Finance for Adaptation and Loss and Damage: Time to Step Up Action

Adaptation finance continues to be neglected. There is virtually no progress in increasing the share of adaptation finance in overall climate finance, despite the objective enshrined in the Paris Agreement to reach a balance between mitigation and adaptation. Worse, adaptation finance is too often provided as loans, rather than grants, indebting developing countries further, in order to address a crisis they had little or no role in causing. And developed countries usually over-estimate the actual support they are providing, by using a generous accounting methodology for projects where adaptation components are only minor or adaptation is only one of several objectives. Furthermore, there is still a lot of work to do to ensure adaptation initiatives – projects, programmes, policies - promote gender equality and human rights and integrate key principles of good adaptation practice.

Following COP23, the One Planet Summit is an important high-level event targeting climate finance. Jointly, these events set the stage for 2018 which must be a year of increased action and ambition on all fronts, given that the world is heading towards a large-scale, planetary disaster if emissions are not curbed immediately and significantly. Increasing finance to support developing countries in tackling climate change impacts, through adaptation and addressing loss and damage, is essential to put people and the planet at the centre. Good adaptation can save lives and protect livelihoods, and it requires sufficient resources to be scaled-up across many countries. **The following brief outlines the key challenges on adaptation finance that governments could advance at the One Planet Summit and in the course of 2018 to raise ambition.**

CARE and Oxfam recommend the following on climate finance

1. **Developed countries must significantly increase adaptation finance and follow through with commitments in 2018 to demonstrate progress towards $100 billion USD a year by 2020.**
2. **Developed countries need to commit to reach a balance so that at least 50% of all public finance is dedicated to adaptation, by 2020 at the latest.**
3. **Equitable solutions based on the polluter-pays principle should be introduced, such as fossil fuel extraction levies, to mobilize support for addressing loss and damage from climate change.**
4. **All donors and recipient countries must promote gender equality and a human-rights based approach, strengthening participation and community ownership in adaptation finance.**
5. **Significantly increase the share of grants in adaptation finance, especially to LDCs and low-income countries.**

Climate change impacts: harmful and costly

Climate change is already severely impacting hundreds of millions of people, and this is expected to increase in impact and breadth. Limiting temperature increase to 1.5 degrees Celsius, as envisaged by the Paris Agreement, remains essential to avoid the worst scenarios of climate change. But even if warming stays below the temperature limit set by the Paris Agreement, climate change may come with drastic losses in economic assets, sustained erosion of livelihoods especially in poor countries, driving millions of people into poverty.

Adapting to a changing climate is key to limiting those impacts as much as possible but comes as an additional burden to poor countries. According to estimates by UNEP, the additional costs of adapting to climate change in developing countries could be in the range of 140-300 billion USD per year by 2030 and 280-500 billion USD per year by 2050. In addition to adaptation costs, loss and damage will generate significant costs, likely hundreds of billions, through un-avoided impacts in poor countries. Research also clearly shows that the costs both for adaptation and of loss and damage are higher for scenarios of higher levels of global warming. Research commissioned by Oxfam indicated that (without adaptation) economic losses in developing countries could reach 1.1 trillion USD per year in 2050 if warming is limited to 2°C above pre-industrial levels, and up to 1.7 trillion USD per year by in 2050 if warming reaches around 3°C as per emission pathways implied by current level of ambition under the Paris Agreement. Adaptation can reduce these costs significantly, but it should also be noted that many climate impacts are not economically quantifiable, or will happen to poor and vulnerable communities and will not be counted in statistics.

CASE STUDY: Droughts and social impacts in Mozambique

CARE research in Mozambique showed that recurring droughts have severe livelihood impacts, particularly on women and girls. In the second year of drought, women and girls became increasingly more destitute, spending up to six hours per day in search of water, three times as much as prior to the drought. The sheer desperation to provide for their families forced some women into prostitution or other forms of exploitation, in return for money and food.

"We know that adaptation to climate change and droughts is our most effective tool to combat the severe effects. CARE urges the international community and decision-makers to ensure sufficient funding for adaptation and resilience programs. Otherwise, hard-won developmental gains will continue to unravel and recovery will be costly and take decades."

