

THE RIGHT TO RESILIENCE

OXFAM BRIEFING ON ADAPTATION FINANCE IN THE POST-2020 PARIS AGREEMENT



Several billion people who live in the poorest parts of the world are most affected by climate change. They are least able to cope with its adverse effects, and are also least responsible for the emissions that have caused the problem. For those people, the most pressing issue Paris must address is dealing with climate impacts that are being felt today, as well as preparing for escalating impacts after 2020 when the Paris agreement will come into effect.

FINANCE: ADAPTATION'S BOTTOM LINE

A commitment to increase and accelerate public finance for adaptation post-2020 is adaptation's bottom-line. Without it, the Paris agreement will be a mitigation deal for big emitters, not a climate change agreement for all.

Climate change is an immediate, grave, and growing threat to development, making the battle to overcome poverty ever harder and more expensive. International climate finance to developing countries is essential if we are to reduce and overcome the increased risk of floods, hunger, droughts, and disease, as well as growing inequalities within and between countries. The lives and livelihoods of poor women and men depend on it.

Developed countries may be financially constrained, but the resources most developing countries have to cope with climate change are even more limited. 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 health, education, and access to water.

ADAPTATION TO DATE: LESSONS FOR THE POST-2020 ERA

The current adaptation regime needs a major upgrade if it is to support the poorest countries and communities. The following lessons from the pre-2020 period must be addressed if the post-2020 period is to mark a decisive shift:

- **Adaptation finance must be on an equal footing to mitigation.** The vast majority of climate finance to date has focused on mitigation and has been directed to richer developing countries. Adaptation and the most vulnerable countries have been short-changed; adaptation represented only around 20% of Fast Start Finance for example.¹
- **The continued displacement of traditional aid for climate finance needs to stop.** The vast majority of climate finance to date has come from aid budgets - latest figures

SNAPSHOT OF ADAPTATION FINANCE TODAY

INTERNATIONAL ADAPTATION FINANCE

Our best estimate of international climate-specific finance for adaptation today is between **\$2.5-4.2 billion**. This is based on two main sources:

- According to the first UNFCCC biennial reports, which detail developed country climate finance provision to developing countries in 2011 and 2012, parties provided approximately \$17 billion per year of climate-specific finance of which **\$2.5-3.2 billion** (15 to 19%) was directed to adaptation.³
- OECD DAC analysis of ODA flows suggests £3.4 billion of climate-specific bi-lateral flows were for adaptation. And one can estimate a further \$0.8 billion in multilateral flows that might be concessional, totalling **\$4.3 billion** in 2013.⁴

DEVELOPING COUNTRY DOMESTIC ADAPTATION FINANCE

In the face of such costs, the domestic finance developing countries are already spending on adaptation alone (without taking into account the costs to mitigate climate change) is significant and growing. Oxfam estimates that sub-Saharan African countries are already spending around US\$5bn of their own resources on climate change adaptation – which for many countries is far more than the amount they have received in international climate finance. For example, Tanzania spends approximately three times more on adaptation each year from their own budget than they received from international climate finance during the 'Fast Start Finance' period 2010-12; Ethiopia spent approximately double each year what it received in the same three year period.⁵

from OECD DAC indicate 17% of bi-lateral ODA in 2013 was climate finance, which means less support for schools, hospitals and other areas.²

- **A commitment to quality as well as quantity is essential.** The \$100 billion commitment has been important for setting direction, but there has not been enough focus on quality in meeting this target. If funding is going to effectively contribute to adaptation efforts, contributors need to ensure that adaptation related funding explicitly addresses climate impacts and vulnerabilities, and builds the capabilities of domestic institutions to manage climate risks over the long term. Furthermore, misplaced focus on reaching big numbers has resulted in some countries counting the full value of loans rather than the concessional element, not enough grant based support being available and an over-reliance on private sector finance, which will not meet the adaptation needs of the poorest.
- **Climate impacts and adaptation finance needs must be better understood at a national and local level.** Adaptation finance needs have been largely underestimated to date. Recent analysis by UNEP and others indicate that most top down estimates, including the World Bank (2010) range of \$70-100bn per year, is likely to be woefully inadequate. The scale of finance provision post-2020 needs to be better aligned with bottom-up assessments of need, which must be carried out at a national level for all developing countries by 2018 (see below).
- **National Adaptation Plans (NAPs) need to be funded.** Only a fraction of National Adaptation Plans of Action (NAPAs), carried out by 50 countries, received financial support. Nepal only received funding for 3 out of 10 projects, Uganda for 1 out of 9 and Zambia for 2 out of 10.⁶ There must be guarantees that NAPs (which have succeeded NAPAs) will not meet the same fate.

