

CLIMATE FINANCE THEMATIC BRIEFING: ADAPTATION FINANCE

CLIMATE FINANCE **3** FUNDAMENTALS

FEBRUARY 2023

Charlene Watson, ODI, Liane Schalatek, hbs, and Aurélien Evéquoz

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 Least Developed Countries (LDCs) and Small Island Developing States (SIDS) with promises made to double adaptation finance between 2014 and 2020 under a roadmap presented for COP22 and followed by a pledge at COP26 to at least double their collective provision of adaptation finance from 2019 levels by 2025. The largest sources of approved funding for adaptation projects are currently the Green Climate Fund (GCF), the Least Developed Countries Fund (LDCF) administered by the Global Environmental Facility (GEF), the Pilot Program for Climate Resilience (PPCR) of the World Bank's Climate Investment Funds (CIFs) and the Adaptation Fund (AF). However, developed countries' contributions to these funds remain low compared to funds supporting mitigation; at a global level, adaptation remains underfunded. The GCF – set to devote 50% of its resources to adaptation, with half of that going to the SIDS, LDCs and African states (see CFF 11) – is the largest provider of adaptation finance with USD 2.37 billion for 81 projects. In 2022, the AF approved the most new adaptation funding with USD 126 million for 25 new projects. The amount of cumulative finance approved for adaptation from key climate funds tracked by Climate Funds Update (CFU) grew slightly to USD 7 billion in 2022. 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 in a gender-responsive and equitable manner 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 rapidly worsening impacts of climate change already being experienced due to past and current greenhouse gas (GHG) emissions. Significantly more finance is necessary to fund activities that respond to impacts such as flooding, cyclones, coastal erosion, droughts and increased variability of precipitation (UNEP, 2022). Currently 23% of the financing approved since 2003 flowing from the dedicated climate finance initiatives that CFU monitors supports adaptation, a proportion that has remained largely stagnant over recent years. This was acknowledged at COP26 in Glasgow, which put a special emphasis on efforts to significantly scale up the provision of adaptation finance by developed countries to developing countries and urged them to at least double adaptation finance provided from 2019 levels by 2025 (UNFCCC, 2021). The provision of this finance is made more complex by the unequal distribution of climate change impacts with some of the poorest countries most affected, especially SIDS and LDCs (IPCC, 2022). These countries also have differing institutional capacities to respond to climate

