

Climate Finance Thematic Briefing: Adaptation Finance

Climate Finance Fundamentals **3**

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Meeting the costs of adaptation to climate change in developing countries is a major challenge for the international community, despite UNFCCC commitments to scale up support. Studies suggest that developing countries' need for adaptation funding may be in the range of USD 100 – 450 billion a year (Montes 2012). CFU data suggest that developed countries have pledged USD 2.17 billion since 2003 to multilateral adaptation funds. The largest sources of approved funding for adaptation projects are currently the Least Developed Countries Fund (LDCF) administered by the Global Environmental Facility, and the Pilot Program for Climate Resilience (PPCR) of the World Bank's Climate Investment Funds. The Special Climate Change Fund (SCCF) and the Adaptation Fund (AF) have substantially increased adaptation financing in the last year. Nevertheless, developed countries' contributions to these funds remain low, and at a global level adaptation remains underfunded. A related and persistent challenge is to direct public adaptation funding to those countries most vulnerable to the impacts of climate change as well as to the most vulnerable people and population groups within recipient countries.

Overview

While efforts to mitigate climate change are crucial, it is also essential to assist developing countries to adapt to the impacts of climate change already being experienced due to past and current GHG emissions. Finance is necessary to fund activities that respond to impacts such as flooding, cyclones, coastal erosion, droughts and increased variability of precipitation. Yet just 15% of the financing approved since 2003 to flow from the dedicated climate finance initiatives that CFU monitors supports adaptation. The provision of this finance is made more complex by the unequal distribution of climate change impacts with some of the poorest countries affected worst (especially SIDS and LDCs). 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 to gender.

CFU data describes a 34% increase in multilateral funding approved for adaptation over the last year. However, assessments of amounts disbursed are impeded by a lack of transparency and reporting on recipients.

What are the main dedicated climate funds that focus on adaptation finance?

Table 1 lists the dedicated multilateral climate funds exclusively targeting adaptation actions. The EU's Global Climate Change Alliance (GCCA) also delivers considerable adaptation funding but is not listed here as most of its recent activities address multiple objectives. The LDCF has approved the largest amount of adaptation finance to date,

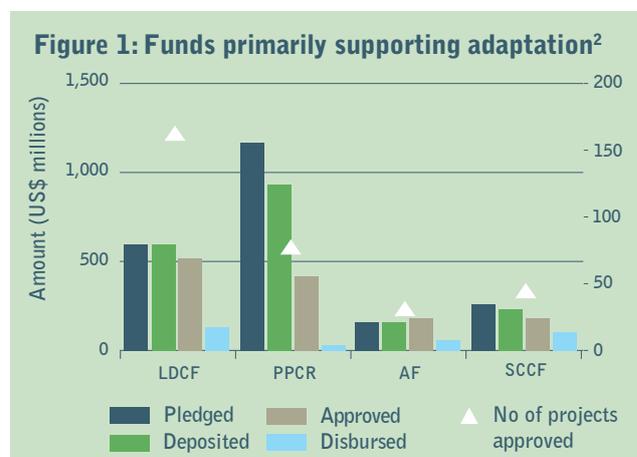
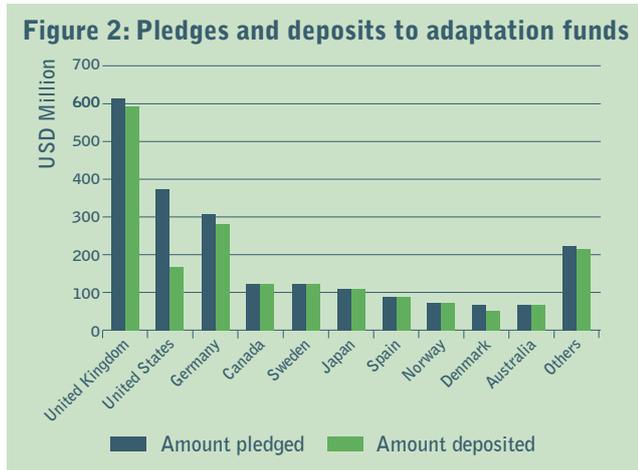


Table 1: Funds exclusively supporting adaptation (2003-2013)

| Fund ¹ | Pledged | Deposited | Approved | Disbursed ³ | No of projects approved |
|---|----------|-----------|----------|------------------------|-------------------------|
| Least Developed Country Fund) (LDCF) | 604.74 | 585.51 | 504.38 | 133.18 | 161 |
| Pilot Programme for Climate Resilience (PPCR) | 1,155.00 | 919.00 | 413.20 | 13.20 | 76 |
| Adaptation Fund (AF) | 151.32 | 151.32 | 189.72 | 58.33 | 29 |
| Special Climate Change Fund (SCCF) | 258.58 | 239.97 | 179.28 | 111.13 | 46 |

