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# BRIDGING THE FINANCE GAP FOR ADAPTATION

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Climate change is accelerating, and the world's most vulnerable countries are bearing the brunt. Yet, finance for adaptation and global resilience remains dangerously inadequate. Systemic reform of the global financial architecture is needed to align finance flows with adaptation goals. Political commitments and institutional reforms are required to unlock capital, reduce borrowing costs, and embed resilience in financial decision making.

Conservative estimates put the losses to major global businesses from failing to act on adaptation at $1.2 trillion annually by mid-century. However, the economic case for investment is clear: every dollar spent on adaptation could yield $10 in benefits.

Key moments in 2025 offer the opportunity to drive political and financial momentum on closing the adaptation gap, building momentum for significant progress at COP30 in Belém and beyond. The G20, multilateral development banks (MDBs) and the IMF are crucial to finding the pathways to resilience finance, even amid the headwinds of fiscal constraints, debt crises and geopolitical tensions.

In this briefing, which complements a previous briefing that sets out a roadmap to advance resilience in 2025,[1] we map the state of play in key types of finance for adaptation and identify areas of potential progress in closing the adaptation finance gap.

[1] E3G, May 2025, **Pathways Towards Resilience**

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**Public finance** is and will remain the backbone of adaptation funding, especially for the most vulnerable countries. Current levels of public finance, including critical concessional and grant financing, fall far short of what is needed. Finance also needs to be more accessible and targeted to where it is needed most. Despite declines in official development assistance (ODA), there remain opportunities in 2025 – including notably further progress on reforms to better leverage the MDBs to scale up affordable adaptation finance.

**Private finance** represents a very small proportion of adaptation finance but must be a key part of the equation, not least in such constrained times. Mobilising private finance will require de-risking, regulatory reform, and better data. Steps forward could include incentivising adaptation investment through risk-sharing tools, regulatory alignment, developing better project pipelines, and improving the transparency and tracking of private finance flows.

**Innovative sources of finance**, such as global levies and taxes, offer transformative potential for generating new concessional resources but need political will and coordination. Useful work could include advancing global solidarity levies (for example, on aviation, shipping, financial transactions) and ensuring adaptation is prioritised in revenue allocation.

**Debt challenges** undermine investment in adaptation. Solutions must integrate fiscal relief with climate resilience. Critical relief can be provided through addressing long-standing challenges with existing debt workout mechanisms; expanding the use of climate-resilient debt clauses, debt-for-climate swaps, and parametric insurance; and reforming debt sustainability assessments to reflect climate risks and benefits of adaptation.

## Introduction

The United Nations Environment Programme's latest estimates put the adaptation finance gap at $187–359 billion per year.[2] Compared to the $28 billion in public international adaptation finance delivered in 2022, and including measurable private investments in adaptation (taking into account possible data gaps), demand is far outstripping supply.

The gap is widening as insufficient financing and action increases the losses from climate change. Meanwhile, climate change impacts are accelerating and worsening in all countries, and the effects are felt most acutely in the most vulnerable countries with low resilience and the least capacity to finance the needed responses.

Longer delays, inaction, or any reversal in the progress made to date will come at a heavy price. A "business as usual" approach could see the world's largest companies face costs of $1.2 trillion annually by the middle of this century[3] – which is likely an underestimate given the difficulty in quantifying some "goods" such as lost biodiversity or increased conflict and migration. On the other hand, there is a strong economic case for investing in adaptation where every dollar invested can leverage over $10 in economic benefits.[4]

Some progress has been made – including increased traction at the political level – but significant acceleration is needed. The Glasgow Climate Pact saw countries promise to double public adaptation financing by 2025, leading to an almost 50% increase between 2019 (when the goal was agreed) and the latest data in 2022. While achieving the Glasgow goal would represent a step forward – and a much-needed demonstration of political will and commitment from provider countries – it would still leave a sizable funding gap and one without a clear political path to tackle it. Further commitments and concrete steps for greater provision and mobilisation of predictable climate finance for adaptation are needed.