CORE ELEMENTS OF THE 2015 AGREEMENT

1. AGREE A GLOBAL GOAL FOR ADAPTATION

There is a profound gap between adaptation need and what is currently being realised at a national level. Yet since 2011, the framework and process for countries mitigation contributions have dominated international discussions. Adaptation has been left on the sidelines, despite the considerable risks climate change poses to the global economy, peace and security.

Captured in a global goal for adaptation, the Paris agreement must put in place processes for the international community to cooperate on adaptation, and to ensure vulnerable communities in all countries have the capacity to build resilience and adapt to the impacts of climate change. A global adaptation goal would have many facets, but critically must: set the direction and ambition for adaptation action globally by all countries; put in place processes for adaptation plans in developing countries to identify support needs; have a strong relationship with the level of mitigation ambition, anticipated temperature increase and consequent adaptation needs and costs; and include commitment to significantly scaled-up public finance for adaptation to vulnerable developing countries (see section 2).

SET THE DIRECTION FOR ADAPTATION ACTION BY ALL COUNTRIES

Underpinned by a better understanding of future risks and impacts and how they can be addressed, a global goal would raise the political importance of adaptation nationally and within the global climate regime, where hitherto it has been neglected compared to mitigation.

- **In Paris parties must commit to a global goal for adaptation to set the direction for action by all countries towards climate resilient societies and economies, and to ensure provision of finance to countries that are particularly vulnerable. Critically this should encompass commitments that build adaptive capacity and understanding of climate risks, but which also limit activities which undermine resilience.**

LINK TO GLOBAL TEMPERATURE INCREASE

Failure to slash emissions increases the risks and costs associated with climate change dramatically. UNEP's Adaptation Gap Report (2014) highlights the stark sensitivity of costs associated with climate change to temperature increase in developing countries: "Indicative modelling results highlight that compared to a 2°C pathway costs under a 4°C pathway could potentially double around mid-century. This is because the sooner the 2°C threshold is exceeded, the higher the rate of climate change, and the greater the levels of anticipatory adaptation".⁷ For this reason, adaptation action and

finance commitments must be linked to the level of mitigation ambition contained in the agreement, as currently proposed by the Africa Group.

- **A global adaptation goal must include a mandate to assess impacts and costs of adaptation action in the light of mitigation ambition.**

2. COMMIT TO SCALED-UP, PREDICTABLE PUBLIC FINANCE FOR ADAPTATION POST-2020

The Paris agreement must enshrine a commitment to setting collective global targets for both mitigation and adaptation finance to developing countries after 2020. It is imperative there is a separate public finance target for adaptation in order to close the adaptation finance gap and ensure scaled up and predictable public finance for adaptation. However, it must be stressed that a target for adaptation alone is not enough - a target for mitigation finance is also vital.

FIVE YEAR DEVELOPING COUNTRY INVESTMENT PLANS BY 2018 BASED ON BOTTOM-UP NEEDS ASSESSMENT

Whether through elevation of the NAPs process or expansion of INDCs to require countries to put forward adaptation plans, the Paris agreement must launch a process for countries to put forward national adaptation plans outlining actions and financing required for their implementation. These plans should be revised and updated every five years – aligned with mitigation commitment periods, and finance cycles of support to developing countries. Support should be provided to particularly vulnerable countries to prepare and submit their adaptation plans, detailing their needs for international public adaptation finance. Plans should be completed by 2018, so that they can be assessed by both the Adaptation Committee and Standing Committee on Finance and a process for addressing financing gaps should be put in place by 2020 when the Paris deal comes into force.

- **Launch a process for developing countries to identify adaptation plans and financing required for their implementation by 2018. Provide the Adaptation Committee and Standing Committee on Finance with a mandate to assess adaptation plans and help identify financing gaps and a process for addressing those gaps.**
- **Developing country spending on their own adaptation needs should be measured and recognized in the context of the UNFCCC as part of developing countries contribution to the global effort to tackle climate change.**

POST 2020 CLIMATE COSTS ARE EXPECTED TO RISE SIGNIFICANTLY

Over the past decade, understanding of climate change impacts and associated costs have improved considerably, and with that estimates of adaptation finance needs have increased. Back in 2007, a UNFCCC assessment put adaptation needs in developing countries at \$28 billion annually by 2030. Then in 2010, the World Bank put the costs at around \$70-100 billion per year between 2010 and 2050. And the most recent assessment by UNEP, suggests adaptation costs could be at least two to three times higher still.

