

“Must-haves” for adaptation finance in the New Collective Quantified Goal

Ensuring sufficient, effective and equitable adaptation finance

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Katherine Browne

Key messages

- Sufficient adaptation finance under the New Collective Quantified Goal (NCQG) should direct international funding to countries with the least responsibility for climate change, in a way that does not limit their capacity to adapt – for example, with a specific annual sub-goal or target for adaptation finance of at least USD 215 billion annually – with recognition of public finance (grants and concessional loans) as the core form of support.
- The NCQG should require simultaneous investment in global resilience building, alignment of funding with national plans, and support for locally led adaptation, in order to achieve effective adaptation.
- For equitable adaptation that reaches the most vulnerable regions, countries and communities, the NCQG should continue to prioritize allocation of adaptation finance to Least Developed Countries (LDCs) and Small Island Developing States (SIDS) and aim to ensure funding reaches local levels.

Climate finance – the provision and mobilization of financial resources to enable climate action – is a key pillar of the 2015 Paris Agreement. At the upcoming UN climate summit (COP29) in Azerbaijan, countries are expected to agree to a new climate finance goal – the New Collective Quantified Goal (NCQG).

This brief outlines the “must-haves” for the NCQG: what the goal must include to ensure funding meets the objectives of sufficient, effective and equitable climate adaptation. For each objective, it also includes suggestions to build on current transparency arrangements to improve accountability of both climate finance providers and recipients.

1. Negotiating the NCQG

Countries agreed in 2015 to establish the new goal under the UN Framework Convention on Climate Change, or the Convention, which will go into effect in 2025.¹ Since 2021, they have been engaged in a technical process to lay the foundation for a more nuanced goal: one that not only describes a high-level financial commitment, but also better accounts for the ways in which funding should be delivered and what it



should achieve. Many countries also expect the NCQG to send a message to other actors in the financial system, such as multilateral development banks (MDBs), private banks and companies, about the urgent need to invest in climate action.

The NCQG will address both climate mitigation and adaptation finance.² Here the focus is on climate adaptation, considered separately from mitigation, due to inherent difficulties in quantifying needs and impact and in evaluating outcomes.

2. Identifying adaptation finance “must-haves”

Adaptation finance “must-haves” are elements that must be included to ensure sufficient, effective and equitable adaptation finance in the decades to come. They can fit into any of the basic building blocks – the structure and timeframe of and the contributor base to the NCQG – under discussion, no matter how they are eventually agreed.

Each must-have is grounded in findings from the latest scientific research and policy analysis, as well as the author’s engagement in technical dialogues and observations of negotiations. Each is also politically feasible within the current framework of negotiations.

For each must-have identified here, some relevant information on adaptation finance is already captured in countries’ Biennial Transparency Reports (BTRs), under the Enhanced Transparency Framework (ETF). However, more information is necessary to ensure accountability. The suggestions for improving transparency that are made here include information that should be added to the ETF guidelines in 2028 and ways that information could be aggregated in reports that track progress on the NCQG. Countries could agree to task the Standing Committee on Finance or another body with developing such reports on a regular basis, for example biennially.

The following must-haves are organized under the three objectives for adaptation finance: sufficiency, effectiveness and equity. The transparency suggestions follow each set of must-haves.

2.1 Sufficient

Sufficient adaptation finance directs sufficient international funding to countries with the least responsibility for climate change, in a way that does not limit their capacity to adapt. The must-haves for this objective can be divided in terms of the NCQG’s quantum and instruments.

Quantum

Research shows that, despite the Paris Agreement commitment to balance international support for mitigation and adaptation, funding for adaptation has lagged far behind. At the same time, countries face challenges in quantifying their financial needs for adaptation. The unpredictable trajectory of warming, combined with potential climate tipping points in the Earth system, make biophysical impacts, potential costs and social

responses difficult to predict, especially at multi-decadal scales. It is clear, however, that adaptation needs are growing rapidly.

