POLICY BRIEF

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Breaking the Binary Barrier: Rethinking Vulnerability Classifications in Adaptation Finance

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Accelerating Climate Action and the Just Energy Transition

SUB-THEME 2

Abstract

A ‘vulnerability-oriented’ standard of disbursing adaptation finance at the national level can fail to meet local-level adaptation needs effectively and efficiently. Communities on the frontlines and local actors who are the first responders to climate change impacts face a crisis of limited direct and indirect access in securing adequate financing. The absence of a unified framework defining the ‘local level’ and identifying local actors has led to exclusionary adaptation processes, which further deprioritise the financing, design, and implementation of locally led adaptation projects.

A simple vulnerability-oriented prioritisation has shown weaknesses in concretely capturing countries’ aggregated or overall risk to climate change. Firstly, this compounds the added burden of a disabling environment, wherein fragile states, despite their overt vulnerability, may not successfully secure adaptation finance. Countries with equal and even greater vulnerability are in danger of slipping through the cracks due to their limited institutional capacities. Secondly, middle- and upper-middle-income developing countries risk exclusion despite their often-significant climate risks and vulnerabilities at the local level. Adaptation finance should reach all vulnerable countries and communities at risk of adverse climate impacts. The practical and political challenge of meeting the fiduciary donor standards without excluding politically fragile states or higher-income developing countries hinders the progression of scaling adaptation finance.

The binary approach observed in these dynamics of local versus national levels, stability versus fragility, and low-income versus middle-income countries, spills over in sourcing adaptation finance by framing it in the dichotomy of public and private. To overcome the challenge of scaling adaptation finance, climate finance donors should move beyond the binary classification that dictates their funding allocation and embrace nuanced and multifaceted approaches. Multi-actor partnerships, particularly within developing countries, can effectively scale up adaptation finance in a bespoke way by being cross-sectoral and context-specific to on-the-ground realities. These should be representative and inclusive with a focus on capacity building, as well as technology and skills transfer to supplement landscapes with weaker governance and institutional arrangements.

Keywords: Vulnerability, Risk, Binary, Local, Sub-National, Developing Countries, Adaptation Finance

Diagnosis

The binary barrier

Adaptation finance is a critical enabler for developing countries to address the adverse impacts of climate change. However, countries continue to face challenges related to accessibility, sufficiency, and effectiveness of finance. In addition, a national-level, 'vulnerability-oriented' allocation and disbursement of adaptation finance might not always be able to effectively and efficiently meet local-level needs and priorities, as it can create unintended barriers by setting a binary paradigm that obstructs efforts to scale adaptation finance.

The level of vulnerability a country faces with respect to climate change is a central factor in the allocation and disbursement of adaptation finance. Furthermore, adaptation finance is mainly allocated at the national level, but adaptation needs – and the implementation of adaptation actions – are highly localised and context-specific. Actors at subnational levels of governance (such as local communities and leaders, who are often the first responders to climate impacts) face challenges and constraints in accessing adaptation finance, such as capacity and information gaps or administrative barriers.

This brief illustrates challenges with vulnerability-based allocation and frameworks that focus primarily on climate vulnerability at the national level; the binary system in the context of national versus local funding; and the dichotomy between public and private adaptation finance.

Adaptation finance needs to strengthen the coping and adaptive capacities of frontline communities, which is a crucial aspect of adaptation besides managing hazards and reducing exposure. Climate finance allocation models that use a binary assessment of 'vulnerable' and 'not vulnerable' may fail to capture local realities, as they often use a national scale, which evens out different regions and local contexts with different characteristics and conditions. Such a framing is at risk of unintentionally excluding countries and communities that are still in need but do not have their vulnerabilities concretely measured. One example of this binary approach is the national-level allocation of adaptation finance, which often fails to meet local-level needs effectively.[1] Similarly, stable states might be preferred over fragile states, despite the latter's greater vulnerability; or low-income over middle-income countries that still have localised vulnerabilities. Therefore, it is crucial to include locally differentiated assessments that capture the complex, multidimensional nature of vulnerability and are not limited to projected climate impacts.

Vulnerable countries most eligible for adaptation funding are those that are physically exposed to climate change impacts. However, this vulnerability assessment excludes countries that do not face this immediate physical risk but are socially and economically vulnerable to climate change. Here, developing countries above low-income status face a barrier to accessing adaptation finance.[2] Although they may not be classified as highly vulnerable compared to lower-income nations, they still grapple with national crises – such as poverty and debt – that are exacerbated by climate change. This two-fold dilemma is compounded by additional considerations of who merits adaptation finance, wherein the national environment and economic positioning of a country also play a role.[3] In this case, adaptation finance is readily secured by countries

[1] SLYCAN Trust, Local-Level Access to Climate Finance for Adaptation and Loss and Damage, 2024, https://slycantrust.org/knowledge-resources/primer-local-level-access-to-climate-finance-for-adaptation-and-loss-and-damage .

[2] Todd A. Eisenstadt, Ifeoluwa Olawole, and Michael A. Toman, "Climate Adaptation Finance in World Bank Economic Development Programs: The Challenges of Systemic Transformation via 'Scaling Up,'" *Sustainability* 13, no. 19 (2021), https://doi.org/10.3390/su131910553 .