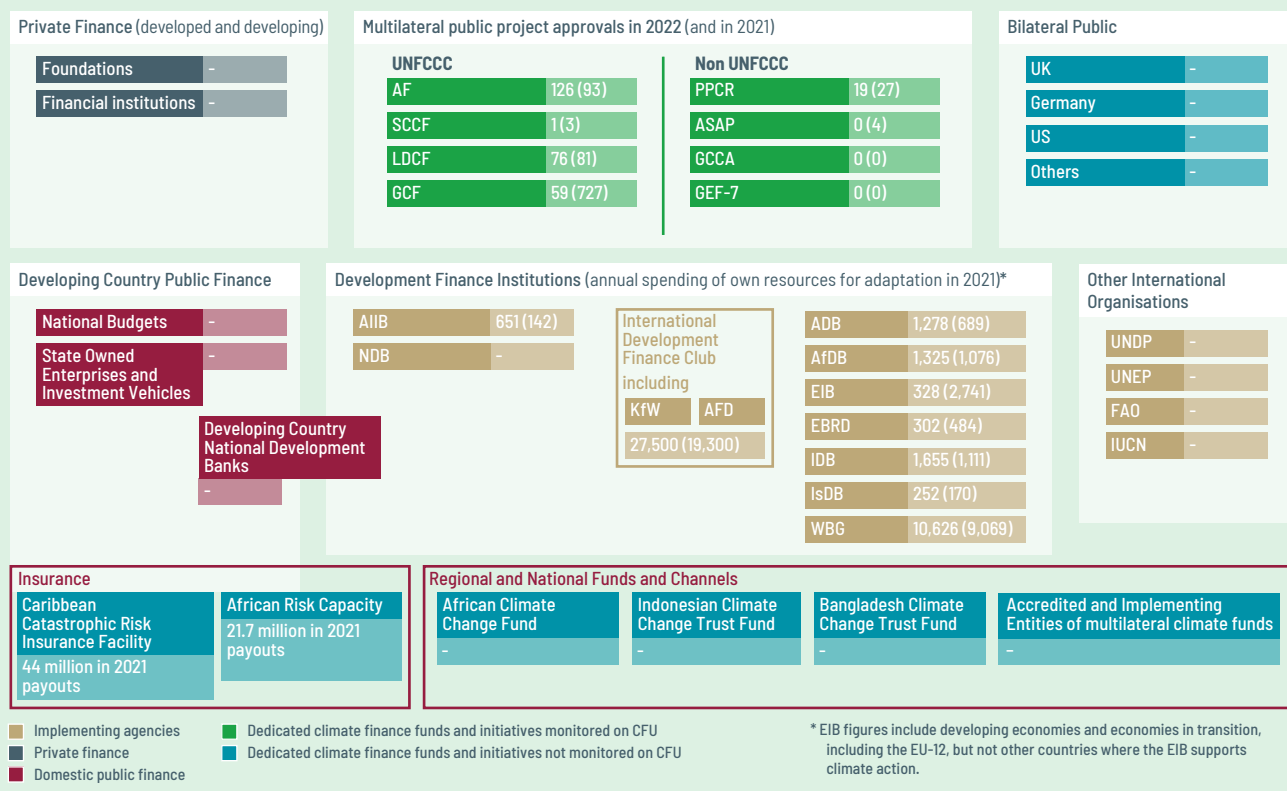
change and to ensure that financing is utilised effectively and equitably, including with attention paid to gender and vulnerable and marginalised groups.

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 (DFIs) and increasingly from insurance and risk-pooling mechanisms (Figure 1). Sources have varying availability of information.

CFU data shows an additional USD 281 million in multilateral funding approved for adaptation during 2022 from the funds in Table 1 and Figure 2. The PPCR was conceived as a fund whose pilot approach focused on supporting only a few countries with large amounts of programmatic funding. Over time the approach has evolved to not only include larger country packages, and in 2022 the fund only approved USD 19 million for 27 additional small-scale projects, including three projects under the PPCR Business Development for Resilience Program and 23 projects

Figure 1: Adaptation finance architecture diagram (USD millions)



Implementing Agencies and Institutions		Development Finance Institutions	
AF	Adaptation Fund (GEF acts as secretariat and WB as trustee)	ADB	Asian Development Bank
ASAP	Adaptation for Smallholder Agriculture Programme	AFD	Agence Française de Développement (French development agency)
GCCA	Global Climate Change Alliance	AfDB	African Development Bank
GCF	Green Climate Fund	AiIB	Asian Infrastructure Investment Bank
GEF	Global Environment Facility	EBRD	European Bank for Reconstruction and Development
LDCF	Least Developed Countries Fund (hosted by the GEF)	EIB	European Investment Bank
PPCR	Pilot Program for Climate Resilience (implemented through WB, ADB, AfDB, EBRD and IDB)	IDB	Inter-American Development Bank
SCCF	Special Climate Change Fund (hosted by the GEF)	IsDB	Islamic Development Bank
Other International Organisations		KfW	Kreditanstalt für Wiederaufbau (German development bank)
FAO	Food and Agriculture Organization of the United Nations	NDB	New Development Bank
IUCN	International Union for the Conservation of Nature	WBG	World Bank Group
UNDP	United Nations Development Programme		
UNEP	United Nations Environment Programme		