The UN Environment Programme's *Adaptation Gap Report 2023* estimates the costs of adaptation for developing countries at approximately USD 215–387 billion per year this decade, a number that is predicted to grow until 2050 and potentially beyond. Current financial flows fall far short of these needs, with the most recent data showing that contributions declined in 2021 compared to 2020.

To ensure sufficient finance for adaptation, the NCQG must:

- include a specific annual sub-goal or target for adaptation finance that represents at least half of the overall quantum, to support developing countries adequately, and which should be at least USD 215 billion annually³;
- plan revision of the adaptation sub-goal or target based on updated projections of developing country needs, ideally on a 10-year timeframe, given the unpredictability of global warming and its associated impacts.

When it comes to transparency in tracking whether countries are meeting the new goal for adaptation finance, countries can rely in part on reporting already required of developed countries in their BTRs, on the support they have provided and mobilized.⁴ The challenge for accountability is that this information is disaggregated in terms of amount (in USD and domestic currency) of financial support provided through bilateral, regional, multilateral and other channels and mobilized through public interventions. Adaptation, mitigation and cross-cutting support are disaggregated for each channel.

Developing countries also are required to report on financial support they need in their BTRs. This information includes the sectors and specific projects and programs to which they wish to attract international support.⁵

To build on existing transparency arrangements, countries could agree to:

- require that transparency reports aggregate information from BTRs on annual financial support provided and mobilized for adaptation;
 - require that transparency reports aggregate information from BTRs on support needed, in order to inform revisions of the sub-goal on adaptation;
 - amend the guidelines during the 2028 review and update of the ETF, to require countries to use harmonized tracking methods for support provided and mobilized.
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Sources and finance instruments

Research shows that most climate finance is delivered in the form of non-concessional loans (i.e. loans with market-based interest rates), though this debt is largely channelled into mitigation rather than adaptation. For example, in 2019–20, only 15% of adaptation finance and 5% of mitigation finance flowing through MDBs was grant-based. Non-concessional loans add to many countries' already substantial debt burdens.

Countries in debt distress lack the fiscal space to invest in adaptation. Private finance is growing, but not at the rate or scale required to meet adaptation needs, especially in highly vulnerable countries like Small Island Developing States (SIDS). Many innovative sources remain small-scale and experimental. Proposed levies on international shipping and aviation, while offering significant potential, also face political opposition. Innovative approaches remain insufficient to fill the funding gap in the short term.

To ensure sufficient sources and instruments, the NCQG must:

- recognize public finance – meaning grants and concessional loans – as the core form of support for adaptation;
- signal support for further development of innovative sources, especially levies, and call to explore and consider these as a complement to grant-based finance.

When it comes to transparency of tracking whether countries are providing sufficient funding through public sources, developed countries are already required to report in their BTRs the financial instrument type of funding they provide and mobilize.⁴ Grant equivalent value is reported on a voluntary basis.

To build on existing transparency arrangements for sources and instruments, countries could agree to:

- require that transparency reports aggregate information from BTRs on the percentage of funding from public sources, including grants and concessional loans;
 - require that transparency reports track the percentage of funding provided by innovative sources in the BTR reporting;
 - during the 2028 review and update of the ETF, amend the guidelines to require countries to report information on grant equivalent value and rates of concessionality, based on OECD revised Differentiated Discount Rates and Minimum Premium Rates.
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2.2 Effective

Effective adaptation finance contributes to achieving the goals of the Paris Agreement. For adaptation, this means increasing countries' abilities to adapt to the adverse impacts of climate change and to foster climate resilience and low emissions development.

Adaptation is highly contextual, and outcomes must be evaluated over long time periods. Quantifiable measurements of adaptation effectiveness are extremely difficult and can be subjective, in contrast to mitigation, for which measuring effectiveness is relatively straightforward (i.e. emissions reduced or avoided in terms of metric tons of CO₂).

Multilateral and bilateral funders currently use several core indicators to measure adaptation outputs: number of beneficiaries with increased adaptive capacity and number of plans or projects. Methods to assess desired outcomes over the long term – i.e. enhancing adaptive capacity, strengthening resilience and reducing vulnerability – are still in development. Methods to measure alignment of international public finance with national priorities and plans are also in the early stages. Some adaptation scholars argue that there can be no universal measure of adaptation, and “success” must mean empowering individuals and communities to pursue adaptation outcomes they find meaningful. Significant evidence indicates that “locally led” adaptation is effective.

