

Learning Brief

Financing Ecosystem-based Adaptation

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Experiences from practitioners on obstacles and success stories on how to identify sources and instruments for financing EbA measures at different scales.



Protected Area at the Baltic Sea, Germany. Photo: © GIZ/Alexandra Königeter

Introducing (Eb)A financing

'Climate finance refers to local, national or transnational financing, which may be drawn from public, private and alternative sources of financing. Climate finance is critical to addressing climate change because large-scale investments are required to significantly reduce emissions, notably in sectors that emit large quantities of greenhouse gases. Climate finance is equally important for adaptation, for which significant financial resources will be similarly required to allow countries to adapt to the adverse effects and reduce the impacts of climate change'.

(United Nations Framework Convention on Climate Change website, 2017¹).

Key messages ...

- Financing options for Ecosystem-based Adaptation (EbA) differ in the planning and implementation phase and might be covered by domestic and international as well as public and private sources.
- Public sources such as national funds strengthen institutions and ensure consistency but are generally not sufficient to cover financial needs.
- Further private sector engagement in concrete EbA implementation and up-scaling is key and requires involvement from the very beginning. Focusing on the private sector's current responsibilities, interests and risks helps to convey key messages.
- The development of innovative financial instruments should depart from local priorities and consider technical, institutional, financial, commercial and legal components.
- Cohesive financial strategies are highly context-dependent. It starts with the quantification of existing adaptation funding and an estimation of the projected gap. The development of a cohesive financial strategy promotes the effective use of available financing mechanisms, diversifies financing sources, explores new mechanisms and strengthens existing ones such as national climate change funds.

On behalf of

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Federal Ministry for the
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of the Federal Republic of Germany

Where does the financing come from to cover the costs associated with (ecosystem-based) adaptation projects and needs by different actors?

In order to mainstream EbA in policy and planning processes, it is essential to understand the obstacles to the concept's upscaling and broad-scaling. An important challenge is to finance EbA measures, which in many cases requires long-term planning security to achieve the desired adaptation benefits as well as socio-economic and environmental co-benefits. This learning brief – based on EbA Community of Practice discussions – encourages the exchange of existing knowledge and experiences in the field of climate change adaptation and biodiversity finance mechanisms and strategies and supports planners and decision-makers in identifying EbA financing options.

As yet, there is a lack of explicit examples and guidelines on how to finance EbA measures for different scales, ecosystems, financing volumes, stages of implementation and time horizons. Therefore, the EbA Community of Practice exchanges country experiences with public and private sources as options for EbA finance to derive best practices and brainstorm for innovative finance mechanisms.

The relevance for EbA finance is defined through the ability of a measure to create a revenue or funding support stream that is capable of sustaining the operations. Several EbA-relevant sources of financing are available and can be characterised in the following ways:

- From **domestic** (e.g. from national and subnational budgets) versus **international** sources; and
- Whether the investor is **public** (e.g. international public finance, such as multilateral or bilateral providers and banks) versus private, including private financiers and enterprises.

Financing from domestic public sources can serve as a relatively consistent and predictable source of financing that provides more flexibility in terms of allocation. However, as public sector finance alone often proves to be insufficient, there is increasing recognition of the need to engage the

private sector in financing EbA. Private sector finance can generally be mobilised for new business opportunities and to reduce business-related risks. It is worth mentioning that the public sector can play a key role in encouraging the private sector to become engaged in the implementation of EbA actions by providing relevant information, incentives and economic signals.

Given the array of financing available, it is critical that countries understand their financing needs in order to match them with the most appropriate sources. A targeted (Eb) A finance strategy can help with this process. A dedicated strategy identifies the need for financing, determines financing options and identifies next steps for ensuring a planned, coherent and coordinated approach to translate ideas into action.

