UNFINISHED BUSINESS

How to close the post-Paris adaptation finance gap

Climate change is a brutal reality confronting millions of the world’s most vulnerable people. Their need for financial support to adapt to climate extremes is urgent and rising.

International support for adaptation falls well short of what is needed. Latest estimates indicate that only 16 percent of international climate finance is currently dedicated to adaptation – a mere $4–6bn per year of which is public finance. Governments in Paris came close, but ultimately failed to agree quantified goals to ensure adaptation finance increases at anywhere close to the scale needed in future.

If global cooperation on climate change is to be inclusive, durable and fair, it must leave no one behind. The adaptation finance gap must be addressed urgently with agreement at COP22 in Morocco on a roadmap for the $100bn commitment – one that includes quantified goals for adaptation finance, and progress on accounting and governance of finance flows.
THE PARIS DEAL SHOULD LEAVE NO ONE BEHIND

The world is in a much better place to tackle climate change following the global deal struck in Paris, which will be remembered as a rare moment when the world came together. There is a lot to be pleased about in the outcome. More than 190 countries made pledges to cut emissions; a core mitigation architecture was agreed which could serve to raise ambition every five years (to avoid the 3°C temperature rise that current pledges amount to); a long-term adaptation goal was agreed which sets an expectation on all countries to build climate resilience; the need to respond to loss and damage was formally anchored in the new climate change regime; and a goal of limiting the temperature rise to ‘well below’ 2°C – and to pursue efforts to limit it to 1.5°C – was established.

But there were major disappointments too. In particular, the agreement left many questions on climate finance unanswered. It extended the Copenhagen commitment from developed countries to jointly mobilize $100bn per year by 2020 for climate action in developing countries by another five years through to 2025. And it strongly calls for those countries to increase their funds for adaptation beyond current levels. But it failed to include meaningful mechanisms to ensure that adaptation finance will increase sufficiently, or to address the massive neglect of adaptation compared to mitigation in international climate finance flows to date. For the 3.5 billion poorest people around the world who face increased risk of floods, droughts, hunger and disease, this was a significant blow.

If global cooperation on climate change is to be inclusive, durable and fair, it must leave no one behind – particularly not those who are most vulnerable to its impacts and least able to cope. Finance is adaptation’s bottom line. For the spirit and momentum of the Paris agreement to endure, the unfinished business of closing the adaptation finance gap must be addressed urgently.

THE STATUS OF ADAPTATION FINANCE POST-PARIS

While the Paris Agreement marks progress on adaptation – establishing a qualitative long-term global goal and including adaptation under the transparency framework for the first time – governments failed to respond adequately to the huge adaptation finance gap. New financial contributions were made by a number of governments last year, as well as commitments in Paris to improve transparency and accounting of financial provision. But while the agreement urges countries to significantly increase their adaptation finance beyond current levels, no specific global target for adaptation finance was established to give vulnerable countries assurance on future availability of funds to allow them to reliably plan for adequate action.
<table>
<thead>
<tr>
<th><strong>Table 1: Climate finance and adaptation in the Paris package</strong></th>
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<td><strong>Agreed in Paris</strong></td>
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<td><strong>Climate finance</strong></td>
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<tr>
<td>$100bn per year goal extended up to 2025.²</td>
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<td>New goal to be set for post-2025, with $100bn as a floor.³</td>
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<td>Developed parties are strongly urged to ‘scale up their level of financial support, with a concrete roadmap’ to achieve the $100bn goal by 2020.⁴</td>
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<td><strong>New pledges</strong></td>
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<td>Developed countries (above 2014 levels by 2020):</td>
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<td>$11bn from developed countries directly.⁸</td>
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<td>$10bn from multilateral development banks.⁹</td>
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<td><strong>South-South flows (no timescales):</strong></td>
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<td>Over $3.2bn in South-South flows, including China’s $3.1bn pledge.¹⁰</td>
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<tr>
<td><strong>Adaptation finance</strong></td>
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<tr>
<td>Developed Parties are strongly urged to ‘significantly increase adaptation finance commitments from current levels’.¹¹</td>
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<tr>
<td>Achieve a balance between adaptation and mitigation.¹²</td>
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<td>Mention of ‘the need for public and grant-based resources for adaptation’.¹³</td>
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<td><strong>Qualitative adaptation goal</strong></td>
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<td>Long-term global goal aimed at ‘enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change’.¹⁴</td>
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<td>Parties will have to submit adaptation communications outlining planning processes and actions.¹⁵</td>
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<td>Adaptation included in the transparency framework and the five-yearly global stocktake of progress.¹⁶</td>
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</table>
Announcements by developed countries and multilateral development banks in 2015 indicate an annual level increase of $21bn by 2020. Where no announcements were made, we have assumed that the finance levels of 2014 will be the same in 2020.