2025 presents a critical opportunity to make progress with strong commitment from the Brazilian COP Presidency – and many key partners – to advance the adaptation agenda with political and practical processes to deliver. The Baku to Belém Roadmap is one important example, as are how to include means of

[2] United Nations Environment Programme, 2024, **Adaptation Gap Report 2024**

[3] S&P Global, 10 March 2025, **For the world's largest companies, climate physical risks have a $1.2 trillion annual price tag by the 2050s**

[4] World Resources Institute, 2025, **Strengthening the Investment Case for Climate Adaptation**

implementation in the finalization of the Global Goal on Adaptation indicator work.  But the broader push to make this COP a moment of delivery and action could also be a sign of much-needed high-level commitment to an agenda that can provide an important political bridge between actors. Finding such collaboration through a constructive focus on solutions is vital at a time where the world faces arguably unprecedented political and economic headwinds.

## Bridging the financing gap

The latest adaptation finance data points to challenging trends in the type and quality of finance available for adaptation. Alongside a lack of investment in cross-sectoral, transformational approaches,[5] there are concerns about the composition and terms of public adaptation finance – including insufficient grant-based and concessional resources.

In 2022, 60% of public adaptation finance was provided as non-concessional loans[6] – a serious challenge as many highly climate vulnerable countries who are most in need of adaptation finance are also facing a growing debt crisis.[7] Long-term financing challenges and rising needs, the COVID-19 pandemic, falling ODA budgets, the strong US dollar, a high-interest-rate environment, and many other factors have all contributed to that crisis. This leaves countries with a stark choice between failing to invest in their resilience, and ballooning, increasingly unsustainable debt levels.

That said, given the current economic and political context in many donor countries, loans are likely to continue to play an important role in the coming years. Ensuring that lending is affordable, long-term, sustainable, predictable, and accessible will have to be part of the solution.

How finance is measured also matters. Accounting in grant-equivalent terms in addition to the face value of loans would provide greater transparency on the underlying quality of finance and better account for the genuine effort on the part of provider countries. This would better demonstrate how governments are responding to their responsibilities under international processes and help to foster trust in the system and between actors.

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[5] Beswick, A., 15 November 2025, **The clock can't be turned back on climate change. Financing adaptation must be a priority**, LSE Blog

[6] Climate Home News, 8 November 2024, **Rich nations "on track" to double adaptation finance but huge gap persists**

[7] UNCTAD, 2024, **A World of Debt: A growing burden to global prosperity**

# Public finance

Adaptation is financed through a wide variety of instruments, but public finance – both domestic and external – from bilateral and multilateral sources makes up the lion's share of traceable finance. Best estimates place total global adaptation finance from all sources at $63 billion, 98% of which currently comes from public sources.[8] It is important to note, though, that these numbers only represent what it is possible to track rather than necessarily a complete picture, and that there is a great deal of interest and activity in the private sector around financing adaptation and resilience.

Public finance will remain at the heart of adaptation finance, at least in the short term. It will continue to be particularly critical for:

> Financing the adaptation needs of the most vulnerable countries and communities.

> Projects that do not appear to offer sufficient financial return to attract private investment.

> Interventions that offer a return over much longer terms than the market is accustomed to or can bear.

The multilateral system is an important part of this picture, making up roughly two-thirds of all public adaptation finance in 2022.[9] This includes purpose-built funds, such as the Adaptation Fund or the LDC Fund, but also critically other global financial institutions like the World Bank and other multilateral development banks (MDBs). These institutions could be particularly pivotal in helping to bridge the gap between investable and uninvestable adaptation projects, for example through the provision of longer-term and more affordable loans, as well as making continued progress in better leveraging their existing capital base. The MDBs could thereby become much more central to supporting countries to deliver on their adaptation needs and helping to alleviate some of the pressure on increasingly scarce grant resources.

The reality is that significantly more public finance will be needed to meet adaptation needs alongside efforts to increase the level of private finance.