Table 1: Multilateral funds supporting adaptation (2003–2022, USD millions)¹

Fund	Pledged	Deposited	Approved	Projects approved
Green Climate Fund (GCF-IRM, GCF-1)	20,323.1	15,475.1 ²	2,369.3	81
Least Developed Countries Fund (LDCF)	2,075.0	1,830.3	1,416.5	310
Pilot Program for Climate Resilience (PPCR)	1,155.8	1,155.8	1,029.4	116
Adaptation Fund (AF)	1,423.9	1,243.4	996.7	296
Global Climate Change Alliance (GCCA)	1,652.8	1,652.8	380.9	40
Adaptation for Smallholder Agriculture Programme (ASAP)	475.6	394.9	299.7	45
Special Climate Change Fund (SCCF)	380.6	374.0	284.9	73
Global Environment Facility Trust Fund 7 (GEF-7)	728.4	728.4	152.2	22

focusing on technical assistance. In contrast to the PPCR's now 116 total number of projects, the LDCF has a much higher number of projects approved at 310, with relatively small individual project funding levels. The LDCF approved USD 76 million in 2022 for 16 new projects. The Special Climate Change Fund (SCCF) approved USD 0.9 million for one new project, whilst the AF approved USD 126 million for 25 new projects, and thus was the fund with the most committed new adaptation funding in 2022. The Global Climate Change Alliance (GCCA), the Agriculture Smallholder Adaptation Programme (ASAP) and the GEF-7 Trust Fund did not approve further projects this year. The GCF, which has been responsible for greatly increasing adaptation finance since 2015 (see CFF 11), approved a relatively low amount of USD 59 million for three adaptation projects in 2022. However, the GCF approved a further USD 903 million for ten projects with both adaptation and mitigation components, further accelerating its trend towards an increase in cross-cutting thematic funding.

Who pledges and deposits adaptation finance?

Europe, Germany, the United Kingdom and the United States represent 62% of finance pledged to adaptation funds in Table 1 (excluding the multi-foci GCF and GEF-7) (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 certified emissions reductions (CERs) from the Clean Development Mechanism (2% of CERs from all projects), although small compared to what was expected, still amounts to USD 212 million.

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

Regionally, adaptation finance from all multilateral funds included on CFU has primarily been directed to sub-Saharan Africa, East Asia and the Pacific, and Latin America and the Caribbean, followed by programmes and activities in South Asia (Figure 4). The top 20 recipients of adaptation finance (out of over 126 countries) received 36% of the total amount approved, which represents a much lower concentration of funding than for mitigation finance (where the top 20 recipients receive 65% of total approved finance). Top recipients Bangladesh, Tanzania, Niger, Mozambique, Zambia, Cambodia, Nepal, Ethiopia, Samoa and Bolivia have all received more than USD 110 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, Côte d'Ivoire and South Sudan, both Fragile and Conflict-Affected States (FCAS) and among the world's most vulnerable countries according to various vulnerability indices,³ have received only USD 15.9 million and USD 9.2 million respectively in adaptation finance from multilateral climate change funds.

Figure 2: Multilateral climate funds supporting adaptation (2003-2022)