The most recent and widely recognised estimates are as follows:

1. UNEP's *Adaptation Gap Report* (2014), draws on new national and sector studies and provides a preliminary assessment of costs that are significantly higher than previous top-down models suggest:⁸
 - The costs of climate change for Least Developed Countries alone could be in the range of \$50 billion per year by 2025/2030. And by 2050 it could be double - \$100 billion per year.
 - For all developing countries costs of \$150 billion per year by 2025/2030, and \$250 billion to \$500 billion per year by 2050.
 - If the 2°C target is exceeded significantly costs could more than double.
2. *Africa's Adaptation Gap 2* (UNEP, March 2015), based mainly on top-down analysis, estimates:
 - The near term cost of adaptation in Africa at \$7-15 billion per year by 2020, of which so far, roughly \$1-2 billion a year is estimated to have been flowing to Africa for adaptation.
 - By 2050, Africa's adaptation costs could rise to \$50 billion per year if temperatures stay below 2°C, and up to \$100 billion per year by 2050 in a 4°C scenario.
3. The World Bank 'Economics of Adapting to Climate Change' (2010) report estimates:
 - The near term cost of adaptation in Sub-Saharan Africa could be 0.6-0.7% of GDP in 2010-19, although lower for other regions.
 - Global costs by 2050 are estimated at \$70-100bn.

These and other largely top-down models suggest climate costs could be equivalent to between 0.5 to 1% of GDP for most developing countries by 2025.⁹ Such top-down models have been criticised for systematically underestimating adaptation costs, as among other issues they do not account for all major impacts and fail to take account of adaptation pathway uncertainty and associated costs. The top-down estimates are nevertheless significant. Drawing on this analysis, Oxfam estimates:

- For LDCs, SIDs and African States 0.5-1% of GDP could amount to \$25-50 billion per year by 2025 (assuming a conservative GDP growth rate of 4% per annum).¹⁰
- For the Philippines and India 0.5-1% of GDP could amount to \$17-44 billion per year by 2025 (again assuming a growth rate of 4% per annum, which is conservative).¹¹

2025 GLOBAL PUBLIC FINANCE TARGET FOR ADAPTATION

Public finance for adaptation is essential for action to support the world's poorest countries and communities on the front lines of climate change, who have least resources to cope and do not tend to live in places that attract private investment. Developing community disaster preparedness plans, planting mangroves for protection from storms and rising seas, or developing small-scale irrigation systems, for example, do not generate internal returns and will not attract private sector investment. Only grant-based, public sector funding directed through governance arrangements with the meaningful participation of affected communities can ensure these adaptation needs are met.

In Paris, parties should:

- **Commit to a 2025 public finance target for adaptation to developing countries, taking into account the needs of those that are particularly vulnerable including LDCs, SIDS and African States.**
As set out in the box above, adaptation finance needs post 2020 are expected to rise significantly. Based on top-down estimates of climate costs as a proportion of developing country GDP, finance needs for LDCs, SIDS and African Countries could range from \$25 to \$50 billion by 2025 (based on conservative GDP growth rate of 4%). However, bottom-up analysis carried out by UNEP suggests costs for LDCs alone could be \$50 billion per year by 2025/30, and \$150 billion for all developing countries.
- **Commit to review this target by 2020 before the Paris agreement comes into force, informed by a bottom-up needs assessment through NAPs and other estimates.**
- **Commit to reviewing and revising the public finance target every five years.**

HALF OF PUBLIC FINANCE FOCUSED ON ADAPTATION

Whatever global targets are set, adaptation must be guaranteed a fair share of vital public finance support. To this end, in addition to a 2025 public finance target, there also needs to be commitment to a floor that adaptation will receive at least 50% of public climate finance. Contributing countries must strive to achieve this balance in their provision of international climate finance.

- **Commit to a common goal of achieving equal balance of public finance for mitigation and adaptation (at least a 50 per cent share for adaptation) by 2025, and to reviewing this balance every five years.**

NEW SOUTH-SOUTH FINANCE COMMITMENTS

Oxfam's calculation of 'fair shares' for adaptation indicates that a number of countries that have not been expected to contribute resources until now should prepare to do so, including Russia, Brazil, the Republic of Korea, Mexico, Saudi Arabia, Kuwait and Singapore.¹² These contributions should be captured in a separate South-South goal, in order to ensure that new contributors coming on board does not lower the obligations of existing contributors but instead supplements them.

