September 2024

NCQG:

The role of different sources for adaptation finance

Author :
Bertha Argueta (Germanwatch)

Contributors :
Cristina Rumbaitis del Rio (UN Foundation)
David Ryfisch (Germanwatch).

Special thanks to Charlene Watson (ODI)
for her valuable inputs to this brief.

Layout Design :
Maginate Creative Communication

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Background

Parties to the Paris Agreement will set a New Collective Quantified Goal (NCQG) on climate finance at COP 29, in Baku, Azerbaijan, in November 2024. The new goal, which should start from a floor of $100 billion and take into account the needs and priorities of developing countries, will guide Parties' efforts and commitments around climate finance for the foreseeable future. A three-year process for setting the goal was formally launched at COP 26 in 2021. Through this process, Parties and other stakeholders have outlined and discussed their different views and positions on the goal's scope and objectives as well as the elements they believe the goal should include. Discussions around the NCQG, in both the technical expert dialogues held since early 2022 and the first two meetings under the ad hoc work program[1], have included a focus on the potential structure of the new goal and its relation to the quantum of the goal and its time frame.

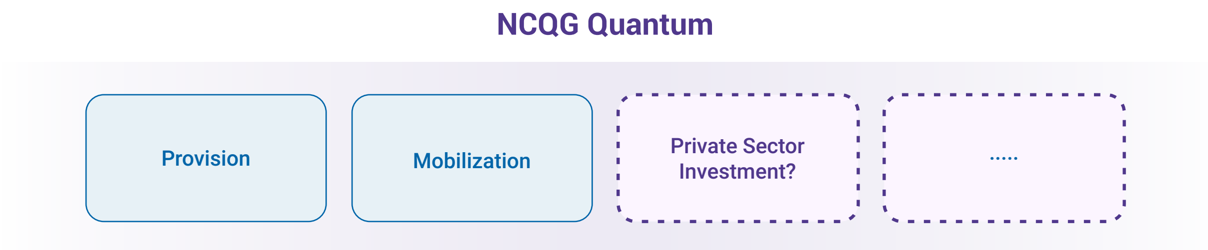
A variety of views has been expressed on how to structure the goal's qualitative elements, which link quantum and time frame to different potential structures. Three main proposals have been identified[2] :

1

A single-layer approach, resulting in a single quantum and time frame, similar to the $100 billion goal. In this approach, there are different options for what the quantum of that single layer would represent.

- The quantum could be a provision goal, though this is highly unlikely given precedent and the mandates of the NCQG and Paris Agreement language.
- The quantum could also be a provision and mobilization quantum, which would be the same as the $100 billion goal and would be more in line with Article 9.3 of the Paris Agreement.
- Another possibility is for the quantum to represent an investment goal, which would include additional public and private sources. In this case, the goal could be broken down into separate components, bringing it closer to a multilayered approach. However, it would not necessarily include a breakdown with separate quanta, instead just indicating different sources and channels that would contribute to the goal, leaving it as a single-layered goal.

Figure 1: Single-layer approach



Source: Author's own

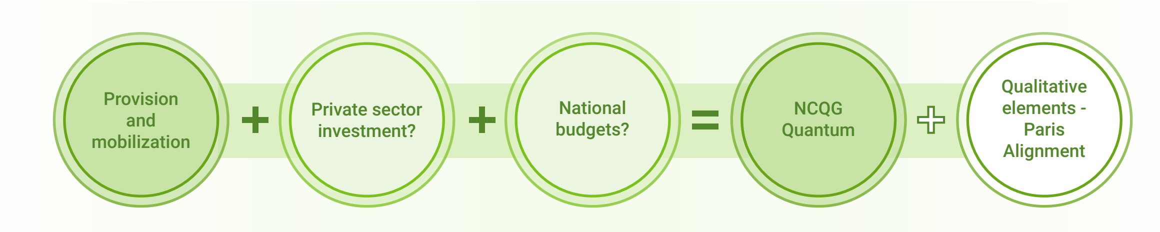
[1] These meetings have been added to the process of discussing the NCQG, in order to "enable Parties to engage in developing the substantive framework for a draft negotiating text," as a result of a decision taken by the Parties at COP 28 in Dubai (Decision 8/CMA.5). https://unfccc.int/sites/default/files/resource/cma2023_16a02_adv.pdf#page=16

[2] These different proposals are included in a 2024 UNFCCC paper that was prepared to assist Parties in the discussions: Co-Chairs' Input Paper for the First Meeting under the Ad Hoc Work Programme on the New Collective Quantified Goal on Climate Finance. https://unfccc.int/sites/default/files/resource/Input%20paper_MAHWP1_25to26%20April%202024.pdf?download

2 **A multilayered structure based on sources, likely resulting in different quanta, and potentially different time frames, for different layers. The technical expert dialogues have yielded several options for potential layers, including:**

- Public finance provision, from a set of contributors to developing countries.[3]
- Mobilization of mostly private finance using public sources.
- Private sector investments, beyond the private finance mobilized by public sources.
- National budgets of all or some countries.
- A layer focusing on enabling environments and alignment with the Paris Agreement, including changes in policies and legal frameworks that make different finance flows consistent with the Paris goals, more in line with Article 2.1(c) of the Paris Agreement.
- Some variations of these, with the mention of a "global investment goal" that would include public, private, national, and international sources, thus adding some of the previous layers together.

Figure 2: Multilayered structure

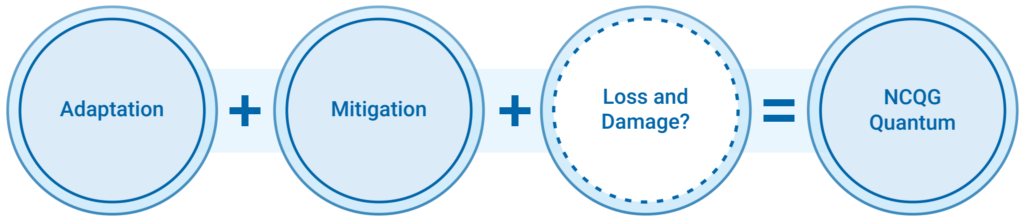


Source: Author's own

[3] The contributors to this layer are a separate part of the discussion, with some countries expecting the traditional developed country contributors to continue being the ones with obligations under this layer while others are pushing for an expansion of the contributor base.

