POLICY BRIEF

CFAS Climate Finance Advisory Service

November 2017

Status quo of international Adaptation Finance

KEY FINDINGS

- Currently, adaptation finance is lacking behind what is required: The financial needs of developing countries for adaptation currently range between USD 70 and 100 billion per year and will significantly increase until 2050. Internationally provided and mobilized adaptation finance was estimated at around USD 10 billion in 2014. This number is expected to increase to about USD 18 billion by 2020.
- The provision of international adaptation finance faces significant challenges in the UNFCCC context, such as:
    - An imbalance between financial resources mobilized for mitigation and for adaptation purposes;
    - The lack of a common definition for adaptation finance impeding the realization of adaptation commitments within the UNFCCC context: comparability, reporting duties, as well as allocation of funding by the financial mechanism;
    - Difficulties in accessing adaptation-related finance, due to insufficient support for adaptation planning processes, as well as current access modalities to international adaptation finance and capacity building.
- In the COP23 negotiations, adaptation will be addressed in various negotiation streams and bodies. Key recommendations for COP23 and beyond are:
    - Building on the Adaptation Committee report to strengthen adaptation finance in several negotiation streams;
    - Strengthening the role of the LDCF and Adaptation Fund in upcoming years;
    - Facilitating access to climate funds, particularly the GCF;
    - Increasing efforts for developing a common definition of adaptation finance and harmonizing accounting methodologies;
    - Achieving a balanced share of public adaptation finance in the context of the USD 100 billion goal;
    - Strengthening the enabling environment for private adaptation finance.

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1 State and Trends of Adaptation Finance

The need to invest in adaptation rests upon the assumption that 'anticipated risks or experienced impacts of climate change require action to ensure the safety of populations and the security of assets, including ecosystems and their services'[1]. The outcomes of UN climate negotiations, including the Paris Agreement, are continuously urging for scaled-up financial and other support by developed country Parties on this matter[2].

This policy brief discusses the status of international adaptation finance by explaining how the term adaptation finance is framed and by giving an overview on current adaptation finance flows and trends. In addition, the role of adaptation finance in negotiation processes under the United Nations Framework Convention on Climate Change (UNFCCC) as well as in further processes outside of the Convention is described. Based on this stock-taking exercise, some major challenges for mobilizing investments on adaptation-related activities are discussed. The policy brief concludes with recommendations for addressing the identified challenges, particularly in the context of the upcoming negotiations at the 23rd Conference of the Parties (COP23) to the UNFCCC.

1.1 What is Adaptation Finance?

Actors within the international climate finance arena tend to apply their own definitions of adaptation and adaptation finance, which is also reflected in the reporting under the UNFCCC. The Standing Committee on Finance (SCF), which compiles information on global climate finance flows, has undertaken a mapping of predominant definitions by international actors. These include, among others, the Joint Reporting of Multilateral Development Banks (MDBs) or the Rio Markers as the method for reporting to the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). Think tanks and civil society organisations are also engaged in the debate on definitions[3].

[1] IPCC (2014), p. 836
[2] UNEP (2016)
[3] UNFCCC (2016), p. 19

While the international community is still in the process of finding a common definition for climate finance, the SCF has taken the initiative to develop a generic working definition in their 2014 Biennial Assessment: 'Climate finance aims at reducing emissions, and enhancing sinks, of GHG [greenhouse gases] and aims at reducing vulnerability, and maintaining and increasing the resilience of human and ecological systems to negative climate change impacts'[4]. According to this definition, adaptation finance refers to activities reducing vulnerability, a term that the IPCC describes as the 'propensity or predisposition to be adversely affected'[5] by climate change, as well as increasing resilience, defined as 'capacity of social, economic, and environmental systems to cope with a hazardous event or trend or disturbance'[6] caused by a change in climatic conditions.

A definition of adaptation finance may also reflect upon the different actors involved in making resources available for the previously listed objectives. As the IPCC highlights, the group of actors is quite broad, involving resources from international and domestic, public and private financing entities. Public financing (e.g. national budgets, multilateral and bilateral development funds, operating entities of the UNFCCC's financial mechanism) is mostly employed within projects and programmes with zero or low returns on investment (ROIs), for example investments in climate-resilient infrastructure. Private financing for adaptation (e.g. international banks, multinational corporations, private equity, pension funds, insurance companies, sovereign wealth funds, social investors) is generally more directed towards projects with lower risk levels and predictable ROIs, for example within climate-sensitive economic sectors such as fisheries or agriculture[7]. As this policy brief aims at providing advice for the upcoming negotiations under the UNFCCC, it mainly focuses on international public adaptation finance provided by developed countries, taking into account mobilized private finance. It is not explicitly discussing options for an increased involvement of domestic or private sector actors in adaptation action[8].

1.2 State of International Adaptation Finance in Numbers

The current status of international adaptation finance provided from developed to developing countries has been estimated by several institutions and initiatives in recent years. This was particularly required in the context of assessing the progress towards the commitment of developed countries to jointly mobilize USD 100 billion per year by 2020. These funds are supposed to come from a variety of sources, including public and private, bilateral and multilateral, as well as alternative sources of financing, for supporting climate change adaptation and mitigation actions in developing countries[9].

One of the prominent studies estimating the status of international climate finance mobilization is the OECD/CPI report from 2015[10]. Its analysis found that 16% of international climate finance was addressing adaptation and 7% cross-cutting issues in the 2013/2014 timeframe (compare Figure 1). The 2016 Biennial Assessment published by the SCF finds a similar order of magnitude, namely that 'adaptation finance provided to developing countries accounted for about 25% of the total finance'[11]. CPI's 2017 climate finance landscape[12] lists 16% of all 2015/2016 public finance as related to adaptation. The numbers for 2013/2014 represent a similar share compared to 2011/2012, 'although there has been a slight increase in the proportion of adaptation finance from climate funds and bilateral concessional channels'[11][13].