Financing the National Adaptation Plan (NAP) process

by Anika Tertton, IISD

The **National Adaptation Plan (NAP)** process – established under the United Nations Framework Convention on Climate Change (UNFCCC) **Cancún Adaptation Framework (2010)** – is meant to help countries reduce vulnerability, build adaptive capacity and mainstream adaptation into development planning. It is a **continuous**, progressive and iterative process that follows a **country-driven**, gender-sensitive, participatory and fully transparent approach. Because of its significance in the ongoing international climate debate, the NAP process is key in planning and implementing EbA measures, especially in countries where ecosystems play a role in reducing risks for people.

Financing is required throughout the entire NAP process – from initiation to implementation, including the monitoring and evaluation of prioritised adaptation actions. The amount of financing for these activities needed by countries will vary depending on their capacities and circumstances, but is expected to be significant. The assumed financial needs range widely and are estimated to be between USD 100 and 500 billion per year by 2050.

When considering the NAP process and its financing requirements, it is helpful to divide the process into **two phases: the development phase and the implementation phase**.

The **NAP development phase and process is generally financed through public domestic funds** and often supported through international technical and financial cooperation. The implementation of the NAP process may include incentivising private sector finance.

The financing needs of the implementation phase can include any financing option suitable for the context. Implementation costs can be grouped into two general categories:

1. **Operating costs:** ongoing costs associated with coordinating and facilitating the NAP process.
2. **Investment costs/capital expenditures:** costs associated with developing and maintaining infrastructure and technologies for adaptation.

Preparing a **dedicated NAP financing strategy** can enable developing countries to align their financing needs for the NAP process with suitable sources. It will also strengthen their capacity to access and effectively use funding. Therefore, the development of a NAP financing strategy should be initiated early in the NAP process and must be embedded within the NAP.

Practitioners do face several challenges during the development of a financing strategy for the NAP process. Among them are understanding each country's financing needs and the variety of financial resources available, as well as building the technical capacities needed to access funds. Engaging the private sector and developing strategies to engage it in financing adaptation remains a further key challenge.

To overcome these challenges, strategies should consider the following:

- **Consider the financing needs from the start.** Thinking about how you are going to finance adaptation is not something that should be left to after you have determined your adaptation priorities.
 - **Key stakeholders should be engaged early and continuously.** Those that may be expected to play a critical role in determining financing needs and providing access to financing should be engaged.
 - **Senior-level engagement is critical.** The engagement of senior government officials, such as those in ministries of planning and finance, is critical.
 - **Ensure the vertical integration of planning processes.** Ensure early cross-level cooperation, as financial resources need to be channelled down to the subnational level where most (ecosystem-based) adaptation measures are implemented.
 - **Engage the private sector.** Realizing the potential of private sector financing requires careful design.
 - **Pursue finance sources that are appropriate to national circumstances and capacities.** Countries differ in terms of their technical capacities, experiences and ability to attract finance from the private sector. These differences should be taken into consideration.
 - **National ownership is critical to sustainably finance national adaptation measures.** Therefore, NAP development and implementation requires continuous allocation of domestic funds.
 - **When applied to the high-level considerations of a NAP financing strategy, flexibility** in the choice of funding sources and the identification of capacity needs is key.
 - **It is relevant to consider sources that address the unique circumstance of the EbA context.** Assessing the conditionality of EbA support needs in the national context allows for capacity generation and the mainstreaming of funding streams dedicated to EbA in national planning.
- Further recommendations** are to explore fiscal instruments that can be used to raise additional revenue that could be earmarked specifically to support prioritised adaptation actions. For example, payment for ecosystem services could support EbA-specific initiatives or channel finance to local authorities to support their adaptation planning and implementation efforts.

National public funds: People's Survival Fund in the Philippines

by Dr Rosa Perez, Climate Change Commission of the Philippines

One of the most **frequently mentioned barriers** to the implementation of an (ecosystem-based) adaptation project in a local government unit (LGU) is a **lack of funding**. The Philippines, through its Climate Change Act (Republic Act 9729) and later amended by the People's Survival Fund Act (Republic 10174), provides a financial solution to such a predicament. The objective of the People's Survival Fund (PSF)ⁱⁱ is to fund new climate change adaptation programmes and projects of the local government and community organizations and/or strengthen existing adaptation initiatives. The PSF is intended for adaptation activities that include water resources management, land management, agriculture and fisheries, and health, and serves as guarantee for risk insurance needs for farmers, agricultural workers and other stakeholders. This also opens a **window of opportunity to include EbA activities**.

