NDC PARTNERSHIP

Adaptation and Risk Finance in NDCs

KEY MESSAGES

- Developing bankable projects and pipelines dominates adaptation finance requests made to the NDC Partnership for both NDC implementation and enhancement.
- Developing climate finance strategies emerged as a strong adaptation planning need for countries looking to assess and prioritize adaptation actions.
- Over half of NDC implementation requests related to adaptation or risk finance are unsupported, and a quarter of related NDC enhancement requests are unsupported.
- Countries often lack the data collection systems and/or feasibility assessments required to make well-informed investment planning and financing decisions.

WHY ADAPTATION AND RISK FINANCE ARE IMPORTANT

With vulnerable countries already experiencing severe effects of climate change, including extreme weather events, droughts, and sea level rise, the costs of adaptation have been projected to be up to US$300 billion annually by 2030 and US$500 billion annually by 2050[1]. With developed countries still falling short of their climate finance commitments, current adaptation costs are likely to exceed required international public finance by 6-10 times, creating what has been called an 'adaptation finance gap'[2]. This gap must be bridged in order to successfully deliver the Paris Agreement and address the realities of climate change in vulnerable countries.

There are several challenges to financing adaptation action. Making the economic case for adaptation projects is often more complicated than for mitigation projects where projects in sectors such as renewable energy and AFOLU are familiar, have shorter timelines, and have a more readily quantifiable return on investment. The NDC Partnership has found that its member countries struggle to access international finance for adaptation and resilience projects and often rely on their own public financial resources. Even so, countries face additional bottlenecks in integrating adaptation into long-term strategies, disaggregating climate budget tagging, and developing data management systems. Furthermore, COVID-19 has emerged as a threat to timely adaptation action by redirecting already limited climate budgets towards economic recovery efforts. However, herein lies an opportunity for governments to use the co-benefits of climate adaptation and resilience, human health, and socio-economic stability as a leverage point for additional adaptation spending[3].

ADAPTATION FINANCE NEEDS FOR NDC IMPLEMENTATION AND ENHANCEMENT

From a cohort of 68 member countries who request support across the Partnership, 57 have made requests within the adaptation focus area[4].

This analysis frames adaptation requests within two stages. First, countries establish vulnerability or resilience baselines to assess the social and economic costs of climate risk, and then integrate prioritized adaptation actions into the NDC investment planning process. When implemented together, these activities help countries identify the tools and approaches necessary to prepare for and respond to the extreme impacts of climate change cost-effectively. The following analysis will explain how adaptation planning and NDC investment planning both play a key role in unlocking adaptation finance.[5]

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1 United Nations Environment Programme. 2016. The Adaptation Finance Gap Report.

2 Ibid.

3 Sellers S, Ebi KL, Hess J. Climate Change, Human Health, and Social Stability: Addressing Interlinkages. Environ Health Perspect. 2019;127(4):45002. doi:10.1289/EHP4534

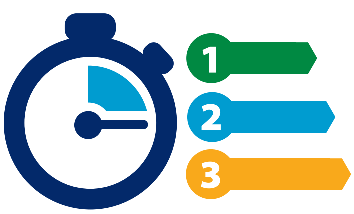
4 This analysis is based on data from July 2020 which includes 32 countries with 925 adaptation related NDC implementation requests made to the NDC Partnership through Request for Support Letters and Partnership Plans, as well as 45 countries with 158 adaptation related NDC enhancement activities made through the Climate Action Enhancement Package (CAEP). This is a larger dataset than covered in the Partnership's 'Adaptation in NDCs' Insight Brief, and therefore, statistics on adaptation planning and finance requests may differ

5 For more information on how the NDCP conceptualizes the NDC investment planning process, see our insight brief *Understanding NDC Financing Needs*.