Robust data on mobilized private finance are generally not available across all sources. While the OECD/CPI report estimates 10% of mobilized private finance to be adaptation related, it highlights 'difficulties in tracking adaptation finance'[14]. The 2016 Biennial Assessment[11], Adaptation Watch[15] or CPI landscape[13] reports support

[4] Ibid.
[5] IPCC (2014), p. 1775
[6] IPCC (2014), p. 1772
[7] IPCC (2014), p. 880
[8] For a more detailed discussion of the role of private adaptation finance, see for example UNEP-FI and GIZ (2016)
[9] UNFCCC (2009)
[10] OECD and CPI (2015)
[11] UNFCCC (2016), p. 12
[12] CPI (2017), p.12
[13] For 2015/2016 CPI (2017), p.9 identified a slight decrease in the share of adaptation finance from 18% to 16% compared to 2013/2014 which is, however, mainly due to changes in institutional reporting on adaptation finance.
[14] OECD and CPI (2015), p.29
[15] Adaptation Watch (2016), p.26

this finding by stipulating 'scant', 'elusive' or 'non-tracked' data on mobilized private resources.

Existing forecasts for the provision of international climate finance by 2020 do not indicate significant changes in the adaptation share and progress towards a more 'balanced' allocation. For instance, the OECD projections for 2020 expect 23% of bilateral and 24% of multilateral flows to target adaptation activities. Considering a consistent private finance mobilization ratio compared to OECD/CPI values for 2014, the overall adaptation share by 2020 would remain slightly below 20% while cross-cutting (adaptation and mitigation) activities would make up 7% of total internationally mobilized climate finance. Translated into absolute terms, international adaptation funding shares are expected to increase from USD 10 billion in 2014 to about USD 18 billion by 2020 (compare Figure 1).

Given the strong emphasis the Paris Agreement puts on scaling up adaptation finance, it is worth exploring key characteristics and instruments of current adaptation finance. With respect to instruments applied, grants play a significant role as 'they represent 56% of the bilateral finance reported to the OECD DAC with adaptation as a principal objective'[16] in 2014. The remaining bilateral volumes have been provided as concessional loans with a 42% share and other instruments with 2%. In the 2016 Biennial Reporting, reported grants have an even higher share. As illustrated in Figure 2, about 77% of climate-specific adaptation finance are grants, 17% concessional loans and about 6% blended grant/loan or other instruments. Overall, compared to mitigation finance – which is provided mainly in form of loans, blended finance or other instruments such as equity – International adaptation finance is heavily grant-based.

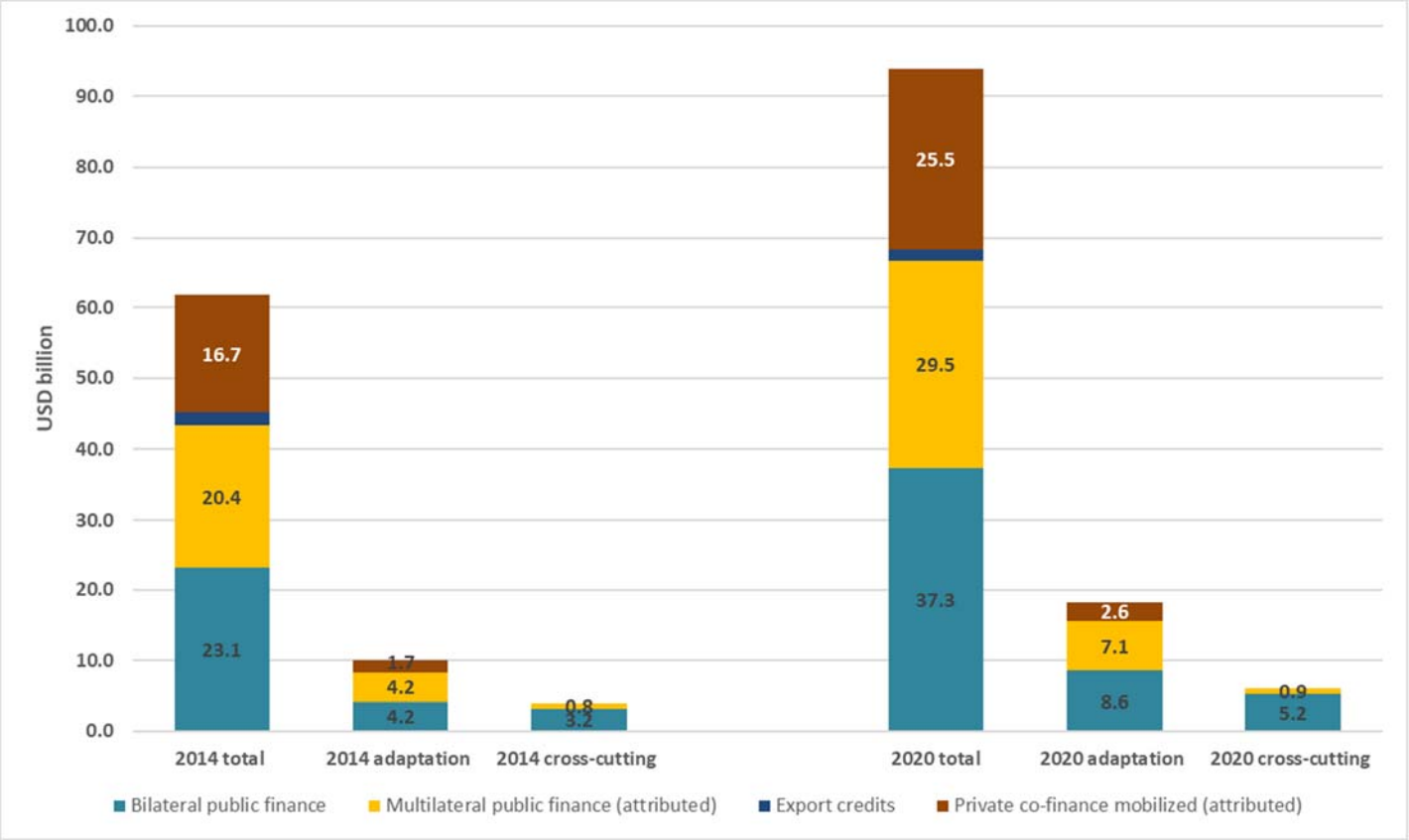

Figure 1: Mobilized international climate finance, estimation for 2014 and 2020, distinguished by funding source (in USD billions)