- Marc Nosbach, Country director of CARE Mozambique[1]

Participatory, pro-poor, gender-equitable: Good adaptation pays off

Experience shows that proactive investments used for adaptation, including disaster risk reduction, pay off. For example, evidence from Niger shows that adaptation projects can generate socio-economic benefits four times greater than the resources invested for adaptation measures in the target communities.[2] Yet, care must be taken to ensure adaptation measures positively contribute to sustainable, inclusive development that reaches the most vulnerable. As a step in this direction, the Paris Agreement's Article 7.5 reflects on some of the key guiding principles for good adaptation. CARE and Oxfam's practical experience shows that good and effective adaptation must involve multiple aspects, and given the huge protection gap for the poor, and the fact that they have contributed least to the problem, international climate finance must prioritise poor and vulnerable communities, based on participatory and inclusive planning and implementation of measures to enhance community ownership and a rights-based and gender-sensitive approach to adaptation. To facilitate inclusion of such aspects, CARE developed the Adaptation Good Practice (AGP) checklist.[3] This checklist is designed to help planners and proposal development teams, implementing entities and donors, programme implementers, and capacity building course developers.

There is still a long way to go to fully integrate those aspects consistently into adaptation practice, despite progress. For example, the OECD found that less than a third of the projects reported as climate finance in 2013 targeted gender equality. However, there were a higher share of adaptation projects than mitigation projects.[4] A recent analysis of Germany's adaptation finance concluded that while some projects labelled as adaptation address some of aspects of good adaptation, a broader and more systematic integration is still lacking.[5] With regard to gender mainstreaming, for example, only one fourth of the analysed projects explicitly includes gender considerations.[6]

CARE's Adaptation Good Practices	
Risk, vulnerability and capacity	Analyse climate risks, differential vulnerability and capacity of people, ecosystems and institutions
Participation, inclusion and gender equality	Ensure participation, agency, transparency and inclusion of all groups
Climate information and uncertainty	Incorporate management of uncertainty and use of climate information
Planning and decision making processes	Promote anticipatory, flexible and forward looking adaptation planning and decision making processes
Innovation, local and indigenous knowledge and technology	Promote innovation, local (including traditional and indigenous) knowledge and technology
Adaptive management	Ensure an integrated and holistic response with adaptive management of climate related risks and impacts over time
Institutional linkages	Establish institutional arrangements and linkages which facilitate multi-stakeholder engagement
Learning, capacity building and knowledge management	Integrate learning, capacity building, monitoring and knowledge management processes
Scaling up and sustainability	Support ongoing and sustainable adaptation at scale

This imbalance exists not only on a global scale, but also at the regional level, e.g. in Africa, the continent where adaptation is so urgently needed. Another problem is that while the overall amount of adaptation finance reported by donors has grown recently, this growth took place in projects where adaptation is just one among several objectives. Funding for projects with adaptation as the primary objective has largely remained constant over the past years, which is problematic given the huge and increasing needs.

Climate finance imbalance continues, with adaptation finance lagging behind

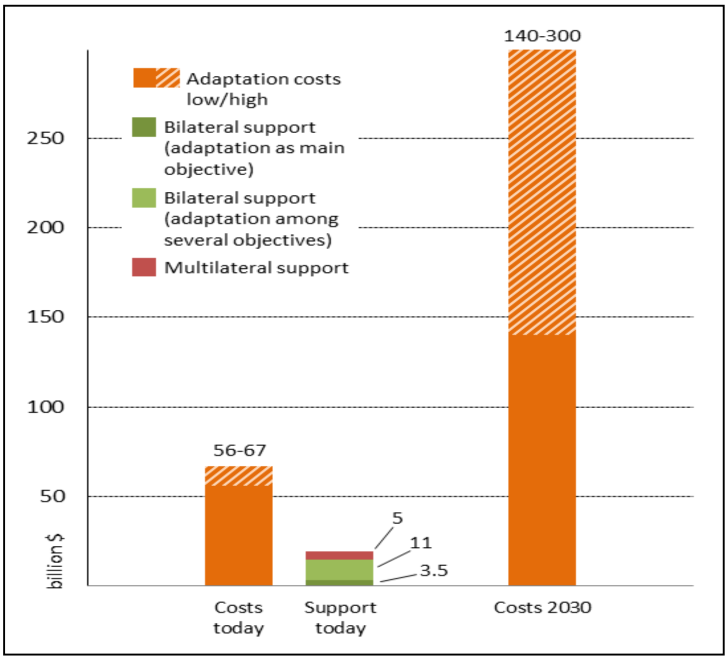

Figure 1. Current Adaptation finance compared to adaptation cost estimates in developing countries[8]

