ADAPTATION FINANCING INSTRUMENTS

Policy Brief[1]

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Key messages

- The additional investment needed in developing countries to adapt to climate change is estimated to be USD 28–67 billion per year by 2030. No disaggregated figures are available for Africa, but given Africa's current vulnerability and its adaptation deficit, the amount for Africa may be assumed to be around one-third to half of this estimate.
- The three financial instruments for adaptation currently managed by the Global Environment Facility are inadequate to meet current and future needs. By November 2008 USD 183 million had been disbursed, and developed countries had pledged to make available another USD 130 million. The instruments are also found to be inefficient and not fully responsive to developing countries' needs.
- The Adaptation Fund, expected to become operational this year, is estimated to have available an additional USD 80–300 million per year, depending on the use of the Clean Development Mechanism and the price of carbon.
- A number of ODA-based funds have been established to support adaptation outside the Convention. The biggest ones at the moment are the World Bank Pilot Programme for Climate Resilience and Japan's Cool Earth Partnership. The former fund will disburse USD 240 million to eight countries and two island regions, including Mozambique, Niger and Zambia. The latter fund has earmarked USD 1 billion for adaptation.
- It is very likely that the a climate change agreement will result in new funding instruments, such as a Reformed Financial Mechanism under the UN Framework Convention on Climate Change, as currently deliberated by the G77 and China.
- According to the Africa Group, the financial mechanism should be underpinned by the principle of equity and common but differentiated responsibilities; operate under the authority of the COP; have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance; enable direct access to funding by the recipients; and strengthen developing country capacity to ensure recipient country involvement during the stages of identification, definition and implementation, rendering it truly demand driven.

1. Access to current funds

There are three financial instruments under the United Nations Framework Convention on Climate Change (UNFCCC) to support adaptation activities in developing countries:

- the Least Developed Countries Fund (LDCF)
- the Special Climate Change Fund (SCCF)
- the Adaptation Fund (AF).

The Adaptation Fund is not yet operational. It is managed by a special Adaptation Fund Board (AFB), which is developing specific operational policies and guidelines to be finalised in June 2009. The Global Environment Facility (GEF) manages the Least Developed Countries Fund and the Special Climate

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Change Fund. In addition, the GEF established under its Trust Fund the Strategic Priority "Piloting an Operational Approach to Adaptation" (SPA).

Table 1 summarises the amounts of money pledged to and delivered through the three GEF-managed funds. The total amount of grants made available by November 2008 was USD 183 million, which is almost insignificant compared to the estimated annual adaptation needs (see Section 2). The Adaptation Fund has not yet delivered any money because it is not yet operational.

Table 1: Overview of funds available and disbursed for adaptation under the GEF-managed financial instruments (status: November 2008).

Fund	SPA	LDCF	SCCF	Total
Available funds, incl. pledges (USD million)	**50**	**172**	**91**	**313**
Total of disbursed grants (USD million)	50	65	68	183
Number of projects	22	23	15	60
Average project grant (USD million)	2.3	2.8	4.5	3.0
Remaining funds, incl. pledges (USD million)	–	107	23	130

Eligibility and governance

The least developed countries that are a Party to the UNFCCC (this excludes Somalia) are eligible for funding from the Least Developed Countries Fund. All developing countries are eligible for funding from the Special Climate Change Fund and the SPA. The eligibility criteria for the Adaptation Fund have not yet been finalised.

The governance system of the GEF-managed funds is shown in Figure 1. This governance system is aimed