At the same time, research increasingly demonstrates that not all climate risks can be managed at national and local levels, and some risks will require diplomatic efforts of an international or regional scale so far only seen for mitigation. Climate risks are complex and interconnected, with the knock-on effects of climate impacts cascading across national borders. The outcome of the first global stocktake called for greater cooperation to address these transboundary climate risks. Yet little adaptation finance currently supports the regional and multi-country cooperation needed to manage them. Adaptation efforts are proving too incremental, fragmented and small in scale. Enabling cooperation to address transboundary climate risks is one means of making adaptation “transformational”, building just and systemic resilience to multiple climate threats and crises.

To ensure finance is enabling effective adaptation, the NCQG must:

- recognize the need to balance financial support for global, national and local priorities in adaptation, to be achieved through simultaneous investments in global resilience building, alignment of funding with national plans, and support for locally led adaptation;
 - encourage delivery of finance through the operating entities of the financial mechanism of the Convention⁷, as these are best aligned with national and local priorities.
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When it comes to transparently assessing the effectiveness of adaptation finance, developing countries report in their BTRs on the impact and results of financial support they receive⁸, but they do not provide specific quantitative indicators on effectiveness. They also report qualitative information relevant to assessing adaptation effectiveness, including on implementation of actions, establishment of domestic systems to monitor and evaluate implementation, impacts and indicators of increased resilience.⁹ However, this information is not specific to internationally financed adaptation.

To build on existing transparency arrangements for effectiveness, countries could agree to:

- require that transparency reports aggregate and synthesize qualitative information from BTRs on impacts and results of financial support received, supplementing with relevant information on overall adaptation effectiveness;
 - encourage the Standing Committee on Finance to reassess methodologies for measuring adaptation effectiveness and alignment with national priorities, for potential inclusion in the 2028 review and update of the ETF guidelines;
 - amend the guidelines during the 2028 review and update of the ETF, to require countries to report quantitative information on number of beneficiaries with increased adaptive capacity and number of plans or projects, under support received.
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2.3 Equitable

Equitable adaptation finance reaches the most vulnerable regions, countries and communities. It enables those most affected by climate change to pursue relevant, scalable and sustainable adaptation that is to the benefit of all. The must-haves for this objective can be divided into allocation and access needs.

Allocation

Research shows that allocation on adaptation finance is inequitable. Vulnerable countries receive less than their fair share. As little as 17% of total international public adaptation finance reaches local communities (e.g. local governments, civil society organizations and small businesses). By some estimates, Indigenous Peoples receive less than 1% of climate finance, despite their role as caretakers of a significant proportion of the world's forests and biodiversity. A range of social barriers – such as lack of land ownership – prevent funding from reaching women. Only 2.4% of projects under UN climate funds incorporate child-responsive elements.

This inequity not only transgresses legally agreed commitments to support those who are vulnerable. It is also a matter of climate justice. Supporting all is in the interest of all countries, given the nature of transboundary climate risks.

To ensure adaptation finance is equitably allocated, the NCQG must:

- continue to prioritize allocation of adaptation funding to LDCs and SIDS, especially through the operating entities of the financial mechanism of the Convention;
 - aim to ensure adaptation funding reaches local-level organizations where adaptation decision-making is often more relevant, scalable and sustainable;
 - call for adaptation interventions to be designed following the eight principles of locally led adaptation;
 - set quantitative targets for gender responsiveness (for example, “less than 50% of beneficiaries are men”) and share of finance benefiting Indigenous Peoples (e.g. “10% annually”), a tenfold increase over current flows;
 - encourage incorporation of child-responsive elements into projects and program and call for the needs of other disproportionately vulnerable groups to be better understood and accounted for over time.
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When it comes to transparency in assessing the equity of allocated adaptation finance, developed countries already are required to report in their BTRs on the region and country receiving the funding they provide and mobilize.¹⁰