Governments have agreed that the goal, set by developed countries, to ramp up climate finance support to 100 billion USD per year by 2020, should be achieved with a balance between mitigation and adaptation finance. However, financial resources for adaptation provided to developing countries remain significantly lower than resources for mitigation. According to a progress report prepared by the OECD, total climate finance is 57 billion USD a year (2013/2014 annual average), of which just 16% (around 10 billion USD per year) is provided as public finance to specifically support adaptation. In their roadmap to meet the 100 billion goal, developed countries project that this will double by 2020 – this would mean that of the 100 billion USD a year, merely a fifth (around 20 billion USD a year) would be public finance for adaptation. The same imbalance is evident when assessing climate-relevant Official Development Assistance (ODA) as reported by the OECD: in 2014-15, "60% of bilateral and multilateral climate-related development finance focused on mitigation only, 27% on adaptation only, and 13% on both mitigation and adaptation."[7]

CASE STUDY: Building climate resilience in Vanuatu

Vanuatu is a small island developing country in the Pacific, located near the COP23 host Fiji. People in Vanuatu face climate change impacts, like salt-water intrusion from sea-level rise, or cyclone devastation such as through cyclone Pam in 2015. NGOs, including CARE and Oxfam, came together to develop and test approaches under the Vanuatu NGO Climate Change Adaptation Program, working closely with the Vanuatu Climate Action Network, government agencies etc. The programme aimed to increase community resilience and improve capacity to respond to natural disasters and the adverse impacts of climate change. The programme managed to mobilise people at the grassroots - especially women, young people and marginalised sections of rural and urban communities – who are building resilience at the community level.

In a related project, CARE and Save the Children have supported 5,701 women, men, girls and boys in 32 communities to implement essential, local climate change adaptation actions that build their resilience to the impacts of climate change. The ability to implement and lead climate change adaptation actions, including livelihood enhancement and income diversification, food security, natural resource management (including water resource management), and ecosystem management, is being increased.

"Seeing the women standing up to talk – even challenging the men – was something very special. These inspiring women have plenty of knowledge about their local environment, gardens and households, and I feel lucky to be working with them to improve their lives and break down many cultural and social barriers."

Mala Silas, Gender Equality Program Officer with CARE Vanuatu

Loans for adaptation: Deeply unjust

According to OECD data, about half of all adaptation finance is provided in the form of loans. In lower middle-income countries, only 25% of adaptation finance is provided as grants, even in the Least Developed Countries and other low-income countries, loans for adaptation constitute about 30% of all adaptation finance. This is unjust: the poorest and most vulnerable have contributed the least (or nothing at all) to the causes of climate change and therefore should not be required to take debts and repay adaptation finance. Also, adaptation measures in critical sectors such as food or water security, or dealing with climate risk do not generate a return that can be used to repay loans. These critical sectors require grant-based support.

CASE STUDY: The R4 rural resilience initiative

Farmers in developing countries are increasingly exposed to climate change risks, putting their livelihoods at stake. To help them protect their assets, Oxfam and the World Food Programme created the R4 Rural Resilience Initiative. First launched in 2009 in Ethiopia and Senegal, R4 combines risk reduction and DRR activities, prudent risk taking with access to credit, building savings as risk reserves and weather index insurance. A notable innovation for the latter is the scheme to allow farmers under or at the poverty line to pay for much of their premiums with their labor, enabling them to participate. In both countries, R4 is integrated with existing social safety nets. In Senegal, for instance, the government subsidizes 50% of the insurance premiums, while in Ethiopia R4 is part of a program to provide skills and livelihood assistance to the most vulnerable households.

Today, R4 provides a comprehensive risk management strategy to over 30,000 households in Ethiopia and 12,000 in Senegal. An evaluation showed that both yields and food security for participants have increased so that when exposed to hazards, household did not have to resort to negative coping strategies, such as consuming less or lower-quality food or buying food on credit. R4 has also had a positive impact on women's decision making power and financial autonomy. The R4 initiative is now being rolled out in Zambia, Malawi and Kenya.

Donor accounting suggests significant over-counting of adaptation finance

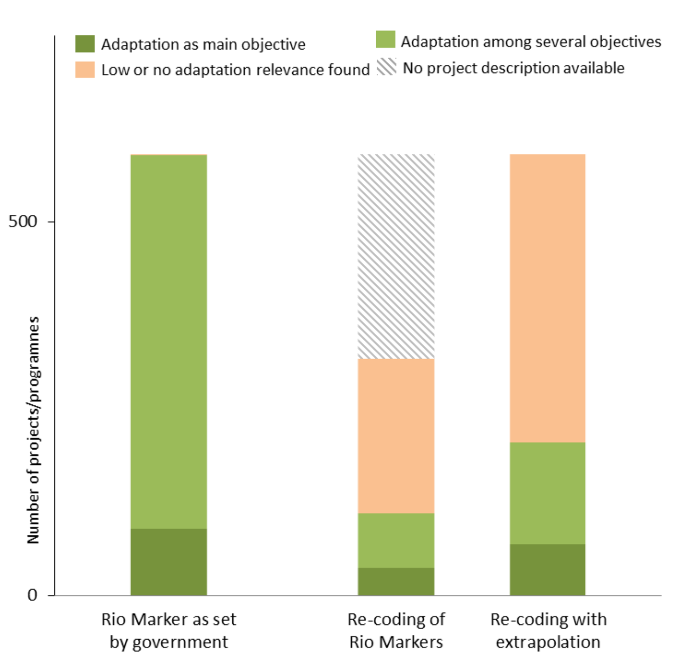

Figure 2. Overestimating adaptation-relevance in Germany climate finance[14]

