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# Matters related to GCF support to adaptation

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## Summary

This document presents areas where GCF can support adaptation activities.

The findings call for GCF to focus in particular on: (a) strategic engagement with accredited entities and countries to further support preparation of quality adaptation projects and programmes submitted to GCF; (b) incremental and full cost calculation development; (c) further development of adaptation metrics; and (d) opportunities to increase private sector engagement in adaptation to complement recommendations of the Private Sector Advisory Group on private sector engagement in adaptation.

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## I. Background

1. The Governing Instrument for the GCF stipulates that GCF will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach.
2. Furthermore, paragraph 52 of the Governing Instrument states:

“In allocating resources for adaptation, the Board will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors for these countries as appropriate. The Board will aim for appropriate geographical balance.”
3. In addition, in the Governing Instrument, the Private Sector Facility (PSF) is established to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels. The Board, at its fourth meeting, through decision B.04/08, paragraph (e), emphasized the need for PSF to pay specific attention to Africa and to adaptation activities at the national, regional and international levels.
4. At the same meeting, through decision B.04/08, paragraph (i), the Board decided to establish the Private Sector Advisory Group (PSAG) to make recommendations to the Board on GCF-wide engagement with the private sector and modalities to that end. In particular, the Board, in decision B.15/03, paragraph (i)(ii) and decision B.17/06, paragraph (d)(ii), requested the PSAG to provide recommendations on “opportunities to engage the private sector, including local actors, in adaptation action at the national, regional and international levels”.
5. At its seventeenth meeting, through decision B.17/10, paragraph (c)(ii), the Board requested the Secretariat to develop a proposal for the Board’s consideration, taking into account best practices from other multilateral funds and other approaches, to develop guidance on the approach and scope for providing support to adaptation activities.
6. In order to support discussions of the Board on GCF support to adaptation activities, the Secretariat undertook a number of activities to collect information, insights, experience and good practices from stakeholders. Firstly, in order to identify adaptation financing gaps and priorities in the global climate adaptation finance landscape, the Secretariat commissioned the World Resources Institute to support in conducting a preliminary study to analyze the portfolio balance and investment priorities of the GCF to support adaptation activities. The findings can be found in document GCF/B.21/Inf.03/Add.01.
7. Building on this, the Secretariat organized a two-day technical expert workshop on 5-6 March 2018, in Songdo, Republic of Korea, to collect expert views on climate adaptation practices and approaches to adaptation finance. A total of 42 experts attended from different regions and varying institutions including government, research, funding institutions and civil society organisations, including the nominated experts from the Adaptation Committee, Least Developed Countries Expert Group, and Standing Committee on Finance of the United Nations Framework Convention on Climate Change (UNFCCC). Furthermore, the Secretariat organised a session at the Adaptation Futures 2018, held on 18-21 June, in Cape Town, South Africa, in which around 50 stakeholders, including direct access entities (DAEs) and national designated authorities (NDAs), engaged in the discussion. Furthermore, the Secretariat also organized sectoral dialogues on adaptation as part of the 2019 UNFCCC National Adaptation Plan Expo and Korea Global Adaptation Week in Songdo, where participants were introduced to best available approaches for developing and utilising robust climate science and data for project preparation. The first GCF policy brief which highlights some of the key issues in adaptation was launched at the event.

8. The discussion on identifying transformational adaptation activities was also undertaken at the Technical Expert Workshop on Climate Adaptation Finance organized by the GCF Secretariat in March 2018. The converging opinion of the participants was that a set of principles and clearer guidance are needed to carry this issue forward, yet it should be contextualized locally and should not be an indicative list of activities. Given that adaptation is a response to specific climate risks and impacts, which are often local in nature and variable over time, it is important for the principles and guidance to remain flexible while harmonized with the UNFCCC and other existing frameworks and guidance for ease of implementation. The participants also noted that shifting towards a more systematic approach to designing adaptation actions is necessary. It was also recognized that building on better practices that consider forecasting, timescales, financial innovations, policy and regulatory frameworks as well as human and institutional capacity as part of an iterative adaptation planning process is critical.

9. Support to create an enabling environment was highly emphasized as a focus area that could lead to transformational adaptation actions. It may be important to identify and invest on enablers for adaptation actions as they are often not the first tier of actions. Coupled with policy and regulatory barriers, lack of information and capacity to measure and translate known climate risks into business affects investment decisions. The needs to overcome policy and regulatory barriers, including those identified in document GCF B.17/03 titled “Analysis of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations” were shared and reiterated by many participants.

10. Based on its findings, the Secretariat proposes a set of action items for the Board to consider to provide clear guidance on the scope and approach for GCF support to adaptation activities, consistent with its mandates and guidance received from the UNFCCC in annex III. The proposed actions of the Board also reaffirm the unique position of GCF to act as a catalyst for funding high impact, transformative and innovative climate projects through engaging private sector partners at all levels as mandated by the Board through decision B.04/08. The Secretariat acknowledges that it is important to identify and invest in enablers for adaptation actions as they are often not the first tier of actions. Coupled with policy and regulatory barriers, the lack of information and capacity to measure and translate known climate risks into business affects investment decisions. The Secretariat aims to support creation of enabling environments through its follow-up actions, as outlined in annex II, and in light of the recommendations of the PSAG on opportunities to engage the private sector in adaptation in annex IV.

11. In summary, this document consists of the following:

- (a) The Secretariat’s findings on an approach and scope for providing support to adaptation activities are in annex III. Based on its findings, the Secretariat proposes a set of follow-up actions to be undertaken by the Secretariat to further support adaptation activities in annex II; and
- (b) The recommendations of the PSAG in response to the above request in paragraph 4 to scale up solutions to enhance the volume and impacts of adaptation programmes and investments are in annex IV.

## **II. Recommended action by the Board**

12. It is recommended that the Board adopt the draft decision set out in annex I to this document.

## Annex I: Draft decision by the Board

The Board, having considered document GCF/B.23/18 titled “Matters related to GCF support to adaptation”:

- (a) *Recalls* the United Nations Framework Convention on Climate Change decision 1/CP.16, paragraph 100, that a significant share of new multilateral funding for adaptation should flow through GCF;
- (b) *Also recalls*, Article 7, paragraph 1, of the Paris Agreement in which parties established a global goal on adaptation for enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change;
- (c) *Further recalls* paragraphs 2 and 3 of the Governing Instrument, which provides, inter alia, that the GCF shall promote the paradigm-shift to climate-resilient development pathways and strive to maximize the impact of its funding for adaptation;
- (d) *Further recalls* decision B.13/09 in which the Board confirmed its support for developing countries for the formulation and implementation of national adaptation plans or other adaptation planning processes through the GCF Readiness and Preparatory Support Programme modalities;
- (e) *Takes note* of the encouragement of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, in decision 9/CMA.1, paragraph 21, to GCF, in line with its existing mandate and the Governing Instrument for GCF, to continue channelling support to developing country Parties for the implementation of their adaptation plans and actions in accordance with the priorities and needs outlined in their adaptation communication;
- (f) *Agrees* that GCF’s support for the formulation of national adaptation plans and/or other national adaptation planning will include emphasis on coherence with nationally determined contributions and other national climate change adaptation strategies;
- (g) *Also agrees* to strengthen the adaptation elements of the investment framework, when its components, comprising investment policies, investment strategy and portfolio targets, and investment guidelines, are reviewed by the Board;
- (h) *Encourages* national designated authorities/focal points, accredited entities and other delivery partners to exchange experience and lessons learned in access to adaptation finance, project preparation and implementation, supported by the Secretariat, through the Readiness and Preparatory Support Programme in order to inform future efforts, including by identifying and promoting best practices, including South-South and triangular learning, and forming and using regional and international networks for information sharing and cooperation on adaptation support;
- (i) *Invites* national designated authorities and focal points to outline the relevance to their nationally determined contributions, national adaptation plans, and other adaptation planning processes and adaptation communications with concept notes and funding proposals submitted to GCF, in accordance with decision B.17/09, paragraph (f), which requested the Secretariat to seek confirmation from the national designated authority or focal point that the concept note fits under national priorities and country ownership;
- (j) *Requests* the Secretariat to continue to support efforts by national designated authorities and direct access entities to utilize climate services information, building on the ongoing work being conducted by the World Meteorological Organization and other partners, in order to support countries and direct access entities in the design of programmes and projects submitted to GCF, based on the best available science and climate information;

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- (k) *Also requests* the Co-Chairs, assisted by the Secretariat, to include in the draft report to the Conference of the Parties for consideration by the Board information on how climate-proofing and climate resilience measures are incorporated into the support provided by GCF to advance the goals set by the international community to combat climate change, including the Global Goal on Adaptation;
  - (l) *Further requests* the Secretariat to include in the annual update on complementarity and coherence information on collaboration with other climate finance delivery channels with regard to support relevant to countries' adaptation actions, including support for adaptation communications;
  - (m) *Requests* the Secretariat to present, in its 2020 and subsequent work programmes and administrative budgets, how it will support parties to implement paragraphs (j), (l), (n) and (p), and to strengthen regional cooperation on adaptation where appropriate, taking into account relevant decisions by the Conference of the Parties;
  - (n) *Also requests* the Secretariat to include measures to enhance support in the area of community-based adaptation actions in its review of the existing requests for proposal and pilot programmes, including the enhanced direct access and simplified approval process pilot programmes, emphasizing the importance of GCF support to community-based adaptation actions;
  - (o) *Recognises* the role of the private sector in climate adaptation, and welcomes the recommendations from the Private Sector Advisory Group (PSAG) presented in annex IV,
  - (p) *Requests* the Secretariat to present a response to these recommendations as part of a proposal to the Board for any additional steps that should be taken by GCF to integrate public and private sector approaches in the GCF's support for adaptation activities by B.26;
  - (q) *Takes note* of the Secretariat's findings on the approach and scope for providing support to adaptation activities outlined in annex III and the Secretariat's follow-up actions and the implementation timetable presented in annex II; and
  - (r) *Requests* the Secretariat to implement and report on the progress of the follow-up actions proposed in annex II regularly through existing channels, including its regular pipeline and portfolio update and progress report on implementation of the Readiness and Preparatory Support Programme Work Programme.