3 **A thematic subgoal approach with potentially different quanta and time frames for each subgoal. Proponents of this approach would like to include subgoals for adaptation, mitigation, and loss and damage finance.**

Figure 3: Thematic subgoal approach



Source: Author's own

Alternatively, the discussions have outlined that many of these elements — sources as well as thematic elements — can be included not in relation to the quantum of the goal, but as qualifiers to the quantum, as qualitative elements, as principles, or in other ways that do not necessarily directly influence the quantum and time frame of the goal.

It is important to note that, of the options that are presented here for the different potential structures, a few of them constitute redlines for different Parties, as expressed at various points during the NCQG process. Parties have also expressed different and strong preference for one of the proposed structures, and reservations or outright rejection of others, with most developed countries favoring a multilayered approach and many developing countries pushing for thematic subgoals. Blue lines within the different structures that are particularly relevant have been included in the figures in different shades and with dotted lines, to indicate that agreement is far from certain on their inclusion.

Examples of these are national budgets — including those of developing countries — as a source for the NCQG quantum. Developing countries have positioned themselves against the inclusion of national budgets, based on the principles of the convention, such as common but differentiated responsibilities and respective capabilities (CBDR-RC), and due to the fiscal constraints that many developing countries already face. Another such example is the inclusion of a quantum for loss and damage finance as part of a thematic subgoal structure. Many developed countries oppose this, arguing that it is not within the scope of the Paris Agreement.

Some stakeholders have suggested that the two proposed structures based on sources and thematic subgoals can be combined to create an NCQG structure starting with subgoals, which would then be disaggregated by sources (the different layers of the layered approach). This would result in a so-called maximalist approach, with several quantums, as opposed to a minimalist approach, which would only include one quantum with a single layer, similar to the $100 billion goal.

Among the advantages of such a maximalist approach:

- **It sets a clear and unambiguous goal for adaptation, moving beyond just the inclusion of the "balance" language of the $100 billion goal and the Paris Agreement, which led to adaptation not being clearly outlined as a priority and resulted in adaptation finance remaining low as a percentage of the total provision and mobilization under the $100 billion goal. A maximalist approach would define and operationalize the idea of balance in a way that is concrete and measurable and that clarifies expectations.**

- **It allows for a differentiation of the roles that the various sources and instruments can play in providing and mobilizing adaptation finance, compared to mitigation finance and loss and damage finance. It also allows for a more nuanced approach to the role of the private sector and the different ways in which Article 2.1(c) of the Paris Agreement can be leveraged for adaptation and mitigation.**

Some Parties, however, have identified potential disadvantages. A maximalist approach would likely be harder to agree on, because it would require negotiating multiple, separate goals. This approach would also make the goal harder to track. If designed with hard goals, whether expressed as a specific number or as a percentage of the total, a maximalist approach could limit the flexibility of the goal in responding to the needs of developing countries as they evolve. It could also make it harder for contributors and the different climate finance channels to manage their portfolios and commitments, by introducing constraints in the activities that can be financed. Ultimately, a maximalist approach could make the goal harder to achieve and potentially limit ambition.

Objective of this brief

The objective of this brief is to provide an overview of the relative roles that different sources of finance and different instruments can play in the scaling of adaptation finance, within an NCQG that is structured on a combination of thematic subgoals and sources (layers) to ensure adequate provision of adaptation finance under the NCQG.

The first part of this brief will focus on how the NCQG structure can better address adaptation finance across different sources and instruments, including by addressing them as either quantified or qualitative elements within the goal. This will be followed by a short overview of how adaptation finance could be scaled up beyond the NCQG and the UNFCCC process, but with its support.

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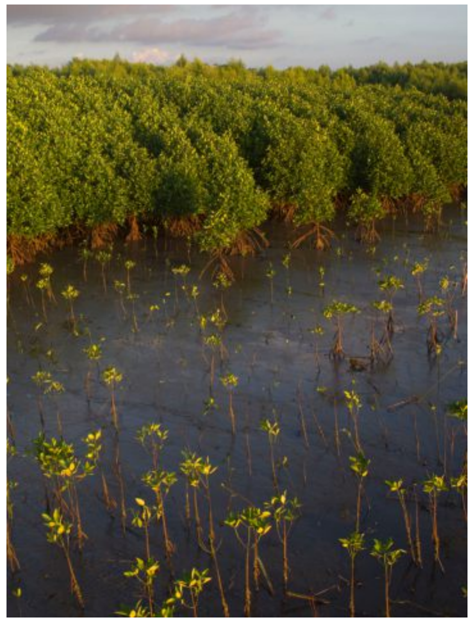

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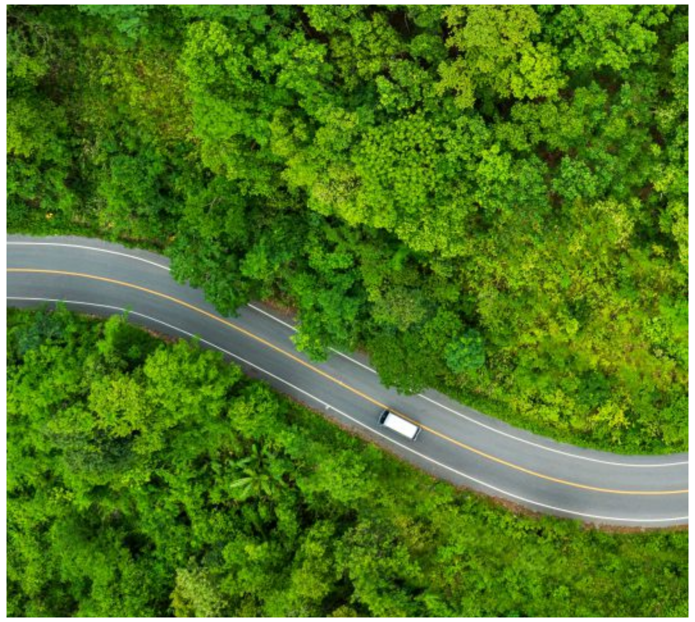

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How can the NCQG better reflect adaptation by addressing all sources and layers?

