UN HABITAT
CITIES AND CLIMATE CHANGE INITIATIVE
POLICY NOTE 1

Adaptation Finance:
Are Cities in Developing Countries Slipping Through the Cracks?

Much of the investment required to adapt to climate change must take place in urban areas.

Two points are becoming clear regarding the challenge of adapting to climate change: the total bill is going to be enormous, and much of the investment required will have to occur in urban areas. The World Bank recently put the global costs of adaptation at US$70 to 100 billion a year for 2010 – 2050 (World Bank 2010c).

World Bank economists estimate that more than 80 per cent of adaptation costs will be borne by urban areas.

Flooding in Kalerwe, Kampala, Uganda ©UN-Habitat/Nicholas Kajoba

While it is hard to gauge accurately the portion of those needs that correspond to cities, economists recently estimated that urban areas will need to absorb "more than 80 per cent" of total adaptation investments (World Bank 2010b). Engineers will need to 'climate-proof' vital urban infrastructure, while local authorities and others must build the resilience of urban households. In particular strategies must assist the urban poor in developing countries who live in areas that are sensitive to climate change impacts. In 2000, for example, some 229 million (mostly poor) persons lived in urban areas in low elevation coastal zones in low- and lower-middle income countries that were at risk of sea level rise; their numbers are growing (McGranahan et al 2007). Other poor families cling to steep hillsides along rivers, or live in areas threatened by water scarcity or other climate change impacts. As the Intergovernmental Panel on Climate Change concludes, such communities "can be especially vulnerable…. The poor tend to live in informal settlements, with… substandard houses, lacking adequate water, drainage and other public services and often situated in risk-prone areas" (IPCC 2007).

To date, however, adaptation finance has largely overlooked urban areas.

Although the brunt of adaptation requirements will fall on urban settlements, to date relatively few adaptation projects have occurred in those areas. For example, in 2007 the World Resources Institute reviewed 135 adaptation activities in developing countries. The authors found: "By far the majority of cases [reviewed] had a rural focus". They concluded: "Little attention has been paid thus far to adaptation in the urban context" (McGray et al 2007). This general pro-rural finding holds true in the specific case of National Adaptation Programmes of Action (NAPAs), the most concerted attempt to date to help least

"We need to adapt…. Funding needs to be a lot more accessible…. Not all cities are aware of funding opportunities, and have access to it."
– Elana Keef, Nelson Mandela Bay Metropolitan Municipality, South Africa (ICLEI 2010).

developed countries (Least Developed Countries Fund, or LCDF) to identify and mobilise funding for adaptation priorities. A review of the initial batch found that "few NAPA projects have an urban focus" (Satterthwaite et al 2007). To update this finding, in 2011 UN-Habitat reviewed a sample of a quarter of all submitted NAPAs (12 of 45). We found that only around 14 per cent of the resources called for by those NAPAs were for projects that largely or exclusively targeted urban areas.

To date, relatively few of the adaptation projects undertaken globally have had an urban focus.

Why this relative lack of funding for adaptation projects in those areas that need it most? Two organisations have come up with strikingly similar explanations for this mismatch. According to ICLEI – Local Governments for Sustainability: "At present, the ability of local governments to leverage funding is largely affected by their interaction with national governments vis-à-vis international funds…. The architecture of available funds privileges the national level" (ICLEI 2010). The World Bank concurs: "All of this international climate funding will be channelled through national governments, and city access to funding remains uncertain, especially as climate change activities are usually assigned to Ministries of Environment, which do not traditionally focus on urban issues" (World Bank 2010c).

"Funds at the international level are difficult to access, because normally [implementing institutions] hardly give loans to local government. They should change the rules of the international game, give more credit to local authorities."
– Queretaro, Mexico (ICLEI 2010)

It is unfortunate if cities indeed are slipping through the cracks of adaptation finance – and not only because so much needs to be done in urban areas. As the closest and most responsive level of government, local authorities possess both the incentive and the local knowledge needed to find cost-effective solutions that respond to the needs of their constituencies. ICLEI argues that, in the same way that local authorities have been able to reduce greenhouse gas emissions at a substantially lower cost than initial top-down models indicated, so they should be able to find the most cost-effective means to increase climate resilience (ICLEI 2011). And indeed, some of the means for adapting to climate change that promise the greatest net benefits lie within the purview of urban policy-makers..

