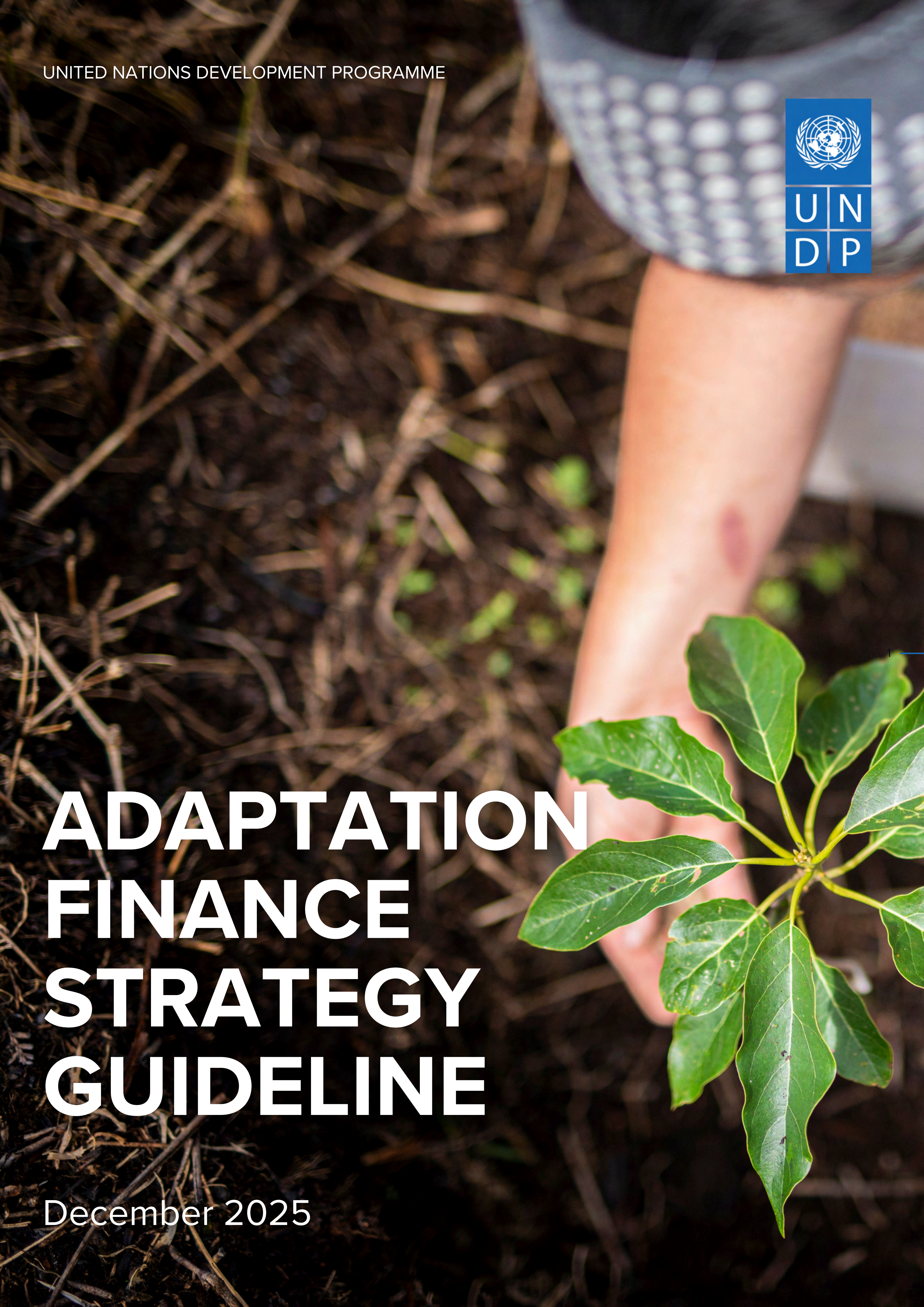

UNITED NATIONS DEVELOPMENT PROGRAMME

ADAPTATION FINANCE STRATEGY GUIDELINE

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About the Climate Finance Network (CFN)

The UNDP Climate Finance Network (CFN) supports countries in the Asia-Pacific region to strengthen their climate finance systems and unlock investments needed to meet national climate goals. The Network promotes peer learning, knowledge exchange, and technical assistance across ministries of finance, planning, and environment. Operating as a regional platform, CFN helps integrate climate into budget processes, improve coordination across sectors, and ensure transparency and accountability of climate finance.