## Annex II: Secretariat's follow-up actions and implementation plan

1. The following actions of the Secretariat can support the works of GCF to strengthen its support to adaptation activities:

### **Identifying GCF's role in global adaptation finance landscape**

- (a) Create and strengthen partnerships with relevant organizations to build institutional information and to ensure complementarity of adaptation activities for a maximized impact. Such efforts can include identifying adaptation practices that are scalable for greater impacts, exploring different approaches and lessons learned in engaging private sector and non-state actors, and the promotion of synergies in the implementation of enabling activities, through collaboration in adaptation planning support, for example (as noted in document GCF/B.20/05 titled Annual update on complementarity and coherence);
- (b) Build on lessons learned and experiences from climate finance delivery channels with a view to inform the development policies, procedures, and streamlining and harmonizing monitoring and evaluation approaches and methodologies (as noted in document GCF/B.20/05);
- (c) Continue to develop sectoral analysis and programming guidance, in consultation with GCF's stakeholders and expert communities of practice to help guide countries and accredited entities on where the GCF can maximize its impact with an understanding of the GCF's comparative advantage in the climate finance landscape (as noted in document GCF/B.23/Inf.09 titled "Strategic Programming for the Green Climate Fund First Replenishment");
- (d) Explore options for social protection mechanisms, taking into account the causal relationship between poverty and climate impact exposure and vulnerability, to protect livelihoods and increase resilience of those who are at risk;

### **Country programming, national adaptation plans, adaptation communications and nationally determined contributions support**

- (e) Strengthen synergies between the adaptation planning processes that build from GCF Country Programmes and associated strategic frameworks to enable translations of high-level goals into project origination and project design (as noted in document GCF/B.22/08 titled "Readiness and Preparatory Support Programme: Strategy for 2019-2021 and Work Programme 2019"). Such efforts include the following:
  - (i) Strengthen focus of GCF adaptation planning support on ensuring key elements of climate science for adaptation in project pipelines;
  - (ii) Provide guidance and support to national designated authorities in translating and understanding national climate change adaptation strategy and national climate change adaptation plans into country programmes and pipeline development;
  - (iii) Ensure that GCF support for the formulation of adaptation planning processes relates to and directly builds on GCF Country Programmes whenever possible; and
  - (iv) Deepen guidance for formulation of NAP processes related to private sector engagement and an array of financial instruments;

## Developing and implementing cost approaches

- (f) Continue to develop and implement cost approaches to proposed adaptation activities in proposals including incremental and full cost methodologies taking in business-as-usual scenarios, and provide support and guidance in particular to direct access entities and national designated authorities and focal points (as considered in document GCF/B.23/19 titled "Review of the initial investment framework: Matters related to incremental and full cost calculation methodology and policies on co-financing and concessionality");

## Enhancing strategic engagement and partnerships with various stakeholders

- (g) Continue to work with national designated authorities on accreditation, on requests for support, in particular, those prioritized by the Board for accreditation, particularly, national direct access entities and private sector entities (as considered in document GCF/B.23/05 titled "Updated accreditation framework");
- (h) Enhance country engagement to drive transformational programming, including through dialogue, knowledge support, translation, training and evolving a targeted GCF support (as considered in document GCF/B.23/Inf.09);
- (i) Enhance entity engagement, in particular with direct access entities, to drive transformational programming, including through dialogue, knowledge support, translation, training and evolving a targeted GCF support (as considered in document GCF/B.23/Inf.09);
- (j) Strengthen institutional and human capacity developing countries need to identify, design and implement transformational climate interventions, including strengthening supportive policy and regulatory frameworks, direct access capabilities and modalities for participatory stakeholder engagement, possibly through targeted readiness and technical assistance, with GCF expert support, guidance and knowledge partnerships (as considered in document GCF/B.23/Inf.09);

## Engaging private sector in adaptation

- (k) Continue to engage private sector during formulation of strategic planning processes, including adaptation planning processes, through support in capacity building and dialogues with specific emphasis on the use of readiness support and public-private partnerships. Dissemination of climate data and projections as well as potential market opportunities can help private sector investment decision making;
- (l) Encourage national designated authorities/focal points to actively seek engagement with private sector, including private sector accredited entities to pilot project ideas, possibly through establishing platforms such as writeshops for project preparation, to unlock innovation for catalytic potential, and encourage knowledge sharing on best practices;
- (m) Develop a work plan to explore areas of GCF's intervention in climate resilience activities through structuring different financial products including risk transfer products such as insurance/re-insurance in both public and private sector investment, not only to transfer risks, but also to lead to increased resilience, for example by taking up conditions in the insurance policies;
- (n) Explore the use of multiple financial instruments that the GCF can provide to leverage diverse sources of climate finance (e.g. blended finance);

- (o) Further explore measures to support private sector to overcome barriers including risk, knowledge and capacity deficits, and limited business case by improving information sharing at an early stage through various modalities of GCF, such as country programming and adaptation planning through the readiness programme, and in project preparation;
- (p) Further identify investment opportunities in cross-cutting areas where adaptation activities can be addressed while reducing carbon emissions for maximized impacts, starting from identifying co-benefits of climate resilience in mitigation actions or vice versa;

### **Measuring impacts of adaptation activities and addressing knowledge gaps**

- (q) To further develop and revise GCF's results management framework (RMF), including adaptation metrics, reflecting needs for flexibility, where applicable (in response to decision B.22/13);
- (r) Expand existing communications platforms to promote a continuous learning culture among national designated authorities, accredited entities and other stakeholders including private sectors and civil society organizations by sharing lessons learned during adaptation planning, project preparation and design of specific adaptation options considered and/or implemented with GCF's support; and
- (s) Leverage knowledge and partnerships with key global and sectoral institutions, including accredited entities, through development of knowledge mechanism to mainstreaming climate considerations into their own operations and portfolios, promoting adoption of best-practice gender, indigenous peoples and social standards, and convening knowledge partnerships to contribute to wider efforts to green financial systems (as noted in document GCF/B.23/Inf.09).

2. The proposed timeline for carrying out the follow-up actions of the Secretariat is set out as below.

| Action items                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Types   | Timeline     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|--------------|
| (a) Create and strengthen partnerships with relevant organizations to build institutional information and to ensure complementarity of adaptation activities for a maximized impact. Such efforts can include identifying adaptation practices that are scalable for greater impacts, exploring different approaches and lessons learned in engaging private sector and non-state actors, and the promotion of synergies in the implementation of enabling activities, through collaboration in adaptation planning support, for example; | Ongoing | 2019 onwards |
| (b) Build on lessons learned and experiences from climate finance delivery channels with a view to inform the development policies, procedures, and streamlining and harmonizing monitoring and evaluation approaches and methodologies;                                                                                                                                                                                                                                                                                                  | Ongoing | 2019-2021    |
| (c) Continue to develop sectoral analysis and programming guidance, in consultation with GCF's stakeholders and expert communities of practice to help guide countries and accredited entities on where the GCF can maximize its impact with an understanding of the GCF's comparative advantage in the climate finance landscape;                                                                                                                                                                                                        | Ongoing | 2019         |
| (d) Explore options for social protection mechanisms, taking into account the causal relationship between poverty and climate impact exposure and vulnerability, to protect livelihoods and increase resilience of                                                                                                                                                                                                                                                                                                                        | Ongoing | 2019-2021    |



| Action items                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Types   | Timeline     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|--------------|
| those who are at risk;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |         |              |
| (e) Strengthen synergies between the adaptation planning processes that build from GCF Country Programmes and associated strategic frameworks to enable translations of high-level goals into project origination and project design, including:<br><br>(i) Strengthen focus of GCF adaptation planning support on ensuring key elements of climate science for adaptation in project pipelines;<br>(ii) Provide guidance and support to national designated authorities in translating and understanding national climate change adaptation strategy and national climate change adaptation plans into country programmes and pipeline development;<br>(iii) Ensure that GCF support for the formulation of adaptation planning processes relates to and directly builds on GCF Country Programmes whenever possible; and<br>(iv) Deepen guidance for formulation of NAP processes related to private sector engagement and an array of financial instruments; | Ongoing | 2019-2021    |
| (f) Continue to develop and implement cost approaches to proposed adaptation activities in proposals including incremental and full cost methodologies taking in business-as-usual scenarios, and provide support and guidance in particular to direct access entities and national designated authorities and focal points;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Ongoing | 2019         |
| (g) Continue to work with national designated authorities on accreditation, on requests for support, in particular, those prioritized by the Board for accreditation, particularly, national direct access entities and private sector entities;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Ongoing | 2019 onwards |
| (h) Enhance country engagement to drive transformational programming, including through dialogue, knowledge support, translation, training and evolving a targeted GCF support;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Ongoing | 2019 onwards |
| (i) Enhance entity engagement, in particular with direct access entities, to drive transformational programming, including through dialogue, knowledge support, translation, training and evolving a targeted GCF support;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Ongoing | 2019 onwards |
| (j) Strengthen institutional and human capacity developing countries need to identify, design and implement transformational climate interventions, including strengthening supportive policy and regulatory frameworks, direct access capabilities and modalities for participatory stakeholder engagement, possibly through targeted readiness and technical assistance, with GCF expert support, guidance and knowledge partnerships;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Ongoing | 2019 onwards |
| (k) Continue to engage private sector during formulation of strategic planning processes, including adaptation planning processes, through support in capacity building and dialogues with specific emphasis on the use of readiness support and public-private partnerships. Dissemination of climate data and projections as well as potential market opportunities can help private sector investment decision making;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Ongoing | 2019 onwards |
| (l) Encourage national designated authorities/focal points to actively seek engagement with private sector, including private sector                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Ongoing | 2019 onwards |



| Action items                                                                                                                                                                                                                                                                                                                                                                                                                        | Types           | Timeline     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------|
| accredited entities to pilot project ideas, possibly through establishing platforms such as writeshops for project preparation, to unlock innovation for catalytic potential, and encourage knowledge sharing on best practices;                                                                                                                                                                                                    |                 |              |
| (m) Develop a work plan to explore areas of GCF's intervention in climate resilience activities through structuring different financial products including risk transfer products such as insurance/re-insurance in both public and private sector investment, not only to transfer risks, but also to lead to increased resilience, for example by taking up conditions in the insurance policies;                                 | Ongoing         | 2019-2020    |
| (n) Explore the use of multiple financial instruments that the GCF can provide to leverage diverse sources of climate finance (e.g. blended finance);                                                                                                                                                                                                                                                                               | Ongoing         | 2019-2020    |
| (o) Further explore measures to support private sector to overcome barriers including risk, knowledge and capacity deficits, and limited business case by improving information sharing at an early stage through various modalities of GCF, such as country programming and adaptation planning through the readiness programme, and in project preparation;                                                                       | Ongoing         | 2019 onwards |
| (p) Further identify investment opportunities in cross-cutting areas where adaptation activities can be addressed while reducing carbon emissions for maximized impacts, starting from identifying co-benefits of climate resilience in mitigation actions or vice versa;                                                                                                                                                           | Ongoing         | 2020-2021    |
| (q) To further develop and revise GCF's results management framework (RMF), including adaptation metrics, reflecting needs for flexibility, where applicable;                                                                                                                                                                                                                                                                       | To be initiated | 2019-2020    |
| (r) Expand existing communications platforms to promote a continuous learning culture among national designated authorities, accredited entities and other stakeholders including private sectors and civil society organizations by sharing lessons learned during adaptation planning, project preparation and design of specific adaptation options considered and/or implemented with GCF's support; and                        | To be initiated | Ongoing      |
| (s) Leverage knowledge and partnerships with key global and sectoral institutions, including accredited entities, through development of knowledge mechanism to mainstreaming climate considerations into their own operations and portfolios, promoting adoption of best-practice gender, indigenous peoples and social standards, and convening knowledge partnerships to contribute to wider efforts to green financial systems. | Ongoing         | 2019 onwards |

## Annex III: Approach and scope for providing support to adaptation activities

### I. Providing support to adaptation activities

1. This section outlines the findings of the Secretariat, informed by the findings of a preliminary study and wide-ranging consultations with stakeholders, including experts, national designated authorities (NDAs) and direct access entities (DAEs).