ADAPTATION PLANNING

Adaptation planning is an important first step for countries looking to establish resilience baselines and ensure adaptation measures within the NDC are aligned with national economic and development planning. Requests within this tier are often for technical assistance to assess and identify priority adaptation measures which inform later implementation and investment decisions. Through the Partnership's NDC implementation and enhancement support, a majority (60 percent) of countries' adaptation requests are for planning support. These actions often intersect with the stages of NDC investment planning, although they can be categorized into three thematic areas:

- **Assessment and Identification of adaptation and resilience needs, through the development of quantifiable baselines, are requested by 49 of the 57 countries who communicate both implementation and enhancement adaptation needs to the Partnership.** These requests typically are made to assess adaptation needs and climate vulnerabilities, develop climate modeling and scenarios, and improve the accessibility of risk data—activities that identify key intervention areas which inform later stages of investment planning.



- **Prioritization and Planning of adaptation projects and designing approaches for addressing identified needs are requested by 31 of 57 countries analyzed.** The objectives of these requests are to prioritize areas for adaptation intervention, develop actionable planning measures, and build capacities within planning entities. Related analyses are strongly aligned with the development of climate finance strategies and financial roadmaps, as well as National Adaptation Plans (NAPs) which help countries set and then implement their adaptation-related priorities as set out in their NDCs in the medium and long-term. Half of countries request support for risk modeling and scenario analysis—two means of identifying climate vulnerabilities which feed into the development of comprehensive climate finance strategies.

- **Monitoring, Evaluation, and Reporting support is requested by 37 of 57 countries analyzed.** Activities in this thematic area revolve around the development of comprehensive monitoring and evaluation (M&E) indicators, MRV (Monitoring, Reporting, and Verification) systems, and data-sharing and disclosure platforms. When implemented, these actions help to track, measure, and report on implementation progress around adaptation planning.

Please see the Insight Brief: Adaptation in NDCs for more detailed insights on countries' adaptation planning needs and how the NDC Partnership is responding.

CASE STUDY: JAMAICA

In an effort to reduce execution time and cost overruns of public investment projects, Jamaica has established a Public Investment Management System (PIMS) to conduct systematic screenings of public investment projects at the design phase for climate change risks. The PIMS system streamlines the preparation, appraisal, approval, and management of all Government projects in Jamaica, regardless of the source of funding or procurement method. Jamaica has also accessed funding from the GEF's Capacity Building Initiative for Transparency (CBIT) through the Inter-American Development Bank, which will strengthen Jamaica's transparency framework through the design and implementation of a fully functional and harmonized domestic MRV system for the effective implementation of the country's NDC and other transparency-related activities. This system will aim to track climate related investments in adaptation and align transparency efforts with the PIMS.