[3] Deepal Doshi and Matthias Garschagen, "Understanding Adaptation Finance Allocation: Which Factors Enable or Constrain Vulnerable Countries to Access Funding?" *Sustainability* 12, no. 10 (2020), https://doi.org/10.3390/su12104308

categorised as having good governance[4] and being stable over countries marked as fragile, with disabling environments due to conflict or lack of institutional readiness.[5]

These examples highlight the danger of overlooking the urgency and specificity of local vulnerabilities when it comes to the allocation of climate finance. By focusing on national vulnerability, it creates a delineation from the local level, which in turn is not clearly defined,[6] thus leading to adaptation processes that deprioritise the financing, design, and implementation of locally led adaptation projects. Ultimately, developing countries and their local communities are all at risk of adverse climate change impacts. This poses a practical and political challenge to draft a reference framework that meets fiduciary donor standards without compromising the real needs of developing countries to secure adaptation funding and project implementation. Nonetheless, this is necessary in dismantling barriers to scaling up adaptation finance.

This brief aligns with the G20's priority to strengthen climate resilience and response and address the lack of predictable and sustainable financing to developing countries for green growth and climate change adaptation. It seeks to highlight gaps in the current adaptation finance framework and provide recommendations for the G20 to establish a more inclusive and effective financing system that reaches both national governments and local communities.

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[4] Mizan Khan et al., "Twenty-Five Years of Adaptation Finance through a Climate Justice Lens," *Climatic Change* 161, no. 2 (2020), https://doi.org/10.1007/s10584-019-02563-x .

[5] Matthias Garschagen and Deepal Doshi, "Does Funds-Based Adaptation Finance Reach the Most Vulnerable Countries?" *Global Environmental Change* 73 (March 2022), https://doi.org/10.1016/j.gloenvcha.2021.102450 .

[6] Jessica Omukuti et al., "The Green Climate Fund and Its Shortcomings in Local Delivery of Adaptation Finance," *Climate Policy* 22, no. 9–10 (2022): 1225–40, https://doi.org/10.1080/14693062.2022.2093152 .

Recommendations

If adaptation finance is to reach effectively those on the frontlines of the climate crisis, the understanding of vulnerability must move beyond binary categories and employ a framework that is both universally applicable and context-specific, while following principles of climate justice and equity. This brief argues that this includes shifting away from binary concepts of vulnerability that gloss over the multi-dimensional realities and varied contexts of adaptation needs; bridging the national–local divide and addressing associated issues of access to finance; and breaking the dichotomy of public and private sources of adaptation finance.

First, the fact that local communities bear the brunt of climate impacts should guide the development of a vulnerability framework that is highly responsive to local shocks. A holistic assessment of vulnerability and risk could incorporate multiple dimensions and account for non-climate-related factors as well, such as macroeconomic constraints, fragile contexts, and governance gaps. This includes, inter alia, barriers and 'dis-enablers' such as high cost of capital, low credit ratings, limited risk tolerance of investors, lack of infrastructure, lack of capacity to absorb and manage finance, or high security costs and risks for finance providers. Furthermore, broader changes to the international financial architecture could also help to reduce systemic factors that hinder developing countries, including those in conflict-affected or fragile contexts, in accessing adaptation finance and effectively strengthening national and subnational adaptive capacities.[7]

Improving data and information availability, accessibility, and transparency could help to make such a framework more robust and link it to effective

[7] World Economic Forum. Navigating Global Financial System Fragmentation. Geneva: World Economic Forum, 2025, https://reports.weforum.org/docs/WEF_Navigating_Global_Financial_System_Fragmentation_2025.pdf

monitoring and evaluation (M&E) and learning arrangements, thereby demonstrating the real-world efficacy of adaptation interventions.

Second, such a framework will need to distinguish between different levels of governance, including subnational and local levels. This process will require representative stakeholder engagement, which is reflective of community clusters beyond formal municipalities and subnational governing bodies. Stakeholders must be inclusive of Indigenous voices, women, youth, marginalised peoples, and community leaders. At this communal and individual level, vulnerability is most pronounced, but access to adaptation finance remains a persistent challenge. The G20 could catalyse further exploration of options to enhance equitable access to climate finance for subnational and local actors, such as programmatic approaches, fast-track accreditation systems, capacity-building or built-in support for funding recipients, including through project preparation facilities, kick-off funding for proposals, provision of accounting packages, or fixed M&E allocations.[8] This is important to enable fiscal decentralisation and, in turn, bolster community agency.

Third, the binary template also affects discussions on the sources of adaptation finance, particularly on public versus private financing. Avoiding an either/or approach could be achieved by establishing or strengthening multi-actor partnerships, platforms, and collaboration models (such as blended finance facilities or public–private–people partnerships) that are inclusive, representative, and empowering.[9] Public and private finance should be treated as complementary, not competing, helping to address barriers to scaling adaptation finance, hybrid indicators, community-defined vulnerability metrics, and cross-sectoral policy interventions. Furthermore, inclusive multi-actor

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[8] SLYCAN Trust, Local-Level Access to Climate Finance for Adaptation and Loss and Damage, 2024, https://slycantrust.org/knowledge-resources/primer-local-level-access-to-climate-finance-for-adaptation-and-loss-and-damage.

[9] SLYCAN Trust, Research Report: Strengthening Sri Lanka's Ecosystem for Climate and Disaster Risk Management and Finance, 2023, https://slycantrust.org/knowledge-resources/research-report-strengthening-sri-lankas-ecosystem-for-climate-and-disaster-risk-management-and-finance

partnerships can help to address the other two challenges of binary vulnerability metrics and local/national divides by strengthening the enabling environment and facilitating capacity building, as well as the transfer of technology and skills. Weak institutions, conflict, and low absorptive capacity work against fragile states, threatening to deepen existing inequalities within and outside these countries. The G20 could facilitate South–South and triangular cooperation to counteract these barriers and support institutional readiness to receive adaptation funding.

The above recommendations are first steps in reframing the conversation on how we communicate, measure, and track the complex vulnerabilities faced by countries at the national as well as local level, and remove access barriers to ensure that adaptation finance reaches those who need it the most.

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