#### 1.1 Identifying GCF's role in the global adaptation finance landscape

##### 1.1.1 Multilateral climate funds with an adaptation focus

2. Literature reviews show that financing flows for climate adaptation are well below requirements. Although the estimates of additional needs for adaptation, as provided in the literature, range from USD 30 billion to USD 100 billion a year by 2030, less than five per cent of all climate change investments are directed towards adaptation.<sup>1</sup> There are many obstacles that need to be addressed in order to increase finance for adaptation and resilience, including :

- (a) Uncertainties regarding the timing, magnitude and frequency of negative impacts from climate change;
- (b) The invisible benefits of adaptation, given that they consist mostly of avoided losses and are realized in the long-term future;
- (c) The misalignment between government time frames and long-term climate impacts;
- (d) Policymakers and project designers not having the appropriate tools to estimate risks;
- (e) Horizontal and vertical coordination challenges among government agencies responding to climate change;
- (f) Difficulties in designing and implementing regional and transboundary approaches; and
- (g) The private sector having shorter-term investment horizons than projected climate impacts.

3. Against this backdrop, a number of multilateral climate funds are active in the climate adaptation finance landscape. Each multilateral fund has a specific focus or niche area of work. The Adaptation Fund (AF) has focused on community-based adaptation, while the Special Climate Change Fund (SCCF) has focused more on highly innovative approaches in new and emerging adaptation areas, with the aim of providing a basis from which to scale up other financial mechanisms.<sup>2</sup> The Climate Investment Funds (CIF) channel larger sums of money to projects in a few select countries, while the Global Environment Facility (GEF) provides more modest amounts of funding to nearly all developing countries. The AF and GCF channel funds directly to institutions in developing countries, while other funds work primarily through multilateral development banks (MDBs) and United Nations bodies. The GEF has lower administrative costs but takes longer to approve projects, while the AF has relatively high

<sup>1</sup> Padraig, Clark, Meattle and Buchner, 2018. *Global Climate Finance: An Updated View 2018*. Climate Policy Initiative and Micale, Tonkonogy and Mazza, 2018. Understanding and Increasing Finance for Climate Adaptation in Developing Countries. Climate Policy Initiative.

<sup>2</sup> Global Environment Facility Independent Evaluation Office (GEF IEO). 2018. *Program Evaluation of the Special Climate Change Fund*. Evaluation Report No. 117. Washington, DC: GEF IEO.

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administrative costs but is quicker at approving projects. These climate funds have strengths in different areas, but climate finance needs remain broad.<sup>3</sup>

### **1.1.2. The unique role and positioning of GCF in the adaptation landscape**

4. GCF is unique in terms of its institutional mandate and approaches to climate finance. Established as a dedicated multilateral fund to support climate change adaptation and mitigation in developing countries, GCF serves as an operating entity of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC). GCF aims to support a paradigm shift in the global response to climate change by allocating resources to low-emission and climate-resilient projects and programmes in developing countries. In particular, its focus on adaptation, direct access and supporting the most vulnerable people uniquely position GCF to contribute to climate adaptation. Support provided by GCF for adaptation is ultimately aimed at contributing to the global goal on adaptation of enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change, with a view to contributing to sustainable development and ensuring an adequate adaptation response in the context of the temperature goal, as established in Article 7 of the Paris Agreement.

5. As expressed in its founding documents and the initial Strategic Plan for the GCF, GCF is uniquely defined by its climate focus, country-driven approach, balance between mitigation and adaptation funding, including the prioritization of adaptation funding for the most vulnerable countries, small island developing States (SIDs), the least developed countries (LDCs) and African States. In particular, its dedicated financing allocation for readiness, national adaptation planning and project preparation make GCF a unique provider of end-to-end, tailored support to developing countries in planning, conceptualizing and implementing adaptation and mitigation projects and programmes.<sup>4</sup> One of the distinctive features of GCF is also the capacity for developing countries to access financial resources through national entities, thereby enabling climate finance to be channelled to the country directly. Therefore, the GCF direct access modality can help developing countries to exercise ownership of climate change funding and better integrate it with their national climate action plans and strategies.

6. GCF supports developing countries in the form of grants, equity investments and concessional lending. The availability and usage of such a wide range of financial instruments is in contrast with other entities with a limited set of financial instruments, such as the SCCF, which only provides grants. With its adaptation and mitigation mandate, combination of financial instruments, and amount of funding secured during the initial resource mobilization and the replenishment process, GCF is expected to change the landscape of international climate finance, which could change the role of the SCCF and other climate funds.<sup>5, 6</sup>

7. GCF recognizes that for transformational change to occur, adaptation interventions need to be designed at the systems level and based on aligned policies, legal and institutional frameworks, and national budget decisions.<sup>7</sup> Investment in good governance, climate information and effective adaptation policy and planning processes provide the foundation for these approaches. A programmatic approach<sup>8</sup> that moves away from a project-by-project, piecemeal approach would be critical to achieving integrated and systemic changes. It is also

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<sup>3</sup> World Resources Institute. 2017. *Future of the Funds: Exploring the Architecture of Multilateral Climate Finance*. Available at <<https://www.wri.org/publication/future-of-the-funds>>.

<sup>4</sup> Document GCF/B.22/Inf.12 titled “Strategic programming for the Green Climate Fund first replenishment”.

<sup>5</sup> Document GCF/B.13/04 titled “Fifth Report of the Green Climate Fund to the Conference of the Parties to the United Nations Framework Convention on Climate Change”.

<sup>6</sup> Document GCF/B.13/22 titled “Audited financial statements of the Green Climate Fund for the year ended 31 December 2015”.

<sup>7</sup> Document GCF/B.23/Inf.09 titled “Strategic Programming for the Green Climate Fund First Replenishment”.

<sup>8</sup> Document GCF/B.23/17 titled “Policy guidelines on programmatic approach”.



essential for adaptation projects to be transformational, to feed back into national adaptation and sectoral strategies and plans.

8. The role of GCF in the adaptation finance landscape is focused on playing a catalytic role that is complementary to other sources of climate finance, including from the GEF, the AF and the CIF, as well as other relevant climate finance initiatives. GCF financing is being deployed to scale up innovative projects from those climate funds, in parallel with collaborative work to support direct access and coherence in national programming. Through its ability to scale up impact, GCF brings to this landscape a focus on transformation and paradigm shift, while working in tandem with other climate funds to bring navigability for countries and strengthen national cooperation mechanisms.<sup>9</sup> In this way, the work of GCF complements that of MDBs, development financing institutions and other partners to move investment into low-emission and climate-resilient development pathways. The following section 1.1.3 assesses the different approaches of the adaptation finance provided by the GEF (the SCCF and the Least Developed Countries Fund (LDCF)), the AF, and the Pilot Program for Climate Resilience (PPCR) of the CIF.

9. At the twentieth meeting of the Board, the Secretariat presented an early assessment of the comparative advantage of different climate finance delivery channels.<sup>10</sup> The latest findings based on the development of portfolios and procedures across the various climate funds will be presented to the Board at its twenty-fourth meeting.

10. In order to enhance the efficiency of GCF and the dissemination of information, and to support the growth of a more team-oriented culture, GCF is establishing a full-scale knowledge management system that will coordinate the collection, storage and management of internally/externally generated knowledge and information, and inform GCF policies based on the lessons learned from the knowledge analysis. The knowledge management system will also facilitate the utilization of gathered knowledge, thus increasing the efficiency of GCF operations. Knowledge management includes information, data and Board documents, as well as practices regarding GCF operations and project management, interactions with the accredited entities (AEs) and governments, and partnerships with other key stakeholders, such as other climate funds.

11. As part of the deliverables that will be useful for NDAs and AEs in improving their operations in general, and in shaping adaptation pipeline development in particular, GCF commissioned a consultancy study, which consists of a multilevel analysis of synergies and complementarities among GCF, the CIF, the AF and the GEF. The aim of the study is to analyze how synergies between climate-funded initiatives arise, present drivers of and challenges to synergies, and provide recommendations for optimization. Based on case studies and lessons learned, the study will include recommendations for NDAs on how to leverage synergies, as well as recommendations for AEs on how to foster cooperation with other entities and recommendations for the climate funds on how to deepen collaboration, improve the availability of information on projects and pipelines, and combine financing from different climate funds.

12. With the aim of improving the tracking of complementarities between funds in the pipeline, the Secretariat has revised the funding proposal template and the funding proposal manual and has included guidance for AEs on how to report on complementarity and coherence. With these changes, AEs will have to indicate whether the proposed activities complement other activities financed by other climate finance institutions, such as the GEF, the AF and the CIF. Examples of how GCF projects are building on previous experience are provided; for instance by: building on previous experience from other climate funds to scale up impact (e.g. FP040); scaling up activities implemented with the support of other climate funds (e.g. FP010); implementing lessons learned in initiatives financed by other climate funds (e.g. FP050);

<sup>9</sup> Document GCF/B.23/Inf.09.

<sup>10</sup> Document GCF/B.20/05 titled "Annual update on complementarity and coherence".

replicating the experience of an AE in another country or region and supported by other climate funds (e.g. FP049); contemplating co-financing from another climate fund (e.g. FP065); and considering parallel financing with other climate funds (e.g. FP019).