The PSF can obtain at least 1 billion Philippine Pesos – approximately EUR 16.5 million – every year from the national budget through the General Appropriation Act and can be supplemented from external contributions such as counterpart local government units, the private sector, and individuals who support adaptation initiatives. The PSF is managed by a board under the leadership and guidance of the Department of Finance, with the Climate Change Commission as one of the member agencies. The success in appropriating the PSF is dependent on the ability of the national government, through the Board of the PSF, to balance among fund accessibility and adhere to fiduciary standards.

Though the PSF is readily available, there are still remaining challenges. There are currently no projects under implementation due to a lack of proposals. While the need for investment in adaptation measures cannot be emphasised enough in the Philippine context, LGUs often lack the resources and information to comply with PSF criteria. The Climate Change Commission is working on ways to meet these challenges through proactive information dissemination to facilitate LGUs' understanding of the nature of, processes and requirements to access the PSF. The Commission is also involved in training institutional resource persons at



the subnational levels to assist the LGUs in preparing the proposals, mostly from state colleges and universities. The Philippine EbA Core Group, supported by the BMUB-IKI Mainstreaming Ecosystem-based Adaptation global project and the Supporting the Philippines' National and International Climate Policies project, both being implemented by GIZ, helped **mobilise an additional EUR 120,000** from the Department of Environment and Natural Resources to subnational field offices for generating project ideas and concrete proposals on EbA under the PSF. **Forty-four EbA project ideas** were generated, of which three are already being **pursued by the provincial governments**. The PSF proposal generation methodology is currently integrated in PSF training modules.



Peoples Survival Fund Workshop Philippines. Photo: © GIZ Philippines

Scaling up financing for EbA through the Green Climate Fund

by Bahodur Sheraliev, GIZ Tajikistan

The Green Climate Fund (GCF) was established with the ambition to mobilise international climate finance and streamline investments into mitigation and adaptation projects and programmes. The GCF was introduced in the Copenhagen Accord adopted in 2009 and formally established one year later during the sixteenth Conference of the Parties held in Cancún. In 2011, the GCF and the UNFCCC adopted its Governing Instrument, in which it recognised its objective to 'promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and adapt to the impacts of climate change'.¹ The Fund aims to realise this goal by 'channelling new, additional, adequate and predictable financial resources to developing countries and [catalysing] climate finance, both public and private, at the international and national levels'.² It aims to deliver equal amounts of funding to mitigation and adaptation, while being guided by the Convention's principles and provisions. GCF launched its initial resource mobilization in 2014, and rapidly gathered pledges worth USD 10.3 billion.

Given its ambitious scope and mandate to act as one of the two operating entities of the Financial Mechanism of the UNFCCC, the GCF is expected to become the main financing vehicle in the context of mobilising USD 100 billion per year in climate finance by 2020. The Paris Agreement reiterates the key role the GCF is to have in a post-2020 framework, formally designating the Fund as a key provider of predictable financial resources and requesting the GCF to support developing countries with the formulation and implementation of nationally determined contributions and NAPs.³

