HOW TO PREPARE BANKABLE PROJECTS FOR FINANCING CLIMATE CHANGE ADAPTATION IN TRANSBOUNDARY BASINS

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Introduction & Key Concepts for Adaptation Financing

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INTRODUCTION TO THE TRAINING

• Key concepts and definitions of Adaptation Financing
• Funding Mechanisms & Partners
• Transboundary Issues
• Preparing Bankable projects
• Regional Perspectives
• Understanding donor selection & financing processes
• Interactive Panel Discussion

➤ Case Studies
➤ Exercises
SESSION 1 OVERVIEW

• Definitions
• Needs v. Availability of finance
• Broader context for climate adaptation financing
• From needs to implementation: The Project Cycle
• Landscape of finance flows and instruments
DEFINITIONS
Adaptation v. Resilience:

• **Adaptation**: Measures taken to protect countries and communities from the likely disruption and damage that will result from the impacts of climate change.

• **Resilience**: the capacity to: (1) absorb stresses and maintain function in the face of the impacts of climate change and (2) adapt, reorganize, and evolve in a way that improves sustainability of the system, leaving it better prepared for future climate change impacts.

* The fact that climate resilience encompasses a dual function, to absorb shock as well as to self-renew, is a means by which it can be differentiated from the concept of adaptation.
Adaptation v. Resilience: IPCC

• **Adaptation**: In human systems, the process of adjustment to actual or expected climate and its effects, **in order to moderate harm or exploit beneficial opportunities**.

• **Resilience**: The ability of a system and its component parts to anticipate, absorb, accommodate, or recover from the effects of a hazardous event in a timely and efficient manner, including through ensuring the preservation, restoration, or improvement of its essential basic structures and functions.

• VERY OFTEN USED INTERCHANGEABLY.
How else is he going to keep his business running?
CLIMATE FINANCE

CLIMATE FINANCE =

• Finance for MITIGATION & ADAPTATION activities
• From Public, Private, Alternative, or Blended sources
• Delivered through National, Regional and/or International channels
Climate Change, Development or both?

• Adaptation Finance v. Development Finance
  – Access
  – Accounting
  – Transparency

• UNFCCC context
  – Article 4: Obligations of Developed Countries
  – “New and additional”
  – Oversight: UNFCCC >> Measuring Obligations
  – “Financial Mechanism” (incl. GCF)

• Financing BEYOND the UN system
  – Private investments, Philanthropic, NGOs, other
1. ADAPTATION OR RESILIENCE
   Drought resilient crop substitution
   a) Person 1 describe this as an Adaptation project
   b) Person 2 describe this as a Resilience-building project

2. DEVELOPMENT OR CLIMATE?
   Installation of irrigation system
   a) Person 1 describe this as a Development Project
   b) Person 2 describe this as a Climate Change Project
CONTEXT
THE WIDER CONTEXT

• Paris Agreement (Science or Politics)
  – Nationally Determined Contributions (NDCs)

• Agenda for Sustainable Development (SDGs) 17 goals, 169 targets, 193 members

• National / Regional Development Plans

• Bilateral relationships (Aid, Trade)

• Other...
The Scale of Investment Needed

• By 2020, about $5.7 trillion will need to be invested annually in green infrastructure, mostly in the developing world. (WEF)

• Require shifting the $5 trillion in business-as-usual investments into green investments + additional $700 billion to ensure shift

• We are currently at roughly $360 billion annually. Developed country governments providing $10-20 billion per year (CPI).

• Both public and private levels of funding need growth.
Financing Climate Adaptation & Resilience

- As climate change becomes more severe than originally projected, estimated adaptation finance needs for developing countries are doubling or tripling every few years.

- UNEP Adaptation Gap report: cost of adaptation in developing countries estimated to reach $280 and $500 billion p/year by 2050 (4-5 times greater than previous estimates).

- Developing countries need to be more resourceful in accessing existing funds, leveraging new finance, and working strategically with national/regional development plans, budgets and resources to meet increasing needs.

- Competition for funding is high as demand exceeds both current and projected availability.
Financing Climate Adaptation & Resilience

There’s still a huge gap between how much adaptation finance we have and how much we need.

• The most recent estimates show that the developing world will require $140 to $300 billion a year by 2050 to adapt to climate change.

• Taking the most recent commitments for adaptation in 2013 and the lowest estimated needs by 2050\(^1\), adaptation finance will need to increase by \textbf{438 percent} by 2050.

UNEP
ADAPTATION GAP REPORT 2016
Financing Climate Adaptation & Resilience

- Estimated Adaptation Costs for Africa
  - "4°C world" (RCP8.5)
  - Policy Reference
  - Current Pledges
  - "2°C world" (RCP2.6)

- Total of Adaptation and Residual Damage costs for Africa (2100) excluding from sea-level rise
  - Further rise in costs due to inadequate adaptation
  - Rise in costs due to inadequate mitigation

- Percentage of GDP Africa
  - "2°C World" with adaptation
  - Policy Reference with adaptation
  - Policy Reference without adaptation
The Relationship: Adaptation and Mitigation

• More mitigation less adaptation

• Mitigation receives more financing

• Projects with Co-benefits are particularly attractive to funders & investors
CLIMATE ADAPTATION: FROM NEEDS TO IMPLEMENTATION
Landscape of climate finance flows & instruments
Global Climate Finance Architecture

