5 Ways forward: Assessing the timescale and impact of actions to scale up adaptation finance

This final chapter highlights ways forward for international providers across the five areas explored in Chapter 4, with a focus on how quickly different actions might take effect and the extent to which they will impact adaptation finance levels. The urgency to increase adaptation action and the multitude of challenges to be addressed to do so imply that international providers must prioritise how, when and which options they consider to meaningfully scale up adaptation finance and unlock additional private finance. As such, the chapter underscores that while enhancing the quantity of finance for adaptation is essential, it is also important to consider the qualitative impact and broader effectiveness of those resources.

The escalating effects of climate change, documented in the Sixth Assessment Report of the Intergovernmental Panel on Climate Change's (IPCC), underscore the urgency of enhancing adaptation actions (IPCC, 2023[1]). Developing countries, facing pronounced vulnerability to these impacts, require financial support to initiate and sustain effective adaptation measures. Recent international agreements re-emphasise and the importance of financial support for developing countries. The 2021 Glasgow Climate Pact, for instance, urges developed countries to double their climate finance for adaptation by 2025. Likewise, the OECD DAC, in its 2021 climate Declaration, expressed the intention to reinforce support for climate resilience in developing countries.

While international providers' contributions are essential, the monumental scale of investment needed to support adaptation in developing countries requires a parallel, collective effort on the part of multiple stakeholders, including the private sector and domestic actors. As noted, this effort should take into account a key message of the Addis Ababa Action Agenda, which recognises that some countries have specific vulnerabilities and needs, each is responsible for defining its own economic and social pathway (UN DESA, 2015[2]).

This concluding chapter builds on the analysis in the previous chapters to summarise potential strategies and mechanisms by which international providers can ramp up their support for adaptation action by developing countries. The five action areas discussed in Chapter 4 and the barriers to scaling up adaptation finance outlined in Chapter 3 offer a roadmap are for bilateral and multilateral providers. The options offered vary in terms of how quickly they might demonstrate results and in their overall impact over the short and longer term:

- **Relative effect on tracked flows of climate finance**. Different action areas impact the tracked flows of climate finance differently. Some areas may result in a significant uptick in climate finance for adaptation. Others may play an enabling role that leads over time to increased finance for adaptation – for example, by improving the enabling environment for investment by the domestic private sector – but does not appreciably affect recorded flows of climate finance.
- **Timescale of results**. Some action areas can yield immediate results, producing impacts in a short period of time. Others require sustained effort, with their effects appearing over longer periods.
- **Impact and contribution to adaptation and resilience**. While scaling up the quantity of finance for adaptation is essential, it is also important to consider the qualitative impact of those resources. For example, the implementation of relatively low-cost measures, such as improved early warning systems, may have a small impact on finance flows but a large impact on countries' resilience to the impacts of climate change.

The timescales and potential impacts related to options in each of the action areas are discussed in the following sections. Table 5.1 presents an overview of these action areas, clarifying the timescale for their respective impacts on adaptation finance levels, and their contributions to fostering resilience and adaptation in developing countries.

5.1. Assess forward spending plans for alignment with the goal of double climate finance for adaptation by 2025 and increase co-ordination of these efforts

The first action area calls on donors to assess the extent to which their upcoming spending plans align with the collective goal of doubling climate finance for adaptation by 2025. International public adaptation finance is instrumental in supporting adaptation-related public services that produce no or very limited financial returns. But such finance also can serve as a catalyst for the mobilisation of further financial resources, encouraging private sector engagement in sectors such as agriculture and infrastructure that offer a potential return on investments.

The ability of providers to adjust their spending plans can directly affect the financial resources available for adaptation. Nonetheless, while public finance is essential, it cannot meet all adaptation requirements comprehensively.

5.1.1. Impacts

Regarding the impact timeline, this area aims for immediate results. Enhanced commitments from international public finance donors can lead to funds being ready for projects relatively quickly, thus accelerating the rollout of interventions. Concerning its contribution to resilience and adaptation, this area predominantly targets sectors dependent on international public funding. It plays a pivotal role in promoting investments in fields such as social protection and education, which are vital for enhancing adaptive capabilities in developing countries. This action area functions as a foundational step, setting the prerequisite conditions for the efficacy of the subsequent action areas.