Based on the Fifth Biennial Assessment and Overview of Climate Finance Flows, published by the UNFCCC Standing Committee on Finance,[4] total climate finance from all sources reached an annual average of $803 billion in 2019–2020, but adaptation finance represented only around 6% of that total. Looking specifically at provision and mobilization of climate finance from developed to developing countries, the picture is better, but still far from what is needed, with adaptation finance representing 28% of total climate finance provided and mobilized in 2022. This followed a significant increase from previous years, in which the share of adaptation finance had actually decreased.[5] At the same time, the adaptation finance gap has continued to increase in recent years, as needs have also risen, and is currently estimated at $194–366 billion per year.[6]

To ensure that adaptation finance is scaled in line with the evolving needs and priorities of developing countries, the NCQG should include clear adaptation commitments, both quantitative and qualitative, and link them to the different sources of finance and additional layers explored here. The NCQG decision should establish clear linkages between the adaptation elements of the goal and the targets that will be established in the UAE Framework for Global Climate Resilience. The adaptation elements of the NCQG, particularly the quantum, should contribute to the achievement of those targets, and therefore the Global Goal on Adaptation (GGA), and this should be clearly stated in the decision.

A crucial element that the NCQG needs to address, and which is particularly pressing for adaptation, is the time dimension of the goal. The adaptation needs and priorities of developing countries are dynamic and, as seen from experience, will very likely increase over time, because of better data on costed needs,[7] greater risks resulting from increased global warming, and other factors. Therefore, it is important to revisit adaptation related targets, particularly any quantified subgoal(s), in 2030 or 2035 to adjust to changes in developing countries' needs and priorities.

Although consideration of different sources could be done by using a maximalist approach that includes an adaptation subgoal, broken down into other goals for each of the different sources, this is not necessarily the only option. Appropriate consideration should be given to the potential drawbacks of an NCQG with many subgoals, in terms of complexity and inflexibility. Many aspects of the role that different sources play can be added as qualifiers or qualitative elements that provide more detail to the goal or adaptation subgoal. Other quantified goals are also possible that do not necessarily add to the NCQG quantum itself. Our proposal tries to consider these issues and outlines an approach that mixes different aspects of the thematic and multilayered approaches without leading to a fully quantified maximalist approach that includes quantified goals for different thematic subgoals and sublayers.

[4] The Sixth Biennial Assessment is expected at the end of 2024 and will offer an updated view of the flows. The Fifth Biennial Assessment report is available here:https://unfccc.int/sites/default/files/resource/J0156_UNFCCC%20BA5_2022_Report_v4%5B52%5D.pdf

[5] OECD. 2024. Climate Finance Provided and Mobilised by Developed Countries in 2013–2022. https://www.oecd.org/en/publications/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022_19150727-en.html

[6] United Nations Environment Programme. 2023. Adaptation Gap Report 2023. https://www.unep.org/resources/adaptation-gap-report-2023

[7] Although there is often agreement that adaptation finance needs have increased and will continue to do so, it is important to recognize there are many challenges in estimating adaptation finance needs and costing them, as discussed in several publications, including in United Nations Environment Programme. 2023. Adaptation Gap Report 2023. https://www.unep.org/resources/adaptation-gap-report-2023; and Climate Policy Initiative and Global Center on Adaptation. 2023. State and Trends in Climate Adaptation Finance 2023. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/12/State-and-Trends-in-Climate-Adaptation-Finance-2023_.pdf

The first question that needs to be addressed when deciding on the structure is whether adaptation finance is best served under the NCQG by adopting a subgoal, separate from mitigation, therefore moving away from a one-layer goal. Elements of an answer include:

- **A subgoal, or multiple subgoals, could be expressed as a floor, similar to the "doubling adaptation finance" commitment under the $100 billion goal but updated to reflect the increasing needs of developing countries. In this way, the issue of inflexibility or a cap on ambition could be dealt with. At the same time, a floor is likely to be more acceptable to developing countries if it is high enough to ensure increased and more adequate levels of adaptation finance than what was available under the $100 billion goal and the "doubling." The inclusion of a floor for public provision — particularly if it is focused on grant-based public finance — is also more likely to gather support from developing countries.**

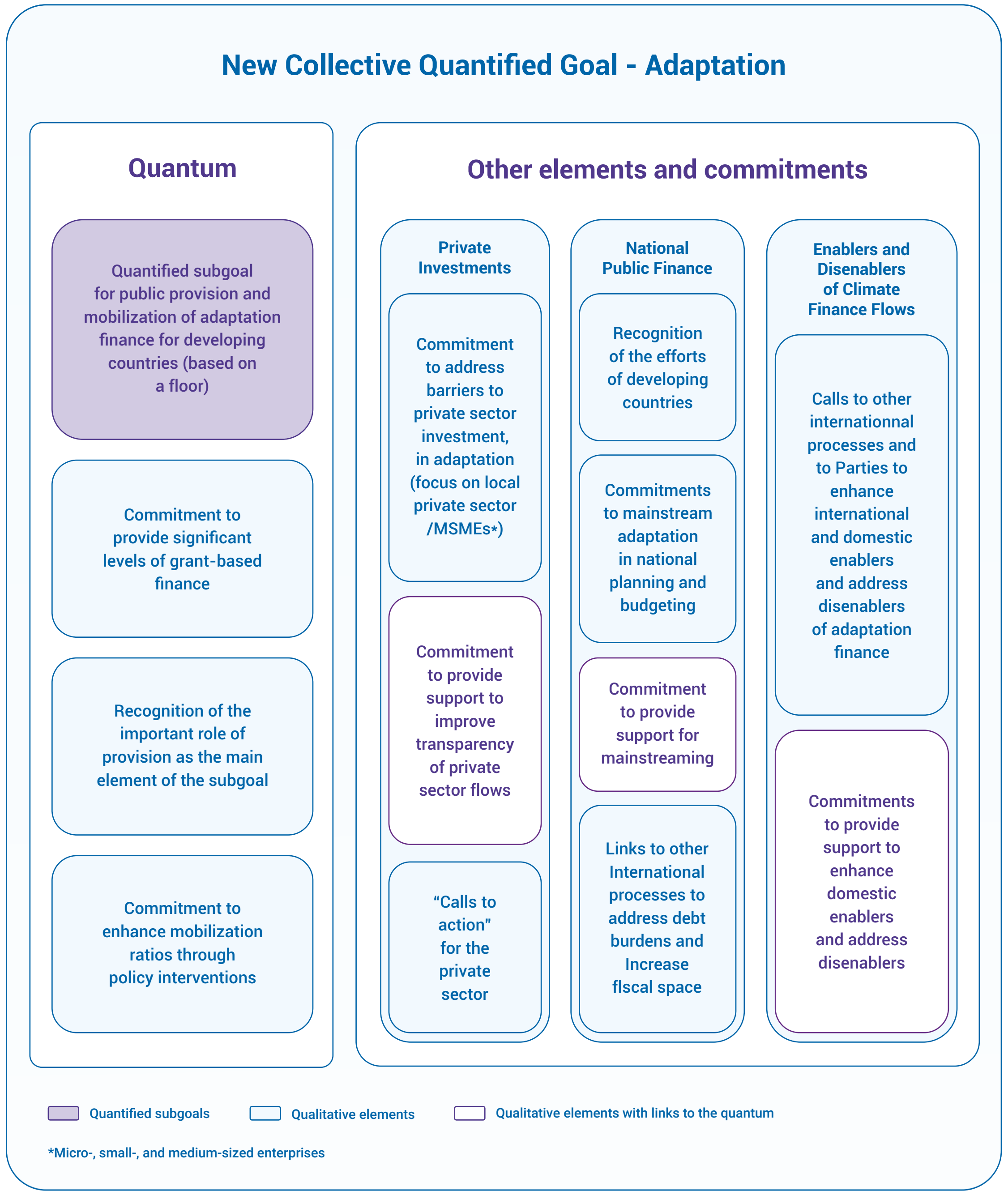
- **A subgoal, or a few subgoals, based on a floor and complemented by qualifiers and qualitative targets, seems like the most straightforward option if the idea is to differentiate adaptation from mitigation in ways that allow for sources to contribute to the goal in different ways. It would also highlight a strong commitment to adaptation finance and more closely respond to the needs and priorities of developing countries.**

