Potential of programme-based approaches for innovative adaptation finance

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As climate change advances, there is great willingness in many industrialised countries to make additional public funds available for sophisticated climate change adaptation projects. Many developing countries are currently preparing national climate change adaptation strategies, such as the envisaged National Adaptation Plans (NAPs) with LDCs taking the lead. In order for these strategies to be efficiently and effectively financed and implemented, the core elements of the Paris-Accra-Busan process should be taken into account with respect to the partner countries' accountability, alignment with national procedures, donor harmonisation and use of country systems. For climate change adaptation finance this represents an innovative approach for which the lessons learned from programme-based approaches should be applied.

Currently, many countries are preparing their national adaptation strategies. Within the Cancun Adaptation Framework (2010) a process was initiated to enable Least Developed Countries (LDCs) to formulate and implement National Adaptation Plans (NAPs) with guidance by an expert group. Other developing countries are invited to employ the modalities formulated to support those plans.

These strategies and plans are intended to make a crucial contribution towards a more systemic approach under adaptation financing. Developing adaptation strategies and planning innovative, effective climate change adaptation projects that may serve as landmark projects requires a thorough prior climate risk and vulnerability analysis. Methods such as the one elaborated by the Economics of Climate Adaptation (ECA)[1] working group, which enable the identification of specific adaptation needs of a city, (coastal) region or country giving a fact base for decision making, can contribute significantly to this.

Industrialised countries have committed themselves to mobilising USD 100 billion annually for climate protection and adaptation by 2020, which will result in a considerable increase in the volume of funding provided from public sources. Under the special "Energy and Climate Fund" (ECF) the Federal Ministry for Economic Cooperation and Development is already explicitly financing projects with the main objective of supporting the adaptation to climate change. Additionally, the "climate windows" established by the EU's regional financing facilities provide an opportunity for investing large funding volumes in adaptation finance. Thus, a disproportionately strong expansion of financing climate change adaptation measures can be expected because the consequences of climate change are becoming increasingly visible and, at USD 4 billion a year so far, adaptation finance accounts for less than 10 per cent of the overall climate finance volume provided by bilateral and multilateral donors.[2]

To be able to apply the rising volume of funding to climate change adaptation measures, flexible and efficient financing instruments will be required and the large number of donors will have to cooperate. An important starting point is the lessons learned from programme-based approaches (PBAs) and possibly from results-based approaches that have been developed and implemented within the framework of the development effectiveness agenda (Paris-Accra-Busan-Agenda). The aim of the PBAs is to finance national strategies through coordinated support from a number of donors. It is crucial that the partner countries have full ownership over the implementation of the national programmes, that a uniform and comprehensive programme and budget framework as well as a formalised process for donor coordination and donor procedure harmonisation are in place, and that country systems are used wherever possible.

Applying lessons learned from PBAs to adaptation finance

The medium to long-term focus of adaptation finance is on multi-sector strategies that are to be integrated into the national structures. This approach aims to strengthen the partner countries' ownership and their country systems. The systemic approach of the NAPs (initiative by national actors, use of national systems for implementation, integration of the adaptation strategy into the national climate and development strategy and all-encompassing monitoring and evaluation system) aims to make the partner country's development process sustainable – with a view to both its general development and its adaptation capacities. With this focus, the NAPs are closely aligned with the essential aspects of the Paris-Accra-Busan process.

This aim should also be reflected in the instruments with which NAPs are financed. These include, in particular, the partner country's ownership, donor harmonisation and the use of country systems, all of which are elements of the PBAs under which valuable lessons have already been learned in the framework of development cooperation. It can therefore be expected that PBAs will play an increasingly important role in financing the NAPs.

The use of PBAs can reduce transaction costs and allow adaptation strategies to be better integrated into national development strategies. The great overlap between poverty reduction and adaptation measures illustrates the need

1) Information on the methodology of the ECA working group: http://communities.earthportal.org/files/149301_149400/149398/economics-of-climate-adaptation_factsheet.pdf
2) Climate Policy Initiative (CPI), "The Landscape of Climate Finance", October 2011

for an integrative approach to adaptation. At the same time, instead of creating additional parallel structures, national structures will be strengthened.

One way to finance the development and implementation of NAPs through PBAs is to establish additional financing windows ("adaptation windows") in existing funds or other donor-harmonised financing structures. This has the advantage of avoiding the time-consuming creation of new structures, and it allows lessons to be learned from the practical experience acquired in the financial execution and technical supervision of existing fund structures. Basket funding schemes or decentralisation or water management funds offer particularly interesting opportunities because often the construction of climate-relevant infrastructure is already being executed through these funds. Moreover, incorporating activities into decentralisation projects is also necessary because in many cases national legislation confers on municipalities the responsibility for implementing adaptation measures, and experience has been acquired with participatory planning and implementation of investment projects over many years.

In addition, a stronger link should be established between disaster risk reduction activities (“loss and damage”) and adaptation measures. The shorter time horizon of respective measures and the use of more robust climate projections is an advantage in, among other things, defining indicators for the performance matrix, and it can facilitate the implementation of PBAs. In the medium term, innovative financing instruments such as results-based approaches (RBAs) or climate financing through the national budget are also conceivable. Donors like the Inter-American Development Bank, for example, have already established initial projects with an approach of climate change programmatic loans in the area of adaptation finance with a focus on disaster risk reduction.

Conclusion

The financing of adaptation measures in developing countries has high political priority. The lessons learned from PBA projects should be applied to designing efficient financing instruments for the development and planning of the NAPs.