The OECD estimate of climate finance in 2014 is $62bn. This is based on an assessment of bilateral and multilateral public finance to developing countries, as well as private investments in developing countries mobilized by developed countries.

Health warning: The OECD estimate of 2014 levels is given at face value based on donor-driven methodologies, which have drawn criticism, including by Oxfam. Notably, it includes export credits, private finance, and non-concessional loans at face value (rather than only counting the actual net support). It also includes the whole cost of some projects where climate change is one of multiple objectives. For these reasons, Oxfam’s assessment is that $62bn is likely to overestimate the actual support delivered to developing countries in 2014.

Oxfam estimates public climate finance at between $18-23bn per year by 2020. This includes only grant and grant-equivalent climate-specific public finance support. Estimates are based on OECD 2014 data on mitigation and adaptation finance and 2015 announcements from developed countries and multilateral development banks. Where no announcements were made, we assumed that the finance levels of 2014 will be the same in 2020.

Oxfam estimates public adaptation finance at between $6-9bn per year by 2020. This includes only grant and grant-equivalent adaptation-specific public finance support. Estimates are based on OECD 2014 data on adaptation finance and 2015 announcements from developed countries and multilateral development banks. Where no announcements were made, we assumed that the finance levels of 2014 will be the same in 2020. It shows that adaptation finance falls well short of what is needed.
TIME IS RUNNING OUT TO CLOSE THE ADAPTATION FINANCE GAP

The escalating costs of adaptation

Today, the world’s temperature is 1°C warmer than pre-industrial levels and climate change has become a brutal reality confronting millions of the world’s most vulnerable people. Their need to adapt grows more urgent by the day. Yet international support for adaptation continues to fall well short of what is needed, and the vast majority of international climate finance continues to flow to mitigation (see Table 2).24

As a result, many developing countries are already contributing significant amounts to their own adaptation efforts through domestic budgets – in the case of Ethiopia, Tanzania and others, this amounts to more than they are receiving from international support.25 Investment in adaptation strategies such as up-to-date meteorological technologies and effective early warning systems are extremely costly and beyond the financial capacity of many developing countries.26 The challenge for poorer countries is particularly acute, given that many already lack sufficient resources to meet the basic needs of their citizens, such as healthcare, education and access to water.

The costs of adapting to climate change are increasing. In 2014, the Adaptation Gap Report by the United Nations Environment Programme (UNEP) estimated that by 2025/30 the costs to developing countries will be around $150bn per year, based on a temperature-rise scenario of about 2°C.27 In 2016, UNEP’s Adaptation Finance Gap Update reported that the costs may be even higher.28

New Oxfam-commissioned research by Climate Analytics estimates future costs of adaptation based on the level of mitigation ambition contained in Intended Nationally Determined Contributions (INDCs), which could see the world warm by around 3°C. The research suggests that developing countries could face adaptation costs of around $240bn per year as early as 2030.29

Over 70 percent of low-income country INDCs included adaptation as a component, and a subset of these included estimates for adaptation finance needs.30 Afghanistan, for example, estimated its adaptation needs at $10.7bn between 2020 and 2030, and India estimated its needs to be $206bn between 2015 and 2030.31 These estimates are preliminary, do not cover all sectors and use different methodologies. Nonetheless, they indicate that developing countries already face significant costs, which they expect to increase considerably in future.
Box 1: Adaptation needs are increasing: the case of climate change supercharged El Niño

Climate change is supercharging the effects of El Niño. This year, more than 60 million people will be affected by El Niño and face hunger, disease and water shortages in East and Southern Africa, the Pacific, Latin America and the Caribbean. Ethiopia, one of the most badly affected countries, faces one of the most serious droughts in 50 years as the result of failed rains and droughts that have been worsened by El Niño. Women are disproportionately affected, particularly elderly, pregnant and breastfeeding women, as they have to walk even longer distances to find firewood, water and food for their families and livestock. Adaptation finance is vital to help people cope with an already changing climate and El Niño, a combination which threatens to overwhelm governments’ capacity to respond and people’s ability to cope.