Are there other options that could achieve the same objectives, for example, language qualifying a single-layer goal or the different layers of a multilayered goal? From the experience of the $100 billion goal, if such language is used, it would need to be stronger and more specific than "balance," which is open to interpretation and does not set a clear and measurable target.

More importantly, any adaptation finance commitment, whether as a subgoal or as a qualifier to different parts of an alternative structure, would need to be followed by detailed strategies for achieving this commitment. This could be included in the various layers that represent the different sources of finance. Some ideas on what these strategies could involve are provided in the following section.

Finally, the NCQG decision should recognize the pressing need for loss and damage finance that is adequate and in addition to adaptation finance, in order to pay for actions that are complementary to adaptation and resilience building. The decision could include a commitment by Parties to support the Fund for Responding to Loss and Damage, which was operationalized at COP 28 in 2023, while ensuring that adaptation finance is not diverted to this new fund or to loss and damage more generally.

Figure 4: A proposal for adaptation within the NCQG



Source: Author's own

Public provision and mobilization from developed to developing countries

Adaptation finance is still largely dominated by the public sector, with the private sector playing a very small role. For this reason, public finance has played, and will continue to play, a key role in adaptation action. Public provision of climate finance to developing countries should remain a core part of the NCQG. Therefore, this layer should have a quantified adaptation subgoal for provision and mobilization as a floor, either as a specific number or as a percentage of the total goal.[8]

It would be critical to clarify the distinct contributions of provision and mobilization, considering how these two strategies have worked in the past. This does not necessarily mean establishing two separate subgoals. A single subgoal could include language on the importance of provision, with mobilization playing a complementary role.

Adaptation finance mobilized will play an important role in the subgoal, and it is part of the NCQG mandate and the Paris Agreement. It is important, however, to recognize that public climate finance has mobilized significantly lower levels of private finance for adaptation than for mitigation,[9] and more needs to be done to improve mobilization ratios. The large majority of total climate finance in 2022 was finance provided ($94.1 billion, or around 81% of the total), with finance mobilized representing around 19% of the total.[10] For adaptation finance specifically, mobilized finance represented even less, just under 11% of the total adaptation finance reported in 2022. Priority should be placed on improving mobilization, which has lagged behind, while acknowledging that provision will, for the foreseeable future, remain the largest share of these commitments.[11]

Beyond the low levels of mobilization, adaptation finance mobilized is often not in line with developing countries' priorities, highlighting again the importance of public finance and of public strategies to align finance flows with developing countries' needs. As the Fifth Biennial Assessment shows, from 2016 to 2020, 86% of the finance mobilized was mobilized for mitigation actions, with climate finance mobilized for adaptation focusing largely on the industry, mining, and construction sectors.

This stands in clear contrast to the sectoral priorities expressed by developing countries in their nationally determined contributions. Their NDCs are far more varied, ranging from agriculture, coastal zones, and disaster risk management to health, education, social development, water, energy, and transport, but the NDCs barely mention the three sectors receiving the most climate finance.[12]

Qualitative elements to ensure that the goal can be met could include commitments to develop strategies to improve provision and mobilization. The goal should include commitments from contributors to develop clear strategies for providing and mobilizing adaptation finance, as suggested by the OECD, as well as commitments in their spending plans and investments.

Different channels will play different roles, based on their mandates, and these can be highlighted in the NCQG as part of its qualitative elements. All of these channels should be strengthened and coordinated to ensure that adequate instruments are deployed in the most appropriate manner, taking into account countries' needs, priorities, and specific circumstances, including levels of indebtedness of developing countries, among other criteria. Public adaptation finance, flowing through bilateral and multilateral channels, is predominantly delivered through grants, according to the Fifth Biennial Assessment. However, this is closely linked to the various channels and their different mandates. In 2019–2020, grants accounted for 57% of the face value of bilateral adaptation finance and 99% of adaptation finance from multilateral climate funds. This is not the case for overall adaptation finance, where market-rate debt dominates,[13] linked to the dominance of development finance institutions, including multilateral development banks.

[8] Although an alternative language stronger than that of "balance" could be considered.

[9] OECD. 2023. Scaling Up Adaptation Finance in Developing Countries. https://www.oecd.org/en/publications/scaling-up-adaptation-finance-in-developing-countries_b0878862-en.html#:~:text=This%20report%20analyses%20current%20trends,potential%20of%20the%20private%20sector

[10] OECD. 2024. Climate Finance Provided and Mobilised by Developed Countries in 2013–2022.

https://www.oecd.org/en/publications/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022_19150727-en.html

[11] Considering that the current situation is unlikely to change until the challenges faced by private sector finance mobilization are fully addressed.