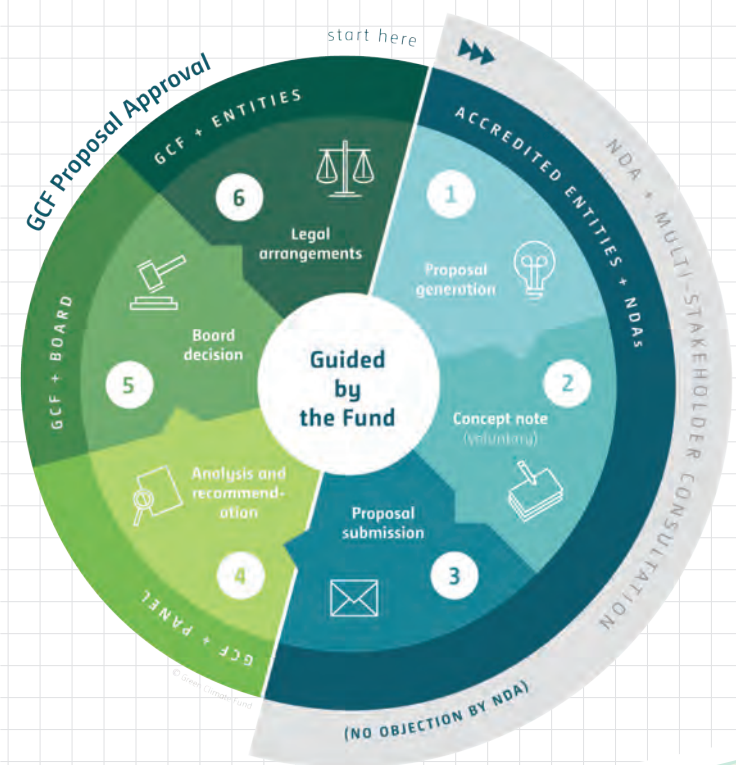
Funding by the GCF can only be accessed through an accredited entity (AE). The AE may be the financial partner of a project activity or involved in the implementation itself. The submission of any proposal has to be accompanied by a no-objection letter from the country's national designated authority (NDA). This is to guarantee national ownership over GCF engagement in any developing country and safeguard that the proposal is in line with national priorities.

Working with NDAs and prioritising EbA from an early stage as a strategic programme is key for mainstreaming and upscaling EbA. An important hurdle for mainstreaming EbA in strategic programmes and documents is the limited understanding of EbA amongst stakeholders at national level, including NDAs. Capacity development for EbA and targeted communication on EbA is therefore essential.

Under the GCF Readiness and Preparatory Support Programme, countries applied for assistance in the development of NAP processes. This is a significant entry point for mainstreaming EbA. Developing countries submit their GCF Country Programme highlighting key national priorities and presenting strategic frameworks for potential GCF investment. The incorporation of EbA into the sectoral strategic frameworks of the GCF Country Programme could leverage additional finance for EbA from the GCF projects.

So far, three project proposals with significant EbA components have been selected for funding by the Board of the GCF.

Figure Green Climate Fund project approval cycle



¹ GCF. Governing Instrument for the Green Climate Fund. December 2011.
² Ibid.
³ UNFCCC. Adoption of the Paris Agreement. Paris 2015.

Governance aspects in the context of EbA financing – experiences from Bangladesh

by Mahfuzul Haque, Transparency International

Bangladesh has one of the most advanced adaptation plans in place with a vast amount of EbA-related opportunities. However, monitoring findings from over 80 community-based adaptation and EbA initiatives financed through the domestic Climate Fund in Bangladesh show that **bridging the gaps between the planning and implementation of project activities is often challenging**. This concerns in particular the implementation phase of EbA projects undertaken by a range of actors such as the government, development partners and non-governmental organisations (NGOs).

According to the experience of Transparency International, **governance challenges** can be broadly clustered in four groups: **(i) transparency; (ii) accountability; (iii) integrity; and (iv) capacity issues relating to adaptation financing**. Furthermore, policy aspects for citizen engagement, monitoring and evaluation, auditing of EbA projects, and civil society/NGO engagement to enhance the standard of governance are crucial and necessary to ensure sustainable project outcomes.

Therefore, developing and implementing governance-related activities in an EbA context is essential. This includes in particular raising awareness on transparency, participation, integrity and accountability as four key elements to reduce corruption risks. Of particular relevance for EbA measures is a focus on the extent to which EbA projects are people-oriented in practice and on monitoring aspects.