Source: Own illustration based on OECD/CPI (2015) and OECD (2016)

[16] UNFCCC (2016), p. 62

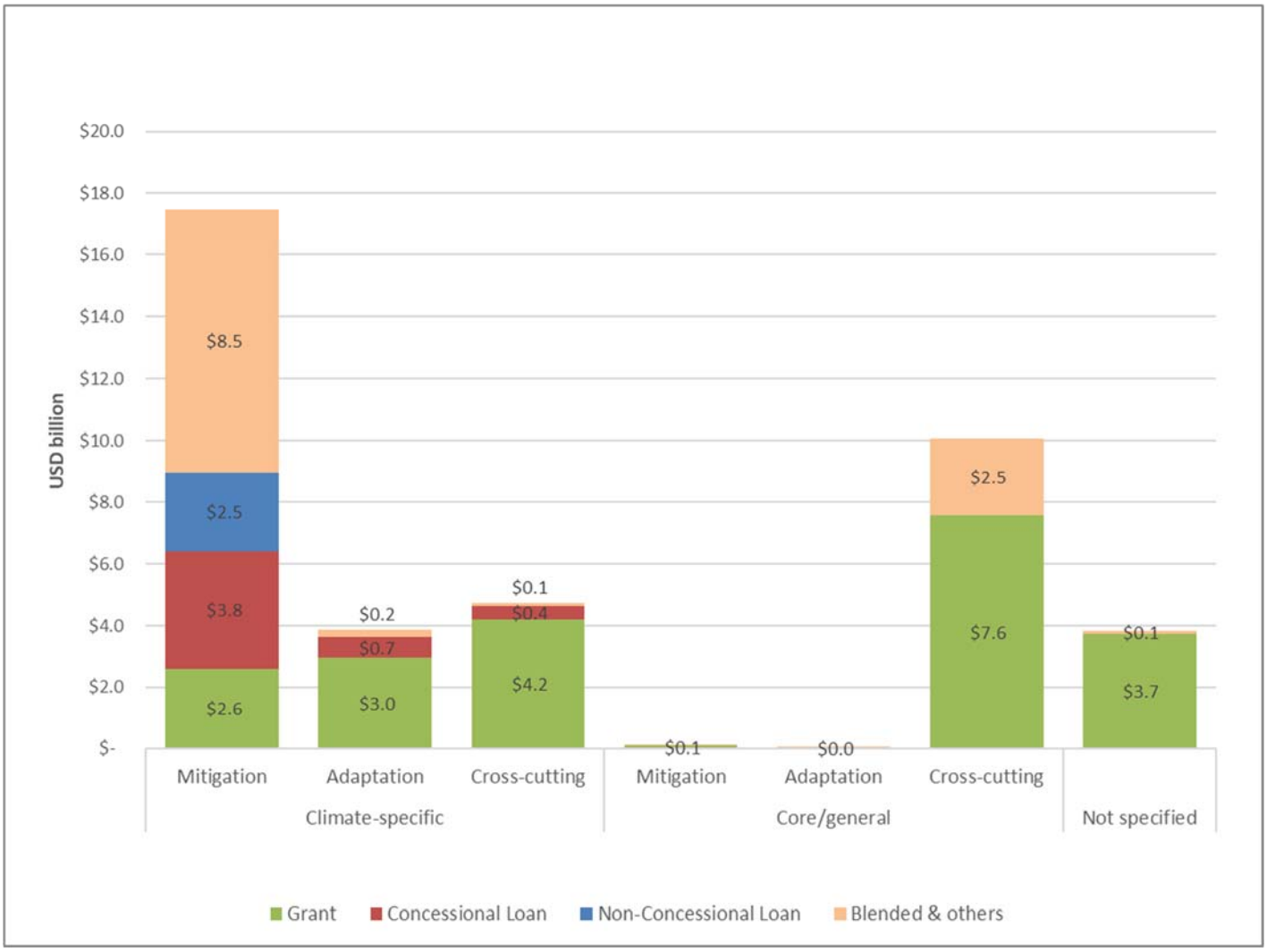

Figure 2: BR2 Reported international climate finance 2014, distinguished by thematic scheme and instrument (in USD billions)

Source: Own illustration based on Second Biennial Reporting

In the UNFCCC context, it is also interesting to highlight the current performance of multilateral funds supporting adaptation activities. Figure 3 shows the most prominent funds that provide financial support to adaptation activities. With about USD 1 billion each, the Least Developed Countries Fund (LDCF) under the Global Environment Facility (GEF) and the Pilot Programme for Climate Resilience (PPCR) managed by the World Bank have approved most funds to date. Regarding annual average approvals, the Green Climate Fund (GCF) is leading. Since its beginning of operations in 2015, about USD 200 million have been allocated to adaptation activities annually. Nevertheless only 27% of the GCF's total approved amount has been allocated to adaptation while 32% addresses cross-cutting activities and 41% mitigation[17]. About 88% of adaptation finance approved by multilateral climate funds comes in the form of grants[18].

In contrast to a stagnant share of international adaptation finance, projections of adaptation needs highlight significantly increasing financial costs for impacted developing countries. UNEP estimates that the indicative adaptation costs for developing countries can be expected to increase from the range of USD 70 and 100 billion per year currently to a span of USD 140 to 300 billion per year by 2030 and to USD 280 to 500 billion per year by 2050[19].

