Climate Funds Update

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Climate Finance Thematic Briefing: Adaptation Finance

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Climate Finance Fundamentals 3

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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 at COP26 pledged 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 resource mobilisation to adaptation, with half of that going to the SIDS, LDCs and African states (see CFF 11) – is the largest provider of adaptation finance. In 2021 alone, and now halfway through its first replenishment (GCF-1), it more than doubled its previous contribution by approving USD 727 million for 15 projects targeting adaptation. The amount of cumulative finance approved for adaptation from key climate funds tracked by Climate Funds Update (CFU) grew to USD 6.7 billion in 2021. 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

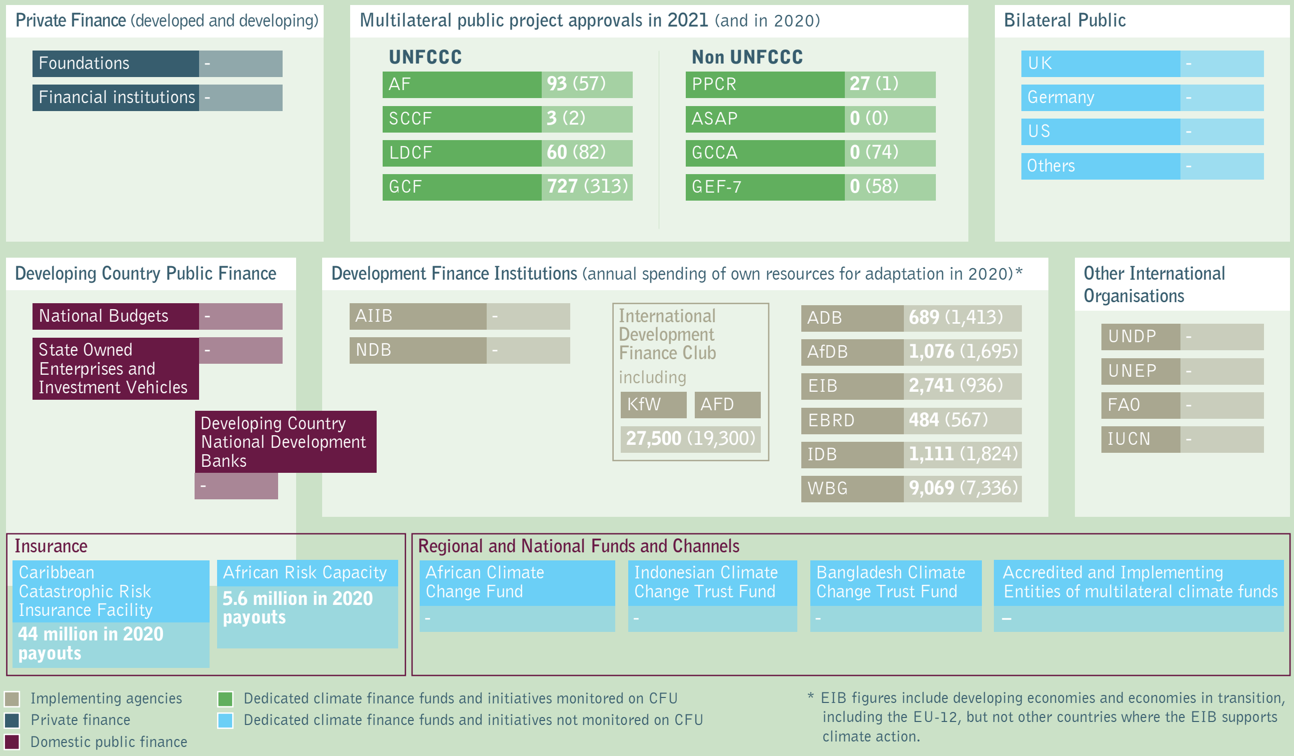
While efforts to mitigate climate change are crucial, it is also essential to assist developing countries to adapt to the rapidly worsening impacts of climate change already being experienced due to past and current greenhouse gas (GHG) emissions. Finance is necessary to fund activities that respond to impacts such as flooding, cyclones, coastal erosion, droughts and increased variability of precipitation. Currently 24% 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, 2018). 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 909 million in multilateral funding approved for adaptation during 2021 from the funds in Table 1 and Figure 2. The PPCR approved USD 27 million for 22 additional projects in 2021. This fund's pilot approach involves supporting only a few countries with large amounts of programmatic funding. In contrast, the LDCF has a high number of projects approved at 293, with relatively small individual project funding. The LDCF approved USD 60 million in 2021 for 10 new projects. The Special Climate Change Fund (SCCF) approved USD 2.5 million for two new