- **Commit to new South-South flows of public finance for adaptation in the most vulnerable countries, captured in a separate commitment to developed countries.**

3. COMMIT TO INCREASING ADAPTATION FINANCE WITHOUT SWAMPING AID BUDGETS

STOP THE DISPLACEMENT OF NON-CLIMATE DEVELOPMENT FINANCE

There can be no more shift in current development aid flows to climate finance. Total bilateral climate finance increased steadily over the past decade, representing 17% of total bilateral ODA in 2013 (latest OECD DAC figures available). But whilst the climate finance share of ODA has been increasing, overall aid levels have been stagnating as many governments are failing to keep their aid promises.

Adapting to climate change will make development more expensive and bring with it additional costs. As such, continued absorption of climate finance into ODA budgets (which in most countries have declined or flatlined) will either leave adaptation well short of the resources required, or divert significant aid for health, education and other essential development priorities. For the world's poorest countries that simply cannot afford the costs of adaptation, nor can afford drastic cuts to life-saving aid, this is a bleak predicament. Alongside any commitment to a quantified goal for adaptation finance in Paris must be a commitment that guarantees future finance will not continue to eat into aid budgets.

- **As a first step, developed countries should commit to ensure climate finance that qualifies as ODA is part of a rising overall aid budget, and one that is rising at least at the same rate as climate finance.**
- **Developed countries should also re-commit to the ultimate goal of providing climate finance on top of what they provide to meet existing commitments, such as the 0.7% GNI target.**

ESTABLISH NEW AND INNOVATIVE SOURCES OF PUBLIC FINANCE FOR ADAPTATION

New and innovative sources of climate finance are critical to address the large and growing gap between existing levels of adaptation finance and growing needs, as well as to curb the displacement of non-climate development finance as set out above. A number of potential new sources have been under discussion for a number of years, including by the High Level Advisory Group on Finance, the Leading Group on Innovative Finance, and (though to a lesser extent) the Long Term Finance Work Programmes under the UNFCCC. More recently the Commission for Innovative Financing for Climate, mandated by President Hollande, has been tasked with exploring innovative finance options for the French Presidency. Building on the work that has already been done but with a renewed emphasis on implementation, the Paris agreement must put in motion an action plan aimed at getting the most promising national and international schemes off the ground urgently.

- **In Paris, parties should commit to a two year work program to collectively identify and mobilise new and innovative sources of finance in the soonest possible timeframe, with a mandate to meet substantial milestones by COP22 and completion of the work program by COP23.**
- **The work program should consider such sources as, inter alia:**
 - **a Financial Transaction Tax (FTT);**
 - **a fossil fuel levy (or Carbon Majors Levy);**
 - **carbon pricing for international aviation and maritime; and**
 - **domestic or regional carbon pricing/carbon markets, including allocation of EU-ETS auction revenues to the GCF.**

4. ONLY COUNT CLIMATE-SPECIFIC FINANCE TOWARDS MEETING UNFCCC COMMITMENTS

Mainstreaming climate change into aid spending is critical, because at the level of implementation action on climate change and development go hand in hand. Developing countries need roads, schools, farming practices and homes that are fit for the future, which means among other things resilience to a changing climate.

However, in terms of what finance is counted towards meeting commitments under the UNFCCC, only dedicated climate finance should be counted. Finance which has climate change as one objective among many (classified as climate 'significant' under OECD DAC Rio Markers) should not be counted, as France, Japan, EU institutions and others are doing today. Without this principle, there is a high risk of future finance targets being largely met by simply mainstreaming climate change into development spending. This would drastically reduce the amount of dedicated climate finance available, for projects such as building a seawall or relocating displaced communities in a coastal village. It would severely limit the extent to which international climate finance contributes towards meeting the huge additional costs developing countries now face to even stand still.