[17] GCF (2017): Portfolio Dashboard – Funding Amount by Target, October 2017

[18] UNFCCC (2016), p. 62f

[19] UNEP (2016); Climate Funds Update (2016)

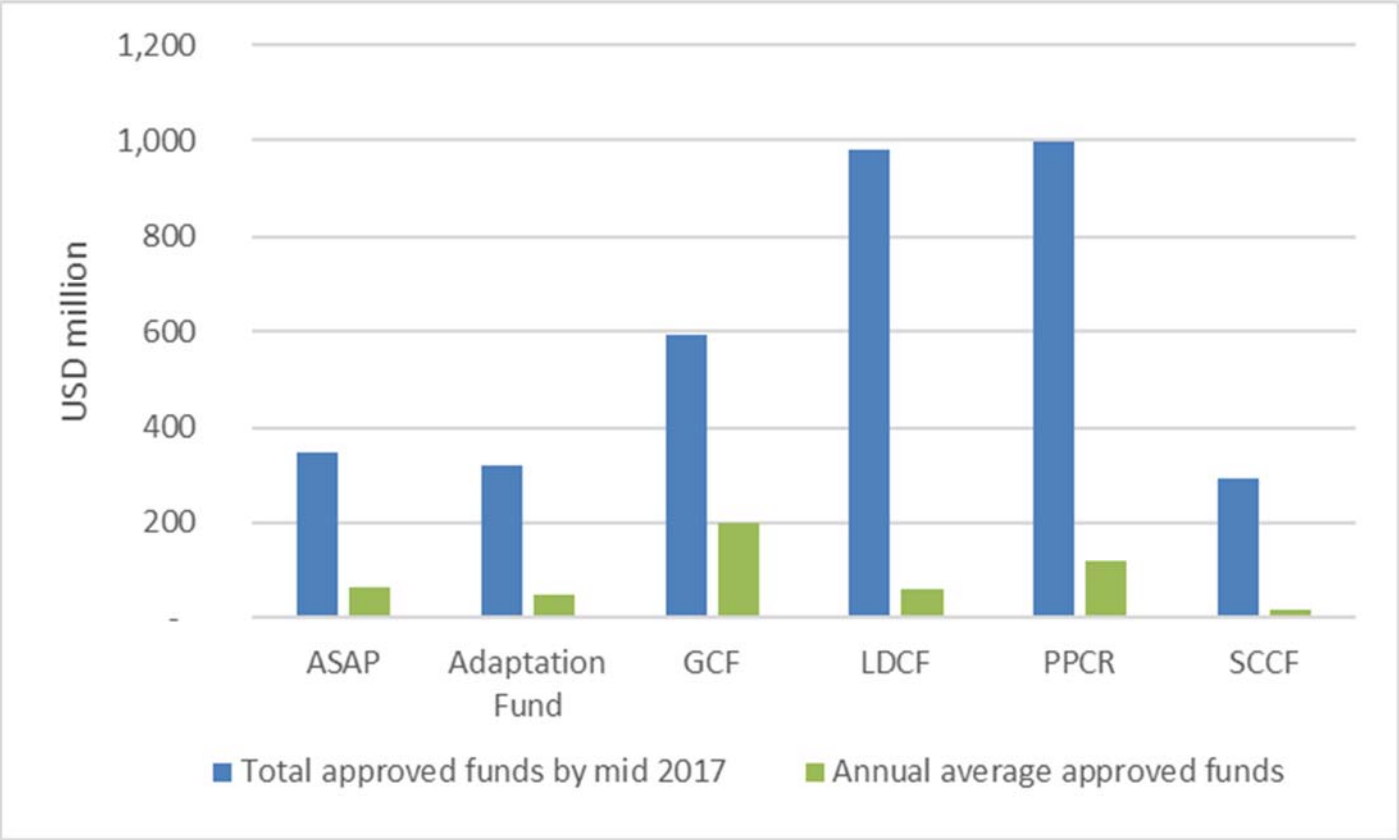

Figure 3: Total approved adaptation finance since start of operation and annual average adaptation finance of selected multilateral funds (in USD millions), as of mid-2017.
Source: Own illustration based on Climate Funds Update (2017), GCF (2017) and Adaptation Fund (2017a); additional information on the Funds' full names and start of operation in footnote[20]

Thus, current international finance levels fall short of present-day adaptation costs and are likely to be unable to meet the adaptation needs by 2020 unless they are significantly increased; looking forward to 2030, 'the total finance for adaptation in 2030 would have to be approximately 6 to 13 times greater than international public climate finance today'[11]. Given that developing countries already face an adaptation finance gap today that demand is 'likely to grow substantially over the coming decades, unless significant progress is made to secure new and additional finance for adaptation'[21]. This development is an important warning sign that must be reflected with high priority in the UN climate negotiations.

1.3 Adaptation Finance Beyond the UNFCCC

Besides the international adaptation finance that is discussed in the context of the UNFCCC as provided or mobilized resources from developed to developing countries, there are significant additional adaptation finance flows. Among these are public and private flows within and across developed countries, within and across developing countries and potentially also from developing to developed countries. In this context the most important non-UNFCCC related flows in developing countries are:

Domestic public resources within developing countries: Domestic expenditures for adaptation activities represent an important part of the required resources. However, according to the 2016 BA[20] and CPI 2017[22], comprehensive data on such expenditures from

[20] ASAP: Adaptation for Smallholder Agriculture Program (start of operation: 2012); Adaptation Fund (2010); GCF: Green Climate Fund (2015); LDCF: Least Developed Countries Fund (established 2001); PPCR: Pilot Program for Climate Resilience (2008); SCCF: Special Climate Change Fund (established 2001)
[21] UNEP (2016), p. 16
[22] CPI (2017)p.9

national and regional developing-countries governments is not available. A more comprehensive transparency regime under the Paris Agreement might address this data gap.[23]

Private finance for adaptation activities: Even with significantly up-scaled domestic and international public adaptation finance the estimated adaptation gaps cannot be fully addressed. Many stakeholders have a strong interest in the role of the private sector in supporting adaptation efforts through suitable investments. As UNEP-FI's 'Demystifying Adaptation Finance for the Private Sector' report argues, it is 'in the private actors' own interests to play a constructive and significant role in implementing the structural change, although this process is likely to require significant additional investment and financing'[24]. Governments and public finance institutions can enable private actors to unlock climate resilience measures through various instruments such as regulations, capacity building or financial assistance. On a large scale, recent developments in the financial sector indicate that companies might be required to disclose their climate-change related risks to asset owners and managers, which might lead to greater awareness of these risks and ultimately greater willingness to invest in adaptation to address them. On a smaller scale, smallholders, producers and other micro, small and medium enterprises will have more pressure to adapt to changes in extreme weather events and will likely need support to be able to do so, e.g. through insurances, finance or capacity building. Innovative approaches such as the G7 InsuResilience Initiative could support such private activities. However, the potential of private adaptation finance might be difficult to access by some countries due to their level of development. For instance, highly vulnerable least developed countries (LDCs) with low adaptive capacities that attract low volumes of private investments in general will likely face challenges in mobilizing domestic or international private adaptation finance[25].