Figure 1: Adaptation finance architecture diagram (USD millions)



Multilateral Funds and Initiatives	
AF	Adaptation Fund (GEF acts as secretariat and WB as trustee)
ASAP	Adaptation for Smallholder Agriculture Programme
GCCA	Global Climate Change Alliance
GCF	Green Climate Fund
GEF	Global Environment Facility
LDCF	Least Developed Countries Fund (hosted by the GEF)
PPCR	Pilot Program for Climate Resilience (implemented through WB, ADB, AfDB, EBRD and IDB)
SCCF	Special Climate Change Fund (hosted by the GEF)

Other International Organisations	
FAO	Food and Agriculture Organization of the United Nations
IUCN	International Union for the Conservation of Nature
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

Development Finance Institutions	
ADB	Asian Development Bank
AFD	Agence Française de Développement (French development agency)
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
IDB	Inter-American Development Bank
KfW	Kreditanstalt für Wiederaufbau (German development bank)
NDB	New Development Bank
WBG	World Bank Group

projects, whilst the AF approved USD 93 million for 28 new projects. 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. Although a multi- thematic fund, the GCF is responsible for greatly increasing adaptation finance (see CFF 11), having approved the largest amount of USD 727 million for 15 adaptation projects in 2021 (and a further USD 808 million for eight projects with both adaptation and mitigation components).

Who pledges and deposits adaptation finance?

Europe, Germany, the United Kingdom and the United States represent 64% 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 209 million.

Table 1: Multilateral funds supporting adaptation (2003-2021, USD millions)[1]

Fund	Pledged	Deposited	Approved	Projects approved
Green Climate Fund (GCF-IRM, GCF-1)	20,321.3	12,921.1[2]	2,336.3	78
Least Developed Countries Fund (LDCF)	1,878.0[3]	1,691.7	1,324.0	291
Pilot Program for Climate Resilience (PPCR)	1,151.8	1,151.8	1,020.3	105
Adaptation Fund (AF)	1,160.0[4]	1,113.8	870.7	270
Global Climate Change Alliance (GCCA)	1,652.8	1,652.8	380.9	40
Adaptation for Smallholder Agriculture Programme (ASAP)	406.5	334.7	293.6	42
Special Climate Change Fund (SCCF)	379.8	373.1	284.0	72
Global Environment Facility Trust Fund 7 (GEF-7)	728.4	728.4	132.1	21

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 123 countries) received 37% of the total amount approved, which represents a much lower concentration of funding than for mitigation finance (where the top 20 recipients receive 63% of total approved finance). Top recipients Tanzania, Bangladesh, 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, South Sudan and Côte d'Ivoire, both Fragile and Conflict-Affected States (FCAS) and among the world's most vulnerable countries according to various vulnerability indices,[5] have received only USD 9.2 million and USD 6.4 million respectively in adaptation finance from multilateral climate change funds.

The GCF approved USD 727 million in 2021 for 15 adaptation-focused projects. These approvals are grant- based for 11 projects, including two utilising the Simplified Approval Process (SAP). GCF approvals in 2021 included four projects in FCAS (one in Liberia, one in Timor-Leste and two in Micronesia), bringing the total number of GCF adaptation projects in fragile states to 16. The GCF's largest adaptation project in 2021 was a regional project with USD 174 million in GCF support (USD 84 million in grant support, USD 60 million and USD 30 million of loan and guarantee, respectively) covering seven Central American countries to strengthen the adaptive capacity and climate resilience of vulnerable and rural communities. Noteworthy, the GCF in 2021 also approved USD 325 million for three private sector adaptation programmes, including USD 225 million in equity finance for two multi-country private equity funds.