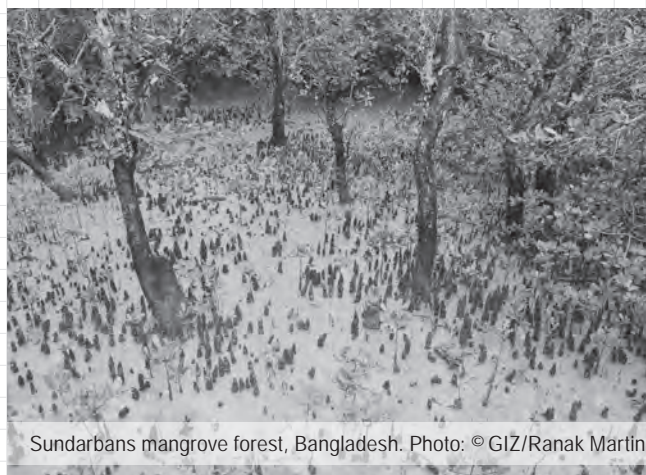
To tackle governance-related challenges, Transparency International Bangladesh (TIB), along with the Transparency International secretariat in Berlin, is aiming to connect the policy and practice aspects of adaptation projects and increasing access to information and disclosing it to the public. To do so, TIB is using the 'Project Tracking Tools', collecting project-related information, producing research reports and disseminating it to the public along with the project implementing authorities. Furthermore, TIB is carrying out advocacy work (e.g. through human chains, street drama, debates, journalist orientation, cartoon competitions,



etc.) at local national and international level in order to raise awareness of adaptation projects. TIB is also holding public hearings/public assemblies, which bring the project implementing authority and project beneficiaries into a common setting for lodging complaints or redressing grievances.

Global governance challenges mainly relate to ensuring the sustainability of EbA projects and determining the effective options to monitor the outcomes of EbA projects.

Further sources: Short movie [Integrity in Climate Finance Governance: Voices from Bangladesh](#) ⁱⁱⁱ.



Sundarbans mangrove forest, Bangladesh. Photo: © GIZ/Ranak Martin

Options for EbA finance: Perspectives from Mali

by Lassina Coulibaly, Ministry of Environment and Sanitation, Mali

National climate funds are of utmost importance in channelling funding from national to local level, including local communities, as well as in accessing international finance. Having national funds in place helps countries to set and implement their own priorities, where EbA – as a cost-effective solution – has a high potential to be prioritised once the concept is well communicated and understood by decision-makers.

In Mali, the **National Climate Fund** was established by the government with the support of international donors. Further EbA-relevant sources come from external financing, for example by bilateral and multilateral development partners or the GCF, complemented by internal resources such as trust accounts (e.g. the Forest Management and Protection Fund), budget allocations and private sources. These **private sources mainly comprise corporate social responsibility initiatives by international companies** which have been, for example, engaged in forest leasing for 30 years. These main funding streams are reflected in three EbA-relevant pilot projects implemented in Mali and focus on natural resource management in the context of climate change as well as on sustainable land and water management. Mali has been successful in building capacities to attract and



channel climate finance within existing NGOs and civil society organisations in the country.

However, a lack of information on funding opportunities and expertise in preparing an EbA project still pose challenges. Mapping of climate funds and close collaboration with researchers could be success factors in overcoming these challenges.

The EbA Community of Practice still needs further discussion on how to successfully communicate EbA as such to national and local stakeholders and the advantages of EbA measures that take time for results to be perceived.



Landscape in Mali. Photo: Flickr, creative commons, Photo: © World Bank Photo Collection, www.flickr.com/photos/worldbank/2765586797, is licensed under CC BY 2.0, greyscale from original

Innovative financial instruments for EbA in Colombia

by Felipe Gómez, GIZ Colombia

The BMUB/IKI-funded project Ecosystem-based Adaptation to Climate Change^{iv} developed a simple methodology on how to use participatory design for developing innovative financial instruments in an urban EbA context.