2 Challenges for Adaptation Finance

2.1 Balancing Allocation of Adaptation and Mitigation Finance

As discussed in chapter 1.2, out of USD 57 billion mobilised climate finance estimated for 2013-14, only 16% contributed to climate change adaptation and 7% to projects and programmes of a cross-cutting nature. To address this issue, the term 'balanced' has been included in agreements under the UNFCCC, including the Copenhagen Accord of 2009, the Cancun Agreements of 2010 and the Paris Agreement of 2015. However, a major barrier to applying the approach of a balanced allocation is that there is no common understanding on its meaning. As the World Resources Institute has illustrated, there can be multiple approaches; a 50:50 commitment for adaptation and mitigation from public sources, a 50:50 mobilization for adaptation and mitigation from both public and private sources, or a balance based on need, postulating a preferential treatment for most vulnerable countries in securing adaptation finance[26]. Taking the example of the GCF, which has become a major channel for international climate finance, the allocation of funding resources shall 'aim for a 50:50 balance between mitigation and adaptation over time'[27], while half the adaptation-related funding shall be in support of particularly vulnerable countries.

2.2 Finding a Common Definition and Harmonized Accounting for Adaptation

Another persisting challenge of adaptation finance under the UNFCCC is to clearly define what can be labelled as adaptation. Adaptation itself has been defined in a broad sense, for example as a 'process of adjustment to actual or expected climate and its effects'[28] by the IPCC. Adaptation measures can be very similar to usual development efforts, making a separation in terms of investment challenging. An example of a situation, in which the absence of a clear adaptation definition has caused dissent, may be drawn from the GCF Board Meetings. At the 11th Board Meeting,

[23] Please also see the CFAS Policy Brief on "Transparency of support received" (2017) and on "Reporting climate finance under the UNFCCC" (2016)
[24] UNEP-FI (2016), p.41
[25] UNFCCC (2016), p. 55 and 63
[26] WRI (2013): Is Adaptation Short-Changed? The Imbalance in Climate Finance Commitments
[27] GCF (2017), GCF/B.06/18: Decision B.06/06
[28] IPCC (2014)

two proposals in the area of water management in the Maldives and Fiji had been adopted, while some Board members raised concerns about strong similarities to traditional development projects. At the 13th Board Meeting, this was the case for a solar energy project proposal for Chile that was eventually still accepted as cross-cutting[29]. The Board has also not approved two projects in the past year, where disagreement as to whether the proposed activities could be considered adaptation was amongst the reasons the Board of the Fund could not find consensus.

Apart from the lack of a common definition, the application of different practices for labelling adaptation-relevant activities has also faced criticism. As outlined in the latest Adaptation Transparency Gap report by Adaptation Watch, limited guidance by the UNFCCC on collecting and communicating information about climate finance flows leaves a lot of room for individual methodological preferences, leading to non-comparable data and non-transparent accounting practices. An example mentioned by the report is the OECD Rio Markers, which would allow for multiple counting if projects are targeting several Rio Markers at the same time[30].

2.3 Facilitating Access to Adaptation Finance

Efficient adaptation planning processes which are country-driven and considerate of the limited resources available are an essential element underpinning the delivery of impactful adaptation measures and accessing finance accordingly. According to a Guidance Note by the NAP Global Network on financing needs for National Adaptation Plans (NAPs), there is still only a 'limited number of sources (primarily domestic public finance, bilateral providers and multilateral funds) [available to] provide dedicated support for the development phase of the NAP process'[31]. To address this issue, Parties at COP21 tasked the GCF to mobilize support for developing countries on this matter[32]. As an immediate reaction, the GCF created a financing window for NAPs and/or other adaptation planning processes under the Fund's Readiness and Preparatory Support Programme, offering an allocation of up to USD 3 million per country[33]. Taking note of this positive development, Parties at COP 22 still stressed the need to further invest in more efficient planning and improved managing of available adaptation funding in connection to long-term prospects of mobilizing climate finance[34].

Another issue that has been raised in connection with accessing climate finance in general, including adaptation, is that certain public channels for climate finance still apply procedures that create high barriers for countries with limited capabilities, such as LDCs and Small Island Developing States (SIDS)[35]. In the most recent guidance from the COP to the GCF, for example, Parties request the Fund to continue its development of 'simplified and efficient application and approval procedures'[36].

Finally, a development which partially relates to the increasing attention that the GCF received from donors is that other sources of international climate finance, which are especially relevant for supporting adaptation, have been facing a decline in contributions. This is for instance the case for the Adaptation Fund (AF), which has addressed this issue by developing a resource mobilization strategy and appointing a related task force[37].

