GLOBAL CITIZEN

Doubling Adaptation Finance
UNFCCC Standing Committee on Finance
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Background

Climate change is a pressing global challenge that demands urgent and ambitious action from all countries. While numerous developed nations have expressed their commitment to achieving the goal of doubling climate adaptation finance by 2025, several key interventions are required to ensure the realization of this objective. It is evident that greater international public finance is necessary to assist countries facing the most severe threats of climate change in their efforts to adapt. Despite the rapid growth in adaptation finance, it remains a meager fraction of total climate investments, accounting for less than 10%, as reported by the Climate Policy Initiative (CPI).

In terms of funding to achieve the collective goal of mobilizing USD 100 billion per year for climate action, developed countries provided an annual average of $28.6 billion in adaptation finance during the period from 2016 to 2020, as indicated by the Organisation for Economic Co-operation and Development (OECD). Regrettably, this amounted to only 34% of the total funding provided up to that point. For the most climate-vulnerable nations to effectively build climate adaptation infrastructure, greater accountability and commitment are needed from more governments to supply additional funding. This additional financing should predominantly come in the form of climate-resilient grants, affording the necessary flexibility to be utilized across all climate adaptation areas, including but not limited to agriculture, sanitation, and infrastructure.

Trends in Adaptation Financing: Encouraging Steps Amidst Ongoing Challenges

While there have been some incremental steps and encouraging commitments in adaptation financing, it remains far outpaced by the growing needs.

- During COP26, record pledges of US$356 million were made to the Adaptation Fund and US$413 million to the Least Developed Country Fund, including contributions from new contributors, marking a positive shift towards recognizing the urgency of adaptation financing and its significance in supporting climate-vulnerable nations.

- Furthermore, four Multilateral Development Banks (MDBs) took the lead by setting ambitious adaptation finance targets for 2025 and at least 12 countries made explicit adaptation finance commitments for 2025, with several nations aiming to double or even increase their commitments substantially.

- Additionally, five other countries pledged to maintain a balanced approach between mitigation and adaptation, acknowledging the complementary nature of these efforts in tackling the climate crisis. In 2021, Germany reached a 49% adaptation share of its climate finance from budgetary sources.

What remains true is that financing for adaptation continues to be consistently overshadowed by mitigation efforts. For example, in 2021, of the $51 billion in climate financing provided by the MDBs to vulnerable low- and middle-income countries, only 35% went to climate adaptation[1].
Adaptation, often being sidelined despite its crucial role in building resilience and protecting communities from the impacts of extreme weather events, rising sea levels, and other climate-related challenges. There are significant gaps in the amount of financing needed to meet climate adaptation goals in developing countries to support them in withstanding the worst impacts of climate change. New analysis from UNEP warned that the amount of adaptation finance flowing to developing countries is currently five to 10 times lower than what is needed, and a study from Care Climate Change found that current data on adaptation finance is likely overestimated.

To genuinely address the climate crisis, it is imperative to prioritize adaptation financing on par with mitigation efforts.

The incremental steps witnessed thus far must be escalated to ensure that climate financing is adequately directed towards the most vulnerable communities and sectors. Scaling up adaptation finance is vital to provide the necessary support for climate-vulnerable regions, empowering them to implement resilience-building measures and adapt to the rapidly changing climate conditions. Fostering a balanced approach that recognizes both adaptation and mitigation as equally crucial components of climate action, will forge a sustainable and equitable path towards a climate-resilient future for all.

Challenges in Adaptation Financing: Addressing the Incomplete Commitments

Despite the commitment to mobilize climate financing of $100 billion annually to support developing countries, financing remains incomplete and falls short of the required scale coupled with substantial issues related to transparency and timely tracking. A lack of reporting and accountability among participating nations hampers efforts to hold countries accountable for their fair share of climate financing. To bridge the gap, Global Citizen urges Annex II countries to fulfill their responsibility by meeting the annual climate financing shortfall of $16.7 billion through 2025 and to double adaptation finance, aiming for at least $40 billion annually. Further, Global Citizen also urges other affluent nations, whether they fall under the Annex II categorization or not, to contribute more robustly towards climate financing. This should include a particular

[1] MDBs' Climate Finance in Low and Middle-Income Countries Reaches $51 Billion in 2021 https://www.iadb.org/en/news/mdbs-climate-finance-low-and-middle-income-countries-reaches-51-billion-2021#:~:text=In%202021%2C%20MDBs%20provided%20around,%25)%20for%20climate%20change%20adaptation.

emphasis on adaptation financing, which should be delivered in a transparent and accountable manner.

The main stumbling blocks in doubling adaptation financing include:

- **Transparency and accountability on climate adaptation financing.**
  Annex II countries have continued to make updated climate finance commitments but without measurement in place. Each country needs to publish plans on how they will deliver their committed climate finance commitments. To mitigate the lack of accountability seen to date with climate finance commitments, there is an opportunity to establish new guardrails for climate adaptation commitments.

- **Quality of Existing Financing**
  It is crucial to improve the quality of existing financing, which includes both loans and grants. However, an Oxfam analysis on adaptation finance, however, reveals a concerning fact - only 33% of the finance dedicated to adaptation between 2017 and 2018 came in the form of grants. While they have their place, the diverse aspects of adaptation cannot be adequately financed through loans, especially as they may not be beneficial for all countries, especially those grappling with a mounting debt crisis. It is therefore crucial to increase the percentage of grant-based financing and reevaluate the existing financial strategies for climate adaptation.