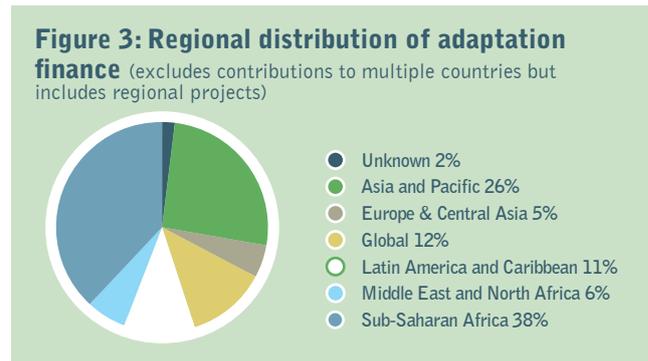
and registered the largest increase this year (USD 220 million). The PPCR, which funds programmatic adaptation approaches in 20 pilot countries, remains the fund with the highest amount pledged for adaptation, although with a minimal amount disbursed to date. The AF and the SCCF have approved similar amounts of funding and increased these over the last year by 14% and 22%, respectively. However, the AF, which receives part of its funding from CDM revenue, has been severely hampered by plummeting carbon prices and contributions.

Who pledges & deposits to adaptation funds



The United Kingdom, the United States, Germany, Canada, Sweden and Japan represent 77% of the USD 2.17 billion pledged to adaptation funds thus far; of this, about USD 1.89 billion has been deposited. 95% of this finance has been approved to support projects and programs. The gap between amounts pledged and deposited to the funds is small, with the exception of the PPCR. This suggests that compared to the backlog noted last year adaptation finance appears to be flowing faster, even if the exact amount disbursed is difficult to assess.

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



Adaptation finance has primarily been directed to Sub-Saharan Africa and Asia and the Pacific, with Latin America and the Caribbean receiving relatively less, followed by the Middle East and North Africa. The top twenty recipients of adaptation finance (out of 107 countries) receive 19% of the total amount approved, which represents a much lower concentration of funding than for mitigation finance. Top recipients Niger, Nepal, Bangladesh, Cambodia, Mozambique all receive between USD 50 - 110 million each, with the next five top countries receiving from USD 25 to 49 million each. Some of the most vulnerable developing countries receive very little adaptation finance: for instance, Somalia and Central African Republic, both among the world's most vulnerable countries according to various vulnerability indexes⁴, currently receive only USD 0.2 and 4.94 million respectively from dedicated adaptation funds.

The scope of what constitutes an adaptation project is wide. The largest recently approved project is the PPCR grant for 'Coastal Embankment Improvement' (USD 25 million) in Bangladesh, which aims to improve resilience to climate change through infrastructure improvements, while the 'Economy-wide integration of Adaptation and Disaster Risk Reduction to Reduce Climate Vulnerability of Communities' LDCF grant in Samoa is an example of the increased targeting of disaster risk reduction activities by adaptation funds in recent years (Kellett and Caravani, 2013).

References and useful links:

- Climate Funds Update: www.climatefundsupdate.org (data accessed in October 2013)
- Fransen, T. and Nakhoda, S. (2012) 'Shedding Light on Fast-Start Finance'. World Resources Institute (WRI) <http://insights.wri.org/open-climate-network/2012/05/shedding-light-fast-start-finance>
- IPCC Fi Assessment Report (2013) 'Summary for Policymakers' http://www.climatechange2013.org/images/uploads/WGIAR5-SPM_Approved27Sep2013.pdf
- Kellett, J. and Caravani, A. (2013) 'Financing Disaster Risk Reduction: A 20 year story of international aid'. ODI and World Bank GFDRR. <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8574.pdf>
- Montes, M. (2012) 'Understanding the Long Term Finance Needs of Developing Countries', South Centre, presentation to the 1st workshop on long term finance. http://unfccc.int/files/cooperati_on_support/financial_mechanism/long-term_finance/application/pdf/montes_9_july_2012.pdf

End Notes

- The Climate Investment Fund (CIF) figures only include projects approved by both the Trust Fund Committees and the implementing Multilateral Development Banks
- Japan's bilateral FSF is excluded here as what it counts as climate finance is not comparable with other bilateral contributors of climate finance. For a detailed analysis of Japan's FSF and other top contributors of climate finance see: <http://www.climatefundsupdate.org/global-trends/fast-start-finance>
- Detailed project level disbursement data for the LDCF and SCCF are limited: the figures here may be overestimates.
- Global Adaptation Institute (GAIN) (<http://index.gain.org/>) and DARA indexes (<http://daraint.org/climate-vulnerability-monitor/climate-vulnerability-monitor-2012/monitor/Indices>).

The Climate Finance Fundamentals are based on Climate Funds Update data and available in English, French and Spanish at www.climatefundsupdate.org