Figure 2: Multilateral climate funds supporting adaptation (2003-2021)

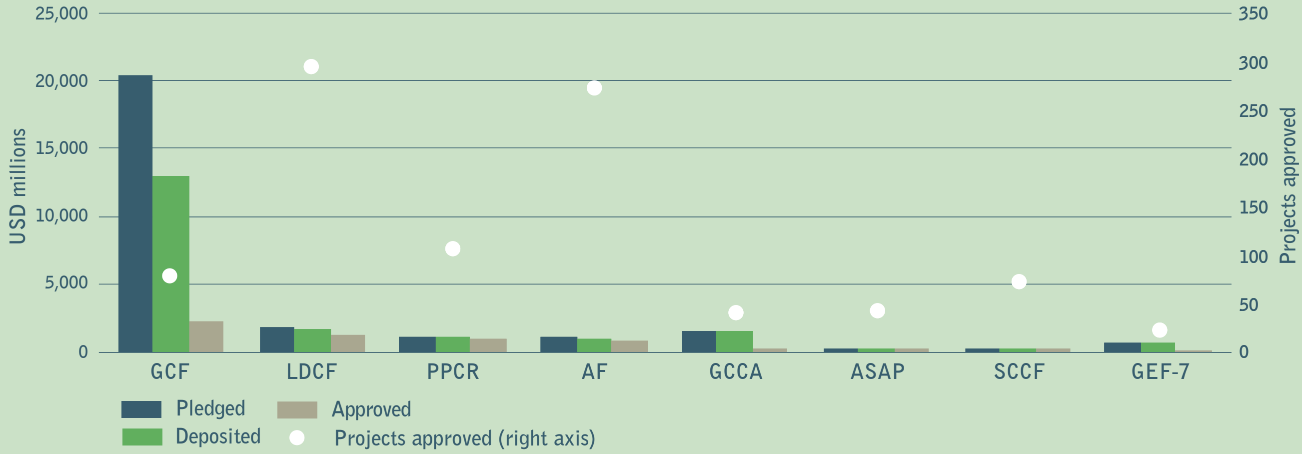
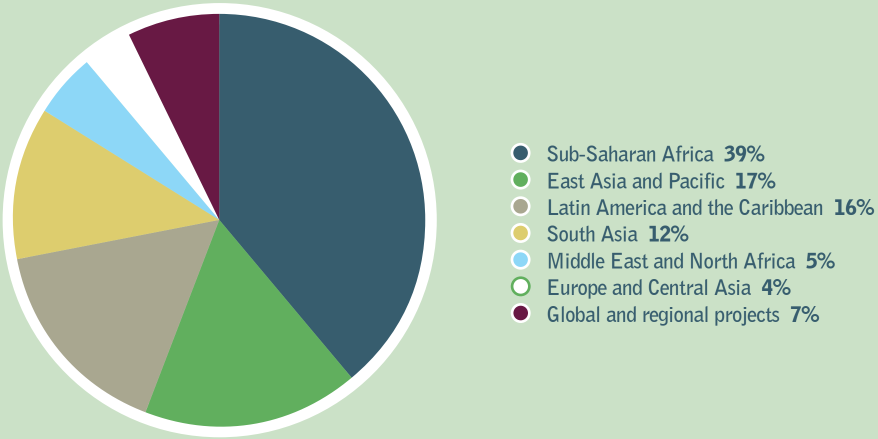


Figure 3: Pledges and deposits to funds supporting adaptation[6] (2003–2021)

Figure 4: Regional distribution of approved adaptation finance from major climate change funds (2003-2021)



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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. The pledges reported in this table reflect the financial information of the fund as of September 30, 2021. The USD 413 million in contributions received during the COP26 held in Glasgow in November 2021 are not included.
4. This amount is based on the figures reported in the Adaptation Fund Financial report of September 2021 (AF, 2021) and therefore does not include the new pledges for USD 356 million that were made to the fund during the COP26.
5. Global Adaptation Institute (GAIN) (https://gain.nd.edu) and DARA indexes (https://daraint.org/climate-vulnerability-monitor/).
6. 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 available in English, French and Spanish at **www.climatefundsupdate.org**

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