COP 28), with data broken donor by donor country.

IV. The lack of a globally shared understanding of what counts as climate finance has a huge implication on adaptation accounting. There is the need to address the existing gaps in adaptation finance accounting and reporting methodologies and practices in the context of the ongoing discussions on climate finance definitions.

Further, there is an urgent need to develop methodologies for outcome measurement in addition to those of output measurement to take into account long term contribution of climate financing.

b. Financing modalities

The US$ 100 billion commitment as well as future collective climate finance goals should focus on grants for adaptation rather than loans. The Progress Report on the Climate Finance Delivery Plan reaffirms the need to prioritize grant-based finance for the poorest and most vulnerable particularly for adaptation projects. Loan finance should be encouraged but considered additional to grant finance.

c. Bridgetown / Paris Agenda and DAF

The Paris Summit for a New Global Financial Pact marked a significant milestone as it brought together a number of world leaders and included a strong call of action from the Global South to scale up financial support for climate vulnerable countries. The Summit built on the foundations laid by the Bridgetown initiative – and effort launched at COP26 by Barbados's Prime Minister Mia Mottley.

Although the summit has not delivered on specific adaptation funding proposals, strong presentations from leaders such as Shebaz Sharif of Pakistan highlighted the need for a financial system that takes into account of the challenges posed by extreme weather events. The Expert Review on Debt Nature and Climate (proposed by Colombia, Kenya and France) should ensure that it addresses the specific issues associated with climate adaptation in vulnerable countries.

d. Global Goal on Adaptation and Global Stocktake

The framework for the Global Goal on Adaptation (GGA) provides an opportunity to highlight the adaptation needs that climate finance must continue to support. It is imperative that the GGA determination process delivers both on outcomes and indicators.

As the framework for the GGA is further developed and agreed, assurances are required to secure adequate financial resources supporting the implementation of the GGA framework for scaled up adaptation ambition. Furthermore, future Global Stocktake processes should evaluate the adequacy and effectiveness of adaptation finance in relation to the GGA.

e. Sectorial excurse – Agricultural Adaptation

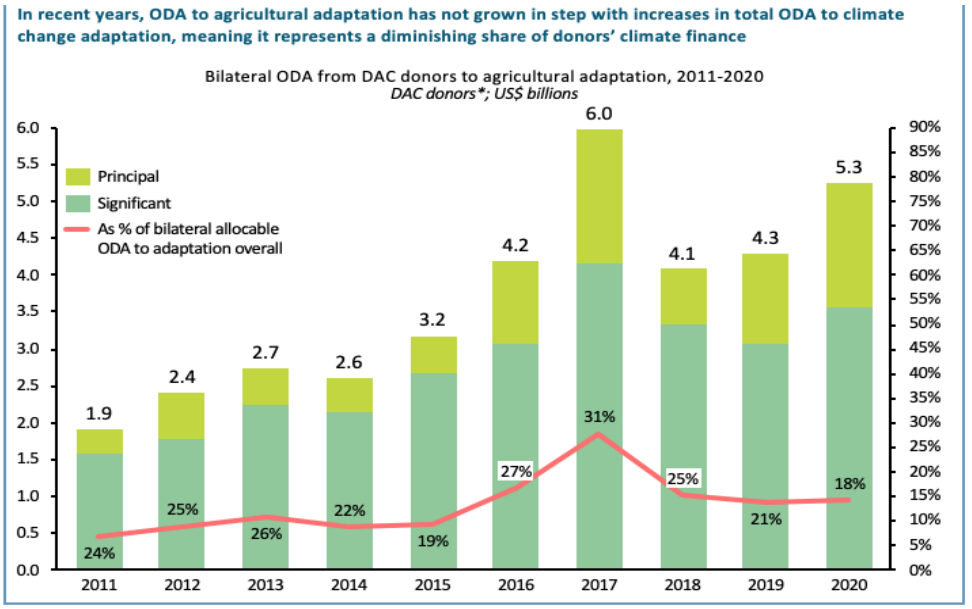
There is mounting evidence that smallholder farmers are particularly vulnerable to climate change requiring scaled-up adaptation efforts. The UN Food and Agriculture Organization (FAO) found that extreme weather events caused more than half of all crop production shocks in recent years, reinforcing concerns about arable systems' vulnerability to climatic shifts. Drought was the most significant cause of agricultural production loss, accounting for 82% of total losses. Between 2008 and 2018, the agriculture sector in low- and lower middle-income countries absorbed 26% of all economic damage and losses caused by medium- to large-scale disasters.