[8] Climate Policy Initiative, 2023, **Global Landscape of Climate Finance 2023**

[9] UNFCCC, 2024, **Doubling Adaptation Finance: Efforts to respond to the call of the Glasgow Climate Pact**

**Actions to increase public finance for adaptation**

Efforts to scale up public finance, particularly grant resources, will need to continue not least to ensure current investments and progress are not lost to climate risks.

Key areas for action are:

> Maintaining, and ideally increasing, ODA budgets. ODA currently provides one of the only sources of grant financing for adaptation – particularly important for the most vulnerable countries. Such finance is critical to support countries to invest in climate-smart development, resilience and adapting to the impacts of climate change. Falling ODA budgets – including a falling proportion for adaptation – will have huge human and economic consequences set against the 10-fold return such investments can have.

> Ambitious, institutionally defined targets for MDBs to further increase support for adaptation, focused on both the scale of finance and increasing impact. In addition to donor contributions, these can be supported through reforms that would increase current leveraging and other innovative measures to increase their total lending envelope for adaptation (including those set out in the G20 MDB Roadmap and the recommendations of the Capital Adequacy Framework review).

> Addressing the allocation problem. For example, while Africa faces a "disproportionate burden" from climate change,[10] and is home to many of the world's poorest countries, it currently receives 20% of adaptation finance.[11] Equally, Small Island Developing States (SIDS) are highly exposed to climate risks and disasters but have little access to concessional resources and are subject to high capital costs, leading to a growing debt crisis to meet the cost of response and recovery.[12]

> Addressing quality challenges, including through a push towards more programmatic (vs. project-based) approaches that would better meet the systemic nature of adaptation challenges.

> Scaling efforts to fix well-documented and understood access issues – from speed of access to duplicative administrative and reporting issues – that hinder efficient and effective access to climate finance particularly for Africa,

[10] World Meteorological Organization, 2 September 2024, **Africa faces disproportionate burden from climate change and adaptation costs**

[11] Brookings, February 2024, **Finance for climate adaptation in Africa still insufficient and losing ground**

[12] ODI Global, April 2025, **Tackling the "Cost of Capital" Crisis in Small Vulnerable Nations**

Least Developed Countries and SIDS. Similarly, funding needs to be locally accessible, including through greater support for local actors like national development banks and increased availability of finance in local currencies.

> Continuing and accelerating the mainstreaming of adaptation into both existing and new climate and development portfolios and projects as relevant. This can provide critical leverage of existing investments and public finance, whether external or domestic.

> Continuing to improve the quality and coverage of data for enhanced accountability and transparency in reporting.

## Mobilised private finance

While 32% ($15.5 billion) of all publicly mobilised private finance between 2018 and 2020 was focused on climate-related issues, only 4% ($1.8 billion) of the total was adaptation-focused.[13] These numbers are likely significant underestimates given the poor quality and quantity of private finance data,[14] but even so it remains a small pool of funding. Nonetheless, there is significant potential to reach increased scale, and private finance will become a more important resource at a time of significant fiscal constraint.

In addition, private finance flows tend to go to developed and emerging market economies for reasons including perceptions of investment risk in developing economies. The wider challenge of scaling up international private climate finance to developing countries (which will be explored and addressed in 2025 through the Baku to Belém Roadmap process) compounds the overall failure to provide adaptation finance, given that the least developed countries are also often the most climate-vulnerable.

Adaptation activities tend to be seen as being less “investable” given their small or no immediate return on investment from either a purely financial or short-term economic growth perspective, which means the direct financial case can in certain circumstances be more difficult to make.

That said, the case for more pro-resilient investment is clear. The science of climate change makes it apparent that a lack of adaptation finance will lead to

[13] OECD, January 2023, **Private Finance Mobilised by Official Development Finance Interventions**

[14] Climate Policy Initiative, September 2024, **Tracking and Mobilizing Private Sector Climate Adaptation Finance**

significant cost and lost investment, and there is a large return on investment in terms of public goods and human wellbeing. There is significant room for improvement both in mobilising additional financing and in leveraging market and regulatory mechanisms to internalise adaptation into business practices and decision making.[15]

### Actions to mobilise more private finance for adaptation

Stimulating and incentivising good private sector and finance engagement in adaptation and resilience efforts will need to make a compelling case to investors globally, and be accompanied by wider policy and regulatory reforms to align investment incentives with resilient outcomes, as well as increased efforts to connect investors with climate-resilient companies and investment opportunities.