German NGOs have re-assigned the Rio Marker for Adaptation, based on available project descriptions, assessing compliance with the 3 step approach recommended by the OECD DAC for adaptation finance. NGOs conclude that much less projects deserve the Rio Marker for Adaptation, either set at 1 or 2, than as per the government's own coding. A key problem, by the way, is the lack of transparency – for about half of the 600 adaptation projects funded over 2013-2015, project descriptions are not available at all.

Under pressure to deliver on the promise to ramp up climate finance to 100 billion USD a year by 2020, developed countries are using a very generous method of accounting for funds provided or mobilised. Loans are counted at their face value, despite only the grant equivalent of concessional loans constituting actual support. Also, programmes where climate action is only one of several objectives are over-counted as climate finance. In an estimate by Oxfam, the current reported level of public climate finance of 41 billion USD a year (2013/2014 annual average) includes only 11-21 billion USD a year in net assistance specifically targeting climate action.[9] The expert consortium Adaptation Watch estimated that there is a large degree of over-accounting of what is labelled as adaptation finance by OECD countries, counting projects with very little or even no benefit for adaptation.[10] According to their analysis, Japan, Luxembourg and Belgium ranked at the bottom of a long list of donor countries which apply the OECD adaptation marker with significant over-accounting. Recent country-specific civil society reports have highlighted some of the challenges with the donor-perspective reporting on climate finance. A recent analysis by German NGOs concluded that about two thirds of the descriptions of adaptation projects in 2013-2015 show little to no focus on adaptation.[11] In Denmark, adaptation makes up only roughly a third of the climate finance provided within a trend of overall declining climate finance between 2014 and 2016.[12] The Danish report also reveals some questionable accounting practice mainly due to weaknesses in the OECD reporting system, without, however, concluding a general situation of overestimation by the government. There are attempts to improve reporting, such as in Finland, that aims to report "as climate finance that percentage of project funding that is directly applied to mitigating climate change or to adapting to its impact", according to a recent NGO analysis.[13]

Beyond adaptation: Time to raise finance to address loss and damage

The Paris Agreement has enshrined three pillars for addressing climate change, namely mitigating emissions to keep warming well below 2°C above pre-industrial levels, with the ambition to limit warming to 1.5°C; adaptation to the worsening impacts such as more severe and more frequent droughts, flooding, cyclones and hurricane; and addressing loss and damage to deal with the impacts that the world cannot avoid or adapt to. Especially the latter has proven to be a challenging topic in the UNFCCC negotiations.

Climate risk insurance is often mentioned as a financial tool to address loss and damage. Indeed, it can help countries to better prepare for climate and disaster risk and deal with its impacts, as part of a comprehensive risk management approach. But insurance approaches fostered by international climate finance must ensure that the needs of the poor and vulnerable remain the focus. Additionally, there is a clear need for various other instruments. So far, developed countries and some emerging economies stand in the way of agreeing to start serious work on innovative instruments to generate financial resources to deal with loss and damage, such as taxing carbon polluters.[15] Due to this inaction, pressure on rich countries is building up: they must address the issue of loss and damage finance and raise support for preventive adaptation measures.

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Founded in 1945, CARE is a leading humanitarian organisation fighting global poverty and providing lifesaving assistance in emergencies. In 90 countries around the world, CARE places special focus on working alongside poor girls and women because, equipped with the proper resources, they have the power to help lift whole families and entire communities out of poverty. To learn more about CARE's work on climate change, visit www.careclimatechange.org

Oxfam is an international confederation of 20 organizations working together with partners and local communities in more than 90 countries, determined to mobilizing the power of people against poverty. Around the globe, Oxfam works to find practical, innovative ways for people to lift themselves out of poverty and thrive. We save lives and help rebuild livelihoods when crisis strikes. And we campaign so that the voices of the poor influence the local and global decisions that affect them. In all we do, Oxfam works with partner organizations and alongside vulnerable women and men to end the injustices that cause poverty. For more about Oxfam, visit www.oxfam.org

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