Women smallholder farmers are particularly vulnerable to climate change as coping mechanisms and resilience to shocks are shaped by gender inequalities. Although they make up a greater share of the labour force (in Sub-Saharan Africa well over 50%), their limited access to resources, landownership, markets and additional burdens of unpaid work among others significantly constraints their adaptive capacity.

Despite being a significant pillar of food security, health, and biodiversity, smallholder farmers in developing countries, especially women and youth, find themselves

disproportionately impacted by climate change. Despite their heightened vulnerability, only 1.7% of total climate finance targets smallholder farmers, according to estimates by the International Fund for Agricultural Development (IFAD).

Beyond a decrease in overall agricultural ODA relative to total ODA, the latest data shows that, in recent years ODA to agricultural adaptation has not increased in lockstep with increases in total ODA to climate change adaptation (Figure 8) as also mentioned in section 2 above. This is particularly visible considering the ODA development for agriculture adaptation after 2017, the year when total climate finance including mitigation & adaptation increased significantly. Diminished investment in agricultural adaptation can be linked to a variety of factors, including shifting donor priorities.



Source: Based on OECD CRS (activity-level data; funding tagged with the Rio Marker for climate change adaptation and agricultural purpose codes plus rural development, which is reclassified as agricultural sector.) All numbers reflect commitments in 2020 prices *30 DAC members.
Note: Rio markers are not applicable to flows for general budget support, imputed student costs, debt relief except debt swaps, administrative costs, development awareness, refugees in donor countries; these flows are excluded from the estimated figures

Figure 8. Bilateral ODA from DAC donors to agricultural adaptation

As much as the scale of financing is crucial, so should the quality of the finance. While almost 70% of agricultural adaptation ODA in 2020 was channelled through the public sector, donors' use of loans to fund agricultural adaptation has increased in recent years, with implications for the debt burden of recipient countries.

Investments in climate adaptation, particularly in agricultural adaptation and involving nature based solutions, shall target women in the programming as benefits from projects that empower women are higher than those that just mainstream gender.

5. Conclusions

We hope the Standing Committee on Finance report will emphasize several key priorities in its upcoming report.

First, it is important to **set clear the parameters** within which tracking of progress and reporting the doubling adaptation finance goal will be undertaken. Additionally, it is important to consider both the **quantum and quality of adaptation finance** in the reported numbers. In particular, the report should distinguish between grants versus loans, as adding further external debt burden to vulnerable countries could have significant implications for their development.

The Standing Committee on Finance report should also focus on promoting a fairer and **more accurate accounting method** for the provision of climate finance. As an example, the new Common Tabular Format (CTF) that contributor countries will use to report their climate finance contributions (to the UNFCCC) will include a column to report the grant equivalent value of projects. While currently voluntary, the upcoming SCF report could recommend making the use of this column obligatory for donors, encouraging greater transparency and accuracy in reporting climate finance contributions.

Enhancing **access to climate finance** should be another key area of emphasis in the report. Actionable recommendations to make financing sources more readily available for climate-vulnerable states should be proposed as part of the report. This could involve simplifying and harmonizing application procedures and building technical capacity to help recipients develop project proposals.

The report should highlight the role of climate finance in supporting **harmonized and cross-cutting adaptation activities**, fostering coordinated endeavors to effectively address the impacts of climate change. This is especially vital in the context of sectors and systems that are particularly vulnerable to the impacts of climate change, such as food systems.

Finally, the report should underscore the significance of decentralized, bottom-up, and locally-led approaches in climate adaptation. This includes an assessment of climate finance flows that directly reach **local communities** and provide support for building climate resilience in **fragile and conflict-impacted** states.

By elevating these key priorities, the Standing Committee on Finance report can catalyze more effective and impactful climate finance strategies that align with global climate goals and support those most vulnerable to the effects of climate change.