[12] For an analysis of NDC adaptation priorities, see: Dixit, A, Kim M, O'Connor R, et al. 2022. State of the Nationally Determined Contributions: Enhancing Adaptation Ambition. Working Paper. World Resources Institute. https://files.wri.org/d8/s3fs-public/2022-03/enhancing-adaptation-ambition.pdf?VersionId=bjURD1jiqWpN3TcbudG7m2G2UtD5rDIc

[13] Buchner B, Naran B, Padmanabhi R., et al. 2023. Global Landscape of Climate Finance 2023. Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

Private finance

The focus of this layer should, to a significant extent, address barriers to the private sector's investments in adaptation and in developing countries more generally. This layer could include a combination of qualitative commitments and quantitative ones that address existing barriers to private sector investment. A quantified goal might not be the best way to address this layer, however, given the current geographic and thematic distribution of private finance, combined with the difficulties in establishing clear linkages between countries' policies and private sector flows, plus the challenges of tracking and attributing the resulting flows. An additional complication mentioned in NCQG discussions is that because the private sector is not a Party to the Paris Agreement, it is not bound by any decisions by Parties. This fact alone makes a quantified subgoal for private finance unlikely to be achievable. Clear strategies and responsibilities for different actors should be outlined, particularly for Parties, which have commitments under the UNFCCC and the Paris Agreement.

Although the private sector has played an important role in the provision of climate finance overall, most of this finance has stayed in developed countries and has almost exclusively gone toward mitigation, highlighting the difficulties many developing countries face in attracting private finance for adaptation. According to the Climate Policy Initiative's Global Landscape of Climate Finance, private actors[14] provided 49% of total climate finance in 2021–2022 ($625 billion). Most of this finance is concentrated in the United States, Western Europe, and other developed economies and mainly targets mitigation, with private finance for adaptation amounting to approximately $1.5 billion in that period. CPI found that in 2021–2022, a majority (84%) of climate finance was raised and spent domestically, with private investment outpacing public finance (54%), pointing to the importance of domestic private sources compared to international ones. It is worth noting, however, that this is not the case everywhere, with some regions still largely dependent on public finance.

Commitments from all countries to address barriers to private sector investment in adaptation, particularly for the local private sector, could be included in the NCQG, which could involve commitments from contributors to provide finance, technical assistance, and capacity building. These could focus on, among other things, addressing the availability of climate and vulnerability data, the improvement of adaptation planning and institutional arrangements to facilitate adaptation action, the strengthening of incentives to address real or perceived risks to private investments, and access to adequate finance for local micro-, small, and medium-sized enterprises.[15]

It is also important to recognize that there are many challenges in tracking and estimating private finance flows, both in general and for finance that is mobilized by such public interventions as technical assistance and policy interventions. The NCQG should therefore include in its transparency arrangements qualitative commitments aimed at improving all Parties' reporting of private finance flows, for example by focusing on capacity building and regulatory requirements for the private sector and other market failures that deter private sector investments.

Calls to action could also be included here for private sector voluntary initiatives to invest in adaptation or to align their investments with global and national adaptation goals, including the targets of the UAE Framework for Global Climate Resilience, the GGA, and national plans such as National Adaptation Plans and nationally determined contributions.

[14] Including commercial financial intermediaries, corporations, households and individuals, funds, and institutional investors. Buchner B, Naran B, Padmanabhi R., et al. 2023. Global Landscape of Climate Finance 2023. Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

[15] For more information on barriers and potential strategies to address them, see: Tall A, Lynagh S, Blanco Vecchi C., et al. 2021. Enabling Private Investment in Climate Adaptation and Resilience. World Bank. https://documents1.worldbank.org/curated/en/566041614722486484/pdf/Enabling-Private-Investment-in-Climate-Adaptation-and-Resilience-Current-Status-Barriers-to-Investment-and-Blueprint-for-Action.pdf; Grimm J, Ryfisch D, Weber L. 2022. Mobilising climate adaptation investments from the private sector in developing countries. Germanwatch. https://www.germanwatch.org/sites/default/files/20220811-2021-1505-gw.pdf; Adhikari B, Shaila L, Chalkasra, S. 2023. Mobilizing private sector investment for climate action: Enhancing ambition and scaling up implementation. Journal of Sustainable Finance & Investment, 13(2). https://www.tandfonline.com/doi/full/10.1080/20430795.2021.1917929#d1e145

Domestic public climate finance

This layer should include a recognition of the efforts already undertaken by Parties, through their own budgets, to invest in adaptation. However, a quantified subgoal for this layer is unlikely to be acceptable for developing country Parties and has no basis for its inclusion under the Paris Agreement or the UNFCCC. Additionally, a quantified target for domestic public climate finance from developing countries would likely contradict the nationally determined nature of national climate action. Recognizing the efforts already being made by developing countries, and committing to support their efforts in mainstreaming adaptation in their planning and budgeting processes, when relevant, should be the focus of this layer,

Domestic public finance is already a key source of adaptation finance in developing countries, despite existing budgetary constraints and other pressing development priorities. This reality can be recognized in the NCQG, highlighting the already collective nature of climate action. Although domestic climate finance data is still limited, the Fifth Biennial Assessment estimates that for 2019–2020, this type of climate finance amounted to $134 billion in 27 countries, equally split between developed and developing countries. The report does not specify how much goes to adaptation. Other sources, using regional- and country-level assessments, conclude that significant volumes of public domestic resources — often more than what is available from international sources — are being invested in adaptation.[16] The most recent Adaptation Gap Report shows that one-third of actions reported by developing countries in their adaptation communications were funded domestically. More information is available for some countries, which confirms that domestic public finance is key for adaptation action in developing countries. In India, for example, it has been shown that domestic public finance, particularly at the state level, is the main driver of adaptation.[17]

Qualitative elements and commitments under this layer could include the goal of mainstreaming climate adaptation in planning and budgeting processes, and tracking of adaptation finance in national budgets. In many countries, climate budget tagging, which allows countries to track their climate expenditure, is already being implemented. Because of the different methodologies and definitions, however, the available data is not comparable across countries.[18] The NCQG decision could also link mainstreaming to the provision layer by including a commitment to provide finance and other technical and capacity support to achieve mainstreaming and tagging.[19] In this sense the Global Goal on Adaptation and UAE Framework for Global Climate Resilience could be the entry point to include this as part of the NCQG. The UAE Framework calls for all Parties to have in place "country-driven, gender-responsive, participatory and fully transparent national adaptation plans, policy instruments, and planning processes and/or strategies, covering, as appropriate, ecosystems, sectors, people and vulnerable communities, and have mainstreamed adaptation in all relevant strategies and plans" by 2030.