[29] Examples on debates regarding adaptation classification of proposals at GCF Board Meetings: (a) FP008: Water Supply and Waste Water Management, ADB, Fiji (see CFAS Daily Briefing 11th GCF Board Meeting - 04 November 2016, p. 5), (b) FP017: Climate Action Solar Energy Development Programme in the Tarapacá Region, CAF, Chile (see CFAS Daily Briefing 13th GCF Board Meeting - 29 June 2016, p. 4).
[30] Adaptation Watch (2016)
[31] NAP Global Network (2017)
[32] UNFCCC (2016), Decision 1/CP.21, paragraph 46
[33] GCF (2017), Decision B.13/09
[34] UNFCCC (2017a), Decision 7/CP.22
[35] Ibid.; Adaptation Committee (2017)
[36] COP 22/ decision 10/CP.22
[37] Adaptation Fund (2017b)

3 Adaptation Finance under the UNFCCC and at COP23 in November 2017

Under the UNFCCC, adaptation finance is represented in various negotiation streams and bodies such as:

1. Conference of the Parties (COP),
2. Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol (CMP),
3. Conference of the Parties Serving as Meeting of the Parties to the Paris Agreement (CMA),
4. Subsidiary Body for Implementation (SBI),
5. Subsidiary Body for Scientific and Technological Advice (SBSTA),
6. Ad Hoc Working Group on the Paris Agreement (APA) (see also Figure 4)

For providing climate finance resources to assist developing countries in addressing climate change, a **financial mechanism** has been established under the Convention. The **Global Environment Facility** (GEF) and the **Green Climate Fund** (GCF) serve as the operating entities of the financial mechanism of the Convention. The **Least Developed Countries Fund** (LDCF) and the **Special Climate Change Fund** (SCCF) are nested under the GEF.

In addition to these entities of the financial mechanism of the Convention that will also serve the Paris Agreement, the **Adaptation Fund** (AF) was established under the Kyoto Protocol. It is funding small-scale adaptation projects in developing countries and has an allocation cap of USD 10 million per country.[38] The Adaptation Fund is the only Fund exclusively dedicated to support adaptation actions in developing countries. COP22 decided that this Fund should also serve the Paris Agreement and that open questions around governance and institutional arrangements, safeguards and operating modalities should be resolved by COP24 in 2018.

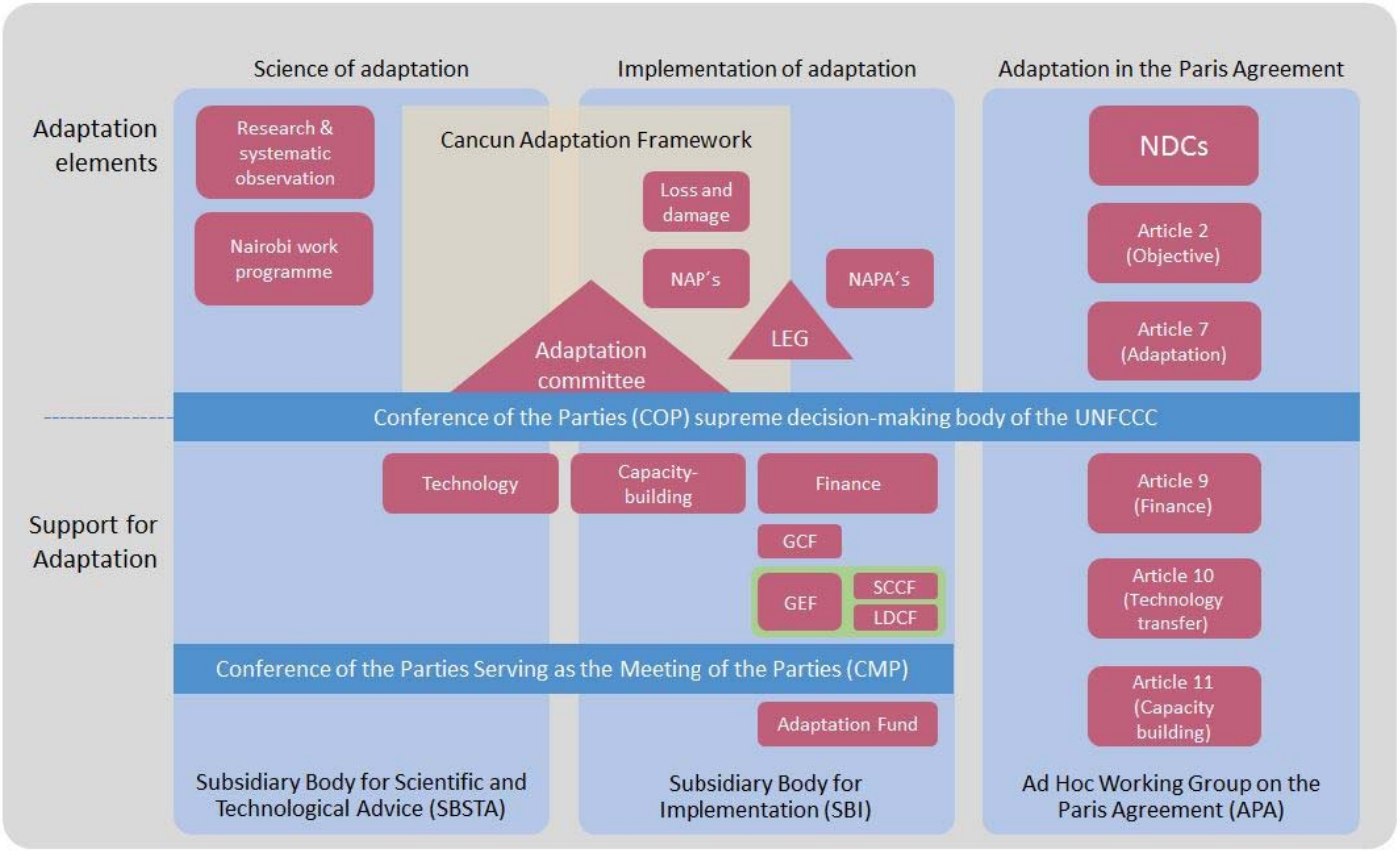

Figure 4: Institutional structure on adaptation and related support under the UNFCCC
Source: Own illustration based on UNFCCC 2013

[38] Adaptation Fund (2017b)

Conference of Parties (COP)

Long-term finance is a major agenda item under the COP. Until 2020 every session will consist of an annual in-session workshop and a biennial high-level ministerial dialogue[39]. This agenda item is important for negotiations on how to scale up climate finance for mitigation and adaptation in a balanced manner and on reaching the goal of USD 100 billion per year by 2020. An in-session workshop will be organized at COP23 with a view to translate the needs identified in country-driven processes into projects and programmes, enhancing the roles and policies for developing enabling environments for climate finance and facilitating enhanced direct access in developing countries. Issues related to a clear pathway to meeting the global targets through a transparent process, clear definitions of climate finance, private finance versus the public finance and additionality of climate finance are also likely to be raised under this agenda item.