This risk is compounded by major discrepancies in donor accounting of climate finance, which results in significant over-counting of ODA towards climate change objectives. Analysis by the Adaptation Finance Accountability Initiative (AFAI), which Oxfam is part of, has carried out numerous studies at a national level which highlight this concern. For example, one study tracking \$500 million of adaptation finance in Nepal over the period 2009-2012, found that a substantial share (44%) of funding initially marked as adaptation related by donors was found to be not relevant to climate change. Most of the projects were regular development projects in education and health sectors, earthquake preparedness, and infrastructure such as road and bridge construction projects with no evidence to suggest that climate change considerations had been integrated into their design and implementation.¹³

- **In Paris, parties should agree that only climate-specific finance, which corresponds with the OECD DAC definition of 'principal' finance, should be counted towards meeting commitments under the UNFCCC.**
- **To improve transparency of finance flows, contributors should also signal their intention to improve accounting and auditing of what counts as climate finance under OECD DAC Rio Markers. Only the climate related activities**

should be counted – not the entire project amount. Contributing countries need to provide information on: climate change impacts and how they affect the beneficiaries and activities being undertaken; how the design of activities took into account those impacts; who the beneficiaries are and how the project activities help them adapt to climate change. And they should have to communicate to the recipient government that this funding has some climate relevance.

6. MAKE THE GREEN CLIMATE FUND THE MAIN CHANNEL FOR ADAPTATION FINANCE

With over 20 dedicated climate funds in existence today, the climate finance landscape has been characterised by a disparate jumble of sources, channels, institutions and governance arrangements. For developing countries, fund proliferation undermines the effectiveness of finance and reduces the amount of support they receive. It increases the burden of transaction costs on countries that often have limited capacity to access funds, and fragments their ability to spend resources strategically.

In recognition of these challenges, the Cancun Agreements included a commitment that a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund (GCF). The Paris agreement needs to build on this by including a clear and quantified commitment on the provision of international climate finance to the GCF after 2020, as well as re-affirming existing commitments.

- **In Paris, parties should commit to *at least* half of adaptation finance being channelled through the GCF by 2025.**
- **Parties should also reaffirm the GCF decision to allocate at least 50% of its finance to adaptation.**

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1. See for example UNFCCC (2014) Biennial assessment, p44 <http://bit.ly/1BeGeol>
And Oxfam analysis of FSF <http://bit.ly/1RFmgcp>
 2. OECD DAC statistic flyer on climate finance in 2013 <http://bit.ly/1AFnKPz>
 3. A further \$3-3.2 billion (18-19%) was cross cutting for both adaptation and mitigation. UNFCCC (2014) Biennial assessment, op cit. p44
 4. OECD DAC statistic flyer on climate finance in 2013 <http://bit.ly/1AFnKPz> OECD DAC analysis of climate-specific multilateral flows are not available. But assuming the proportion of MDB climate finance that is concessional reflects the average of all IFI financing (approx. 30% See Table 1.1: http://www.ifad.org/events/ifi_trends/giz_mcf.pdf), one might estimate multilateral concessional flows in 2013 to be \$0.8 billion (30% of \$2.7 billion total flows).
 5. Tanzania and Ethiopia national adaptation spending estimates based on national budget analysis by Bird (2014), as described in Oxfam (2014) 'Breaking the Standoff: Post-2020 Climate Finance in the Paris Agreement', and data on international adaptation finance received under Fast Start Finance from www.climatefundsupdate.org, as presented in Oxfam (2014) 'Hot and Hungry: How to stop climate change derailing the fight against hunger'
 6. Terpstra et al (2013) *The Plumbing of Adaptation Finance: Accountability, Transparency and Accessibility at the Local Level* www.wri.org/publication/the-plumbing-of-adaptation-finance
 7. UNEP (2014) The Adaptation Gap Report <http://bit.ly/1vZ07Nl>
 8. Ibid.
 9. 0.5-1% of GDP is consistent with the range of costs identified by the AD-RICE Integrated Assessment Model for around 2025/30, presented in UNEP's Adaptation Gap report <http://bit.ly/1HGFFTc>
An alternative top-down approach from the World Bank suggests that average costs across sub-Saharan Africa for 2010–19 could be approximately 0.6–0.7% of GDP, but lower for other regions. See World Bank (2010) *Economics of Adaptation to Climate Change: Synthesis Report*
 10. Based on World Bank GDP figures for 2013 (current US\$) <http://bit.ly/1c9UjCx>
 11. Ibid.
 12. Oxfam (2014) op cit.
 13. Prajwal Baral and Raju Pandit Chhetri (2014) *Finding the money: A stocktaking of climate change adaptation finance and governance in Nepal*, Oxfam report <http://bit.ly/1HGETWg>