LEARNING BRIEF
February 2018

Financing climate change adaptation:

Mainstreaming into government budgets

The Action on Climate Today (ACT) programme has been working in South Asian countries to help them fill the gap between the level of funding required to tackle climate change and their current levels of expenditure.

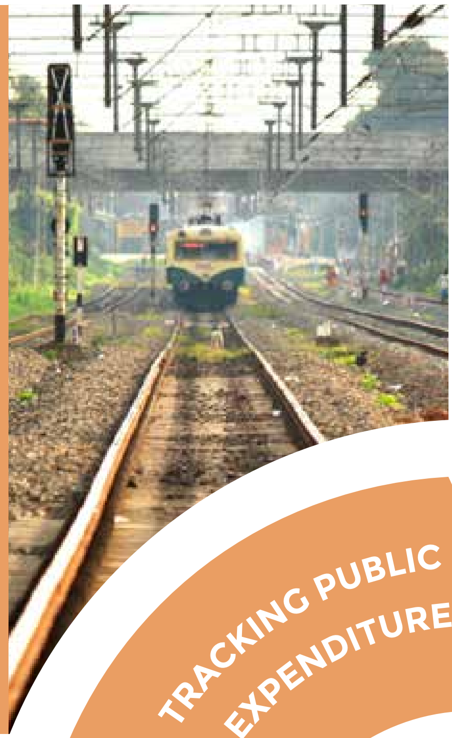
Aimed at climate and development practitioners, this learning brief presents the five core elements of ACT's Financing Framework for Resilient Growth (FFRG):

- Assessing climate change spending: Tracking levels of spending on climate adaptation.
- Determining climate-induced loss and damage: Examining the economic impact of climate change at a national, subnational, or sectoral level.
- Assessing the size of the adaptation gap: Estimating the gap between the current level of spending and the amount needed to prevent climate-related loss and damage.
- Examining potential future financial flows: Understanding the level of finance that is available from diverse sources.
- Filling the adaptation gap: Re-aligning finance with priority adaptation areas, finding new sources of finance, and building institutional structures and systems.

The FFRG framework has been applied in South Asia, but can be used to inform policy and practice around the world. A full description of ACT's work can be found in the associated ACT learning paper: Mainstreaming, accessing and institutionalising finance for climate change adaptation.