Reports from and guidance to the operating entities of the financial mechanism, i.e. the **GEF** and the **GCF** will also be considered by the COP, but as separate agenda items. The GEF[40] and the GCF[41] provide an annual progress report based on which the COP provides guidance on policies, programme priorities and eligibility criteria.

Under the GEF agenda item, the following issues are addressed: the LDCF, whose role is to support LDCs' work programmes including NAPAs, the SCCF supporting all developing countries, as well as issues such as the Capacity-building Initiative for Transparency (CBIT), NAP preparation and the GEF replenishment process.

Under the GCF agenda item, Parties will discuss the Readiness and Preparatory Support Programme, information sharing and communication with National Designated Authorities (NDA) and other relevant stakeholders, support for NAP, improvement of the project approval process and preparation for the first formal replenishment process for the GCF among others.

Subsidiary Body for Implementation (SBI)

Within the SBI**,** progress made on the formulation and implementation of **NAPs**[42] is considered. Here the Least Developed Countries Expert Group (LEG) will report on the implementation of the rolling work programme for 2016–2017, involving inter alia the organization of five regional training workshops on NAPs and two regional NAP Expos in 2017. Under its mandate, the LEG is also currently involved in developing supplementary guidelines on regional approaches to adaptation planning as well as working jointly with the Adaptation Committee on improving access to funding from the GCF in support of NAPs. As a result of the upcoming negotiations, the LEG is expected to receive recommendations on its ongoing engagement on facilitating preparation and implementation of NAPs, as well as on measuring progress.

The report of the **Adaptation Committee**[43] **(AC)** will be considered by both SBI and SBSTA, as well as forwarded to the COP for its consideration. At COP22, the AC had been commissioned to work jointly with the LEG, the SCF and other relevant bodies on developing methodologies and recommendations about how to facilitate the mobilization of support (including finance) for adaptation in developing countries and how to review the adequacy and effectiveness of adaptation and support referred to in Article 7, paragraph 14(c), of the Paris Agreement. The report by the AC to be discussed at the upcoming negotiations includes these methodology recommendations, outlining potential measures to be taken by both developed and developing countries. It is recommended, for example, that developing country Parties should further enhance their enabling environments with a view to improving access to international public support and to enhancing the involvement of the private sector and that all Parties should engage in reporting support provided and received.

[39] UNFCCC (2017b): In-session workshop on long-term climate finance in 2017, (FCCC/CP/2017/4) and Second biennial high-level ministerial dialogue on climate finance, (FCCC/CP/2017/8)

[40] UNFCCC (2017b): Report of the Global Environment Facility(FCCC/CP/2017/7) and Report of the Standing Committee on Finance(FCCC/CP/2017/9)

[41] UNFCCC (2017b): Report of the Green Climate Fund(FCCC/CP/2017/5) and Report of the Standing Committee on Finance, (FCCC/CP/2017/9)

[42] UNFCCC (2017b): Report of the Adaptation Committee, (FCCC/SB/2017/2/Add.1-FCCC/SBI/2017/14/Add.1)

[43] Ibid.

Similarly, **matters related to the least developed countries**[44] are also considered as an SBI agenda item. The LDCs continue to demand that their special circumstances are considered when it comes to supporting their adaptation needs and actions.

Subsidiary Body for Scientific and Technological Advice (SBSTA)

Under the SBSTA, it is mainly the modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement that have a direct impact on the provision of adaptation finance. The consultations on this topic will continue in Bonn with a view to finalizing modalities in the coming year. The SBSTA will consider the recommendations provided by the **Standing Committee on Finance (SCF)** in the 2016 Biennial Assessment. Here the SCF for instance reiterated its call for improving guidelines on the reporting of financial information including for adaptation[45].

Conference of Parties Serving as the Meeting of the Parties to the Kyoto Protocol (CMP)

Matters relating to the **Adaptation Fund** are considered under the CMP and the Adaptation Fund Board reports[46] to the CMP at every session. Based on the report, the CMP provides guidance to the Adaptation Fund Board and takes any action it deems appropriate. The CMP is also likely to adopt the work done on the third review[47] of the Adaptation Fund which it had requested the SBI to conduct. Although the Fund currently sits under the CMP, negotiations are under way in the APA on how it can serve the Paris Agreement and thus the CMA[48] as well.

Ad Hoc Working Group on the Paris Agreement (APA)

Finally, at COP23 both **SBSTA and APA** will discuss adaptation finance[49] under the Paris Agreement in the context of Article 7 and Article 9. **Article 7** 'recognizes the importance of support for and international cooperation on adaptation efforts and the importance of taking into account the needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change.'[50] Regarding the provision of financial support, **Article 9** and its paragraphs 1 and 4 on balanced allocation of resources to mitigation and adaptation are relevant. These adaptation elements are discussed in both the APA and the SBSTA. Guidance in relation to the adaptation communication under Article 7, para 10 and 11 is considered under APA. It demands Parties to periodically submit and update an adaptation communication including their priorities, implementation and support needs, plans and actions, without creating any additional burden for developing country Parties. To prepare for this discussion, Parties were invited to submit their views prior to COP23; the Secretariat will prepare a technical paper summarising adaptation-related information.

Another important agenda item under APA are the Modalities, Procedures and Guidelines (MPGs) for the transparency framework for action and support referred to in Article 13 of the Paris Agreement. The agenda item will primarily consider support provided and received when it comes to climate finance. The work is in progress and the Secretariat will organize a round table on 4 and 5 November 2017 in Bonn for further considerations.