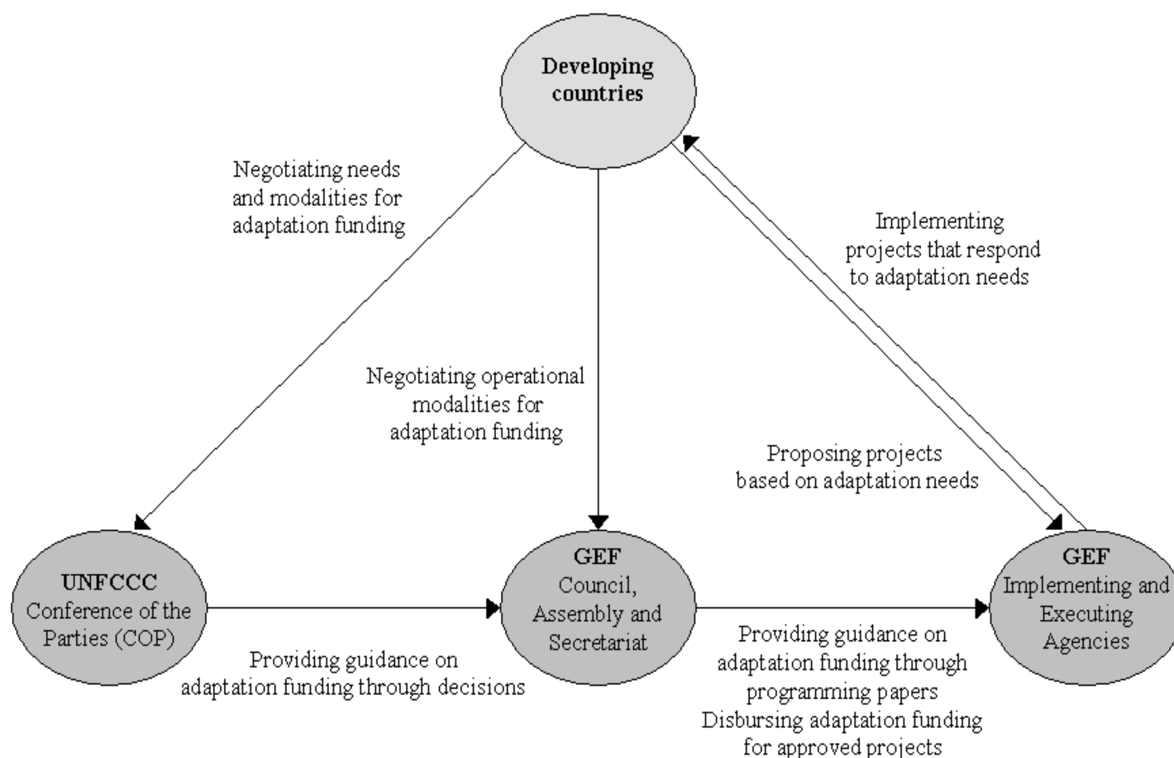

Figure 1. Governance system of financial instruments for adaptation under the UNFCCC and the GEF.

at meeting developing countries' needs for adaptation by providing funding for adaptation projects in accordance with guidance developed for the respective financial instruments. Once a financial instrument is operational, eligible countries can propose projects based on their adaptation needs through one of the

three implementing agencies of the GEF: the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the World Bank. Seven additional executing agencies, including the African Development Bank and other regional development banks, contribute to the implementation of GEF projects.

The Adaptation Fund, expected to become operational later this year, is the first UNFCCC financial instrument that is not based solely on voluntary contributions from donor countries. It receives a 2% share of proceeds from projects under the Clean Development Mechanism and can also receive funds from other sources. Unlike the GEF-managed funds, eligible Parties can have direct access to the Adaptation Fund, that is, without the involvement of a multilateral implementing entity but using a national implementing entity instead. The details of the direct-access modalities are being finalised by the Adaptation Fund Board and should become clear later this year.

Delivery to date

Only 76 countries (about half of all non-Annex I Parties) have received support from the GEF-managed funds, through a total of sixty adaptation projects. More projects are in the pipeline, but it can take several years between project identification and project implementation. Table 1 above shows the amounts of money disbursed to date under each fund. Table 2 presents an overview of the sixty approved projects by size, region, scale and sector.

Table 2: Overview of approved adaptation projects by region, scale and sector.

Fund	SPA	LDCF	SCCF	Total
Projects by region				
Africa	6	16	6	28
Asia	5	3	3	11
Latin America	4	–	4	8
Europe	2	–	–	2
SIDS	3	4	1	8
Projects by scale				
Local	1	–	–	1
National	13	23	12	48
Regional	7	–	2	9
Global	1	–	1	2
Projects by sector				
Agriculture/livestock/forestry	6	9	5	20
Water resources	4	3	4	11
Coastal zones	6	5	1	12
Cross-sectoral	6	4	4	14
Disaster risk reduction	–	2	1	3

Non-convention funds

Developed countries can also provide developing countries with financial resources through bilateral, regional and other multilateral channels. There are now several initiatives specifically dedicated to adaptation using official development assistance (ODA). The largest initiatives are the Cool Earth Partnership launched by Japan, which intends to deliver up to USD 1 billion over a period of five years, and the Pilot Programme for Climate Resilience (PPCR) administered by the World Bank, with a total budget of USD 240 million. Other new bilateral initiatives focusing on adaptation include the UNDP–Spain Millennium Development Goals Achievement Fund with up to USD 22 million over four years, the German International Climate Initiative with up to USD 200 million over five years, and the European Commission's Global Climate Change Alliance (GCCA) with up to USD 84 million over three years.

The delivery of adaptation support under these ODA-based initiatives has been designed for consistency with the donor agencies' general policies. The PPCR has recently selected, based on expert advice, the

following eight countries and two regions as the beneficiaries of its adaptation support: Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Zambia, the Caribbean and the South Pacific.

2. Adequacy of current financial instruments

Financial adequacy

The UNFCCC secretariat has estimated that by 2030 the annual additional investment needed worldwide would amount to USD 60–182 billion, some USD 28–67 billion of which would be needed in developing countries. In many cases external support will be required to meet current and future adaptation needs. The UNFCCC commits developed countries to assist developing countries that are particularly vulnerable to climate change in meeting costs of adaptation. This assistance is understood to come in the form of new and additional funding, that is, beyond what developed countries are already providing or planning to provide as ODA.

As of November 2008, USD 263 million had been pledged for adaptation under the Least Developed Countries Fund and the Special Climate Change Fund, of which USD 133 million has been allocated (see Table 1). The SPA has allocated all USD 50 million it had available. The amount of money that will be available from the Adaptation Fund depends on how much the Clean Development Mechanism is used and on the price of carbon. Estimates vary from USD 80–300 million per year during 2008–2012. There is a large mismatch between estimated investment needs for adaptation, and the amount of funding available from current financial instruments.