The neglect of adaptation finance to date

Last year’s OECD–Climate Policy Initiative (CPI) study on progress towards the $100bn goal presented a stark assessment: it estimated that only 16 percent of international climate funds are currently being spent on adaptation. This is despite years of warnings about the looming adaptation gap, and in spite of (unquantified) commitments made by developed countries year after year to scale up their financial contributions (see Table 2). There’s currently little reason to be confident the Paris Agreement will buck the trend.

Table 2: Pre-Paris commitments to scale up adaptation finance have not delivered

<table>
<thead>
<tr>
<th>Commitments</th>
<th>Result</th>
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<tr>
<td>The Copenhagen Accord (2009) and Cancun Agreements (2010) included a collective commitment by developed country parties to a 'Balanced allocation between adaptation and mitigation' in provision of Fast Start Finance (FSF) ($30bn 2010–12).</td>
<td>Only around 20 percent of FSF was dedicated to adaptation.</td>
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<td>COP18 (2012) in Doha, COP19 (2013) in Warsaw, and COP 20 (2014) in Lima all called on 'developed country Parties to channel a substantial share of public funds to adaptation activities'.</td>
<td>Based on the latest available data on climate finance levels for 2013–14, Oxfam estimates international grant and grant-equivalent public finance for adaptation to be a mere $4–6bn annually. OECD-CPI (2015) study estimated international climate finance for adaptation in 2013–14 was only 16 percent of total climate finance (public and private).</td>
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Only an estimated 16 percent of international climate funds are currently being spent on adaptation (OECD 2015)
Qualitative commitments don’t deliver

Experience shows that qualitative global commitments are not strong enough to address the extreme neglect of adaptation finance. It is therefore a major concern that the Paris conference missed the opportunity to set quantified targets to redress the imbalance and close the adaptation finance gap. Instead, provisions include a commitment to a ‘balance’ between adaptation and mitigation finance in the core Agreement;41 and a commitment to ‘significantly increase adaptation finance from current levels’ in the COP Decisions.42

As the Green Climate Fund recognized when it agreed to aim for a 50:50 balance between mitigation and adaptation funding, only quantified targets can reliably address the historic imbalance between adaptation and mitigation.

Quality of climate finance is more important than ever

Transparency and accountability of adaptation finance are critical to ensure that those who are most vulnerable to climate change receive the support they need to adapt. Accounting practices to date mean that levels of climate finance have been overestimated by donor countries. For example, some countries count the full value of loans rather than the concessional element, and where climate is one of multiple objectives some countries have counted the full value of the project against their climate finance commitments.

It is encouraging that the Paris package includes various provisions to improve transparency and accountability of international climate finance (see Table 1). Developing consistent, robust and fair methodologies on what should and should not be attributed to countries’ public finance efforts is crucial; not least to ensure the roadmap to the $100bn does not become an exercise in creative accounting. South-South flows, including from China, would also benefit from a robust and fair accounting methodology as they set up their MRV systems to monitor progress and encourage quality finance in the future.

The Paris Agreement recognized the need for public and grant-based resources for adaptation, which are currently a small proportion of overall finance flows (see diagram above 2020 Climate Finance Projections). Donors are increasingly counting mobilized private flows against their climate finance commitments. Yet private finance will struggle to meet the essential adaptation needs of poor and marginalized people, who are most in need of public grant-based support.43 As the OECD-CPI report shows, 90 percent of private finance targets mitigation activities. There has also been no agreement (and no discussion that involves developing countries) on a reasonable approach to counting private flows and leverage ratios. A conservative approach is vital if the proportion of public finance in meeting the $100bn goal is to remain high.
ADAPTATION FINANCE ACTION PLAN FOR COP22 (AND BEYOND)

Africa’s fourth COP must address the unfinished business of climate finance following Paris. It must reach decisions to reliably and transparently increase public adaptation finance to the world’s poorest countries and communities. The High-Level Ministerial Dialogue focused on adaptation finance, which will take place in Morocco during the COP, is an opportunity not to be missed. It must not be another talking shop, but focussed on action which has the potential to secure safer futures for millions of people – across the African continent and globally – who are already suffering the impacts of a changing climate.

