Executive summary

Enhanced adaptation action is needed given the increasingly severe impacts of climate change. Particularly, developing countries, confronting challenges from economic disparities to developmental aspirations, are more vulnerable to the amplified threats of changing climate conditions. Achieving enhanced adaptation will require an increase in the overall volume of finance from all sources flowing to adaptation. In addition to this, enhanced efforts are also required to maximise the impact of financial flows and ensure that they reach those who are most vulnerable to climate change.

International public finance providers have a key role to play in scaling up and mobilising finance for adaptation in developing countries. The 2021 Glasgow Climate Pact urged developed countries to double the collective provision of adaptation finance from 2019 levels by 2025. Besides, members of the OECD Development Assistance Committee (DAC) committed, through the 2021 DAC Climate Declaration, to strengthening support for climate change adaptation and resilience in developing countries. These undertakings, and the USD 100 billion annual climate finance goal, provide opportunities for providers to also enhance the accessibility and effectiveness of international public finance for adaptation activities.

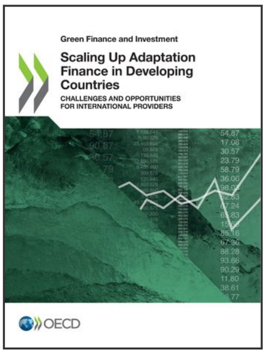
Over 2016-21, only 25%, or USD 19 billion per year on average, of climate finance provided and mobilised by developed countries for climate action in developing countries targeted adaptation. Most adaptation finance went to middle-income countries with large populations. Low-income and least developed countries benefitted from less in absolute terms. Improved and harmonised methodologies are needed to effectively track adaptation finance and ensure it reaches the countries and populations most in need.

A range of financial, technical, and institutional constraints hinder public and private finance for adaptation in developing countries. Barriers include lack of an appropriate policy and regulatory frameworks; data and knowledge gaps that make it difficult to identify, develop and prepare potential climate adaptation projects for public and private investors; and the fragmented adaptation finance architecture and complex eligibility requirements to access finance. More favourable enabling environments would allow developing countries to progressively tap into more sources of finance for adaptation, including from the private sector.

The strategic use of international public finance can contribute to scaling up finance for adaptation in developing countries and to unlocking private investment in this context. International providers can help overcome existing barriers by supporting the capacity of developing countries to tap into the wide array of finance sources and by strengthening development practices and systems to increase the mainstreaming of adaptation activities in developing countries' plans. This report draws on trends in adaptation finance, provider and other stakeholder interviews, and detailed case studies of existing initiatives that work with and through the private sector to scale the mobilisation of private finance into adaptation activities. The analysis suggests five action areas and multiple options for bilateral providers, multilateral development banks, climate funds and other international providers to enhance the volume, private finance mobilisation effect and accessibility of international public climate finance for adaptation:

1. **Assess the consistency of forward spending plans with the call to collectively double climate finance for adaptation by 2025**. Reflecting the DAC commitment to strengthen support for climate change adaptation and resilience, such plans should include further prioritising of adaptation projects and mainstreaming of adaptation within their portfolios.
2. **Support developing countries' efforts to strengthen their capacities, policies and enabling environment for finance for adaptation.** Options include enhancing the access to finance of micro, small- and medium-sized enterprises through local financial institutions; strengthening national and sectoral capacities for climate finance; improving access to finance to local governments; leveraging providers' unique expertise in project formulation; and granting flexibility in adaptation project definitions. Progress in this action area would enhance developing countries' ability to effectively access, absorb and utilise international adaptation finance.
3. **Strengthen development practices and systems to ensure efficient delivery of adaptation finance.** Options for international providers could include strengthening their organisational structures to incentivise the incorporation of adaptation considerations in business-as-usual development activities. For instance, international providers could set flexible internal targets for adaptation finance and adopt vulnerability-centred criteria to ensure dedicated funding for areas highly vulnerable to climate change. A shift towards programmatic approaches could enable greater alignment with national priorities and long-term integrated strategies while also promoting interoperable processes and streamlined access to resources. Ideally, international providers could strive to maximise synergies across biodiversity, climate, and other environmental dimensions.
4. **Deploy public and blended finance instruments strategically to mobilise private finance for adaptation.** There is a need for international providers to better understand and link private investors' preferences, notably for secure revenue streams, with specific characteristics of adaptation projects. Options include scaling up approaches such as risk sharing, using intermediaries to overcome address financiers' unfamiliarity with adaptation, and revising mitigation-related bankable projects to heighten their contribution to adaptation.
5. **Explore and tap into alternative financing sources and mobilisation instruments for adaptation.** Options include the potential use of innovative financial mechanisms such as special drawing rights by the International Monetary Fund, share of proceeds from international carbon markets, and considering the relevance of debt-for-adaptation swaps.

The options presented across these five action areas offer possible ways forward to develop a comprehensive strategy for international providers to meet financing needs for adaptation in developing countries, not only in the context of the USD 100 billion annual climate finance goal but also for the broader objective of supporting developing countries' ability to adapt to the adverse impacts of climate change. A complementary OECD report, "Scaling up the mobilisation of private finance for climate action in developing countries: Challenges and opportunities for international providers", addresses in greater detail the issue of mobilisation of private finance, with a focus on climate change mitigation.



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