### **1.1.3. The Global Environment Facility**

13. The GEF was the first global source of funds for adaptation. It channels support to climate adaptation efforts, mainly through the LDCF and the SCCF. As at 2018, through these two funds, the GEF had provided over USD 1.5 billion in grant financing and mobilized more than USD 7 billion from other sources for 330 adaptation projects in 130 countries, including all LDCs and 33 SIDs, since 2001.<sup>11</sup>

14. GEF-financed adaptation projects aim to reduce the vulnerability of around 15 million people, while also introducing more climate-resilient management practices over 5 million hectares of productive and natural landscapes. GEF investments are preparing the ground for effective adaptation at a larger scale by providing various forms of adaptation training to more than 600,000 people, strengthening hydrometeorological and climate information services in more than 70 countries, and offering technical assistance to help more than 80 countries to integrate climate risks and adaptation into key policymaking and planning processes at the national level and across vulnerable sectors.<sup>12</sup>

15. The GEF has supported the integration of appropriate adaptation measures into development plans, policies, programmes and projects at the regional, national, subnational and local levels, with the ultimate aim of achieving climate-resilient development. The GEF has helped to support a wide range of adaptation interventions, which have been grouped into the following 10 main categories of adaptation:<sup>13</sup>

- (a) **Capacity building** by developing human resources, institutions and communities, and equipping them with the capability to adapt to climate change;
- (b) **Management and planning** by incorporating understanding of climate science, impacts, vulnerability, and risk in government and institutional planning and management;
- (c) **Practice and behaviour** in which practices and on-the-ground behaviour directly related to building resilience are revised or expanded;
- (d) **Policy** to support the creation of new policies or revisions of policies or regulations to allow flexibility to adapt to climate change;
- (e) **Information** to communicate and build resilience toward climate impacts;
- (f) **Physical infrastructure** including any new or improved hard physical infrastructure aimed at providing direct or indirect protection from climate hazards;
- (g) **Warning or observing systems** with implementation of new or enhanced tools and technologies for communicating weather and climate risks, and for monitoring changes in the climate system;

<sup>11</sup> See <<https://www.thegef.org/topics/climate-change-adaptation>>.

<sup>12</sup> GEF. 2015. *Progress Report on the Least Developed Countries Fund and the Special Climate Change Fund*. GEF document GEF/LDCF.SCCF.18/03. Available at <[https://www.thegef.org/sites/default/files/council-meeting-documents/GEF\\_LDCF\\_SCCF\\_18-03\\_Progress\\_Report\\_on\\_the\\_LDCF\\_and\\_the\\_SCCF\\_POSTED\\_5-8-15\\_4.pdf](https://www.thegef.org/sites/default/files/council-meeting-documents/GEF_LDCF_SCCF_18-03_Progress_Report_on_the_LDCF_and_the_SCCF_POSTED_5-8-15_4.pdf)>.

<sup>13</sup> GEF. 2016. *Time to Adapt: Insights from the Global Environment Facility's Experience in Adaptation to Climate Change* (table 2). Available at <[https://www.thegef.org/sites/default/files/publications/GEF\\_Adaptation2016\\_final\\_0\\_0.pdf](https://www.thegef.org/sites/default/files/publications/GEF_Adaptation2016_final_0_0.pdf)>.

- (h) **Green infrastructure** including any new or improved soft, natural infrastructure aimed at providing direct or indirect protection from climate hazards;
- (i) **Financing** or insurance strategies to prepare for future climate disturbances; and
- (j) **Technology** to develop or expand climate-resilient technologies.

16. The approach of the GEF to adaptation is based on the fundamental recognition that climate change can potentially affect all aspects of human, social and economic development.<sup>14</sup> Its approach to climate resilience is consistent with the climate resilient pathways approach, defined by the Intergovernmental Panel on Climate Change (IPCC) as iterative processes for managing change within complex systems in order to reduce disruptions and enhance opportunities associated with climate change.<sup>15</sup>

17. The GEF invests considerably in institutional capacity-building and policy reform for climate change adaptation. The 2014–2018 GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF<sup>16</sup> introduces a revised results-based management framework for the GEF Adaptation Programme, structured around the following three objectives:

- (a) To reduce the vulnerability of people, livelihoods, physical assets and natural systems to the adverse effects of climate change;
- (b) To strengthen institutional and technical capacities for effective climate change adaptation; and
- (c) To integrate climate change adaptation into relevant policies, plans and associated processes.

18. GEF also urges that a scientifically credible approach be taken in projects submitted to assess climate change vulnerability, identify adaptation measures and integrate them into policy planning.<sup>17</sup>

19. **Complementarity and coherence between the GEF and GCF:** As operating entities of the Financial Mechanism of the UNFCCC, the GEF and GCF have invited countries to coordinate engagement in the programming of GCF and GEF resources in order to maximize synergies. The expected outcomes of this initiative include:

- (a) Strengthened channels of communication among focal points;
- (b) Exploring and articulating the potential for coordinated programming, including the development of country programmes and country support programmes, by engaging existing and prospective implementing agencies/AEs;
- (c) Early identification of, and solutions to, issues that may arise throughout the collaborative engagement process; and
- (d) Obtaining lessons learned on how to enhance coordination among NDAs/operational focal points, as well as with implementing agencies/AEs.

<sup>14</sup> GEF. 2014. *GEF Programming Strategy on Adaptation to Climate Change for the Least Developed Countries Fund and the Special Climate Change Fund*. GEF document GEF/LDCF.SCCF.16/03/Rev.01. Available at <[https://www.thegef.org/sites/default/files/council-meeting-documents/GEF.LDCF\\_.SCCF\\_.16.03%2C\\_Programming\\_Strategy\\_on\\_Adaptation\\_to\\_Climate\\_Change\\_for\\_the\\_LDCF\\_and\\_the\(SCCF%2C\\_5-20-14\\_4.pdf](https://www.thegef.org/sites/default/files/council-meeting-documents/GEF.LDCF_.SCCF_.16.03%2C_Programming_Strategy_on_Adaptation_to_Climate_Change_for_the_LDCF_and_the(SCCF%2C_5-20-14_4.pdf)>.

<sup>15</sup> IPCC. 2014. *Climate Change 2014: Synthesis Report*. Available at <[https://www.ipcc.ch/site/assets/uploads/2018/05/SYR\\_AR5\\_FINAL\\_full\\_wcover.pdf](https://www.ipcc.ch/site/assets/uploads/2018/05/SYR_AR5_FINAL_full_wcover.pdf)>.

<sup>16</sup> See footnote 19 above.

<sup>17</sup> GEF. 2005. *Operational Guidelines for the Strategic Priority “Piloting an Operational Approach to Adaptation” (SPA)*. GEF document GEF/C.27/Inf.10. Available at <[https://www.thegef.org/sites/default/files/council-meeting-documents/C.27.Inf\\_10\\_Operational\\_Guidelines\\_for\\_Strategic\\_Priority\\_4.pdf](https://www.thegef.org/sites/default/files/council-meeting-documents/C.27.Inf_10_Operational_Guidelines_for_Strategic_Priority_4.pdf)>.

20. As part of this initiative, GCF and the GEF carried out a joint mission in Vientiane, Lao People's Democratic Republic, from 12 to 14 February 2019. It was the first in-country GCF-GEF national dialogue and joint programming development as a part of this initiative. The outcomes of the mission included the identification of opportunities where GCF can scale up projects financed by the GEF with high paradigm shift potential and maximize the use of GCF support for national adaptation plans (NAPs) and LDCF resources to support adaptation planning.

21. In terms of readiness and NAP formulation, GCF and the GEF are working to avoid an overlap and duplication of resources. GCF is supporting the formulation of NAPs and is providing readiness support for institutional capacity-building. Developing countries can access up to USD 1 million per country per year for readiness activities from GCF and up to USD 3 million per country for the formulation of NAPs and/or other adaptation planning processes. The LDCF/SCCF support is focused more on the implementation of priorities articulated in the NAP process and other adaptation plans, such as national adaptation programmes of action (NAPAs).<sup>18</sup>

22. Additionally, the best practices and criteria for support for adaptation planning under the GCF *Readiness and Preparatory Support Programme Guidebook*<sup>19</sup> have added coherence and enhanced complementarity with other funds. This addition seeks to proactively identify and promote synergies with other funds, including, but not limited to, the AF, the GEF and the LDCF, as well as GCF readiness support provided by other funding sources.

23. Areas where the GEF may not focus LDCF/SCCF investments include the following:
- (a) Readiness support for institutional capacity building and NAP formulation, supported by the GCF, and
  - (b) Commercial level scaling-up and mass diffusion of adaptation options, unless significant leveraging of resources is confirmed.

24. The GCF support for the formulation of adaptation planning process can contribute to building the case for the use of evidence-based climate information and data, which in turn can benefit the LDCF, SCCF and other funds.

#### 1.1.4. The Adaptation Fund

25. The AF finances concrete adaptation projects and programmes, defined as a set of activities aimed at addressing the adverse impacts of risks posed by climate change. These activities seek to produce visible and tangible results by reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change.<sup>20</sup>

26. In assessing project and programme proposals, the Board of the AF pays particular attention to:<sup>21</sup>

<sup>18</sup> GEF. 2018. *GEF Programming Strategy on Adaptation to Climate Change for the Least Developed Countries Fund and the Special Climate Change Fund and Operational Improvements, July 2018 to June 2022*. GEF document GEF/LDCF.SCCF.24/03. Available at <[https://www.thegef.org/sites/default/files/documents/EN\\_GEF.LDCF\\_.SCCF\\_.24.03\\_Programming\\_Strategy\\_and\\_Operational\\_Policy\\_2.pdf](https://www.thegef.org/sites/default/files/documents/EN_GEF.LDCF_.SCCF_.24.03_Programming_Strategy_and_Operational_Policy_2.pdf)>.

<sup>19</sup> GCF. 2018. *Readiness and Preparatory Support Guidebook*. Available at <[https://www.greenclimate.fund/documents/20182/574766/Guidelines\\_-\\_Readiness\\_and\\_Preparatory\\_Support\\_Guidebook.pdf/9eea580f-a109-4d90-b281-c54695114772](https://www.greenclimate.fund/documents/20182/574766/Guidelines_-_Readiness_and_Preparatory_Support_Guidebook.pdf/9eea580f-a109-4d90-b281-c54695114772)>.

<sup>20</sup> Adaptation Fund Board, 2017. *Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*, paragraph 10. Available at <<https://www.adaptation-fund.org/wp-content/uploads/2017/08/OPG-amended-in-October-2017-1.pdf>>.

<sup>21</sup> Adaptation Fund Board. *Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund. Annex 1, Strategic Priorities, Policies, and Guidelines of the Adaptation Fund Adopted by the CMP*. Available at <[http://www.adaptation-fund.org/wp-content/uploads/2015/01/OPG%20ANNEX%201.pdf](https://www.adaptation-fund.org/wp-content/uploads/2015/01/OPG%20ANNEX%201.pdf)>.

- (a) Consistency with national sustainable development strategies, including, where appropriate, national development plans, poverty reduction strategies, national communications and national adaptation programmes of action (NAPAs) and other relevant instruments, where they exist;
- (b) Economic, social and environmental benefits from the projects;
- (c) Meeting national technical standards, where applicable;
- (d) Cost-effectiveness of projects and programmes;
- (e) Arrangements for management, including for financial and risk management;
- (f) Arrangements for monitoring and evaluation and impact assessment;
- (g) Avoiding duplication with other funding sources for adaptation for the same project activity; and
- (h) Moving towards a programmatic approach, where appropriate.