Qualitative elements linked to other international regimes and policies that could increase domestic budgets for adaptation without compromising fiscal space, debt sustainability, and the financing of other development priorities could be included here, for example, related to fair taxation that would allow countries to raise more revenue. Clear links to debt sustainability and international taxation issues could be established, such as with initiatives and processes like a UN international tax convention.

[16] For some examples, see: Allan S, Bahadur AV, Venkatramani S, Soundarajan V. 2019. The Role of Domestic Budgets in Financing Climate Change Adaptation. Background Paper. Oxford Policy Management. https://gca.org/wp-content/uploads/2020/12/The_Role_of_Domestic_Budgets_in_Financing_Paper__Final.pdf

[17] For more information, see: Chakravarty M, Pal U, Sikka A, Jena LP. 2024. Financing Adaptation in India. Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2024/02/Financing-Adaptation-India_reportannexes.pdf

[18] For more information, see: UNDP Global Climate Public Finance Review. 2022. United Nations Development Programme. https://www.undp.org/publications/undp-global-climate-public-finance-review

[19] Very likely not quantified in any way.

Enablers and disenablers of finance flows (Article 2.1(c) of the Paris Agreement)

Article 2.1(c) established the third long-term goal of the Paris Agreement of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development." The exact scope of Article 2.1(c) has not yet been agreed by all Parties, and there is plenty of disagreement as to what should be included and how. Despite this, conversations around Article 2.1(c) are often included in the NCQG process, usually under the focus of what are the enablers and disenablers of climate finance flows.

Concerns expressed about the inclusion of this article within the NCQG, in relation to the different understandings of the scope of the article, are often framed in terms of national and international policies and regimes that disenable finance flows and make access to finance more difficult for developing countries. These include unilateral measures by developed economies that impose additional burdens on developing countries, under the guise of climate action and often related to trade, as well as policies that can result in additional conditionalities and reduced access to finance for climate action. The usually large focus on mitigation in Article 2.1(c) implementation to the detriment of adaptation is also a concern.

At the same time, if focused on potential enablers of climate finance flows to developing countries, Article 2.1(c) could serve to address many of the barriers that prevent more finance from different sources to flow toward climate adaptation.[20] For example, by addressing such issues as cost of capital, debt, and fiscal space constraints. UN Trade and Development (UNCTAD)[21] has found that public debt in developing countries is rising at twice the rate of that of developed countries. At the same time, external public debt service requirements remain high for many developing countries, with more than half allocating at least 8% of government revenue to interest payments.

The borrowing costs of developing countries are two to 12 times as high as those of developed countries, depending on the countries being compared. This fact increases the resources needed to pay creditors and makes it difficult for developing countries to finance investments. All of this results in some countries spending more on interest payments than on health, education, and other critical needs, according to UNCTAD, leaving even less room for spending on adaptation. When that is combined with the high cost of capital, many countries are caught in dire straits when it comes to financing adaptation action. Tackling the issue of subsidies that promote maladaptive practices or increase climate vulnerability could also support adaptation action in many countries.

The elements falling under Article 2.1(c) are not necessarily quantifiable, or it would not always add value to quantify them, as these are often policies and regimes that will not directly result in measurable finance flows that can be tracked and can contribute to a quantum. These elements, however, can be included qualitatively or as commitments to action by different stakeholders. Some elements would already have been included as part of the private sector commitments, as well as the national budgets layer. Commitments to policy changes that include equity-focused risk approaches and tackle the potential for maladaptation in policy, spending, and investment could also be explored.

[20] For a more detailed discussion on enablers and disenablers under Article 2.1(c), see: Robertson M, Argueta B, Watson C, et al. 2023. Putting climate-resilient development at the heart of equitable implementation of Article 2, paragraph 1(c) of the Paris Agreement. Working paper. Germanwatch. https://media.odi.org/documents/Putting_climate-resilient_development_at_the_heart_of_equitable_implementation_LcekC1b.pdf; for a focus on small-scale agrifood systems, see: Argueta B, Mason N, Steadman S, et al. 2024. Making finance flow to adaptation in small-scale agrifood systems. ODI. https://media.odi.org/documents/Making_finance_flow_to_adaptation_in_small-scale_agrifood_systems.pdf

[21] UNCTAD. 2024. A world of debt report 2024. https://unctad.org/publication/world-of-debt

How can adaptation finance be scaled?

Scaling adaptation finance to meet the needs of developing countries will require efforts by a variety of stakeholders and by processes within and outside of the UNFCCC. The NCQG could be a good way to advance and guide these efforts, but the NCQG on its own will not be enough. Stakeholders, especially Parties, will need to take the guidance from the NCQG decision and implement it both at the national and international levels.

Public provision and mobilization from developed to developing countries

Public provision requires first and foremost the commitment of developed countries to provide sufficient adaptation finance that reflects the needs and priorities of developing countries,[22] while recognizing that the determination of these needs is difficult and contested. Learning from the $100 billion goal experience will be important. Because that goal was a single-layer goal similar to the proposed minimalist approach, with no differentiation between adaptation and mitigation, it did not result in differentiated strategies for the provision of adaptation and mitigation finance until it was clear that adaptation finance was lagging far behind. The language on "balance" also led to lengthy discussions about the meaning of "balance" between adaptation and mitigation finance.

For bilateral providers, it will be important to establish a clear commitment to the provision of adaptation finance, followed by the development of clear strategies by contributor countries. As suggested by the OECD, countries' spending plans and investments in adaptation should be considered in light of these commitments.[23] Setting internal quantitative targets for adaptation finance would also contribute to scaling public climate finance provision.

For provision through multilateral channels, those same contributors can use their roles as shareholders and board members of multilateral institutions and climate funds to increase and accelerate the provision of adaptation finance, taking into account the mandates and roles that these different multilateral channels can play and the instruments they can deploy.