5.2. Support developing countries' efforts to strengthen their capacities, policies, and enabling environment for finance for adaptation

The second action area underscores the importance of bolstering capacities, policies, and environments conducive to adaptation finance. Enhancing enabling environments to more effectively attract private investment can entail strengthening the availability of climate-related risk data to inform capital investment planning in both the public and private sectors. Supporting developing countries to attract and access adaptation finance also can target the overall investment environment, including building economic stability, social unity, and favourable policy frameworks stimulate private investments.

5.2.1. Impacts

This action area, despite its overall importance for mobilising additional finance for adaptation in the medium and long term, may have a more modest he expected impact on boosting climate finance flows in the short term. Activities focused on capacity building and enabling environments demand fewer financial resources than direct project investments. It may also take a long time to see the results in terms of increased adaptation action. Moreover, the finance flows that might be unlocked thanks to improved capacity and improved policy and regulatory frameworks may not be tracked as climate finance. A notable increase in adaptation finance might require more time. This action area amplifies and refines the efficiency of all other action areas. It encourages a transition from stand-alone project-based approaches towards a comprehensive integration of adaptation into the development plans of beneficiary countries. Additionally, this action area offers a systematic structure to identify and redress market inconsistencies frequently associated with adaptation investment strategies.

5.3. Strengthen development practices and systems to support efficient delivery of adaptation finance

The third action area relates to development practices and systems for the efficient delivery of finance for adaptation to more effectively incorporate adaptation concerns within development agendas. One option to be considered is the revision of bilateral and multilateral providers' frameworks and organisational set-ups to ensure that available resources consistently and effectively take into account adaptation considerations.

5.3.1. Impacts

This action area is likely to have a relatively modest impact on volumes of adaptation finance compared with other action areas, as the strategy primarily focuses on refining current structures and making a more efficient use of resources available rather than increasing levels of finance as such. But strengthening development practices and systems can enable quicker and more efficient access to and use of funds.

Regarding resilience and adaptation, the emphasis of this action area on system efficiency is vital. It seeks to speed up international public adaptation finance provision and expand its reach. Importantly, it aims to ensure that a diverse array of stakeholders, including local authorities and community-based organisations, can more easily access and use adaptation finance. This broader accessibility promotes a more comprehensive and effective response to climate change-related challenges.

5.4. Deploy public and blended finance instruments strategically to mobilise private finance for adaptation

Public finance can increase the mobilisation of private funds for adaptation by modifying the risk-return profiles of adaptation projects to align with private sector requirements. There is therefore a need for a more deliberate and strategic approach to the dynamic use of blended finance, whether it be tailored to different adaptation activities and/or promoting market development most broadly. Recognising the hurdles for private financiers, it will be essential to engage intermediaries such as developmental organisations and private fund managers. Moreover, currently bankable projects should be adapted to heighten their contribution to adaptation.

5.4.1. Impacts

Enhancing the use public and blended finance instruments to mobilise private finance would have a medium-term impact on levels of financing for adaptation. It takes time to develop capacities, incentives and blended finance instruments and for these to meaningfully start unlocking private finance for adaptation. Given that the mobilisation of private finance for adaptation by international public finance is starting from low levels and that private finance represents an extremely vast pool of capital, this action area holds substantial potential to significantly increase volumes of finance for adaptation in developing countries. In terms of contributing to resilience and adaptation, this action area is crucial for addressing the adaptation necessities of developing countries by catalysing additional investments from the private sector at scale for activities that enhance adaptation and resilience to climate change.

5.5. Explore and tap into alternative financing sources and mobilisation instruments for adaptation

Alternative financing instruments can amplify public and private resources available to finance adaptation in developing countries. Strategic use of special drawing rights (SDRs) can bolster the capitalisation of multilateral development banks, for instance. Leveraging the share of proceeds from international carbon markets can help finance the Adaptation Fund, and deploying debt-for-adaptation swaps offer the potential to increase fiscal space in developing countries, thereby providing them with room to invest in adaptation. More broadly, this action area could include embedding adaptation and resilience considerations into the development of emerging sustainable finance instruments such as sustainability-linked bonds and tax securitisation.