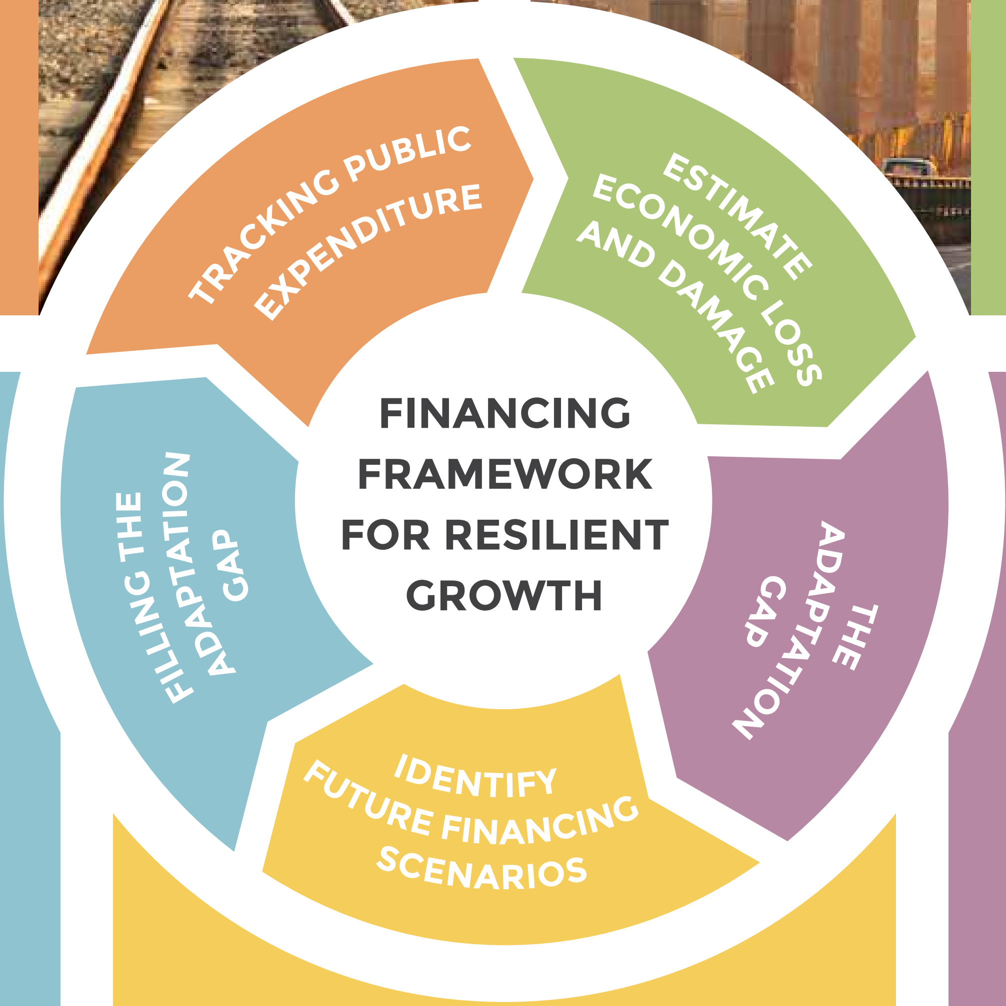
TRACKING PUBLIC EXPENDITURE

The first step in mainstreaming climate adaptation in government plans and budgets is tracking public expenditure on climate change. This is done by reviewing the adaptation benefits of budget expenditure relative to other benefits it provides. For example, expenditure on irrigation delivers economic benefits, social benefits and in times of water stress, adaptation benefits as well. In Bihar, ACT reviewed 787 budget lines that were relevant for climate change, and estimated that US$145 million of the total ‘benefits’ from this investment were addressing climate change by enabling adaptation.



ESTIMATE ECONOMIC LOSS AND DAMAGE

Measuring the economic cost of climate change impacts is crucial to understanding adaptation needs and the finance required. Methodologies to calculate economic loss and damage are evolving, and can range from rapid assessments using broad assumptions and pre-existing data, to detailed vulnerability and risk assessments using model-based projections. For example, in Afghanistan, ACT estimated loss and damages based on climate trends drawn from historical values, simulation models, and international values where national measures were not available.



FILLING THE ADAPTATION GAP

In order to fill the gap, governments will have to increase their current level of expenditure on climate change, reshuffle resources to activities which provide the most adaptation benefits, and seek new external climate finance. This requires significant new institutional capacity. For example, ACT has so far trained 533 government officials to access climate finance, and as a result secured over US$ 127 million from various climate funds. ACT has also helped the Government of Afghanistan to establish a Climate Finance Unit which will be responsible for filling the adaptation gap. Furthermore, across six Indian states and in Afghanistan, ACT is institutionalising a process of tracking climate adaptation benefits of budget expenditure and urging governments to prioritise spend on activities that deliver high adaptation benefits.

IDENTIFY FUTURE FINANCING SCENARIOS

Closing the gap will require governments to define realistic financing scenarios of likely available funding and then plan adaptation actions based on this funding. In Kerala, ACT compared the State Action Plan on Climate Change's budget, with the current (and projected future) level of public expenditure to identify how much can be accommodated within the government's budget, and how much needs to be filled by external sources.

THE ADAPTATION GAP

The adaptation gap is the difference between adaptation needs (spending required to avoid all climate change linked economic loss and damage) and the adaptation supply (actual or planned spending on adaptation). Assessing the scale of the adaptation gap requires calculating projected losses and damages from climate change, as well as the level of climate spending by sector. In Chhattisgarh ACT estimated the adaptation gap by considering changes to the climate over time, as well as the cumulative benefits of adaptation interventions (since benefits can multiply as impacts become more severe).

Key lessons for practitioners:

EXTERNAL CLIMATE FINANCE IS NOT SUFFICIENT: While international funds and donor funding is an effective entry point to work with governments and potentially catalyse additional funding, it is a fraction of the finance required to bridge the adaptation gap.

IDENTIFY FUNDING SOURCES EARLY: At the early stages of designing adaptation actions, it is vital to identify diverse sources of funding, and build strategies to target them. The current climate finance landscape indicates that countries will have to rely on their own fiscal resources to fund adaptation, and many already are.

QUANTIFY THE BENEFITS OF ADAPTATION: Governments often find it easier to understand climate impacts when they are translated into economic costs. Similarly, by quantifying the potential adaptation benefit of different policy options it helps governments to choose between competing priorities.

PRIORITISE SECTORS WITH MOST LOSS AND DAMAGE: Calculating the loss and damage expected in different sectors helps governments to allocate funding to the sectors most at risk.

BUILD INSTITUTIONAL CAPABILITIES ON CLIMATE FINANCE: It is paramount to strengthen domestic institutional capacity while building a framework to access and mainstream climate finance. This includes building capacity to access and manage adaptation finance, as well as strengthening the level of understanding of sectoral and departmental officials where actions are finally financed and implemented.

LEADERSHIP IS ESSENTIAL: It is important to find the right government institution to lead the process of managing finance for adaptation. This is usually a high-level department or office with a cross-sectoral mandate (e.g. Prime Minister's Office, or Ministry of Finance).

ADAPT THE FFRG TO SUIT THE CONTEXT: It takes time to introduce the FFRG framework to governments and get their ownership over the process. The approach is flexible, it can be adapted and/or applied in separate parts to suit the government's interests and needs.

UNDERSTAND THE POLITICAL ECONOMY OF CLIMATE FINANCE: Engaging with the governance context and the political economy of climate financing is crucial.

These and other lessons from the Act programme are elaborated in the ACT learning paper: Mainstreaming adaptation to climate change within governance systems in South Asia: An analytical framework and examples from practice.

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