In terms of mobilization, low levels of mobilized adaptation finance are linked to low returns relative to potential risks; long-term returns materialized through prevented damage; nonmonetary benefits; the small size of projects, which leads to high transaction costs; and other challenges linked to the nature of many adaptation projects. Addressing some of these challenges can be difficult because of the nature of adaptation action or can be undesirable when it is linked to important public goods that should remain accessible to all. Therefore, the role of private finance mobilized, though relevant, might never reach the levels it could reach for mitigation, where mobilization has also faced challenges but has had more success.

In that sense, countries should design and implement national strategies that set clear and realistic expectations for private sector finance in adaptation and that aim to improve mobilization ratios. A particular focus in developing countries should be placed on the local private sector, including micro-, small-, and medium-sized enterprises, while continuing to acknowledge the importance of grant finance for adaptation and its role in mobilizing adaptation investments from local private actors.[24]

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[22] This is not to suggest that public provision should cover all needs, but that it should more closely reflect the distribution of needs and priorities across the different goals of adaptation, mitigation, and, potentially, loss and damage.

[23] The OECD developed a series of recommendations for actions to scale adaptation finance. OECD. 2023. Scaling Up Adaptation Finance in Developing Countries. https://read.oecd-ilibrary.org/environment/scaling-up-adaptation-finance-in-developing-countries_b0878862-en#page61

[24] For more information on this, see: Grimm J, Ryfisch D, Weber L. 2022. Mobilising climate adaptation investments from the private sector in developing countries. Germanwatch. https://www.germanwatch.org/sites/default/files/final_policy_brief_20220730-2021-1505-gw.pdf

Private finance

Much of the available analysis on how to scale private finance for adaptation focuses on mobilization using public sources.[25] Strategies to increase private finance not directly mobilized usually depend on addressing enabling environments or are based on voluntary initiatives in the private sector.

As mentioned previously, tracking private finance that results from policy interventions and technical assistance is extremely difficult, and methodologies for attribution are not fully developed. Evidence of the relative merits of different policy interventions and their ability to increase private finance flows for adaptation is very limited, making it hard to link these interventions to any specific flows, let alone to actual impacts in the real economy and climate outcomes.[26] Data on private finance that is not mobilized is still difficult to track as well. In that context, scaling private adaptation finance will require developing methodologies to track these flows and to measure the effectiveness of different strategies, starting with a strong understanding of what adaptation finance and adaptation action are.

In the case of adaptation, where the private sector has played a very small role, because of both general challenges associated with investing in developing countries and specific challenges of investing in adaptation, Parties need to work on enhancing enablers to increase private sector investments in developing countries. These enablers will need to be differentiated, and regionally focused, to address the fact that most private finance currently stays in developed countries. They also will need to address the potential for most of these investments to flow to low-risk countries and regions, leaving behind those that are high risk, particularly Least Developed Countries (LDCs) and Small Island Developing States (SIDS).

[25] Like in the OECD reports on scaling up adaptation and scaling up mobilization of private finance, as well as other sources. See: Choi ES, Jang E, Laxton V. 2023. What It Takes to Attract Private Investment to Climate Adaptation. World Resources Institute. https://www.wri.org/insights/private-sector-climate-adaptation-finance; Buchner B, Naran B, Padmanabhi R, et al. 2023. Global Landscape of Climate Finance 2023. Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

[26] For more information, see: Report of the Standing Committee on Finance. 2022. UFCCC. https://unfccc.int/sites/default/files/resource/cp2022_08a04__cma2022_07_a04.pdf?download; Noels J, Jachnik, R. Assessing the climate consistency of finance. 2022. OECD. https://www.oecd-ilibrary.org/environment/assessing-the-climate-consistency-of-finance_d12005e7-en

Domestic public climate finance

All countries already spend and invest on adaptation, or expect to cover some of their adaptation needs with their own budgets, as expressed in their communications to the UNFCCC. Their ability to address their needs through their own budgets, however, can be limited because of mounting debt burdens and the increasing share of budgets that countries dedicate to repay this debt. All of this is compounded by the need to address other developmental needs, sometimes in the context of multiple crises. Addressing these issues will be key to allow developing countries to spend and invest in their own adaptation.

Unsustainable levels of debt make it more difficult for developing countries to invest in development and climate outcomes, a situation that is made worse when climate change– induced disasters pressure government spending further. In several developing countries, the amounts of their budget spent on debt servicing already surpasses what is spent on social spending,[27] while high levels of debt reduce the fiscal space needed to put in place measures that promote adaptation and climate-resilient development.

In this context, measures that can increase domestic resources for adaptation without compromising fiscal space or crowding out other pressing development expenditures and investments are needed. Addressing insufficient financial inflows in developing countries and their limited access to concessional resources are among the potential solutions to some of these issues. Another potential avenue is strengthening international tax cooperation to improve the ability of developing countries to raise revenue through taxation by, among other things, tackling tax avoidance and evasion and other illicit financial flows. This will require Parties to take on these issues not only within the UNFCCC but also in a UN tax convention and other forums as well as multilateral initiatives dealing with debt issues.