In the Colombian coastal city of Cartagena de Indias, the project is currently implementing two concrete measures: (i) repair and maintenance of natural streams and rivers in the urban area; and (ii) conservation of mangroves near the city. Both are indispensable elements for protection against floods and thus the preservation of the old town of Cartagena, which is part of the cultural heritage of humanity. In the future, the measures will be refinanced through the municipal tourist fees, which are voluntary at the moment, and a rainwater drainage levy for the protection of the ecosystem.

Challenges to implementation are mainly:

- resistance to mandatory standards among stakeholders;
- cost-effectiveness;
- demonstration of value, relevance and effectiveness for EbA; and
- some success factors that can help in the initial stages of the design and implementation of the financial instrument include voluntary standards, slim governance structures and a robust M&E system linked with a clear communication strategy.

The underlying assumption for the EbA financing case study in Colombia is that, with regard to the global gross domestic product (GDP), it is currently wealthier than ever before and there is enough money to finance EbA, especially when considering private sector capital. To mobilise those potential sources of income for the implementation of effective EbA measures, it is essential to work on local priorities for climate change adaptation and on the most pressing climate threats for private actors, establish a common long-term objective and work together in phases to achieve those objectives. Vulnerability and risk assessments are key to defining those priorities and identifying potential intervention zones.

In order to successfully engage the private sector from the very beginning of an EbA measure, it must focus on their interests, threats and/or responsibilities. Making EbA finance



relevant for the private sector is required to increase willingness to either invest in EbA measures or comply with regulation. There is a further need to develop enabling legal conditions for implementing financial instruments so they do not only rely on the private sector's goodwill or charity.

Colombia has successfully addressed challenges by **shifting a clear focus onto the private sector's current responsibilities, interests and vulnerabilities**. The key message is that EbA is not about something extra or outside the business scope. It has to do with the company's core business and with the needs of private actors to be part of the planning of EbA strategies from the start.

Decision-makers have to be engaged and need to develop necessary legislations. Communities can best be engaged by using existing structures instead of creating new ones that mean additional responsibilities or commitments.



Flooding in Colombia. Photo: © GIZ Colombia

Mainstreaming EbA in public investment in Peru

by Alvaro Hopkins, Ministry of Economy and Finance, Peru

The Peruvian experience draws on the integration of risk management, biodiversity, climate change and ecosystem services into public investment programmes and guidelines. In 2007, Peru already **# initial risk management approaches into the public investment programmes (PIP) framework** that was further developed into guidelines for formulating PIPs in the context of climate change. Framework guidelines for PIPs in the context of biological diversity and ecosystem services were established in 2015, followed by a PIP conceptual framework and operational standards in 2016–2017.

It is essential to first address ecosystem services recovery in respective public investments. **EbA measures must be understood as components within investment projects** as they provide services for human well-being. Investments in natural infrastructure within an area that provides services to a population must be optimised.

This requires information systems and dedicated measurements of the status of ecosystem services. Fully capturing the (economic) benefits of EbA is also required to secure investment.



Public and private actors should be involved in order to successfully integrate EbA in public investments. Therefore, national strategies to empower regional and local communities are required.

Further needs identified in Peru's experience concern guidelines on how to design EbA measures. Key criteria to support decision-making on potential investments need to be developed. Public investments in EbA solutions can be increased, where EbA meets multiple objectives across different policy areas (e.g. economic growth, environmental benefits, health care).



EbA & Public Investment Training Workshop, Peru. Photo: © Ministry of Environment, Peru