27. The approach of the AF demonstrates that although concrete adaptation activities are the main focus, they are supported by efforts to strengthen the enabling environment. This “entire pipeline” approach encompasses both aspects necessary for successful adaptation, with direct activities benefiting vulnerable groups and an environment that allows for such activities to be implemented. Through this approach, there are direct beneficiaries of the financed activities, in addition to co-benefits from the activities undertaken to strengthen the enabling environment that are advantageous for groups outside the target communities.<sup>22</sup>

28. **Complementarity and coherence between the AF and GCF:** GCF and the AF have been exploring multiple avenues to increase their complementarity and coherence. In particular, and subject to their governing/constitutional documents, both institutions are exploring options to determine whether the AF can implement projects funded by GCF through modalities which are yet to be defined. In this context, various potential options for linkages have been identified by the Co-Chairs of the GCF Board and the Chair and Vice-Chair of the AF Board. Details of these options can be found in document GCF/B.22/09 titled “Report on the activities of the Co-Chairs”. The GCF Secretariat intends to present a proposal for such options to the Board for guidance on whether, and if so how, to develop arrangements between GCF and the AF to increase their complementarity and coherence.

29. GCF and the AF are collaborating in promoting a Community of Practice for Direct Access Entities as a means to provide an avenue for knowledge exchange, learning and experience sharing, collaboration and peer support within the community of DAEs involved in the programming of climate change adaptation and mitigation finance. The initiative seeks to promote collaboration on capacity-building and peer-to-peer exchange around key issues, including accreditation, enhancing the development and quality of funding proposals, and setting in place legal arrangements.

### **1.1.5. The Pilot Program for Climate Resilience of the Climate Investment Funds**

30. The PPCR is a programme under the Strategic Climate Fund, one of the World Bank’s CIF. The mission of the PPCR is “to provide incentives for scaled-up action and transformational change in integrating consideration of climate resilience in national development planning consistent with poverty reduction and sustainable development goals.” The PPCR does not finance stand-alone adaptation projects, but rather provides funding for integrating adaptation concerns into development plans and covering the ‘additional cost’ of making a development

<sup>22</sup> Adaptation Fund Board. 2015. *Analysis of Climate Change Adaptation Reasoning in Project and Programme Proposals Approved by the Board*. Available at <[http://www.adaptation-fund.org/wp-content/uploads/2015/09/AFB.PPRC\\_17.5-Analysis-of-climate-change-adaptation-reasoning\\_final.pdf](http://www.adaptation-fund.org/wp-content/uploads/2015/09/AFB.PPRC_17.5-Analysis-of-climate-change-adaptation-reasoning_final.pdf)>.



project climate resilient. Unlike the GEF and AF, the PPCR was created by the World Bank independently of the UNFCCC process.

31. Multi-stakeholder engagement is central to the development and implementation of PPCR strategic programmes for climate resilience. State and non-State stakeholder groups in PPCR countries participate in an annual scoring workshop to assess the progress made on projects approved by MDBs. A comprehensive knowledge management and learning process is also being undertaken using a range of approaches, such as regional and country-to-country dialogue with evidence-based evaluation. This helps PPCR countries to improve results and promotes efficiency and good practices across the PPCR.

32. PPCR projects have so far supported countries in the following ways:

- (a) Mainstreaming adaptation and climate resilience in development planning and sector plans;
- (b) Improving capacity to make use of climate data and information for planning and decision-making;
- (c) Developing tools and models for climate risk assessments;
- (d) Implementing climate-smart agriculture and natural resources management approaches; and
- (e) Integrating adaptation measures in infrastructure design, particularly in the transport, water, and energy sectors.

#### **1.1.6. Comparative analysis of GCF adaptation portfolio**

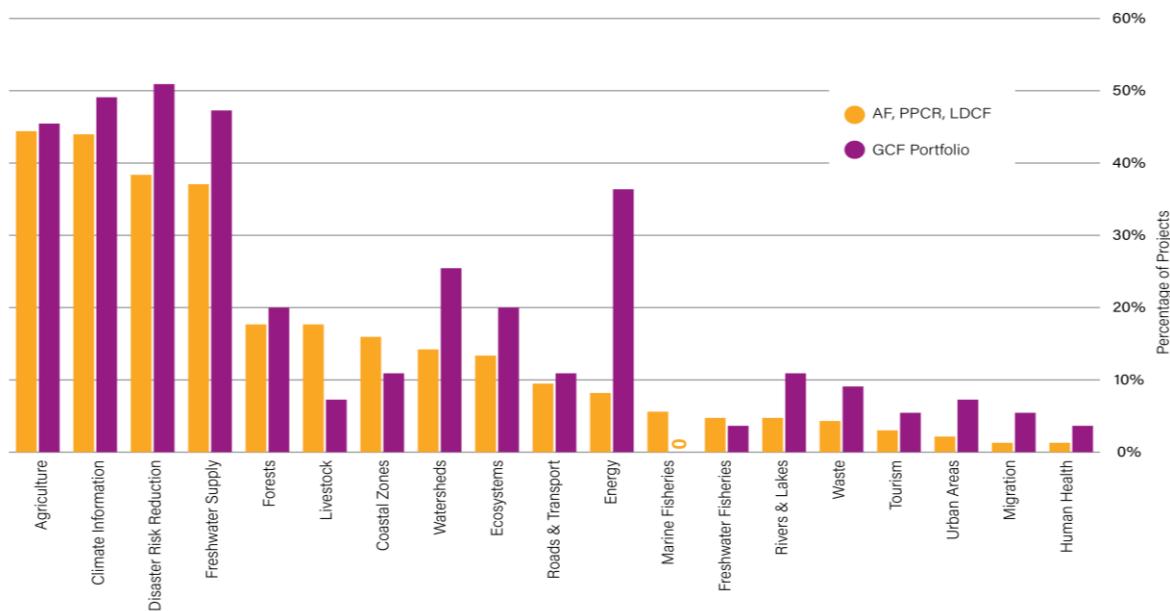
33. When compared with the financing trends of other multilateral climate funds including the AF, the LDCF and the PPCR of the CIF, the GCF adaptation portfolio shows broadly similar trends in terms of sectors and activities supported, and geographical distribution of funds.<sup>23, 24</sup> Projects targeting the agriculture, climate information, disaster risk reduction and freshwater supply sectors display the highest share of the sector-specific focus areas of the AF, the LDCF and the PPCR, which are also shown as the largest share in the GCF adaptation portfolio. Marine fisheries, freshwater fisheries, waste, tourism, urban areas, migration, and human health and well-being are the sectors where concentrations were less than 6 per cent in the portfolios of GCF and other multilateral climate funds.

34. Overall, the sectoral orientation of investment from multilateral climate funds is broadly consistent with the priorities described in nationally determined contributions (NDCs). More specifically, a detailed review of the GCF adaptation portfolio and pipeline together with NDCs and GCF country programmes/briefs shows that GCF's adaptation activities are generally aligned with the sectoral priorities outlined in these two strategic documents. Similarly to the investments of climate funds, the agriculture, freshwater supply, disaster risk reduction and ecosystems sectors are ranked in the top five sectors in NDCs, country programmes/briefs and the GCF portfolio and pipeline.

<sup>23</sup> The comparison shows concentrations per sector by number of projects.

<sup>24</sup> Document GCF/B.20/05.

**Figure 1: Focus area concentrations: a comparison of the portfolios of climate funds <sup>a</sup>**



Source: World Resources Institute analysis of AF, PPCR and LDCF projects (232), and adaptation and cross-cutting projects in the GCF portfolio (55 as at April 2018).

Abbreviations: AF = Adaptation Fund, LDCF = Least Developed Countries Fund, PPCR = Pilot Program for Climate Resilience.

<sup>a</sup> The typology of the focus areas is based on the typology of adaptation actions developed by the International Institute for Sustainable Development for the Adaptation Partnership with minor modifications made by the World Resources Institute for this work.

35. Agriculture is ranked as the top priority sector in NDCs,<sup>25</sup> country programmes/briefs<sup>26</sup> and the project activities. Freshwater supply, disaster risk reduction, and ecosystems are ranked among the top five sectors in NDCs, country programmes/briefs and the GCF portfolio and pipeline. Climate information is shown as a highly focused area for GCF, ranked the first in the GCF portfolio and pipeline, possibly owing to its contribution to mainstreaming climate change into national policies and strategies.

36. Notably, health and well-being are underrepresented both in country programmes/briefs and in the GCF portfolio and pipeline. While more than 50 per cent of NDCs highlighted health and well-being as a priority sector, among the 102 approved funding proposals, the number of proposals that identified health as a results area were 19, of which only 3 were found to have health as an activity and an outcome. This accounts for only 3 per cent of the entire project portfolio. Detailed analysis shows that seven mitigation projects have identified health as a project impact, however, they did not include health and well-being in their results areas. The lack of sufficient mature projects addressing these interventions may be due to a variety of challenges, including difficulty in structuring project proposals or identifying appropriate financial instruments, inhibiting regulatory environments, market immaturity, or a varying scope of capacity in the existing network of AEs.<sup>27</sup> A multisectoral approach, taking account of mid- to long-term effects of climate-induced changes or shocks to the resilience of health systems and well-being can be explored further.

37. Marine fisheries is another underrepresented sector in the GCF portfolio and pipeline. For GCF, many proposals addressing coastal resilience are heavily concentrated on building resilient infrastructure and providing of early warning systems (EWS). Considering the increasing risks to fisheries aquaculture from the impacts of increases in ocean temperature

<sup>25</sup> As at the time of review, 137 NDCs were identified as having adaptation components.

<sup>26</sup> As at the time of review, 11 out of 52 country programmes/briefs identified or separated out adaptation-specific priorities.

<sup>27</sup> Document GCF/B.23/Inf.09.



and acidification on the abundance and spatial distribution of marine species, efforts to examine and translate the risks to marine biodiversity, fisheries and ecosystems, and their functions and services to human in project origination may be necessary.