[44] UNFCCC (2017b): The 32nd meeting of the Least Developed Countries Expert Group (FCCC/SBI/2017/14) f
[45] UNFCCC (2016)
[46] UNFCCC (2017b): Report of the Adaptation Fund Board, (FCCC/KP/CMP/2017/6)
[47] Ibid.
[48] Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
[49] UNFCCC (2017b): Technical paper on adaptation-related information included in NDC, NAP and recent national communications (FCCC/TP/2017/7)
[50] UNFCCC (2015)

4 Recommendations / conclusions

Currently, international adaptation finance faces significant challenges. Foremost, the existing flows seem to be inadequate to fully address developing countries' adaptation needs. If this trend continues, the poor and vulnerable countries will have insufficient resources for adaptation to climate change and resilience building. Furthermore, adaptation finance lacks a common definition and harmonized accounting approaches, impeding transparency, comparability and comprehensive reporting. Additionally, some countries face challenges with tapping existing resources showing that facilitated access is required.

Within the upcoming climate negotiations at COP23, Parties will address challenges arising from current practices in adaptation finance from various angles, including the mobilization of and access to financial support, the facilitation of adaptation planning processes or the assessment and communication of respective adaptation needs. Considering the latest development under the different work streams of the negotiations, the following recommendations should be considered for enhancing action by both developed and developing countries on the matter of adaptation finance:

- As the AC report plays a role in several negotiation streams (SBI, SBSTA and COP), negotiators with a core interest in strengthening adaptation finance can use these opportunities to express their support for its recommendations, while also making sure that they will be well-connected to the future work programmes of bodies in support of adaptation planning in developing countries (e.g. AC, LEG).
- In continuing to work on solutions for accessing adaptation finance, the LEG should be mandated to maintain its close collaboration with bodies under the financial mechanism to the Convention. In addition, the topic of mobilizing finance from a wide range of sources should be addressed within the work programme for the upcoming year, especially within regional workshops and NAP Expos.
- In the context of the USD 100 billion annual goal by 2020, a more balanced allocation of public finance for adaptation is imperative. Although the sources of finance may be diverse, adaption will require a committed share coming from public sources. This will play a role in the discussions under the "Long-Term Finance" agenda item.
- As even with significantly scaled-up public adaptation finance, the estimated adaptation gaps (see chapter 1.2) cannot be fully addressed, many stakeholders have strong interest in the role of the private sector. Both the COP23 but also institutions and initiatives beyond should engage in identifying sectors, frameworks, regulations and policies that promote private sector engagement. Policymakers under the UNFCCC and beyond are recommended to address demand and supply side barriers for adaptation finance[51] through integrating private actors in national and regional adaptation planning. Private enterprises' awareness and activities can be stimulated through support for knowledge generation and support regarding public investment criteria. The latter should be considered in the context of mainstreaming and standardizing adaptation finance tracking as discussed above.

Regarding UNFCCC related adaptation-focused or multi-thematic funds considering adaptation in their portfolio, negotiators should take into account the following processes and workstreams relevant at COP23:

- The process of accessing funds from the GCF has been very complicated, burdensome and lengthy. Poor and vulnerable countries find it extremely difficult to understand the process and access funding. They potentially need further readiness and project development support such as an enhanced operation of the Project Preparation Facility. Furthermore, the GCF Board might need COP guidance on how to deal with the imbalanced distribution of funds between mitigation, cross-cutting and

[51] Compare UNEP-FI and GIZ (2016) , p. 6

adaptation. Here, it would be helpful if the COP would provide guidance on whether cross-cutting funding should also be partly attributed to adaptation when assessing if the '50:50 allocation' is being achieved. If this is the case, the Board might need additional methodological recommendations for accounting adaptation elements in cross-cutting projects. This agenda item is considered under the COP, which provides guidance to the fund.

- The Adaptation Fund is the only fund exclusively dedicated to adaptation actions in developing countries. However, this Fund lacks resources and is dependent on voluntary pledges because the share of proceeds from the Clean Development Mechanism as its other funding source is not anymore mobilizing resources at a significant scale. Its future needs to be sustained with sufficient resources. Also, the Fund requires a clear linkage on how it can serve the Paris Agreement. This negotiation is being considered under APA and needs an agreement by COP24.
- The LDCF is dedicated to support the poorest and most vulnerable countries who were asked to develop NAPs to meet their urgent and immediate adaptation needs. However, the lack of financial resources in this Fund is a serious challenge as many of the projects submitted are waiting for funding. The COP provides a chance to contribute to the LDCF for the upcoming years. This issue can be taken up in the agenda item 'Matters Related to the LDCs' under the COP.
- Additional capacity building efforts for enabling developing country institutions to access international climate finance, particularly multilateral climate funds, should be strengthened. This is a general issue raised under the agenda items on GCF and GEF guidance as well as matters related to the LDCs among others under the COP.

As identified in chapter 3, there is a general need to increase transparency and streamline methodologies to track adaptation finance, both under but also beyond the UNFCCC. A more streamlined approach with increased standardization would help to address several challenges at once, such as these:

- While adaptation finance can always be considered as development finance, the question is how to guarantee that mainstreamed development finance is not relabelled as adaptation finance in the context of the obligation to provide 'new and additional' climate finance.
- It needs to be clarified how to deal with programmes and projects that have been labelled as cross-cutting (mitigation and adaptation);
- The lack of comparability and transparency among bilateral, multilateral and other donors hinders the identification of best-practice experience and lessons-learned;
- In the UNFCCC negotiations, adaptation and finance are mainly treated separately. This may help provide clarity under specific themes. However, when it comes to implementation, a separate track of negotiations often creates confusion. Arrangements for information sharing and cross-sharing between the finance and adaptation tracks are required.

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About

The Climate Finance Advisory Service (CFAS) offers negotiators, policy makers and advisors in the poorest and most climate vulnerable countries bespoke information and guidance to help them effectively participate in complex global climate finance negotiations.

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