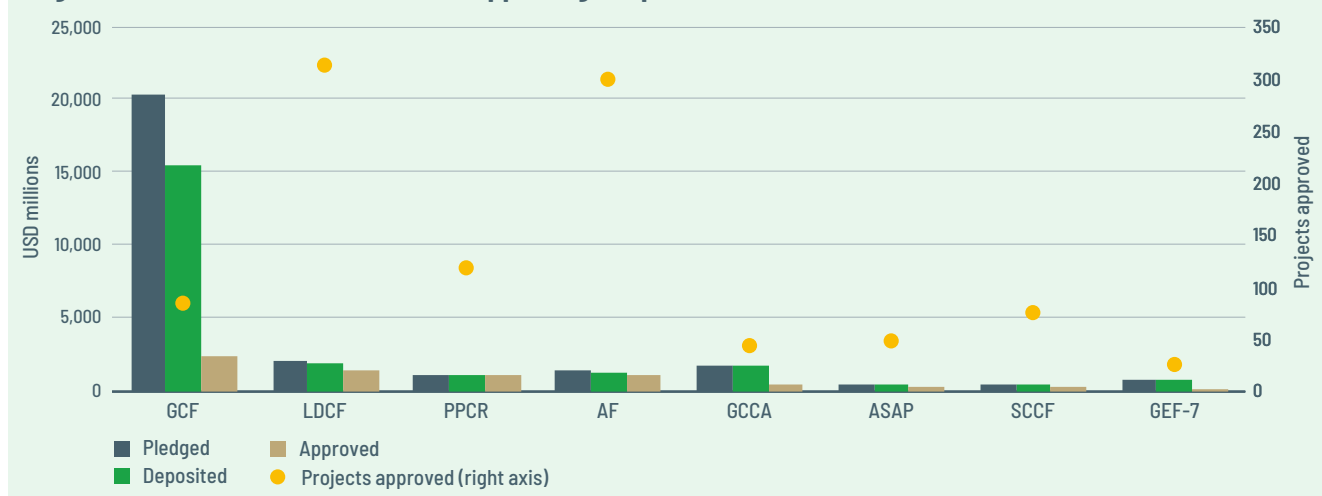


Figure 3: Pledges and deposits to funds supporting adaptation⁴ (2003-2022)

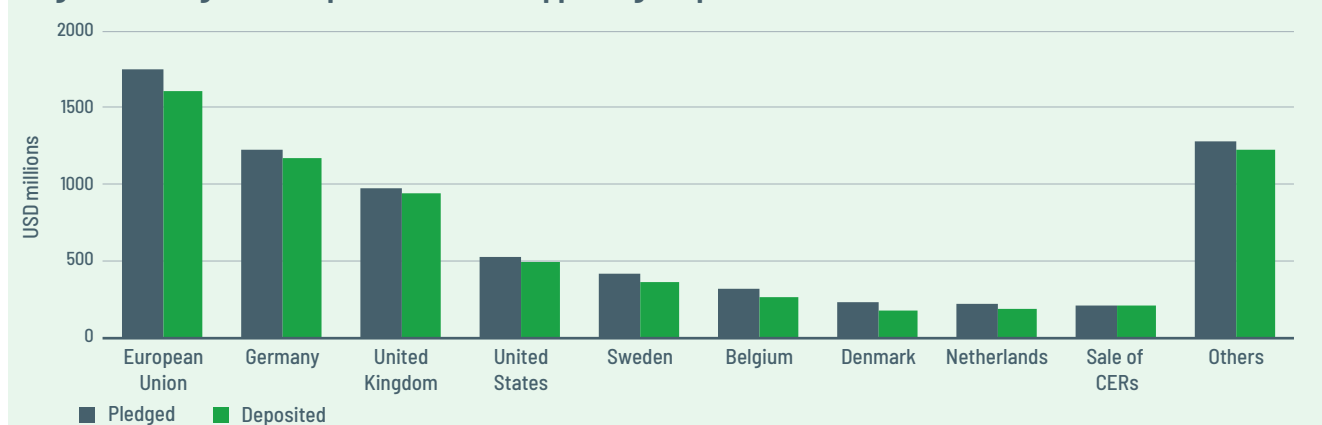
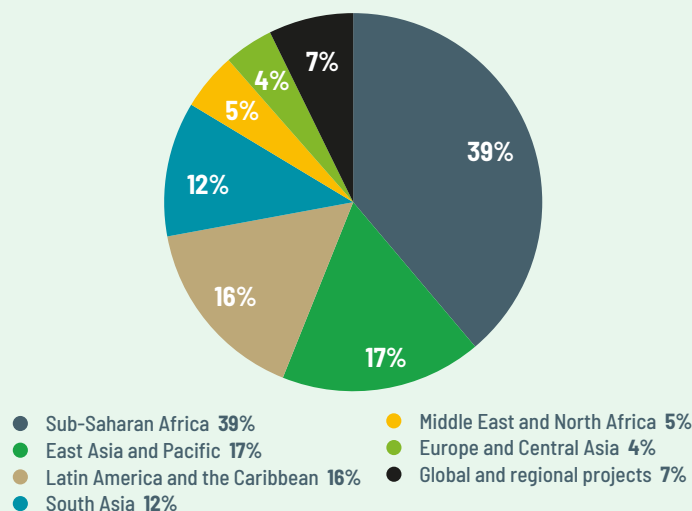


Figure 4: Regional distribution of approved adaptation finance from major climate change funds (2003-2022)



The GCF only approved USD 59 million in 2022 for three adaptation-focused projects. These approvals are grant-based, including one utilising the Simplified Approval Process (SAP). GCF approvals in 2022 included USD 9.8 million for one project in FCAS (Guinea-Bissau), bringing the total number of GCF adaptation projects in fragile states to 17. The other two GCF projects approved in 2022 aims to enhance the climate resilience of local communities through adaptation activities in water security and agriculture in Vanuatu (USD 23.3 million and USD 26.2 million respectively).