38. Another area of significant divergence between NDCs and GCF country programmes/briefs is urban areas. Country programmes/briefs display a higher level of interest in this sector, which is not translated into projects submitted to GCF. In document GCF/B.09/06 titled “Analysis of the Expected Role and Impact of the Green Climate Fund”, climate-resilient cities, in fact, was identified as one of the priority areas of GCF where such efforts could deliver impacts in both mitigation and adaptation results areas. The Secretariat finds that, given its cross-cutting nature, urban is an area where synergies can be sought across sectors and the impact of results can be maximized by strengthening the resilience of urban infrastructure while reducing associated emissions. Key interventions by GCF would seek to embed urban greening and resilience action into NAPs, into readiness support, and in donor supported project preparation facilities. Cities would also be a key impact area for attracting private sector investment to build scale and replication of successful interventions.<sup>28</sup>

**Table 1: Concentrations of sector-specific focus areas compared with nationally determined contributions<sup>a,b</sup>**

| Sector-specific focus area | NDC ranking based on % of NDCs referencing focus area | Focus areas in GCF country programmes/briefs |                           | Focus areas referenced in the GCF portfolio and pipeline |                           |                                     |
|----------------------------|-------------------------------------------------------|----------------------------------------------|---------------------------|----------------------------------------------------------|---------------------------|-------------------------------------|
|                            |                                                       | Ranking                                      | Rank difference with NDCs | Ranking                                                  | Rank difference with NDCs | Rank difference with Country Briefs |
| Agriculture                | 1                                                     | 1                                            | 0                         | 1                                                        | 0                         | 0                                   |
| Freshwater supply          | 2                                                     | 3                                            | -1                        | 3                                                        | -1                        | 0                                   |
| Disaster risk reduction    | 3                                                     | 3                                            | 0                         | 4                                                        | -1                        | -1                                  |
| Ecosystems                 | 4                                                     | 3                                            | 1                         | 5                                                        | -1                        | -2                                  |
| Human health               | 5                                                     | 12                                           | -7                        | 15                                                       | -10                       | -3                                  |
| Forests                    | 6                                                     | 2                                            | 4                         | 8                                                        | -2                        | -6                                  |
| Coastal zones              | 6                                                     | 6                                            | 0                         | 11                                                       | -5                        | -5                                  |
| Climate information        | 8                                                     | 7                                            | 1                         | 1                                                        | 7                         | 6                                   |
| Livestock                  | 9                                                     | 13                                           | -4                        | 9                                                        | 0                         | 4                                   |
| Watersheds                 | 10                                                    | 7                                            | 3                         | 6                                                        | 4                         | 1                                   |
| Marine fisheries           | 10                                                    | 7                                            | 3                         | 16                                                       | -6                        | -9                                  |
| Energy                     | 12                                                    | 14                                           | -2                        | 6                                                        | 6                         | 8                                   |
| Roads & transport          | 13                                                    | 16                                           | -3                        | 10                                                       | 3                         | 6                                   |
| Tourism                    | 14                                                    | 15                                           | -1                        | 16                                                       | -2                        | -1                                  |
| Urban areas                | 15                                                    | 7                                            | 8                         | 12                                                       | 3                         | -5                                  |
| Waste                      | 16                                                    | 16                                           | 0                         | 14                                                       | 2                         | 2                                   |
| Freshwater fisheries       | 17                                                    | 18                                           | -1                        | 16                                                       | 1                         | 2                                   |
| Migration                  | 18                                                    | 18                                           | 0                         | 19                                                       | -1                        | -1                                  |
| Rivers & lakes             | 19                                                    | 11                                           | 8                         | 13                                                       | 6                         | -2                                  |

Abbreviations: NDCs=nationally determined contributions  
Source: World Resources Institute.

<sup>28</sup> Document GCF/B.23/Inf.09.



<sup>a</sup> Highlighted text indicates a differential of five points or more: orange highlighted text indicates that fund rankings are lower than NDCs, and blue indicates that fund rankings are higher.

<sup>b</sup> The rankings are assigned to each focus area based on the percentage of NDCs, country programmes/briefs and GCF proposals that include a given focus.

39. Adaptation activities funded by GCF and other climate funds also include a range of technologies, many of which are not new, to reduce vulnerabilities to climate change. The innovation mostly resides in transferring, adjusting, disseminating and scaling these technologies in places and to populations that previously lacked access to them, and in combining hardware with good planning, institutional capacity-building, training, and other soft- and org-ware. These are, in most cases, addressing means to close the adaptation technology gaps identified by the country's needs assessments,<sup>29</sup> where dissemination and uptakes of critical available technology were identified as the key obstacles. Almost all GCF-approved projects targeting adaptation results areas and nearly 98 per cent of the AF, LDCF, and PPCR projects reviewed<sup>30</sup> contained activities in one or more of the following areas: project preparation and planning, governance, capacity-building and knowledge management.<sup>31</sup>

40. The Secretariat identifies that an equally critical need in developing countries is the institutional, human and knowledge capacity to plan, manage, and implement projects and programmes, including integrating climate information and data into decision-making and translating plans into impactful investments.<sup>32</sup>

## 1.2 Country programming, national adaptation plans, adaptation communications and nationally determined contributions support

41. For many countries, adaptation is a priority in their NDCs, yet the adaptation priorities identified vary in detail and approach. Some NDCs identified priority sectors or sectoral goals, whereas others outlined specific interventions within different sectors. It is unlikely that each NDC reflects the totality of a country's adaptation priorities given that NDCs, in most cases, serve as a communication document rather than an investment plan.<sup>33</sup>

42. Supporting countries to translate their high-level goals into project origination is identified as an area where GCF could enhance its support. Existing national adaptation planning processes, such as NAPs, can be used to move towards a more programmatic and integrated approach and, at the same time, to improve project proposal planning. Adaptation planning could provide strategic support to sectoral priorities identified in country programmes. Furthermore, GCF support could eventually expand into supporting the iterative process to revisit the adaptation priorities in NDCs to better reflect investment outcomes and climate risk trajectories. Figure 2 below provides an illustration of GCF adaptation support.

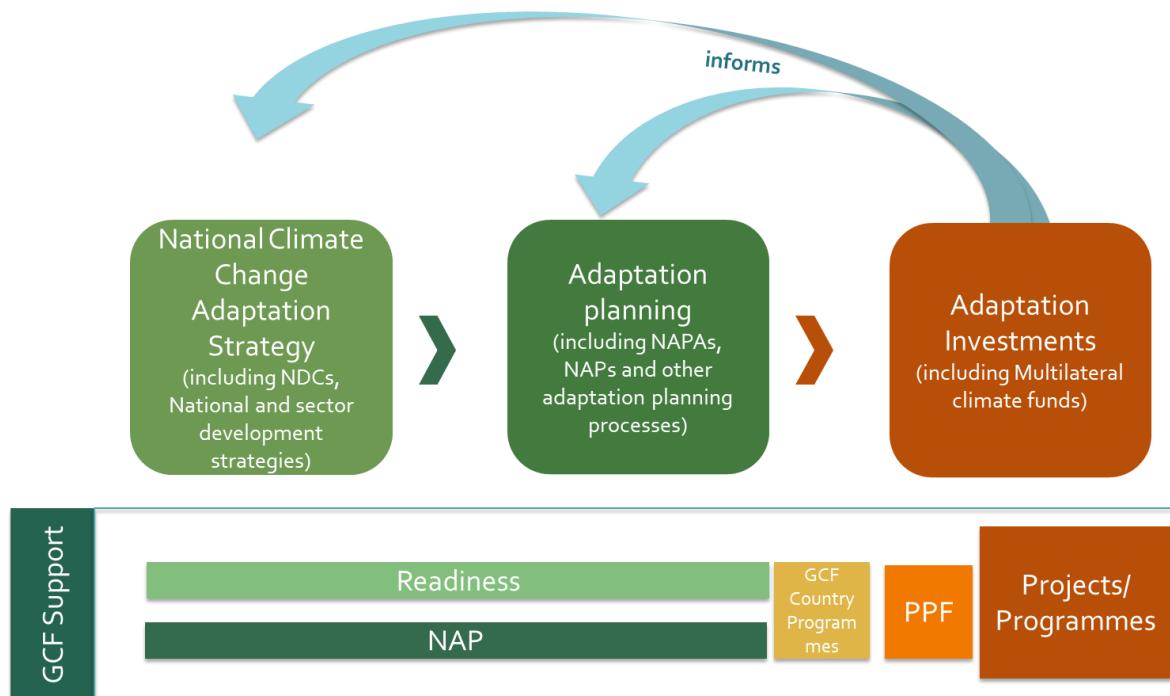
<sup>29</sup> United Nations Environment Programme (UNEP), 2014. *The Adaptation Gap Report: A Preliminary Assessment*. See <<https://www.unenvironment.org/resources/adaptation-gap-report-2014>>.

<sup>30</sup> The review included 232 projects from the AF, the LDCF, and the PPCR.

<sup>31</sup> Document GCF/B.21/Inf.03/Add.01 titled "Approach and scope for providing support to adaptation activities – Addendum I: The GCF's approach to adaptation: analysis and implications for the Fund".

<sup>32</sup> Document GCF/B.23/Inf.09.

<sup>33</sup> For the particular study, an analysis of NAPs and NAPAs was not included, which could be an additional area of study.

**Figure 2: GCF adaptation support<sup>a</sup>**

*Abbreviations:* NAPs = national adaptation plans, NAPAs = national adaptation programmes of action, NDCs = nationally determined contributions, Readiness = Readiness and Preparatory Support Programme, NAP support = support to national adaptation plans, PPF = Project Preparation Facility.

<sup>a</sup> This figure has been simplified to provide an overview of linkages to national adaptation strategies and plans with existing GCF support, and does not indicate any scope or limitations to available GCF adaptation support.

### 1.3 Cost approaches

43. The determination of incremental cost is more complex for adaptation activities than for mitigation activities. A strong articulation of climate basis established in the project design could, however, support the identification of additional costs of adaptation induced by climate change. Such additionality would require the identification of a baseline cost which would be the costs incurred under "business-as-usual" development projections. By understanding the changes in the baseline variables associated with climate impacts, the cost for the chosen adaptation options would then be considered as the incremental cost.

44. In certain situations, quantitative estimates of incremental costs may not be feasible. Often, there are limited data on a future development baseline without climate change and projections of climate change impacts for the countries to quantify the additionality. There may also be cases where underdevelopment is a driver of climate vulnerability where such additional costs are inseparable. In this regard, the current proposal for incremental cost and full cost methodologies propose that each funding proposal shall include, at a minimum, incremental cost reasoning connected to a strong theory of change. Where data and capacity permit, AEs shall also provide a detailed estimate of incremental costs as part of the economic analysis provided with the funding proposal. Furthermore, funding for the full cost of adaptation may be justified through incremental reasoning, and funding for full project costs may be justified under certain circumstances for activities such as capacity-building, barrier-removing activities and projects where the costs of the baseline scenario are zero.