NDC INVESTMENT PLANNING FOR ADAPTATION

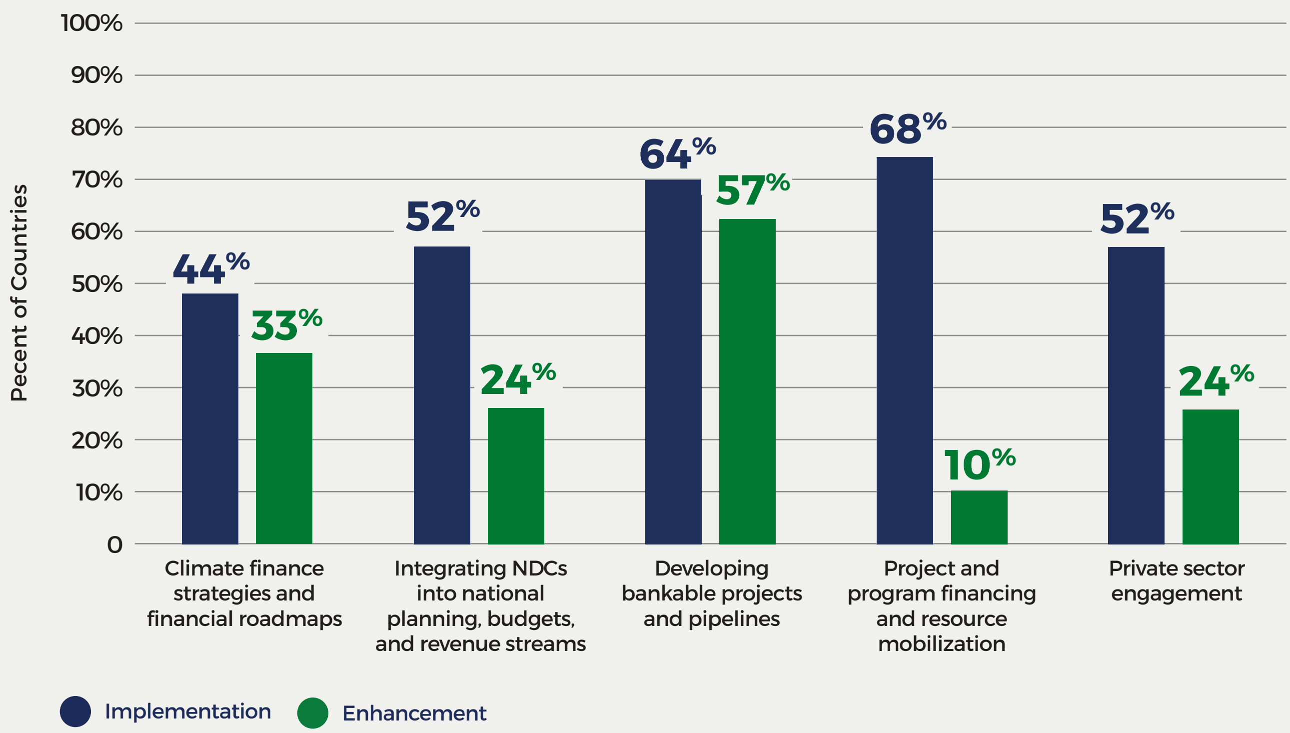
NDC Investment planning allows countries to plan for and mitigate their own climate risks by prioritizing actions which increase resilience and save money through avoided damages. Investment planning for adaptation is particularly challenging because of the complexity of developing project proposals which do not always come with an easily quantifiable return on investment. Many adaptation projects and programs are focused on socioeconomic dimensions that reap returns in terms of co-benefits, such as improved public health, reduced air pollution, or avoided damages to existing infrastructure. However, the projects themselves often do not satisfy traditional 'bankability' criteria[6] and non-financial indicators may be more relevant. Countries often lack the technical expertise to quantify the associated economic benefits that result from adaptation and resilience programs[7].

Out of 1,083 adaptation requests made by 57 countries, 24 percent of requests—coming from 38 countries—explicitly address financing needs. Yet, more than half of these requests remain unsupported by partners, particularly when it comes to mobilizing resources and financial support for projects and programs. Interestingly, few countries make the distinction between their finance needs for adaptation versus those for mitigation, suggesting adaptation finance needs are likely underreported. When we dive deeper into the different types of investment planning requests, some interesting trends emerge.

6 'Bankability' criteria are the key determinants of a project's requirements for international climate funding. Criteria might include demonstrations of national ownership, alignment with fund or donor priorities, economic efficiency, improvements to environmental indicators, and a measurable return on investment within a project proposal.

7 Understanding 'bankability' and unlocking climate finance for climate compatible development. 2017. Charlotte Ellis and Kamleshan Pillay.

FIGURE 1. PERCENTAGE OF COUNTRIES WITH NDC IMPLEMENTATION & ENHANCEMENT REQUESTS BY INVESTMENT PLANNING STAGE



Developing climate finance strategies and financial roadmaps

Climate finance strategies, plans, and roadmaps which align with national adaptation targets and NAPS (where relevant) enable governments to take a more strategic approach to targeting funding, rather than directing finance flows to disparate projects. This is often the first stage of the investment planning process and goes hand in hand with the prioritization and planning phase outlined above.