To build on existing transparency arrangements for allocation, countries could agree to:

- require that transparency reports aggregate information from BTRs on allocation in terms of overall financial flows and through operating entities of the financial mechanism of the Convention;¹¹
 - during the 2028 review and update of the ETF, amend the guidelines to require countries to provide information on the percentage of finance allocated to projects with a specific focus on local communities;¹²
 - during the 2028 review and update of the ETF, amend the guidelines to require developed countries to report information on the share of finance that is gender responsive (e.g. percentage of beneficiaries by gender identification) and benefitting Indigenous Peoples (such as: “XX% annually”).
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Access

Research shows that difficulty in accessing finance from both UN funds and MDBs contributes to inequitable allocation of adaptation finance. SIDS face particular challenges. Access mechanisms that empower national and local stakeholders have been shown to improve equity, which in turn improves long-term funding effectiveness. Since the Paris Agreement, UN funds have established mechanisms to devolve authority of funding to national and local levels. Direct access – which enables national entities to fully manage funds – reduces dependence on international agencies and builds longer-term capacity for managing projects. Enhanced direct access – which

enables small grants to reach local communities – has been shown to be more gender responsive. Currently only a small percentage of adaptation funding flows through these mechanisms.

To ensure equitable access to adaptation finance, the NCQG must:

- call on UN funds and MDBs to harmonize application procedures and simplify access and disbursement procedures;
- encourage expansion of Direct Access and Enhanced Direct Access programs under the operating entities of the financial mechanism of the Convention.

When it comes to transparency in tracking progress on improving access to adaptation finance, neither developed nor developing countries report on funding provided or received through Direct Access and Enhanced Direct Access programs.

To improve transparency arrangements for access, countries could agree to:

- require that biannual transparency reports aggregate information from BTRs on UN funds' and MDBs' efforts to harmonize application procedures, simplify access and provide direct access by drawing on funds' and MDBs' annual reports.

3. Next steps

The next round of negotiations on the NCQG will take place 11 and 12 September in Baku, Azerbaijan. Formal agreement on the NCQG is expected during COP29, from 11 to 22 November, also in Baku. The process now under way will set the scene for decades of climate finance to come.

The must-haves described above are not all the pieces needed to make the NCQG sufficient, effective and equitable in the long term. Nevertheless, they are necessary for success in terms of adaptation finance.

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Linnégatan 87D 115 23 Stockholm,
Sweden
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Author contact

katherine.browne@sei.org

Media contact

maya.rebermark@sei.org

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Delegates huddle during the contact group on the global stocktake, 15 June 2022. Photo by Kiara Worth (IISD/ENB).

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Notes

- 1 Decision 1/CP.21, Para 53.
- 2 Countries have agreed the NCQG will address mitigation and adaptation. It is unclear in the negotiations whether the goal will include Loss & Damage.
- 3 Should a third sub-goal or target be added to the NCQG for Loss & Damage, then the adaptation sub-goal or target should represent at least a third of the overall quantum.
- 4 Decision 18/CMA.1, Annex Paras 123–125. Other parties are encouraged to report this information.
- 5 Decision 18/CMA.1, Annex Paras 132 and 133.
- 6 Decision 18/CMA.1, Annex Paras 123–125. Other parties are encouraged to report this information.
- 7 The Green Climate Fund, Adaptation Fund and funds managed by the Global Environment Facility (i.e. the Least Developed Countries Fund and the Special Climate Change Fund).
- 8 Decision 18/CMA.1, Annex Para 134.
- 9 Paras 110a, 112, 113a and 113c.i., respectively.
- 10 Decision 18/CMA.1, Annex Paras 123–125.
- 11 The Green Climate Fund, Adaptation Fund and funds managed by the Global Environment Facility (i.e. the Least Developed Countries Fund and the Special Climate Change Fund).
- 12 Countries could follow the methodology established in the Adaptation Gap Report 2023, pp. 45–46 and Annex 4.C, to report this indicator.