## 1.4 Strategic engagement and partnerships with various stakeholders

45. A review of the AE portfolio and pipeline shows that more than a third of AEs have not yet submitted full funding proposals. There is also a high correlation between DAEs that have had proposals approved by the AF, and those that have submitted proposals to GCF.<sup>34</sup> Of the 12 national or regional DAEs that have not had projects approved by the AF, only 3 have submitted funding proposals to GCF that were approved.<sup>35</sup>

46. To understand adaptation needs and the appropriate adaptation responses required in the local context, it is important to empower DAEs to address the needs of countries in accordance with national frameworks and GCF policy. However, country and DAE representatives continue to identify an understanding of the policy and processes of the different levels of GCF support, including the Readiness Programme, the Project Preparation Facility, concept notes and funding proposals as barriers to accessing GCF resources.

47. For private sector actors, the current accreditation model and no-objection processes are complex, particularly for micro-, small- and medium-sized enterprises, and local small enterprises. Considering the level of innovation where the private sector can drive and be involved, GCF can further explore how the GCF business model, such as accreditation, can support the translation of climate relevance into potential business cases.

48. For civil society engagement in various GCF-supported activities, in particular at the country level, good practices by certain countries regarding stakeholder participation and consultation processes can be documented and further shared to improve awareness and compliance with relevant GCF policies, such as those on gender, environment and social safeguards.

## 1.5 Engaging the private sector in adaptation

49. The private sector can play a pivotal role in closing the significant adaptation finance gap in international public finance flows. Identifying the core investment priorities in attracting and leveraging different types of climate change investment, including from private and institutional investors, and providing the appropriate types of drivers to attract private sector support is identified as an area where targeted GCF investment can have a large impact.

50. However, there are existing barriers to investing in adaptation. In most cases, the market for adaptation is underdeveloped or non-existent, especially where clear project scope and scale with a revenue stream and commercial investment returns are not explicit.<sup>36</sup> Understanding the larger market opportunities and challenges to support private sector engagement should be considered when creating solutions. Use of de-risking instruments such as guarantees and equity can also be considered as a way of attracting private capital, in addition to insurance and re-insurance.

51. Policies and regulations within countries are also key barriers which create both positive and negative incentives.<sup>37</sup> Policy dialogues and regulatory frameworks to support an enabling environment should be organized through partnerships with the private and public sectors. GCF could support the creation of such partnerships and foster early engagement of stakeholders, including private sector entities, in the early stage of national priority planning.

<sup>34</sup> Document GCF/B.21/Inf.03/Add.01.

<sup>35</sup> These three entities are the Environmental Investment Fund, the Caribbean Community Climate Change Centre and the Central American Bank for Economic Integration.

<sup>36</sup> Investor Group on Climate Change, 2017. *From Risk to Return: Investing in Climate Change Adaptation*. Available at <[https://igcc.org.au/wp-content/uploads/2017/03/Adaptation\\_FINAL.pdf](https://igcc.org.au/wp-content/uploads/2017/03/Adaptation_FINAL.pdf)>.

<sup>37</sup> Document GCF/B.17/03 titled “Diversity of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations”

Furthermore, GCF could support countries to engage with private sector entities in piloting project ideas and share best practices in climate investment.

52. Such efforts to enable early engagement of the private sector could also address knowledge gaps and information asymmetry, which are often the barriers that prevent informed decision-making and assessment of the operational risks resulting from climate change. Although interest has been expressed by the private sector in engaging in project development with the GCF, it often faces difficulties in understanding the national priorities and building connections with the respective NDAs. Data relevant to private sector investment in adaptation-related work can be encouraged and made available in GCF supporting mechanisms, including country programming, NAPs and readiness, and in project preparation.

53. Another barrier for the private sector is the lack of clarity regarding the business case for the private sector to engage with GCF in adaptation work. The private sector faces difficulties in translating adaptation activities into its business cases due to the fact that informed demand, capacity and willingness to take on additional investment are limited. GCF could incentivize adaptation activities for the private sector by translating its needs into business models. Additionally, GCF could further explore promoting resilience across all sectors in mitigation and adaptation, as mitigation investments can also benefit from improved resilience and mitigation efforts can improve the resilience of communities to climate change. It may be useful to identify further investment opportunities in cross-cutting areas where adaptation activities can be addressed while reducing carbon emissions, such as health and well-being, urban areas and marine fisheries. These findings complement the areas where private sector investment can have the most impact, as considered by the Private Sector Advisory Group in annex IV.

## 1.6 Measuring the impacts of adaptation activities

54. GCF is still at an early stage of operation to provide evidence on impacts; however, given that, as at end of April 2019, a total of 51 GCF approved projects/programmes are under implementation, it is critical to close gaps in adaptation performance measurement frameworks through the works in the development of integrated results management frameworks. Given the complexity of adaptation to climate change, developing indicators that reflect the diversity of national circumstances to measure the impacts of adaptation activities has been a challenging area for GCF. The development of indicators is proposed:

- (a) To have specific purposes;
- (b) To have the necessary flexibility to be respond and reflect national circumstances; and
- (c) To capture unintended and unexpected outcomes through monitoring and evaluation systems. It is important to understand the context and develop a narrative to make use of indicators.

55. This is aligned with the following recommendations to GCF set out in the report of the Adaptation Committee to the twentieth session of the Conference of the Parties to the UNFCCC and the related UNFCCC decision<sup>38</sup>:

- (a) Keep the indicators simple;
- (b) Design indicators that are qualitative as well as quantitative;
- (c) Design indicators in such a way as to capture the progress that countries are able to make in integrating adaptation into their development and sectoral planning, policies and actions; and

<sup>38</sup> Document GCF/B.13/26 titled “Further development of some indicators in the performance measurement frameworks”.

(d) Give countries sufficient flexibility to define their indicators in line with their national and local planning, strategies and priorities.

56. The GCF integrated results management framework will be further refined taking the above proposal and recommendations into account.

## 1.7 Addressing knowledge needs

57. There exists a wealth of experience of ground-level action and “evaluative evidence” to help build adaptive capacity, as well as advances in risk quantification and assessment tools. However, the consideration of knowledge gaps should be integrated more explicitly in project and programme framing and design, involving all stakeholders, including the private sector, vulnerable communities, and civil society organizations. Some of the most commonly cited gaps in the knowledge base that could be bridged in the short term concern the opportunities and constraints of various adaptation options and the cost-benefit analysis of adaptation strategies.<sup>39</sup>

58. Recognizing that adaptation is a moving target, it is critical to catalyse continuous learning and the use of gathered information at the appropriate scale. GCF will continue to aim to create value from the lessons learned from projects for the iterative process of linking project outcomes with national plans utilizing the existing knowledge platforms (e.g., website, Direct Climate Action Platform). However, the responsibility for learning ultimately lies with countries once projects are completed and closed. Exchanging experience and lessons learned in accessing adaptation finance, and in project preparation and implementation, through the Readiness Programme, can inform future efforts, including by identifying and promoting best practices, including South-South and triangular learning, and by forming and using regional and international networks for information sharing and cooperation on adaptation support.

## 1.8 Other considerations

59. In addition to the above findings and recommendations, the Secretariat also considered the following aspects, received in the context of the consultation on this paper, in its support to adaptation activities:

- (a) Understanding the country or local context to enable an extended understanding of vulnerabilities on the ground should be taken into consideration, including, for example, the role of existing and growing inequality within and between countries, conflicts, gender and land rights, and access to basic rights such as education and health. GCF support in capacity-building could further explore measures to link such vulnerability with baselines of adaptive capacity;
- (b) Extreme poverty creates the conditions that represent major vulnerabilities, which, when combined with people’s physical exposure to hazards, places populations at great risk.<sup>40</sup> GCF support to adaptation would need to take into account changing development pathways, including socioeconomic trends and the causal relationship between poverty and climate impact exposure and estimation.<sup>41</sup> Further exploration of vulnerability-target social protection mechanisms could be undertaken to protect

<sup>39</sup> United Nations Environment Programme, 2014. *The Adaptation Gap Report: A Preliminary Assessment*. See <<https://www.unenvironment.org/resources/adaptation-gap-report-2014>>.

<sup>40</sup> United Nations Economic and Social Commission for Asia and the Pacific and United Nations Office for Disaster Risk Reduction. 2012. *The Asia-Pacific Disaster Report 2012*. Available at <[https://www.unescap.org/sites/default/files/publications/Asia-Pacific-Disaster-Report-2012\\_0.pdf](https://www.unescap.org/sites/default/files/publications/Asia-Pacific-Disaster-Report-2012_0.pdf)>.

<sup>41</sup> Hallegatte S, Fay M and Barbier E B. 2018. Poverty and climate change: introduction. *Environment and Development Economics*. 23(3): pp.217–233.

livelihoods and increase the resilience of the poor and vulnerable people by avoiding poverty traps;

- (c) The Paris Agreement recognizes the need to take into account traditional knowledge, knowledge of indigenous peoples and local knowledge systems, as appropriate; however, in some instances, indigenous practices such as rotational farming, reindeer herding, and pastoralism are often regarded as unsustainable practices and are thereby regulated against and/or restricted in practice. Moreover, the non-recognition of the rights of indigenous peoples, including land tenure places a heavy restriction in practising traditional knowledge, limiting the capacity to adapt to climate change at large. GCF could further explore ways to support holistic institutional building of countries through enhanced local ownership; and
- (d) Many climate risks are transnational, requiring collective ways to address the risk pathways, such as trade and human migration. Coordination at the regional level to evaluate transboundary adaptation plans while ensuring country ownership may be an area of further exploration for the GCF.

## II. Proposed actions by the Board

60. Based on the above findings, the Secretariat highlights the following actions, which the Board could address in order to further strengthen support to adaptation activities:

- (a) Recognizing that adaptation is a response to specific climate risks and impacts, which are often local in nature and vary over time in association with emissions trajectories, the Board could promote community-based adaptation actions, including building resilience and enhancing local planning of adaptation activities, through dedicated requests for proposal or strategic use of the Simplified Approval Process Pilot Scheme;
- (b) The Board could encourage the Secretariat, in line with decisions B.12/20 and B.13/10, to continue collaboration with the UNFCCC secretariat in enhancing support for implementation of the Paris Agreement, in particular with regards to adaptation;
- (c) The Board could encourage strategic alignment between project activities and larger policy frameworks such as NDCs, NAPs and NAPAs, where possible;
- (d) The Board could request the Secretariat and NDAs to further strengthen coherence between national climate change adaptation strategies, adaptation planning and adaptation investments, including through country programmes;
- (e) The Board could request the Secretariat to consider options to enhance engagement with countries and other stakeholders, including the existing regional centres and networks, where necessary, to further facilitate national and regional adaptation planning and project/programme implementation, as well as knowledge sharing; and
- (f) The Board could resume discussion on the adaptation performance measurement framework in its consideration of the integrated results management framework in the upcoming Board meeting to further consider the development of adaptation metrics to strengthen adaptation impact goals in a gender-responsive manner, taking wider systemic, transformational changes into account.