Adaptation financing landscape and instruments in Mexico

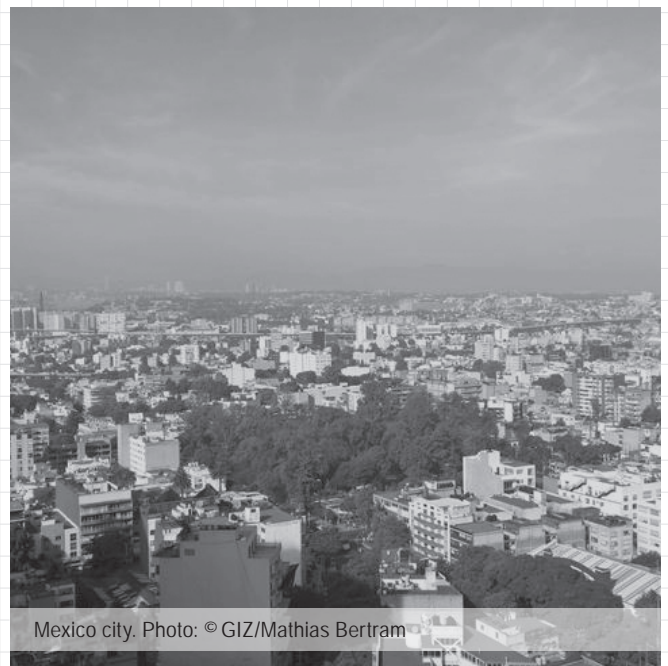
by Mariana Echaniz, GIZ Mexico

An assessment of the global landscape of climate finance indicates that over **90 % of financial flows are used for mitigation** objectives. However, the costs of adaptation are projected to be very high in the coming decades. Therefore, addressing this **financial gap will require innovation** to mobilise additional financial flows.

As a highly vulnerable country to climate change, the estimated adaptation gap in Mexico is projected to be significant. It has made significant effort to create an enabling environment for climate finance disbursement, including instruments such as the National Climate Change Fund. Although designed to fit the purpose, it still has significant room for improvement, including ensuring a steady inflow of funds. The Fund can be used to leverage investments and blend differing sources of finance.

Mindful of the global imbalance between mitigation and adaptation finance, Mexican policymakers designed the Fund as a mechanism that would allocate a balanced amount of funding to both objectives. Nevertheless, adaptation funding is still very limited within the Fund. So far, the Fund has financed 16 projects, and only 1 of them has been an adaptation project. Mexico has therefore initiated a process to strengthen this mechanism and expand its financing alternatives. In this context, developing an adaptation financing strategy is crucial.

An essential part of tackling these challenges successfully and financing adaptation in general is the quantification of existing adaptation funding and an estimation of the projected gap, as well as the development of a cohesive financial strategy that promotes the effective use of available financing mechanisms, diversifies financing sources, and explores new mechanisms and strengthens existing ones, such as national climate change funds.



About the EbA Community of Practice

The EbA Community of Practice, supported by the Global Project 'Mainstreaming EbA', which is funded through the International Climate Initiative of the German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety and implemented by GIZ, is a knowledge and exchange network of EbA practitioners primarily from governments and international organisations as well as civil society and research institutions with an interest in strengthening ecosystem-based adaptation in planning and decision-making.

This learning brief is a result of a learning and dialogue workshop, including three technical sessions, held within the 2nd international EbA Community of Practice Workshop that was conducted between 21 and 24 August 2017 in Bangkok, Thailand.

The following members have been involved in its development:

Andrea Bender (GIZ, Germany), Lassina Coulibaly (Ministry of Environment and Sanitation, Mali), Mariana Echaniz (GIZ, Mexico), Felipe Gómez (GIZ, Colombia), Mahfuzul Haque (Transparency International, Bangladesh), Alvaro Hopkins (Ministry of Economy and Finance, Peru), Alexandra Köngeter (GIZ, Germany), Rosa Perez (Climate Change Commission, Philippines), Bahodur Sheraliev (GIZ, Tajikistan) and Anika Terton (International Institute for Sustainable Development).





Intact Coastal Landscape, Indonesia. Photo: © GIZ / Mathias Bertram

Endnotes

- i. United Nations Framework Convention on Climate Change website, 2017,
http://unfccc.int/focus/climate_finance/items/7001.php#intro
- ii. People's Survival Fund (PSD),
<http://psf.climate.gov.ph>
- iii. Short movie Integrity in climate Finance Governance: voices from Bangladesh,
www.youtube.com/watch?v=O0Rw88EUokI
- iv. Ecosystem-based Adaptation to Climate Change,
www.giz.de/en/worldwide/38930.html

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