Improving the capacity and impact of private finance for adaptation will require:

> Wider measures to address debt and fiscal space issues in developing economies that can disincentivise and increase the cost of investment. This should include enhancements of credit rating agencies' approaches and methodologies and cover debt sustainability assessments as further outlined in the section on debt.

> Leveraging public interventions as a catalytic function, for example risk sharing measures, guarantees, blended finance, public–private partnerships including those relating to insurance.

> Better data to provide a better picture of how much private finance there is and what it is being used for.

> Better transparency and reporting frameworks to track mobilisation of private finance through public interventions, and indirect mobilisation through MDBs, such as through the enabling environment.

> Pipeline development: identifying investable adaptation projects aligned with national priorities, investing in project preparation, and developing new aggregation approaches to enable large-scale investment across small economies.

> Increased regulatory and policy action to align investment choices with long-term outcomes, including encouraging long-term risk management.

[15] Randall, T., Sedemund, J., Bartz-Zuccala, W., 16 March 2023, **Private investment for climate change adaptation – difficult to finance or difficult to see the finance?**

> Requirement and support for private sector climate transition and adaptation planning.

Many of these measures will come at a cost and force trade-offs – particularly at a time of constrained public finance. Equitable sharing of risk is also important so it is balanced between public and private actors, with benefits and costs accruing equally. Genuinely mobilising the private sector and private investment to better support adaptation will require a raft of radical transformations but could pay huge dividends, both more immediately in increased investment as well as better alignment with the Paris Agreement.

## Innovative new sources of finance

Likely the greatest potential for leveraging large new sums of concessional finance at the scale required lies in new global (or regional) taxes, levies, and "polluter pay" measures. New levies could unlock trillions in new financing while tackling environmentally or socially damaging behaviour. Securing a portion of new taxes for adaptation and other climate and development needs could close the current adaptation financing gap significantly while relieving squeezed national treasuries of additional budget pressure.

Those under the most serious consideration at the moment include new levies on private air travel, financial transactions, maritime fuel, and greenhouse gas emissions.[16] This could include new carbon taxes or increased hypothecation of proceeds from emissions trading schemes. In addition, taxes on excess wealth and/or excess profits also have significant traction with the public, though such taxes face a steep uphill battle to success. Recent multilateral negotiations at the International Maritime Organization agreed a new levy on shipping emissions,[17] but it was not possible to explicitly agree the extent to which this new financing would go towards the adaptation needs of developing countries.

In the current political context, these measures are likely to require solutions that can be implemented by a coalition of willing governments and institutions. The Global Solidarity Levies Taskforce is developing potential options for implementing such levies and will report by COP30.

[16] European Climate Foundation, 17 April 2024, **Countries unite to mobilise additional financing for people and the planet**

[17] BBC News, 11 April 2025, **Global breakthrough to tackle shipping emissions**

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**Actions to unlock new source of finance**

Real action to deliver on these ideas is likely to be both challenging and slow, made more difficult in the current political climate, but there remains important room for progress. Important steps forward could include:

> Supporting an ambitious workplan for the Global Solidarity Levies Taskforce, with political support to advance that work.

> Defining and debating the scope and developing detailed options for a range of new taxes.

> Reflecting adaptation needs (and other climate and development needs) in how any new revenue is allocated.

## Tackling the debt challenges undermining adaptation investment

Emerging markets and developing economies (EMDEs) are facing significant debt challenges; a growing number are already in debt distress and more are at high risk of falling into it. Through the nearly two decades since the last major debt relief effort, countries have faced a growing number of challenges from an economic crisis to a global pandemic. Combined with the need to continue to invest in sustainable economic and social development, these have put significant pressure on budgets. With external finance insufficiently available and affordable, many countries have had to resort to borrowing. The resulting debt sustainability challenges were deepened by the high-interest-rate environment and historically strong US dollar in the aftermath of the pandemic and the subsequent economic crisis.

