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The Adaptation Finance Opportunity: Investing in Europe's Resilience[1]

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A rapidly warming world makes adaptation—adjusting to current and future climate impacts—an imperative. Yet despite more than doubling between 2018 and 2022, global adaptation finance remains a fraction of what's needed. A four-pillar strategy built on right data, effective governance, supportive regulatory frameworks and innovative financial instruments can unlock climate adaptation finance in Europe, turning challenges into investment opportunities for greater resilience.

- **Urgent Need & Opportunity**. Physical climate risks (chronic and acute)[2] are already "locked in" by past emissions, making adaptation essential regardless of mitigation progress.[3] With supportive policies and financial incentives, adaptation can become a viable business opportunity for the private sector.

- **Scale of the Adaptation Finance Gap**. Global adaptation finance grew from 2018 to 2022 but still covers only about **25–33%** of emerging-market and developing-economy investment needs through 2030; total funding in 2022 was just **USD 150 billion—≈7%** of all climate finance— and **92%** of it was public.To align with global climate goals, annual adaptation investment must increase nearly **fivefold**, reaching **USD 530 billion per year by 2030** and **USD 700 billion by 2035** (**Figure 1**).

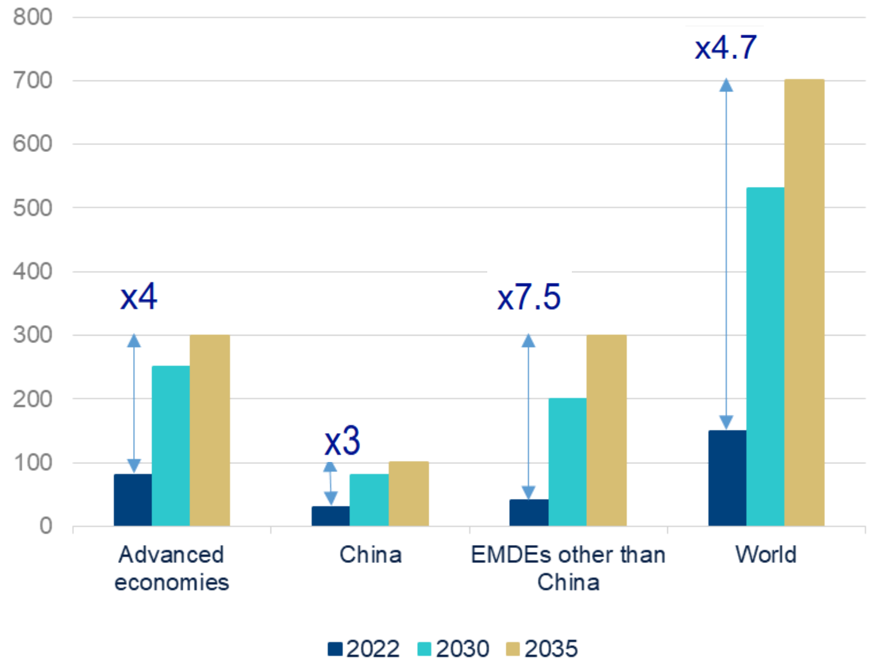
  - EMDEs (ex-China) will need USD 200–300 billion per year by 2030 and USD 300–400 billion by 2035 (up from USD 40 billion in 2022). Advanced economies investment must quadruple to USD 300 billion by 2035; China must triple to USD 100 billion.

[1] This one-pager distills the key messages and lays out both the scale of the funding gap and a four-lever strategy to unlock banking finance in Europe. For further details see Climate Adaptation Finance SHORT . We gratefully acknowledge the valuable comments and suggestions of Elvira Calvo and María Erquiaga.

[2] Physical climate risks refer to the potential direct impacts of climate change, arising from both acute events—such as floods, wildfires, storms, and heatwaves—and chronic changes, including rising sea levels, prolonged droughts, and sustained temperature increases.

[3] In 2024, economic damage caused by natural catastrophes amounted to $310 billion $, 6% more than previous year and 26% compared with the average for the decade. Of the economic losses caused, only a total of 144 billion $ were insured, 15% more year-on-year and 33% more than a decade ago. Reference: Press release Hurricanes, severe thunderstorms and floods drive insured losses above USD 100 billion for 5th consecutive year.