Out of the 38 countries making adaptation finance requests, eighteen have indicated adaptation implementation or enhancement needs in this category, respectively. These requests take on a variety of objectives and represent many different sectors, suggesting the need for an economy-wide approach when integrating adaptation planning into national development planning. However, there remain bottlenecks in moving from information to adaptation planning, and from adaptation planning to developing adaptation finance strategies and roadmaps. The former speaks to a fragmentation and lack of interoperability between datasets and systems across different sectors when prioritizing adaptation targets, measures, and approaches for future funding support; and the latter speaks to coordination challenges between different planning levels within a country. For example, Ecuador has requested support to conduct a detailed analysis regarding sectoral financial strategies for adaptation measures, including investment opportunities for conditional and unconditional targets for different financing sources.

CASE STUDY: THE REPUBLIC OF THE MARSHALL ISLANDS (RMI)

RMI has made significant progress in the implementation of its adaptation Partnership Plan outputs. To ensure the country's National Adaptation Plan is financially grounded, the Asian Development Bank's (ADB) NDC Advance program is supporting an assessment of RMI's existing public financial management systems and climate finance landscape, in addition to developing a long-term financing strategy. Findings from the finance assessment will enable the set-up of a national climate finance mechanism which will support the government in managing and leveraging climate change-related funds to invest in strategic projects for adaptation and resilience. Priority is being given to the adaptation areas outlined in RMI's Partnership Plan, including water security, coastal protection, food security, gender, human rights, and building resilience to climate related health risks.

Integrating NDCs into national planning, budgets, and revenue streams

National planning and budgeting are crucial for ensuring that adaptation and resilience are mainstreamed into national economic and development planning, and domestic resources must be accounted for as part of any adaptation finance strategy or implementation plan. Yet, budgeting for adaptation actions and tracking climate finance flows within public financial management (PFM) systems remains a challenge for many countries.

Out of the 38 countries making adaptation finance requests, thirteen countries indicate adaptation finance needs in this category for implementation, and just five indicate the same needs for enhancement. Those that do make requests tend to focus on national budgeting for adaptation (i.e. integrating food security, gender, disaster risk reduction, and provincial and local resilience actions into national budgets). This trend may be explained by the fact that most countries are still focused on identifying and assessing adaptation needs, making it premature for governments to plan and budget for them. Moreover, a lack of easily identifiable adaptation indicators often makes it hard for governments to distinguish between adaptation and development projects, posing challenges for tracking adaptation finance flows as part of the monitoring and evaluation phase. While some countries have begun to implement climate finance tagging within their PFM systems, most do not disaggregate mitigation from adaptation finance[8].

Two notable exceptions are Uganda and Morocco. Uganda has taken steps to disaggregate its budget tagging for adaptation and mitigation public expenditures in priority sectors (see case study). Morocco

8 Ministries of Finance and Nationally Determined Contributions: Stepping Up for Climate Action. 2020. The Coalition of Finance Ministers for Climate Action.

aims to implement a Government Roadmap for the launch of the NAP process and has asked for support to identify the possibilities and modalities for introducing "adaptation headings" in national, sectoral, and territorial budgeting.

Developing bankable projects and pipelines

Requests within this category focus on the identification, assessment, and development of bankable project portfolios for adaptation and resilience centered projects. As noted above, identifying adaptation projects that demonstrate a clear return on investment is a key challenge, but an integral step in eventually accessing necessary funding for implementation. Out of all five NDC investment planning categories illustrated in Figure 1, developing bankable projects and pipelines is by far the most requested area for adaptation investment planning support when looking at all 38 countries.

The strong need for project implementation support within this category speaks to one of the main challenges the NDC Partnership has noted as part of its country engagement work: a lack of country capacity to mainstream good adaptation practices piloted by development partners into the project preparation process and access funding to scale projects beyond the pilot stage. It is unsurprising then that the majority of implementation and enhancement requests in this stage are directed towards accessing project specific funding.