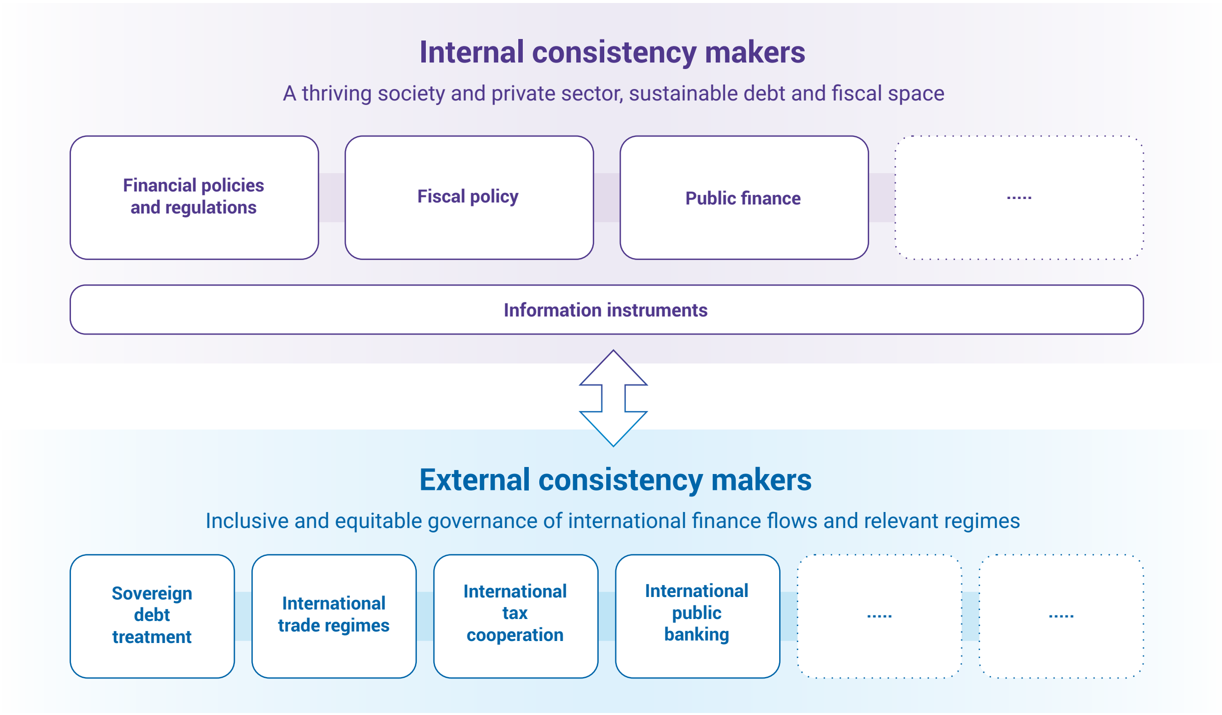
At the national level, mainstreaming adaptation in planning and budgeting will support, in a context of reduced debt levels and expanded fiscal space, developing countries' ability to invest in adaptation and resilience. Nationally led and agreed efforts to implement climate budget tagging initiatives will be important, and climate finance can support these initiatives, financially or through technical assistance and capacity building.

[27] World Bank. 2022. International Debt Report 2022. https://openknowledge.worldbank.org/server/api/core/bitstreams/49da23a2-bcc9-5593-bc96-470cae6b3665/content

Enablers and disenablers of finance flows (Article 2.1(c) of the Paris Agreement)

The NCQG is unlikely to resolve the question of what falls within the scope of Article 2.1(c). There is currently a dialogue focused on discussing different experiences of implementing Article 2.1(c), which could eventually lead to a process to decide on this issue. Additionally, many of the changes that are needed to operationalize any understanding of the scope of Article 2.1(c) will be governed and decided outside of the UNFCCC and will include national and international level reforms. A quick overview of these so-called consistency makers can be found in the figure below.

Figure 6: Examples of internal and external consistency makers of climate-resilient finance flows



Source: Robertson M. et al. 2023[30]

Potential commitments made under the NCQG, however, including on addressing debt issues, the challenges of the high cost of capital in developing countries, a fairer international tax regime, collective efforts to increase private sector investments particularly focused on the local private sector, and improving domestic resource mobilization and transparency, will need to be taken up by other forums and regimes. Examples include the Group of 20 and the Paris Club for debt; a UN tax convention; and the World Bank and International Monetary Fund, as well as other forums that regulate trade and the private sector.[31]

All of these reforms will take time but are necessary to not only make finance flows consistent with the Paris Agreement's goals but also to increase the flows going to developing countries and to adaptation.

[28] Under the Sharm el-Sheikh dialogue on the scope of Article 2.1(c) of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement. For more information on the dialogue, see: https://unfccc.int/topics/climate-finance/workstreams/sharm-el-sheikh-dialogue/sharm-el-sheikh-dialogue

[29] In this case, "consistency makers" are defined as "actions taken to scale and direct [finance] flows, through their owners, via the institutions that govern and regulate them and which set the incentives and disincentives that influence their decision-making at multiple scales."

[30] Robertson M, Argueta B, Watson C, et al. 2023. Putting climate-resilient development at the heart of equitable implementation of Article 2, paragraph 1(c) of the Paris Agreement. Working paper. Germanwatch. https://media.odi.org/documents/Putting_climate-resilient_development_at_the_heart_of_equitable_implementation_LcekC1b.pdf

[31] For a more comprehensive list of forums and more detailed discussions on "consistency makers" under Article 2.1(c), see: Robertson M, Argueta B, Watson C, et al. 2023. Putting climate-resilient development at the heart of equitable implementation of Article 2, paragraph 1(c) of the Paris Agreement. Working paper. Germanwatch. https://media.odi.org/documents/Putting_climate-resilient_development_at_the_heart_of_equitable_implementation_LcekC1b.pdf

Recommendations

- **The NCQG decision should establish a specific and separate goal for adaptation finance, which should contain a quantum for provision and mobilization of adaptation finance as an adaptation finance subgoal, as well as qualitative elements addressing other public and private sources and barriers to mobilization and investments in adaptation.**
- **The NCQG decision should establish a mechanism that allows Parties to revise the quantitative and qualitative adaptation elements of the goal in 2030 or 2035 to adjust in accordance to changes in developing countries' needs and priorities.**
- **The NCQG decision should establish clear links between the adaptation elements, particularly the quantified subgoal, and the targets of the UAE Framework for Global Climate Resilience and the GGA.**
- **As part of the qualitative elements, the NCQG decision should contain recommendations and calls to Parties to address important barriers hindering the ability of developing countries to attract and raise adaptation finance in processes outside the UNFCCC. These should, at the very least, address cost of capital, taxation, debt sustainability, and other access issues.**
- **Beyond the NCQG, Parties should commit to continue working to achieve the goals established by the NCQG decision by developing strategies to raise, provide, and make adaptation finance more accessible to developing countries. These strategies should be differentiated and include all channels, whether bilateral, or multilateral, including both within and outside the financial mechanism of the UNFCCC, as well as the private sector.**

"We are in an adaptation emergency. We must act like it. And take steps to close the adaptation gap, now.

Antonio Guterres

Secretary- General of the United Nations

Germanwatch e.V.

Office Bonn
Kaiserstr. 201
D-53113 Bonn
Phone +49 (0)228 / 60 492-0, Fax -19
Website: www.germanwatch.org

Office Berlin
Stresemannstr. 72
D-10963 Berlin
Phone +49 (0)30 / 5771 328-0, Fax -11
E-mail: info@germanwatch.org

www.germanwatch.org