About UNDP's Climate Promise

UNDP's Climate Promise is the UN system's largest portfolio of support on climate action, working with more than 140 countries and territories and directly benefiting 37 million people. This portfolio implements over US$2.45 billion in grant financing and draws on UNDP's expertise in adaptation, mitigation, carbon markets, climate and forests, climate risk and security, and climate strategies and policy. Visit our website at climatepromise.undp.org and follow us at @UNDPplanet.

About the Sustainable Finance Hub (SFH)

The UNDP Sustainable Finance Hub brings together UNDP's financial expertise to harness public and private capital for the Sustainable Development Goals (SDGs), supporting governments, investors and businesses in reaching climate, social impact and sustainability targets. Its work drives systemic change towards a sustainable financial architecture that benefits people and the planet.

About UNDP

UNDP is the leading United Nations organization fighting to end the injustice of poverty, inequality, and climate change. Working with our broad network of experts and partners in 170 countries, we help nations to build integrated, lasting solutions for people and planet. Learn more at undp.org or follow at @UNDP.

UN Disclaimer

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Executive summary

Photo: UNDP Nepal

Purpose of the Guideline

The *Adaptation Finance Strategy Guideline* aims to support ministries and agencies in formulating a viable and inclusive Adaptation Finance Strategy (AFS) as part of their mandate to develop and implement National Adaptation Plans (NAPs). This process is carried out in partnership with the financial oversight body, typically the ministry of finance, and other key stakeholders. The AFS provides a framework for mobilizing and aligning finance for investments identified in, or implied by, a country's NAP and/or Nationally Determined Contribution (NDC).

The NAP process plays a central role in shaping the AFS by establishing the enabling conditions for adaptation investments, including the development of data, institutional arrangements and capacity. Regular updates to the NAP help strengthen ownership and improve the environment for maximizing the available finance, whether by increasing domestic resources for adaptation, attracting private sector investment or securing support from external agencies.

Outline of the AFS process

The AFS process is structured in four modular phases (see figure ES.1).

Figure ES.1: Summary of the AFS approach

Phase 1: Engagement and Data Collection

Phase 1 comprises the preparation and data collection process, which serves as the foundation for documenting adaptation investment needs and identifying potential financing sources in later phases. The approach must be inclusive and participatory, engaging a wide range of stakeholders in each of the sectors relevant to NAP implementation, specifically the sectors identified in the UAE Framework for Global Climate Resilience. The consultative process should also include subnational governments, the private sector (and industry associations), civil society and development partners involved. These diverse stakeholders should be organized into working groups that are adequately resourced and supported.

On the demand side, sector working groups should be established and have designated agency focal points to ensure continuity. Where available, sector roadmaps that include adaptation priorities should guide the development of a sector adaptation investment programme. If these are not available, focused studies and workshops can be conducted to develop preliminary investment priorities. Existing national, subnational and, where possible, private sector investment budgets are needed. Where there are likely gaps in investment budgets, the working groups should canvass preliminary options for increasing investment (including private sector investment), drawing on inputs from financial institutions and agencies, and identifying constraints to achieving these options.

On the supply side, the existing quantum and structure of financing in each NAP sector must be determined. For international flows, current levels of foreign direct investment, official development assistance and support from international financial institutions (IFIs) should be documented. For domestic flows, details are needed on investment grants from government funds and loans from government and private banks and non-bank financial institutions (NBFIs), as well as investments by domestic private companies or public–private partnerships funded by share issuances or bonds.