FIGURE 1. ADAPTATION & RESILIENCE INVESTMENT NEEDS BY ECONOMIC REGION FOR 2030 AND 2035 (US$ BILLION 2023)[4]



Source: BBVA Research from Raising ambition and accelerating delivery of climate finance-LSE.

- **From highly uncertain investment needs to the potentially huge business opportunity.** The scale of climate-adaptation investment over the coming decade remains highly uncertain—estimates swing from roughly USD 0.5 trillion (LSE) up to USD 1.3 trillion (BCG)—yet even at the low end these figures dwarf today's funding levels, underscoring a massive financing gap. At the same time, this very uncertainty masks a potentially huge business opportunity: if regulators and policymakers can put in place clear, consistent climate adaptation policies, private capital could be mobilized at scale.
- **Barriers to Private Investment in Europe:** i) **Data gaps** and inadequate climate-risk analytics hinder informed decisions; ii) **Long investment horizons** and unclear or unstable regulations weaken risk–reward; iii) **Inability to capture environmental and social benefits** reduces market returns without public incentives.
- **Four-Lever Strategy to Unlock Banking Finance in Europe.** By combining these levers—improved data, strategic alignment, robust regulation and capital mobilization through de-risking and innovative finance—the banking sector can help unlock climate adaptation banking funding in Europe:
  - **Data Infrastructure & Risk Assessment.** Strengthening Europe's data backbone is critical to guide investment decisions, channeling private capital into adaptation.

[4] The estimates of investment needs for adaptation and resilience in 2030 for China and other emerging markets and developing countries were provided by the Finance chapter team of the UNEP Adaptation Gap Report (Nella Canales, Dipesh Chapagain and Paul Watkiss), based on 2024 analysis using data from updated 2022 analysis of modelled costs, finance needs and international public adaptation finance flows.

Establishing a multi-stakeholder data-sharing hub and convening an industry working group to standardize definitions, methodologies and reporting formats will ensure consistency and comparability across institutions.

- **Strategic Planning & Public-Private Governance**. National Adaptation Plans must evolve from policy blueprints into "investable" pipelines. This involves co-developing with the private sector streamlined project inventories, funding-requirements estimates and milestone-linked government support commitments.

- **Financial Regulation & Taxonomy**. To mainstream adaptation into finance, regulations must be consistent and climate-responsive. Key actions include harmonizing taxonomies, linking funding to climate goals, offering green loans, and requiring climate risk disclosures and insurance coverage.

- **Capital Mobilization & Innovative Instruments.** Overall, financial institutions must define their risk appetite for adaptation financing and, within that framework, leverage de-risking instruments such as government-provided green guarantees. Similarly, pilots of blended-finance structures—combining concessional public funds with commercial equity or debt—will reduce uncertainty and test financial viability and scalability. Private sector initiatives should be used to scale up and reinforce these pilot projects. Furthermore, innovative financing instruments like sovereign resilience bonds, catastrophe bonds, or adaptation-linked loans can then tap institutional investors' appetite for stable, long-dated cash flows. **Development finance institutions** (DFIs) can also play a vital role in mobilizing private investment.[5] Their primary focus should shift from direct financing to large-scale private capital mobilization by deploying effective risk-mitigation instruments such as credit guarantees, insurance, and first-loss mechanisms. To maximize their impact, DFIs must also standardize and streamline their processes to enhance both efficiency and scalability.

In summary, unlocking climate adaptation funding in Europe demands a coordinated approach combining data, strategic planning, regulation, and innovative finance. By enhancing data systems, aligning public-private efforts, and embedding adaptation into financial practices, this strategy sets the foundation for scaling investment and building a climate-resilient economy.

[5] In this regard, the Fourth International Conference on Financing for Development states in its "Sevilla Commitment": "... We encourage the multilateral development banks and development finance institutions to strengthen their catalyzing capacity for private sector financing in developing countries, including by supporting early-stage finance and enhancing projects' bankability."

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