1. In response to decisions reached in Paris, developed countries must agree a ‘concrete roadmap’ at COP22 for how they will achieve the $100bn commitment, ‘while significantly increasing adaptation finance from current levels’ (paragraph 114 of 1/CP.21). Oxfam’s assessment is that this roadmap must include a commitment to $35bn in public finance for adaptation by 2020 as the minimum political signal needed to start to address the current adaptation finance gap.44 It must also include a commitment to significantly increase overall grant and grant-equivalent public finance from current levels, which are very low. As developed countries agreed to extend the $100bn goal through to 2025, a commitment to a minimum of $50bn (at least 50 percent) in public finance by this date should be made, subject to review based on national assessments of needs.

2. Rich countries must immediately commit to a substantial increase in resources for the Adaptation Fund and Least Developed Countries Fund, and for the Green Climate Fund during its first replenishment starting in 2017 to ensure a fast-tracking of adaptation resources for the most vulnerable countries and communities, and notably the women, that need them most. Whilst new, welcome commitments were made to these funds in Paris, significant shortfalls remain.

3. Streamlined guidelines need to be developed to improve the quality of climate finance, and make countries’ climate finance figures comparable. The various processes in OECD, SBSTA and SCF focused on modalities for the accounting of adaptation finance must be aligned, with agreements reached under the UNFCCC by developed and developing countries leading the way. Contributing countries’ future reporting should only include climate-specific finance (under OECD DAC categorization, for example: projects with climate as its ‘principal’ objective, and the climate-relevant component of projects with climate as a ‘significant’ objective). All countries should also provide a breakdown of the various instruments and channels used, separating provided public finance (grants, concessional loans and grant equivalent of non-concessional loans) from mobilized private finance.45
4. **Ensure adaptation finance reaches those who need it most by developing consistent criteria for global and national governance of funds.** Criteria should ensure: civil society and vulnerable communities are able to steer and hold accountable the way in which adaptation finance is used; adaptation finance responds to domestic priorities and benefits the most vulnerable people, notably women; adaptation finance respects social and environmental safeguards and supports adaptation readiness and capacity building in developing countries.

5. **Countries should recommit to additionality by providing climate finance on top of what they provide to meet existing aid commitments** (such as the 0.7 percent GNI target). As a first step, countries should ensure climate finance that qualifies as official development assistance (ODA) is part of a rising overall aid budget, and is rising at least at the same rate. Dedicated new revenue streams, distinct from national aid budgets, should also be established to provide predictable flows in the long term – such as setting aside revenues from carbon markets (including the EU Emissions Trading Scheme) and setting up a Financial Transaction Tax in the EU.
NOTES


2 Paragraph 53, decision 1/CP.21

3 Paragraph 53, decision 1/CP.21

4 Paragraph 114, decision 1/CP.21

5 Paragraph 114, decision 1/CP.21

6 Paragraph 57, decision 1/CP.21

7 Paragraph 45, decision 1/CP.21

8 Announcements made by developed countries in 2015 amounted to an estimated increase of annual levels by roughly $11bn by 2020 (above 2014 level). The main commitments came from Germany, United Kingdom, France, Canada, Japan, Spain, the Netherlands, the EU and others.

9 In 2015, a number of multilateral development banks announced increases in the share of climate programs in their portfolios. The aggregated pledges amount to an estimated increase of annual levels of $15.3bn by 2020 (over 2014 levels), of which roughly two thirds would be attributable to developed countries. The main commitments came from WBG, ADB, AfDB, EIB, IDB and EBRD.

In 2015, different multilateral development banks announced an increase of the share of climate programs in their portfolios, resulting in an estimated increase of annual levels by about $15bn by 2020 over 2014 levels, of which roughly two thirds would be attributable to developed countries.