The intertwined nature of debt vulnerability and climate vulnerability has caused additional challenges for many low-income countries.[18] While the IMF suggests that systemic issues of unsustainable debt stocks seem to be contained, many EMDEs find their fiscal space constrained by mounting debt servicing pressures. This is particularly challenging for climate-vulnerable EMDEs that lack the fiscal space and funds for adaptation finance, and if struck by disaster, must take out new loans at higher costs due to weakened creditworthiness, while revenue gathering becomes more difficult.

[18] E3G, July 2024, **Breaking the Cycle of Risk: Addressing resilience and debt for a new global financial architecture**

This “climate debt trap” exacerbates interconnected risks like food insecurity, regional conflicts, and displacement – furthering regional instability and increasing geopolitical and economic tensions worldwide. As debt and climate risks exert reinforcing pressures, solutions must combine both targeted debt instruments and adaptation needs to deliver macroeconomic stability and prosperity.

### Actions to tackle debt and adaptation needs together

Long-term and fundamental solutions to the growing debt crisis are complex and systemic. They should include establishing an effective debt workout structure and tackling sometimes unfair perceptions of risk in EMDEs. Action could usefully focus on:

> Improving the G20 Common Framework to deliver a more timely, effective, and predictable restructuring process. This could involve doubling down on ongoing efforts from the G20 and Global Sovereign Debt Roundtable to improve the speed of restructuring negotiations by:

- Using a parallel approach to negotiations (IMF ongoing procedural change).
- Promoting transparency and coordination between all actors.
- Addressing existing gaps rather than creating overlapping bodies.
- Enforcing comparability of treatment between bilateral and private creditors.

> Addressing structural challenges by better reflecting sustainable resilience/adaptation investments in debt sustainability assessments (DSAs).

- The IMF and World Bank have begun to systematically include environmental considerations in the DSAs, but much more needs to be done to capture the risks of inaction and benefits of action.
- Credit rating agencies should review their approach to providing ratings in Africa, to better reflect actual (and not perceived) risks.

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> Shorter term solutions that can provide much-needed fiscal relief:[19]

- Debt swaps: for countries facing liquidity pressures (debt servicing) but not for insolvent countries. Swaps can unlock fiscal space for resilience, as for example in Barbados.[20]
- Climate Resilient Debt Clauses: also known as "pause clauses", these clauses are increasingly being introduced but could be improved, defining automatic triggers post shock rather than waiting for an application process in the middle of a crisis, and ensuring their inclusion doesn't undermine affordability and come with a higher premium.

> Parametric insurance products: to enable rapid recovery from shocks, especially in EMDEs, parametric insurance products that provide rapid payouts triggered by pre-defined, measurable events can narrow insurance protection gaps and reduce fiscal strains.

These measures will need to be accompanied by the targeted use of development finance. For instance, addressing the cost of capital/cost of debt issues through the provision of more affordable finance through MDBs and other mechanisms as appropriate. This could include increased lending envelopes from the MDBs but also measures to increase affordability even through their non-concessional arms through improved terms. The use of other instruments like guarantees can also further reduce investment risk and lower the cost of capital.

## Political pathways through 2025 and beyond

The current economic and political context presents challenges and headwinds for significant progress across the adaptation and climate finance agendas. At a time when there are significant pressures on public budgets and fiscal tightening in many countries, arguing for a significant scale-up in spending on adaptation may appear unrealistic and difficult. But not only do the needs – and the consequences of failing to address these needs – remain the same, but there is a clear economic, security and moral case for investment while the cost of a failure to invest is greater than ever.

