SPANISH PRESIDENCY
COUNCIL OF THE EUROPEAN UNION

SUBMISSION BY SPAIN AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

Madrid, 28th July 2023

Subject: SCF - Information and data for the preparation of the report on the doubling of adaptation finance

1. General remarks/approach

The EU and its Member States recognise that adapting to the adverse impacts of climate change is critical to achieving sustainable development. The urgency to adapt is particularly pressing for those developing countries that are facing significant vulnerability, financial and capacity constraints. For these countries, adaptation is crucial to ensure progress towards their economic development and societal well-being, as well as reducing the negative longer-term impacts of climate change. To prepare for the future impacts of climate change, it is essential to ensure that all financial flows result in climate-resilient assets and activities, while also mobilising dedicated finance for adaptation.

The provision and mobilisation of financial support for adaptation in developing countries has been an important element of the UNFCCC negotiations for many years, and the 2021 Glasgow Climate Pact has called on developed countries to at least double their climate finance for adaptation in developing countries from 2019 levels by 2025, in the context of achieving a balance between mitigation and adaptation in the provision of scaled-up financial resources, recalling Article 9, paragraph 4, of the Paris Agreement. In this context, scaled-up adaptation finance should mainly support those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the Least Developed Countries (LDCs) and Small Island Developing States (SIDS), considering the need for public and grant-based resources for adaptation. Based on OECD data, the EU and its Member States consider that fulfilling the call to double adaptation finance means collectively reaching USD 40 billion in 2025.

According to OECD reporting, adaptation finance from bilateral and multilateral sources, including export credits and private finance mobilised, has been continuously increasing since 2016. The EU is committed to being at the forefront of the collective efforts to scale up adaptation finance provision and mobilisation with a specific focus on poor and vulnerable countries and communities, particularly LDCs and SIDS. In 2021, the EU and its Member States provided over EUR 23 billion in public climate finance to support developing countries, with close to half of the total funding in the form of grants and with more than 54% dedicated to climate adaptation or cross-cutting action. This equates to EUR 8.9 billion of EU public finance for adaptation[1], which

[1] https://www.oecd.org/climate-change/finance-usd-100-billion-goal/

represents almost one quarter of the collective doubling. The EU and its Member States intend to continue to scale up our adaptation finance, as part of the overall and consistent increase in climate finance towards 2025. The EU and its Member States call on all Parties in a position to do so, as well as implementing entities such as Multilateral Development Banks (MDBs) and the multilateral climate funds to intensify their efforts to address this call. We support the collective efforts across multilateral and bilateral finance providers and developing country partners towards improving access to adaptation financing and towards delivering programmes that build economy-wide climate resilience. In this context, we call on developing countries to (further) prioritise adaptation in their planning, including national budgets, and to keep a high level of engagement with the partners that could provide and facilitate access to finance.

2. Comments on the draft suggested in the annex of the call for inputs

On the methodology, the EU and its Member States consider that the report will be most accurate and meaningful if it assesses both dedicated adaptation finance and adaptation within cross-cutting finance, as mainstreaming adaptation through climate action is paramount for ensuring transformation and resilience towards climate change. This is in line with findings by the IPCC (WGII AR6) underlining the need to promote climate-resilient development (i.e. to treat mitigation and adaptation in an integrated manner to support sustainable development).

Sound accounting methodologies for adaptation finance are essential to track the doubling of adaptation finance alongside wider climate finance. The EU and its Member States advocate for transparent and consistent methodologies. However, these come with an administrative burden for climate finance providers and beneficiaries, so any changes to these systems must be thoroughly justified and take into account the significant anticipated benefits as well as challenges.

Barriers to accessing adaptation finance, especially for LDCs and SIDS, present a key challenge to successfully achieving the doubling of adaptation finance. The EU and its Member States call for a collective and constructive engagement with developing countries, in relevant bilateral and multilateral forums, to address barriers and constraints for accessing adaptation finance, and encourage a whole-of-government approach with all relevant actors, including finance ministries. There is a need to build a better understanding of key barriers, as well as acting on existing information, in order to comprehensively take action across bilateral and multilateral sources to address accessibility to adaptation finance and eligibility for concessional finance, and thereby improve its effectiveness and impacts. The EU and its Member States welcome the emphasis on effectiveness of adaptation finance, through access, ownership and impacts. However, the SCF's report should also assess how adaptation is prioritised in national planning processes, including through all stages of the NAP process, national development frameworks, national budgets and investment plans, as well as through improving overall enabling environments to facilitate the consideration of climate risks into policy and investment decisions, to better take into account ownership and timelines. In this context, the EU and its Member States recall one of the key findings of the IPCC AR6 WGII report, which states that adaptation must advance from current incremental adjustments to planned and systemic approaches (transformative approaches). The EU and its Member States also consider that the principles for locally-led adaptation offer an important opportunity to improving and scaling up adaptation finance.

The EU and its Member States request that private sector mobilisation and how to better attract private finance for adaptation is also looked at in the report; the doubling call is a key opportunity to supplement increased public sector finance and better integrate adaptation action across economies. While public finance is crucial for igniting adaptation action, there is a need for private sector actors to step up their funding. There are however many barriers, such as a lack of financial return, shortages of longer-term credit, a lack of accurate and reliable climate data, etc. In order to tap into the private sector, these could be countered by, for example, raising awareness of adaptation risks, costs and options, addressing imperfect capital markets by ensuring an adequate supply of finance for adaptation and resilience investments and addressing positive externalities of adaptation-related investments. Also, a major step in mobilising the private sector is to ensure that adaptation is mainstreamed across all investments that may be impacted by climate change in the future. The EU and its Member States emphasise the crucial role of MDBs and other Development Finance Institutions (DFIs) in increasing finance for adaptation, including through the mobilisation of private climate finance, and we encourage these institutions to update their adaptation finance projections as part of the collective effort to double the share of adaptation finance by 2025.