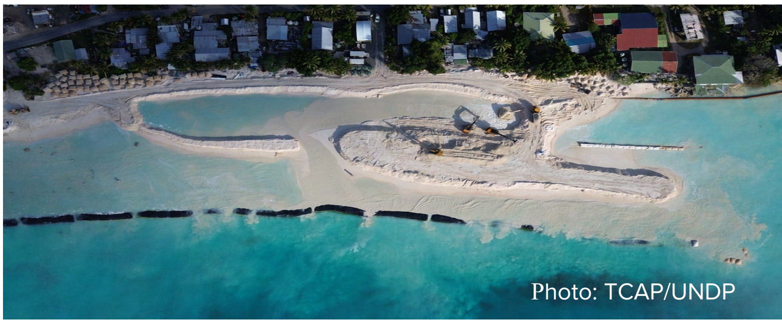

Photo: TCAP/UNDP

Further, the preliminary potential for improving international flows and mobilizing additional resources from domestic capital markets needs to be assessed, along with the constraints. For the latter, information on the structure of financial institutions' assets and liabilities will be needed from regulators such as the central bank, securities regulator and the ministry of finance. IFIs can often assist in such assessments. As mentioned, working groups should be established, consisting of central agencies, relevant trade promotion and development assistance coordination agencies, bank associations, NBFIs and other capital market participants.

Phase 2:
Investment Prioritization

In Phase 2, drawing on the data collected in Phase 1, each sector working group will be tasked with developing prioritized and costed sector adaptation investment priorities. Where available, sector roadmaps with an adaptation focus should guide this process; where not, focused sector adaptation needs studies and convening workshops should be undertaken. The lead role in this process will typically be taken by the government agencies overseeing the sector, but state-owned enterprises, the private sector and civil society will need to be integrally involved. As significant adaptation investments will be required from the private sector, their constraints on investment must be assessed. Where funding gaps exist, the working groups should use the options identified—while considering the potential ways to fill the gaps and constraints revealed in the data collection process—to develop business models for implementing priority programmes and projects. Many adaptation projects can be made financially viable by capturing the value of the benefits they generate. These projects may not currently have a revenue stream but do provide specific benefits to a defined group of people. Often, the cost of the project can be partially or wholly recovered from these beneficiaries. In many instances, the beneficiaries are defined geographically—for example, a drainage project that reduces flooding in a specific area may be funded through a local land tax levy or a similar mechanism.

Business models, whether for public or private projects, will generally fall into one of three categories:

1. **Projects that have significant revenue streams**

2. **Projects without current revenue streams but with options to generate them**

3. **Projects with no realistic prospect of achieving a dedicated revenue stream**

Projects in the third category must be financed from general revenue, though they may still be eligible for debt financing if the resulting obligations can be serviced through public budgets or, in the case of private sector projects, through targeted incentives or subsidies.


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Many adaptation projects can be made financially viable by capturing the value of the benefits they generate. These projects may not currently have a revenue stream but do provide specific benefits to a defined group of people. Often, the cost of the project can be partially or wholly recovered from these beneficiaries. In many instances, the beneficiaries are defined geographically—for example, a drainage project that reduces flooding in a specific area may be funded through a local land tax levy or a similar mechanism.

For each programme or project in the adaptation investment plan, the recommended business model, developed in consultation with all relevant stakeholders, needs to be documented together with a description of the investment. The agency overseeing this phase must ensure that programmes and projects are uniformly documented by the sector working groups so that all necessary information is available for the cross-sectoral financing prioritization exercise in Phase 4.

Phase 3: Mapping and Matching Financing Needs and Sources

Phase 3 focuses on identifying potential sources of finance to address specific adaptation finance gaps and outlining the strategies needed to mobilize those resources. This takes place in the context of fiscal policy that prioritizes emissions reduction and resilience to the extent possible, aided by such tools as the Integrated National Financing Framework and the Investment and Financial Flows methodology. This requires identifying the sources of finance, the mechanisms needed to channel it and the instruments used within those mechanisms.