References and further reading

AF (2022) Adaptation Fund Trust Fund: Financial Report Prepared by the Trustee. Bonn: Adaptation Fund Ethics and Finance Committee. https://www.adaptation-fund.org/wp-content/uploads/2022/10/AFB.EFC_30.4_Trustee-report-as-at-30-June-2022.pdf

Climate Funds Update: www.climatefundsupdate.org

Developed Countries (2016) Roadmap to US\$100 billion. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/562317/Roadmap_for_UK_website.pdf

GEF (2022) Progress report on the Least Developed Countries Fund and on the Special Climate Change Fund.GEF/LDCF.SCCF.32/06/. Washington, DC: Global Environment Facility. https://www.thegef.org/sites/default/files/documents/2022-06/EN_GEF_LDCF.SCCF_32_06_Progress_Report

IPCC (2022) Summary for Policymakers. In: H.-O. Pörtner, D.C. Roberts, E.S. Poloczanska, K. Mintenbeck, M. Tignor, A. Alegria, M. Craig, S. Langsdorf, S. Löschke, V. Möller, A. Okem (eds.) Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge, UK and New York, NY, USA: Cambridge University Press. https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf

UNEP (2022) The adaptation gap report 2022. Nairobi: United Nations Environment Programme. <https://www.unep.org/resources/adaptation-gap-report-2022>

UNFCCC (2022) Fourth review of the Adaptation Fund. Technical paper by the Secretariat. Bonn: United Nations Framework Convention on Climate Change. https://unfccc.int/sites/default/files/resource/tp2022_01.pdf

UNFCCC (2021) Glasgow Climate Pact. FCCC/PA/CMA/2021/L.16 (advance version). Bonn: UNFCCC. https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf

UNFCCC (2022) Fifth Biennial assessment and overview of climate finance flows – 2022. Bonn: UNFCCC Standing Committee on Finance. <https://unfccc.int/topics/climate-finance/resources/biennial-assessment-and-overview-of-climate-finance-flows>

Endnotes

1. Due to its significant resource potential, the GCF is included here as 50% of the pledge will be programmed towards adaptation. The amounts include both the IRM and GCF-1 replenishment. The GEF Trust Fund Climate Change Focal Area is also a multi-foci fund. The number of approved projects and approved total from the GCF and GEF-7 refer only to projects that are considered adaptation-focused.
2. This amount reflects countries' deposits using the official GCF initial resource mobilisation exchange rate set in November 2014 for GCF-IRM contributions and the official GCF-1 exchange rate set in October 2019 for GCF-1 contributions, not actual amounts received taking into account exchange rate fluctuations.
3. Global Adaptation Institute (GAIN) (<https://gain.nd.edu>) and DARA indexes (<https://daraint.org/climate-vulnerability-monitor/>).
4. Including pledges to the PPCR, LDCF, AF, ASAP and SCCF only. It is not possible to determine the share of pledges arising from particular countries for the GCF or GEF-7 channelled to adaptation.

The Climate Finance Fundamentals are based on Climate Funds Update data and up to 2021 also available in French and Spanish at www.climatefundsupdate.org

© ODI and hbs 2023.
CC BY-NC 4.0.

ODI
203 Blackfriars Road | London | SE1 8NJ | UK
Tel: +44 (0)20 7922 0300

Heinrich Böll Stiftung Washington, DC
1432 K Street, NW | Suite 500 | Washington DC 20005 | USA
Tel: +1 202 462 7512