Amongst such measures are improved building codes and community early warning systems – both of which can help to strengthen resilience in urban areas (ECA 2009). Another important means to increase climate resilience in cities is through improved basic land use planning. The World Bank advises: "Because the majority of the capital stock in 2050 remains to be installed, land use planning that channels investment into lower risk locations can substantially reduce risk at low cost" (World Bank 2010c). Other measures such as slum upgrading also may yield important benefits. Of course capacity-building to empower local officials so that they can select the most cost-effective actions, optimize their sequencing and implement them effectively will be necessary to allow local authorities to more fully harvest these low-hanging fruit.

"As local governments, we are often ready to act but need funding. With more direct access to resources for climate mitigation and adaptation actions we could relieve the planet from stress and help governments meet their national targets."
– David Cadman, President of ICLEI

There are some encouraging signs that the international community is beginning to heed the needs of cities. In 2010, for example, the first project approved by the newly-established Adaptation Fund targeted mostly urban areas (in Senegal). And at the close of the 2010 Conference of Parties to the UN Framework Convention on Climate Change (UNFCCC) in Cancún (COP-16), States recognized local authorities as key "governmental stakeholders" in global climate change efforts. Much more, however, needs to be done.

Empowered local leaders can take effective action.

Construction in the coastal area of Maputo, Mozambique ©UN-Habitat/Ricardo Rangel

What we should do about it.

The Green Climate Fund should provide cities (with the support of national governments) with access to a portion of the adaptation resources channelled through this facility. Greater access for cities to these resources would promote greater financial autonomy for local governments per the decentralization policies of a number of countries. It would also provide for the development of cost-effective solutions in a 'bottom-up' manner that responds to local needs and reflects local conditions.

Greater access for cities could occur in one of two ways. Firstly a special window could be created to which local governments could apply directly for adaptation (as well as mitigation) resources. The original terms of reference for this Fund would permit this: they allow for financial resources to be provided "through a variety of financial instruments, funding windows and access modalities, including direct access…" (UNFCCC 2011). Recent reports, however, indicate that the number of windows in the Green Climate Fund will be quite limited, and that national development planning processes should institutionalise the use of these resources. If this is indeed the case, a second option would be to encourage national governments to engage with local authorities on this topic, and then to endorse and forward their adaptation priorities to the Green Climate Fund – even if those priorities did not surface earlier through the nationally-oriented NAPA processes.

Finally, looking ahead: while the process of developing NAPAs essentially has ended and it is thus too late to think about integrating 'Local Adaptation Programmes of Action' into that process, any future support to national adaptation planning should explicitly provide for the engagement of the local government sector via such mechanisms.

Other adaptation funds should: (i) consider projects that benefit the vulnerable urban poor to be strategic priorities, and (ii) permit and even encourage local governments to apply directly for such funds, while leveraging other financing sources. Besides the emerging Green Climate Fund, other climate funds (administered by multilateral and bilateral agencies, foundations and so on) are playing and will continue to play a critical role in financing adaptation activities. At present, however, very few if any such funds provide for periodic open calls for proposals to which local authorities can directly apply. Resources from such funds could help local governments to mobilize other resources, including from the private sector. Such opportunities would help cities to begin to adapt to climate change.

Protective seawall in Sorsogon, Philippines ©UN-Habitat/Bernhard Barth

These recommendations are fully consistent with collective calls by local officials (e.g., expressed through the Local Government Climate Roadmap Process, including the African Mayors' Climate Change Declaration of 2011) for access to climate finance.

Landslide in Esmeraldas, Ecuador ©UN-Habitat/François Laso

"We, African Mayors, call on the UNFCCC Parties to:

Realise a visible commitment and adequate resources towards adaptation commensurate with the anticipated impacts and associated costs…at the local level.

Establish an adaptation framework that is flexible, accessible, supportive of long-term, sustainable development and responsive to the African local government reality…"

– African Mayors' Climate Change Declaration 2011 (excerpts)

"We, Mayors of the World, coming from 35 cities in 30 countries… recognise the need for financial institutions to fund locally relevant and appropriate development, rather than conventional global financing mechanisms determining which local projects are eligible for funding…. We further advocate for… developing specialized financial instruments for comprehensive local adaptation and resilience upgrading projects in urban areas and systems known to be highly vulnerable".

– Bonn Declaration of Mayors 2011 (excerpts)

"We, representatives of cities from all regions of the world gathered in Gwangju commit to ... find ways and means of better access to finance mechanisms such as the Clean Development Mechanism."

– Gwangju (Korea) Cities' Declaration (2011)

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Bridge washed out by flooding and its rebuilt replacement on the Teaone River in Esmeraldas, Ecuador ©UN-Habitat/François Laso

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