Drawing on the data collected in Phase 1 and the investment business models proposed in Phase 2, Phase 3 identifies appropriate financing sources, such as international development cooperation agencies (DCAs), IFIs, private sources (foreign direct investment and capital markets) and national sources, including banks, NBFIs and listed and private funds and stock issuances. It also explores ways to minimize financing costs through instruments like those offered by risk mitigation agencies such as the Multilateral Investment Guarantee Agency. In parallel, the phase entails defining the appropriate financing mechanisms to be deployed by each sector and market segment, recognizing that large-scale government projects may require different approaches than those suited to small and medium-sized enterprises. These mechanisms may involve institutions such as climate funds, national development banks or blended finance facilities.

The development of national capital markets is essential. Even if some developing countries are not in a position to prioritize efforts to increase domestic resources for adaptation or attract private sector investment, a phased approach will be needed to strengthen and deepen these markets. National capital markets will play a key role in scaling up adaptation finance in the longer term. Enabling frameworks can be developed to incentivize the creation of appropriate climate financing mechanisms, including private sector funds, national funds that have a national scope, subnational funds covering a particular region and national mechanisms instituted by a coalition of sub-sovereign entities.

In addition, the AFS should consider the instruments to be used by these mechanisms, as well as the enabling frameworks required for them to function effectively. For example, the use of green bonds to recapitalize a blended finance facility will need the establishment and consistent use of a bond taxonomy and perhaps incentives for the use of such bonds.

Phase 4: Operational Planning and Coordination for the AFS

Phase 4 involves translating the outputs of the previous phases into a coherent, actionable strategy. This begins with the establishment, or formal designation, of a NAP Finance Coordination Agency for implementing the AFS and coordinating financing activities across sectors.

The next step is to consolidate the priority programmes and projects identified in Phase 2 and set out a single, multi-sector investment plan. This plan should align with other national frameworks, including any parallel implementation strategies for the country's NDC. Once consolidated, the projects must be prioritized within an implementation plan, based on assessment of the fiscal space available for government capital budgets, the counterpart funding requirements of public–private partnerships and IFIs and the financing capacities of the relevant government agencies, DCAs, IFIs and the private sector.

Following prioritization, the potential sources of financing set out in Phase 3 must be matched to specific investments by sector. At the same time, ongoing financing gaps should be mapped and strategies nominated to fill them. These strategies may include making use of any unused or underused opportunities identified in Phase 3, which will involve changes to the enabling frameworks in specific sectors and the financial sector, as well as identification of the capacity development priorities.

A further task under Phase 4 is to determine the required project preparation steps to ready selected investments for financing and implementation. Although an ideal AFS should

encompass all sectors covered by the NAP, these steps can also be applied to specific sectors or groups of sectors, provided that budget allocations are ringfenced accordingly.

To track and evaluate progress in financing, the AFS should establish a monitoring, reporting and verification (MRV) system. This system will also be critical in supporting engagement and negotiations with external assistance agencies, including DCAs and IFIs.

Finally, the strategy should include mechanisms for ongoing liaison with private financial institutions and international development partners. These institutions should be engaged with clearly defined priorities for capacity and project development to ensure that the strategy remains responsive and implementable over time.

Implementation considerations and the long-term outlook

The approach outlined in the AFS emphasizes several key principles. Investments should be classified by their commercial viability to help identify areas where de-risking may be necessary. It also recognizes the diversity of both public and private sector actors, with NAP coordinators positioned as key facilitators for collaboration and alignment.

A wide range of instruments must be considered, along with an assessment of their viability in national and international capital markets. Coordination with mechanisms for implementing and financing NDCs is essential, as is a strong focus on local-level action and adaptation investment, as well as how these can be funded.

Overall, the AFS process provides a strategic and practical foundation for implementing priority adaptation investments. It is designed to be an iterative process that evolves as better data, new technologies and innovative financing sources become available. Importantly, the AFS can and should proceed using the available data, while clearly identifying priorities for filling critical information gaps. Evidence-based expert estimates and short, focused studies are sufficient to provide a basis for moving forward in the absence of comprehensive information or robust modelling.

The networks and working groups established through the development of the AFS will facilitate ongoing coordination and effective investment across sectors. In the longer term, the AFS should also serve as a vehicle for the development of national capital markets, helping to expand the scope and scale of financing and the range of financing instruments available for adaptation.


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