- **Increased commitments to distribute flexible climate adaptation finance to the most vulnerable countries.** Climate adaptation investments should support locally-led initiatives and be provided in the form of grants and climate resilient loans, allowing them to also address challenges of small island developing states.

- **Short-term and Inflexible Financing: Neglecting Vital Sectors**
  Another significant challenge in the nature of financing is often short-term and inflexible. Many financing mechanisms tend to focus on specific projects rather than addressing broader adaptation needs. This approach neglects vital sectors, hindering the comprehensive development of climate resilience. To achieve meaningful progress, more flexible, long-term approaches that allow for integrated and adaptive strategies are crucial to enable climate-vulnerable regions to invest in a wide range of adaptation measures, including those related to agriculture, infrastructure, health, and sanitation.

A Brief Case: Agriculture Adaptation and the Context of the Food Crisis

The impact of climate change on global food security is becoming increasingly alarming, with 122 million more people facing hunger compared to 2019, prior to the COVID-19 pandemic. While climate change affects everyone, it is smallholder farmers and their communities who bear the brunt of its consequences on a much larger scale. Providing approximately one-third of the global food supply, smallholder farmers play a vital role in establishing a sustainable and climate-resilient food system. The rapid pace of climate change is outpacing their capacity to adapt, constantly jeopardizing their income, food security, and livelihoods.

Apart from the pressing need for increased productivity due to global population growth, the agriculture sector must urgently adopt sustainable practices to cope with climate change. These adaptation practices necessitate mid- to long-term investments, both for implementing existing technologies and conducting further research and development. It is crucial that financial support for agricultural adaptation is significantly increased to meet these critical demands.

At this critical juncture, global leaders must answer the call to raise $2 billion for a successful replenishment of the International Fund for Agricultural Development (IFAD) by the end of this year. This is particularly important as boosting agricultural development and climate adaptation is paramount for future global food security and stability. Supporting IFAD's efforts will enable smallholder farmers to access resources and expertise to enhance their climate resilience and ensure food production amidst mounting challenges. Further, leaders must rise to the challenge of securing adequate funding, around $2 billion, for CGIAR, the largest publicly-funded agricultural research partnership globally. The CGIAR plays a crucial role in driving innovation in agriculture adaptation. Strengthening and financing the CGIAR will foster the development and dissemination of climate-smart agricultural technologies, ensuring that smallholder farmers are equipped with the knowledge and tools needed to thrive in an increasingly unpredictable climate.

Seizing the Opportunities

Addressing the challenges in adaptation financing requires concerted efforts and strategic interventions. Here are some key opportunities that can pave the way for doubling adaptation finance:

a) **Increasing Grants-Based Finance:** Annex II countries should prioritize increasing grants-based adaptation finance. By dedicating a more substantial portion of climate finance to grants, the capacity of vulnerable nations to implement adaptation measures will significantly improve. Grants should ensure that financing is accessible and allows for more community-led projects, empowering local stakeholders to drive adaptation efforts.

b) **Multi-year Financing:** Shifting towards multi-year funding models can provide stability and certainty to climate-vulnerable regions. By allowing longer-term planning and implementation, countries can develop comprehensive adaptation strategies that address various sectors and build sustainable resilience.

c) **Integrative Approaches**: Encouraging funding models that support integrative approaches to adaptation will help overcome the challenges associated with rigid project-based financing. Such an approach acknowledges the interconnectedness of climate impacts and ensures that funds can be allocated flexibly based on emerging needs and priorities.

d) **Encouraging Private Sector Engagement**: In addition to public financing, greater engagement with the private sector can unlock new avenues for adaptation finance. Creating enabling conditions and mechanisms that attract private investments in adaptation projects can augment overall funding and promote innovative solutions.

<u>Recommendations to overcome challenges in doubling adaptation finance:</u>

Global Citizen calls on industrialized countries to increase their investments in climate adaptation, and publish roadmaps and reports on their investments, with a particular focus on agriculture adaptation.

1. We call on industrialized countries to **more than double climate adaptation finance** by 2025 and to ensure that it reaches the most vulnerable communities and sectors. This is not only a moral obligation, but also a smart investment for a more resilient and sustainable future for all. Furthermore long standing ODA quality and quantity promises must be kept. In our time of 'polycrises', climate pledges must be additional to funding for core lifesaving health, humanitarian and anti-poverty goals.

2. We call on the **multilateral development banks (MDBs) to increase the share of their climate financing that goes to adaptation to increase from 35% to 50%.** Particularly now as the MDBs, led by the World Bank, are going through an evolutionary process to better respond to global challenges like climate change, it's imperative that they take a balanced approach between mitigation and adaptation and ensure that at least 50% of their climate financing supports the most vulnerable countries' adaptation needs.

3. We need to **push for a roadmap on how countries will be meeting their commitment to double adaptation financing** by 2025 with a view to **reaching a 50/50 split between adaptation and mitigation.** All donors and countries providing international climate finance must commit to report their full data set for 2021 and 2022 and also give an overview of prospective pledges for 2023, 2024 and 2025 to the OECD before the end of the summer. The OECD must then publish a climate finance report, with data broken donor by donor country, by COP28.

4. **Countries should make pledges** to increase their adaptation finance towards meeting the target above. G20 members in particular should continue to increase climate finance, in particular in the form of grants and for adaptation towards the goal of 50% of total climate flows, and refrain from backtracking from past commitments.