Technical adequacy

The current GEF-managed funds are also widely considered to be technically inadequate, based on views expressed by developing country Parties and various evaluations. For example, at COP12 in Nairobi in 2006, Parties requested the GEF, among other things, “to further simplify its procedures and improve the efficiency of the process through which developing country Parties receive funding,” and “to explore options to address concerns of developing country Parties on requirements for leveraging additional funds for projects.”

A series of independent studies on the GEF-managed funds have shown several shortcomings in efficiency, fairness, and responsiveness to developing countries’ needs. For example, in 2006 the GEF Evaluation Office concluded that “the GEF activity cycle is not efficient, that the situation has grown worse over time and that GEF modalities have not made full use of trends towards new forms of collaboration that serve to promote efficiency.” According to the GEF Evaluation Office, “the cycle management of the GEF lags behind international good practice in terms of efficiency.”

In view of the technical and financial inadequacy of the current funds, the question arises as to whether alternative arrangements for adaptation funding, such as bilateral and multilateral ODA could address the concerns of developing countries and better meet their needs. On the one hand the amount of money provided by ODA is much larger than what is available under the UNFCCC; on the other hand adaptation would have to compete with other, more immediate development priorities. In addition, ODA has its own set of eligibility and disbursement criteria, on which developing countries have limited influence. Moreover, support for adaptation is a commitment under the UNFCCC, whereas ODA is voluntary. Financially and technically adequate global funds for adaptation are crucial if international climate policy after 2012 is to be a truly global endeavour, whereby global funds serve as a catalyst for providing additional resources from bilateral and multilateral sources.

3. The next generation of financial instruments

The lessons from the performance of existing climate change funding instruments have led to a number of key developing country demands, namely that financing needs to be (i) new and additional to ODA, (ii) predictable and timely, (iii) adequate in size, (iv) appropriate in form, and (v) equitable.

International efforts to bring the current UN climate change negotiations to a successful conclusion in December in Copenhagen, offer a unique chance to bring about a systemic change in international climate change finance which heeds these demands, as part of an overall ‘Copenhagen Agreed Outcome.’

A promising starting point is the August 2008 submission by the G77+China on making the existing financial mechanism of the UNFCCC fit for the purpose in handling adequate amounts of financing of between USD 50 and 150 billion annually. A recent detailed study on a potential Reformed Financial Mechanism (RFM) showed that, in order to satisfy the above demands, funding has to be significantly consolidated in a single international instrument, and decision-making devolved to designated entities in the eligible recipient countries.

Consolidation of payments − making sure that unlike the current fragmented ODA system, payments by developed countries to comply with their financial commitments are largely centrally managed – crucial to assure that all eligible developing countries get a fair share of the funding, and that there is an agreed balance between funding windows (adaptation, mitigation, technology transfer, etc.).

Devolution of funding decisions – delegating the funding decisions on specific activities to recipient country entities – not only essential for the efficiency of the whole instrument, but also providing genuine 'direct access' to, and 'ownership' of the funding by developing countries.

The current negotiations on the financial architecture for climate change restitution to developing countries are at a cross-roads. Without a consensus on acceptable architecture, developed countries are unlikely to make financial commitments that are adequate to deal with the climate change burden in developing countries. And without such commitments, developing countries will not be able to achieve the desired agreed outcome in Copenhagen.

It is therefore of paramount importance that Ministries of Finance, particularly from the most vulnerable countries, take an interest and lead in negotiations to safeguard their countries' vital financial interests. On 8 April 2009, Algeria, on behalf of the Africa Group, made a submission proposing draft negotiating language for the upcoming UNFCCC negotiations (see Box 1) that includes key elements on financing in

Box 1: Position of the Africa Group on Finance

In accordance with the Convention, developed countries have a commitment to provide financial, technological and capacity building support, to enable developing country action.

A mechanism is established to address all aspects of the means of implementation for developing countries, for both adaptation and mitigation and including access to technology, finance and capacity-building. The mechanism shall:

- Be underpinned by the principle of equity and common but differentiated responsibilities
- Operate under the authority and guidance, and be fully accountable, to the COP;
- Have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance (Article 11.2);
- Enable direct access to funding by the recipients; and
- Strengthen developing country capacity to ensure recipient country involvement during the stages of identification, definition and implementation, rendering it truly demand driven.

A 2020 target for the scale of financial flows to support mitigation in developing countries is set at $ 200 billion by 2020 (0.5% of GDP of Annex II Parties).

Developed countries commit to new and innovative sources of public and private sector finance, with the major source of funding coming from the public sector

Source: Submission to UNFCCC AWG-LCA by Algeria on behalf of the African Group, "Key Elements of LCA Negotiation Text", 8 April 2009

support of the G77+China position. Whether or not this position will prevail depends to a large extent on how united developing countries are behind the submission. The negotiations that led to the Adaptation Fund are proof that if the developing world is united, it can achieve its aims in these negotiations.