## Annex IV: Recommendations of the Private Sector Advisory Group on opportunities to engage the private sector in adaptation

### I. Private Sector Advisory Group discussions

1. The PSAG held meetings from 6 to 7 December 2017 in Copenhagen, Denmark, and from 1 to 2 March 2018 in Songdo, Republic of Korea, to discuss requests from the Board and provide intellectual leadership to key private sector and climate change issues. Initial data and content from GCF-commissioned research by the World Resources Institute was also reviewed by the PSAG members, which helped to initiate the discussion.
2. During the meetings held in December 2017 and March 2018, the PSAG discussed a broad range of aspects relating to private sector engagement in climate adaptation finance, including guidance and scope for ways in which GCF can provide support towards a deepening of such engagement.

#### 1.1 Background and context

3. Adaptation is an “adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities”.<sup>42</sup> In the Paris Agreement, the global goal on adaptation was established as a process to enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change. In the context of increasing the resilience of communities and regions, and of reducing risk and vulnerabilities, climate finance has been paramount to supporting international as well as local efforts in assessing market vulnerabilities and delivering investments.

4. Adaptation finance through public flows has been deemed insufficient to satisfy adaptation needs globally, particularly in developing countries. For example, the United Nations Framework Convention on Climate Change (UNFCCC) estimates the additional investment and financial flows needed for adaptation worldwide to be around USD 60–182 billion by 2030, of which USD 8–130 billion may be required for adapting infrastructure. The UNFCCC also estimates that an additional USD 52–62 billion would be needed for agriculture, water, health, ecosystem protection and coastal-zone protection, most of which would be used in developing countries.<sup>43</sup> As such, private sector engagement in adaptation finance has become relevant to closing the existing gap.

5. However, there are currently very limited robust and well-defined business models or products to promote adaptation activities in the private sector, with possible exceptions of insurance, the built and physical environment, corporate industry, the agriculture sector and supply chain. Yet even these are not widely used or available in countries or groups most vulnerable to climate change. The members of the PSAG are confident that investments with high adaptation potential could be generated and implemented for various sectors using a wider range of financial instruments.

6. Hence, rather than immediately assuming that adaptation is purely a social goods problem, there is potential for further development in private sector driven markets for

<sup>42</sup> Intergovernmental Panel on Climate Change. 2001. *Climate Change 2001: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Third Assessment Report of the Intergovernmental Panel on Climate Change*. Annex B: Glossary of Terms. J McCarthy, OF Canziani, NA Leary, DJ Dokken and KS White (eds.). Cambridge, United Kingdom, and New York: Cambridge University Press. Available at <<http://www.ipcc.ch/ipccreports/tar/wg2/index.php?idp=689>>.

<sup>43</sup> UNFCCC. 2007. *Investment and Financial Flows to Address Climate Change*. Available at <<http://www.un.org/ga/president/62/ThematicDebates/gpicc/iiffacc.pdf>>.

adaptation. Nevertheless, the negative impacts of climate change bear costs for the overall economy, especially for developing countries that are particularly vulnerable to the adverse effects of climate change. It is recognized that adaptation investments can avoid new additional costs in relation to the adverse effects of climate change.

7. Similar to the progress in scaling up energy efficiency and renewable energy in climate change mitigation, private sector investments in adaptation are slowly growing, as risks, vulnerabilities and the business case for adaptation finance are better understood.

8. In a number of cases, private sector enterprises could already be acting in line with the concept of adaptation without directly using that term. For example, when responding to circumstances that cause greater business disruption and operational risk in water access activities, companies are indeed adapting to climate change. Moreover, adaptation is also a process that encompasses several activities and cannot therefore be confined to one single sector. While complex in nature, this could be an opportunity for GCF to act as a leader in working with private sector entities (such as the insurance and corporate sectors), as well as other stakeholders (such as civil society organizations and local governments), to continuously optimize and adjust their business models and operations to act on the increasing impacts and uncertainties caused by climate change. In this context, it is important to support new models alongside sustained awareness campaigns that are needed to address scarce resources and limited knowledge of adaptation, respectively.

## 1.2 Key existing barriers

9. PSAG members identified several key existing barriers to engaging the private sector in adaptation action:

- (a) **Underdeveloped or non-existent markets:** this includes difficulties in identifying adaptation projects, their climate impact and commercial potential. PSAG members have highlighted the need for a flexible approach to foster markets in adaptation. As the adaptation space is still at an early stage, it is important to create incentives to allow local private sector participation. Members also discussed the need to develop the concept of 'loss-cost avoidance' (i.e. actions needed now to avoid costlier damage in the future). In addition, programmes such as the Readiness and Preparatory Support Programme, technology transfer, grants for knowledge-sharing and project preparation can be supportive to market creation, regulatory support and, ultimately, pipeline development;
- (b) **Liquidity and macroeconomic challenges:** PSAG members also highlighted a lack of longer-term investment modalities and products needed to finance adaptation projects that are often characterized by long-term economic pay-back profiles and/or delayed benefits. Specific challenges in this context include capturing positive societal externalities generated by private investment in adaptation, as well as ensuring sufficient scope for adequate monetization of adaptation benefits; and
- (c) **Information asymmetries:** another key set of barriers discussed by PSAG members pertains to incomplete or asymmetric information on climate change impacts, including inadequate access to climate data models and projections, or difficulties in turning vulnerability assessments into action. These can prevent informed decision-making. PSAG members also observed that this information gap can often translate into an increased perceived risk profile being attached to adaptation compared to other investment opportunities undertaken by the private sector. Awareness activities to close this gap can therefore help both the private and the public sector to understand adaptation, which will reduce the risk perception from private actors. This will

ultimately result in the development of favourable public policies and a strengthening of the regulatory framework that enables adaptation projects.

## II. Recommendations of the Private Sector Advisory Group

10. The following recommendations are made to the Board by the PSAG in relation to opportunities to engage the private sector in adaptation action:

- (a) **Consider focusing on risk transfer instruments, which includes insurance as a financing modality:** risk transfer instruments may be rolled out and tested more broadly to enhance the engagement of the private sector in adaptation activities. GCF can consider supporting insurance-based products and structures that address 'residual' climate-induced risk, where physical adaptation measures may not be feasible and/or make financial sense. This could include insurance-based risk management and transfer solutions, such as parametric (index-based) insurance, extending into innovative financing structures that also tap into capital markets, including resilience bonds and dedicated green/blue bonds. Attention should be paid to opportunities that allow: (a) aggregation/bundling (geographical and financial); (b) expansion of access to data and other information to standardize and facilitate access to climate risk information; and (c) harmonization of legal and regulatory frameworks as a way of reducing costs for insurance solutions. The cost of insurance needs to be placed in the context of the level of adaptation investments that may be averted, as opposed to purely viewing it in terms of the premium paid;
- (b) **Facilitate blended finance and public-private partnerships (PPP):** blended finance has been used with success in leveraging finance for climate change mitigation. GCF should facilitate an increase in blended finance and PPPs to support engagement with the private sector in adaptation action. By using public finance to alter the risk/return profile of adaptation projects and investments, current barriers to private sector adaptation finance could be removed. Blended finance is also important to guide behavioural change and address financial and non-financial barriers in the same project or investment. There is also an opportunity to address adaptation finance in PPP structures, for example in long-term concessions that are managed by the private sector, such as energy distribution, water and sanitation, or solid waste management, among other services and technology solutions that support the day-to-day needs of the population. Lastly, there is growing urgency in private adaptation finance to understand the opportunity cost of action and non-action, in particular as it pertains to the avoidance of infrastructural lock-in and maladaptation;
- (c) **Support a broader enabling framework:** as emphasized in the recommendations of the PSAG on the development of modalities to support activities enabling private sector involvement in the least developed countries and small island developing States (document GCF/B.19/31 titled "PSAG recommendations on the development of modalities to support activities enabling private sector involvement in LDCs and SIDs"), it is important to foster processes for the modernization of local, regulatory and financial institutions in order to support the enabling environment that will underpin further investments. GCF intervention should go beyond engaging the private sector in individual adaptation projects and look towards support for a wider set of components that contribute to an improved enabling environment that will ultimately create a competitive and efficient market for successful private sector adaptation projects. These activities can include capacity-building and knowledge transfer for stakeholders, policy dialogue, and regulatory framework assistance;
- (d) **Support the conception, production and dissemination of consistent and relevant climate data and projections:** GCF should provide support that will improve access to



and use of climate data, analysis and projections, which in turn will help to improve private sector decision-making in relation to adaptation finance by providing more certainty for economic agents and investors. This can also help by developing new products and markets to support adaptation projects and strengthen the climate rationale of funding proposals. Existing GCF activities, such as readiness support for national adaptation plans (NAPs), can be used as a delivery mechanism, alongside dedicated technical assistance and project preparation grants;

- (e) **Involve the private sector in the development and implementation of national adaptation plans:** GCF, at the request of countries, could support private sector involvement in readiness activities and country programming and support national-level communication campaigns for the solutions that it decides to fund (e.g. insurance for smallholder farmers). This can be done through dedicated private sector participation in country dialogues and in country programming. Smooth cooperation between the public and private sectors should be promoted and strong alignment between relevant NAPs and GCF private sector adaptation projects needs to be ensured, with a view to understanding and then supporting end-users' needs;
- (f) **Identify and partner with existing financial intermediaries that are expanding their businesses:** GCF should identify and partner with existing GCF accredited entities and financial intermediaries (including local financial intermediaries) that are expanding dedicated pro-adaptation products (e.g. water efficiency credit lines) and explore partnership opportunities with them in order to support transformational change and the sustainability of such activities;
- (g) **Request the Secretariat to undertake deeper analysis of the business models of private sector concept notes and funding proposals related to adaptation:** GCF should undertake further analysis of the business models (e.g. financing modalities, products) of the concept notes already received under previously issued private sector requests for proposals (e.g. micro-, small-, and medium-sized enterprises, and mobilizing funds at scale), as well as private sector adaptation projects in the existing pipelines. This analysis can provide information as to the composition of adaptation projects, the areas covered and the instruments used. It can inform the identification of gaps either in areas to be developed or in products/instruments to be used, which can further guide future private sector engagement; and
- (h) **Focus efforts on developing funding proposals that target specific gaps in private sector adaptation investment:** efforts could be focused wholly or partially on a particular area of adaptation, targeting developing countries that are particularly vulnerable to the adverse effects of climate change, as those countries face a number of common and diverse challenges in relation to climate change adaptation, such as water stress, sea level rise and exposure to extreme weather events (e.g. hurricanes, flooding). Particular focus can be provided to underserved areas with high vulnerabilities and high potential for private sector participation. A potential modality for this could be through a dedicated Request for Proposals, e.g. to be launched at B.23.