[19] E3G, Finance for Development Lab, April 2025, **Addressing Debt Distress in Developing Countries**

[20] Brown, A., December 2024, **Barbados' debt-for-climate resilience swap: A blueprint for sustainable development**, Caribbean Trade Law and Development

The cost of inaction will rapidly outstrip the cost of action, not only at a country level, but at a global level. Charting a path forward for local climate resilience is critically important to ensure global resilience, and strategic for long-term economic growth, human development, and global security.

Leaders, ministers and other policymakers will have important opportunities to lay the foundations for significant progress at COP at the end of 2025 – including through the G20 and G7 as well as MDB board meetings and other key moments throughout 2025. Our previous briefing *Pathways Towards Resilience* lays out a detailed roadmap of moments, processes and actors that have an important role to play in driving progress.[21]

Goal setting can play an important role in galvanising both political and institutional action:

> **A statement of ambition to increase adaptation finance to pave the way for political progress.** With the Glasgow adaptation finance goal set to expire at the end of the year, it is imperative that negotiators work to build a clear vision and political approach to laying out how best to increase adaptation finance and what the pathway should be in shaping a new goal in order to set new directions and mobilise political action. Additionally, ensuring that adaptation finance is both embedded across and has a distinct place in the Baku to Belem Roadmap and the approach to move that process ahead in Belem and beyond will be essential.

> **Better leveraging existing institutions through enhanced targets.** Some multilateral players have made important progress in recent years, such as the World Bank's IDA, which is now the largest source of adaptation finance. Institutional targets are an important component for making progress, and as a number of major development banks revise their climate strategies, there is an opportunity to enhance targets to improve both the scale and impact of adaptation finance.

[21] E3G, May 2025, **Pathways Towards Resilience**

While many avenues can and should be pursued to address the critical shortfall in financing, there are a few areas that offer the most potential for scale and success.

> **Getting public finance flowing.** While this is no small feat in the current landscape, some traditional donor countries still prioritise adaptation – often recognising this to be in their geopolitical interests as they seek to realign their relationship with EMDEs, as well as the urgency of the issue itself. Action to sustain a credible level of concessional public finance from these countries is crucial. So too is an increase in bilateral climate finance sources – including from expansion of South–South cooperation.

> **Better finance for resilience.** As well as increasing the level of finance, countries and institutions should embed qualitative principles including additionality and complementarity, protecting grants and highly concessional instruments, and work to make all finance sources more accessible to developing countries.

> **Leveraging MDBs and their ability to provide concessional or better than market rate financing.** This would be critical to addressing the growing debt crisis and maximising the role that MDBs can play in mobilising other sources of finance through de-risking or other measures. The G20 and board-level processes will be critical to achieving this and, while progress may be hard fought in the coming years, keeping the pressure up to deliver on existing reforms to approaches to capital adequacy and operational reform is key.

> **Structural reform to tackle imbalances in the international financial architecture.** Meaningful progress on addressing the growing debt crisis, beyond better leveraging the MDBs, will be required from the structural elements to more short-term relief measures. Additionally, regulatory reform and de-risking could provide productive opportunities to better leverage private finance flows for adaptation needs.

> **Laying the trackwork for new sources of financing.** Global agreement and consensus on implementing new taxes is unlikely in the short term. However, even securing a fraction of these funds would be game-changing for adaptation, so development work to scope out how solidarity levies and similar mechanisms could operate is crucial to making them a reality in the future. An early commitment to use part of the proceeds for adaptation would be a demonstration of intent and a confirmation that countries consider adaptation a priority.

# Conclusion

In conclusion, financing global adaptation and resilience needs is an urgent and daunting challenge but one which is achievable. Public finance will play a crucial role and needs to be prioritised and increased at a time when fiscal space is under strain worldwide, with a clear economic case for its need. Many other steps can be taken to mobilise new public and private sources of finance and to open up fiscal space in developing countries. Innovation is required, along with novel coalitions for action. Taking a fresh strategic approach to achieving these goals will yield economic, social and environmental benefits and support a prosperous and resilient global economy.

# About E3G

E3G is an independent think tank working to deliver a safe climate for all.

We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

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