5.5.1. Impacts

Short- to medium-term positive impacts on levels of adaptation finance are possible. However, a more comprehensive scaling up of adaptation finance in developing countries will depend on how widely these alternative financing sources and tools are adopted. Global economic trends also can impact their effectiveness. For example, if international carbon markets flourish in the coming years, the Adaptation Fund might see its first revenues within 5 years, highlighting the potential for timely and substantial impacts on adaptation finance.

In terms of contributing to resilience and adaptation, this action area showcases the potential to channel an increased flow of both international public and private resources towards initiatives focused on adaptation and resilience in developing nations.

Table 5.1. Summary of action areas for international providers towards scaling financing for adaptation in developing countries

Action area	Recommendation	Relative effect on tracked flows of climate finance (from + to +++)	Timescale	Contribution to resilience and adaptation
Assess the consistency of forward spending plans with the call for collectively doubling climate finance for adaptation by 2025, and increase coordination of these efforts	Scale up adaptation financing capacities of Bilateral providers, MDBs, Climate Funds, DFIs	+++	Short-term - Immediate impacts on levels of adaptation finance provided	Critical for enabling investments for adaptation and resilience in sectors and activities that will continue to require international public funding (e.g. social protection, education)
Support developing countries' efforts to strengthen capacities, policies, and enabling environment for finance for adaptation	Facilitate private sector capacity to seek and access finance for adaptation-relevant investments	+	Medium- to long-term - The impact on scaled up adaptation finance will take time to materialise during and following the implementation of improved domestic plans and policies	Critical for continual contribution to increasing the effectiveness of other action areas. Important for moving from a project-based approach to achieving broader mainstreaming of adaptation in developing countries. Important for addressing market failures for adaptation investment
	Support the development of institutional capacity, policies and markets			
	Enhance role of local governments and communities in delivering and implementing adaptation action			
	Support developing countries in preparing adaptation project pipelines			
Strengthen development practices and systems to support efficient delivery of adaptation finance	Set internal quantitative targets for adaptation finance	+	Short- to medium term - Progressive impacts on improved mainstreaming of adaptation in development projects and on developing countries' ability to access funding	Important for increasing the efficiency and speed of the provision of international public adaptation finance. Contribute to increasing accessibility to adaptation finance for a broader range of actors, including local governments and communities.
	Consider minimum levels or "windows" of funding for most vulnerable countries			
	Move from project-based adaptation to programmatic approaches			
	Increase the use of policy-based climate finance for adaptation			
	Seek to streamline and harmonise processes for accessing climate finance for adaptation			
Deploy public and blended finance instruments strategically to mobilise private finance for adaptation	Integrate private finance mobilisation objectives into relevant adaptation transactions, projects, and programmes	+++	Medium term - Capacities, incentives, toolkits and track record need to be build up to meaningfully unlock private finance for	Critical for meeting developing countries' adaptation needs by enabling additional investments for adaptation and resilience in sectors and activities where international public
	Tailor the use of public and blended			

	finance instruments to unlock private finance that corresponds to the needs and characteristics of adaptation activities		adaptation.	finance can attract private finance at scale.
	Undertake regular assessments of needs for concessional finance			
	Use blended finance as a tool to encourage mainstreaming adaptation into projects			
	Develop strengthened practices to understand and maximise impact on adaptation			
Explore and tap into alternative financing sources and mobilisation instruments for adaptation	Clarify and exploit the role of Special Drawing Rights in financing adaptation	++	Short- to medium-term - Likely modest impacts by 2025 on tracked adaptation finance volumes.	Potential for channeling further international public finance and private finance for adaptation and resilience activities in developing countries.
	Build on international carbon markets to provide financing for adaptation in developing countries			
	Embed adaptation and resilience considerations in emerging sustainable finance definitions, instruments and products			
	Consider the relevance of debt-for-adaptation swaps			

Note: Action areas are ordered according to the speed of their potential effect on scaling up financial flows for adaptation in developing countries. “Short-term” refers to options that will yield results on levels of adaptation finance by 2025; “Medium-term” refers to option that will yield results by 2030; “Long-term” refers to options that will yield results after 2030.

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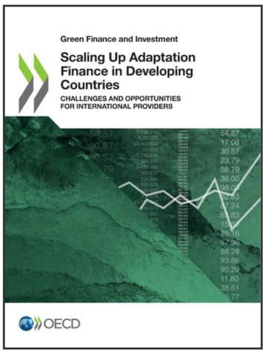

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