Interestingly, this is the only stage in the investment planning process in which sector-specific requests for project implementation take precedence over multi-sector requests. The AFOLU sector makes up the majority of requested projects followed by those in the water sector. In a quarter of cases, these two sectors overlap. For example, Burkina Faso aims to develop 15,000 hectares of lowlands and irrigated perimeters using the intensive rice growing system (SRI). In Jordan, steps are being taken to share a bankable project arising from its Partnership Plan with prospective funders: planting date palm trees using sustainable irrigation systems and renewable energy. Jordan has leveraged Partnership support to develop a Project Idea Note which elaborates on the objective, rationale, benefits, and gender responsiveness of climate projects—information which can then be shared with potential investors[9].

Mobilizing project and program financing and resources

This category of investment planning deals with financial readiness and enhanced access to climate finance through blended finance mechanisms and financial vehicles. Twenty-one countries make capacity building requests to mobilize adaptation funding from national and international sources (i.e. conducting insurance market assessments, unlocking GCF funding, or developing national funds). This suggests that increasing the financial readiness of countries remains a critical need in order to access climate financing. Capacity building support will be needed to prepare national mechanisms to allocate, disburse, and report on climate finance in ways which are compatible with multilateral climate development bank requirements and countries' planning and budgeting systems.

9 To support member countries in the formulation of bankable projects, the NDC Partnership has launched the Project Idea Notes (PINs) initiative, on a pilot basis, which presents a snapshot of investable projects arising from Partnership Plans. Governments can pitch projects in member organized regional and international investment forums (i.e. Regional Climate Weeks, Invest4Climate, Regional NDC Finance Initiative) to attract financing from multiple sources, including the private sector.

In terms of financing instruments and mechanisms, 11 of 38 countries request support for developing adaptation and risk finance specific instruments, with a focus on national funds or insurance mechanisms for enhancing access to adaptation and resilience financing (i.e. the Dominican Republic's National Fund for Prevention, Mitigation, and Disaster Response), indicating a preference for national and international public funding sources for adaptation projects and programs.

When it comes to moving beyond public financing, 17 countries make finance requests within the private sector engagement focus area, but only Uganda and Morocco make requests specifically for blended financing mechanisms which address disaster risk and climate resilience. Other countries make frequent requests to evaluate private sector spending on adaptation, strengthen private sector engagement through workshops, or to mobilize financing and resources for industries hard hit by climate change (i.e. the agriculture sector).

CASE STUDY: UGANDA

Uganda's third National Development Plan will deliver procedures for integrating climate adaptation considerations across priority sectors and local governments, with support from NDC Partnership partners. At the national level, the Ministry of Finance, Planning and Economic Development will work in parallel to implement disaggregated mitigation and adaptation budget tagging of relevant public expenditure on water, energy, agriculture, and transport, as well as an innovative climate change and disaster management screening tool developed by the World Bank. Additionally, CARE International, in partnership with a local NGO, are tracking international adaptation finance flows into Uganda, while also working to supplement this stream of public financing with private sector investments. In the project preparation stage, the Partnership is providing technical support for the development of bankable adaptation project proposals.

CLOSING MESSAGE

As countries communicate through their requests to the Partnership, NDC investment planning and capacity building will be key to mobilizing finances for adaptation and resilience building activities. Developing data collection systems, bankable projects pipelines, and climate finance strategies will play an important role in determining the ambition and success of countries' NDCs. This will require not only the commitment of countries to integrate adaptation into their public financial management systems, but also the full engagement and financial backing of the NDC Partnership network. Closing the 'adaptation finance gap' comes with many challenges, exacerbated by the economic toll of COVID-19, but it remains a crucial step in ensuring the long-term sustainability of the global economy and the well-being of all who are affected by the severity of climate change. For more detailed insights on countries' adaptation planning needs and how the NDC Partnership is responding, refer to our 'Adaptation in NDCs' Insight Brief.

CREDITS

This Insight Brief was written by Sam Morton and Skylar Bee of the NDC Partnership Support Unit, with valuable inputs from several other members of the Support Unit.

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