10 China $3.1bn; and Green Climate Fund Southern contributions, South Korea: $100m; Mexico: $10m; Peru: $6m; Colombia: $6m; Panama: $1m; Chile: $0.30m; Indonesia: $0.25m; Vietnam: $0.10m; Mongolia: $0.04m. http://www.greenclimate.fund/contributions/pledge-tracker

11 Paragraph 114, decision 1/CP.21

12 Article 9.4, Paris Agreement

13 Article 9.4, Paris Agreement

14 Article 7.1, Paris Agreement

15 Article 7.10-11, Paris Agreement

16 Article 7.14, Paris Agreement

17 Paragraph 46, decision 1/CP.21

18 Article 2, Paris Agreement

19 Article 7, paragraph 14(c) of Paris Agreement

20 See footnotes 8 and 9.


22 The 2014 estimate is based on OECD 2013–2014 project-level data on climate development finance: http://www.oecd.org/dac/stats/climate-change.htm. We assume bilateral finance projects marked with climate as a principal objective are 100 percent climate-specific, while those with climate as a significant objective were counted at 25 percent (high end of the range) or 0 percent (low end of the range). Finance via multilateral development banks was counted as mitigation or adaptation specific as indicated by the OECD data set. Concessional loans are assumed to have a grant equivalent of 25 percent. For the 2020 estimate we applied the same ratio of grant and grant-equivalent finance for 2014 figures to the announcements on overall finance levels made by donor countries and multilateral development banks during 2015. This is because country breakdowns of grant and grant-equivalent finance for 2020 are not yet available as the money has not yet been allocated.
Adaptation figures for 2014 are based on OECD data and for 2020 based on announcements made in 2015, using the same methodology as described in footnote 22 but looking exclusively at adaptation finance. Where projects were marked as both adaptation and mitigation, climate-specific amounts were counted as 50 percent for adaptation.


27 UNEP (2014) op. cit.


30 UNEP (2015) op. cit.

31 The assumed temperature scenario for the estimated adaptation cost is not stated in India’s INDC, which can be found here: [http://www4.unfccc.int/submissions/INDC/Published%20Documents/India/1/INDIA%20INDC%20TO%20UNFCCC.pdf](http://www4.unfccc.int/submissions/INDC/Published%20Documents/India/1/INDIA%20INDC%20TO%20UNFCCC.pdf)

Nor is the assumed temperature increase contained in Afghanistan’s INDC, which can be found here: [http://www4.unfccc.int/submissions/INDC/Published%20Documents/Afghanistan/1/INDC_AFG_Paper_En_20150927_.docx%20FINAL.pdf](http://www4.unfccc.int/submissions/INDC/Published%20Documents/Afghanistan/1/INDC_AFG_Paper_En_20150927_.docx%20FINAL.pdf)


33 OECD (2015) op. cit.

34 Oxfam papers, UNEP reports and other studies calling out the adaptation finance gap include:


UNEP (2014) op. cit.

UNEP (2015) op. cit.


ActionAid (2015) op. cit.


37 COP 18, Section V.65; http://unfccc.int/resource/docs/2012/cop18/eng/08a01.pdf

38 COP 19, Decision on Long Term Finance 6: http://unfccc.int/resource/docs/2013/cop19/eng/10a01.pdf

39 COP 20, Decision on Long Term Finance 7: http://unfccc.int/resource/docs/2014/cop20/eng/10a02.pdf

40 See footnote 23


42 As stated in Paragraph 114 from COP21 Decisions: http://unfccc.int/resource/docs/2015/cop21/eng/10a01.pdf


44 The recent OECD climate finance report estimates current climate finance flows to be around 70 percent public finance: OECD (2015) op. cit. Assuming this proportion of public finance in 2020 and the $100bn commitment is met, then $70bn of international finance flows would be public, of which Oxfam states at least half ($35bn) should be allocated to adaptation.

45 As per footnote 44 of OECD (2015) op. cit., donor countries agreed to also count net value: ‘For increased transparency, in addition to total public finance, the group intends to provide information on public budgetary sources and/or grant equivalent in future reporting.’
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For further information on the issues raised in this paper please e-mail advocacy@oxfaminternational.org

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