The architecture of the funds

Contributor Countries: Australia, Canada, EU, France, UK, Germany, Japan, Norway, US, Denmark, Others

Bilateral Institutions:
- Dedicated climate finance funds and initiatives monitored on CFU
- Implementing agencies: DFAT, CID, FEM, DEFRA, NAMA Facility, BMZ, MOFA, NORAD, Ex-Im, OPIC, USAID, GCPF

Multilateral Institutions:
- UNFCCC Financial Mechanisms: COP, JI, CDM, GCF, AF, GEF*
- Non-UNFCCC Financial Mechanisms: MDBs, FCPF, WB, ADB, AIIB, EBRD, IFAD, UN Agencies, UNDP, UNEP, CBFF, ACCF, GEEREF, PMR, Bio Carbon Fund, CTF, SCF, FIP, SREP, PPGR

Regional Risk Pooling Mechanisms:
- Africa Risk Capacity, Caribbean Catastrophe Risk Insurance Facility

NOTE: The schematic is indicative and does not capture all climate finance funds and initiatives.
The public sector contributed between USD 132 and 139 billion (on average USD 135 billion), or around 38% of overall global climate finance flows in 2011/2012.

Private actors again contributed the lion’s share of climate finance in 2012 with investments totaling USD 224 billion, much of which was enabled by public investments.
FINANCIAL LEVERAGE: PRIVATE - PUBLIC FUNDING SOURCES, WITH GRANTS

Financial Package: Private funds, Public funds, and Technical Assistance
LEVERAGE

Climate finance from public sources of funding require that the project’s sponsor mobilise funding from other sources, including the private sector. Higher the leverage, more effective is the use of public climate finance, and an indication of the commercial viability of a project.

Example: If the GCF provides $10 mm loan to a fishery company in Nigeria, and one that basis the risk profile of the project improves and attract $30 mm from local banks, then the leverage is 1:3, which would be an excellent leverage for a climate resilience project.
Understanding the Project Cycle
THE PROJECT CYCLE

- Identifying needs & priorities
- Define & design
  - Feasibility studies, scope, etc.
- Prepare > Approve
- Implementation
- Evaluate
1. **Country Assistance Strategy**
The World Bank proposes financial, advisory and technical services to help countries identify their priorities and reach their main development goals.

6. **Evaluation**
After a Borrower completes a project, the Bank’s Independent Evaluation Group (IEG) measures the outcomes against original objectives and assesses whether or not the project’s results can be maintained over the long term. A number of projects are further scrutinized in detailed impact evaluation reports.

5. **Implementation and Completion**
At the end of the loan or credit disbursement period (anywhere from 1-10 years), a completion report identifying project results, problems and lessons learned is submitted by operations staff to the Bank’s Board of Executive Directors for information purposes.

2. **Identification**
Ideas for creating meaningful change are discussed. Borrower and Bank representatives weigh development objectives and project impacts, risks, alternatives and timetable.

3. **Preparation, Appraisal and Board Approval**
With advice and financial assistance from the Bank, the Borrower conducts studies and prepares detailed project documentation. The Bank assesses the economic, technical, institutional, financial, environmental and social aspects of the project.
When the Bank and the Borrower agree on the terms of a loan or credit, the project is presented to the Bank’s Board of Executive Directors for approval.

4. **Implementation and Supervision**
The Borrower implements the project, issuing contracts through a competitive bidding process that follows the Bank’s procurement guidelines. World Bank staff periodically supervises the project to make sure that the loan proceeds are used for intended purposes and with due regard for economy, efficiency and effectiveness.
European Investment Bank

**Project cycle**

1. Identification of a project opportunity
2. Project appraisal
   - Financial
   - Economic
   - Social
   - Environmental
   - Technical
3. Management Committee Review / Approval
4. Board of Directors' Approval
5. Repayment
6. Physical & financial monitoring
7. Disbursement
8. Contract signed
9. Negotiation
10. Loan approved
African Development Bank

Project Cycle

- Project identification
- Project preparation
- Project appraisal
- Loan negotiation
- Board approval
- Loan signing
- Loan effectiveness
- Implementation
- Post evaluation
Adaptation Fund Project Cycle

A. Submission of the project or programme to the AFB secretariat using templates approved by the AFB

B. Screening for consistency and technical review by the secretariat

C. Review by the Project and Programme Review Committee. Can use services of independent experts

D. Decision-making by the AFB

E. Contracting by the AFB. Disbursement of funds by the Trustee upon written instruction by the AFB.

F. Project implementation and monitoring by the Implementing Entity

ALL PROJECTS: ANNUAL STATUS REPORTS AND TERMINAL EVALUATION REPORTS
Green Climate Fund Project Cycle

1. The Accredited Entities or the National Designated Authority submit a concept note (voluntary);
2. The AE submit the project proposal to the GCF, in conjunction with a no-objection letter signed by the NDA;
3. The GCF reviews selected sections of the proposal and the Independent Technical Advisory Panel (ITAP) of the Fund undertakes a technical assessment and provides recommendations;
4. Based on the review and the technical assessment, the GCF decides whether or not to approve the funding; and,
5. If the proposal is approved, a Funded Activity Agreement (FAA) is negotiated and signed between the AE and the GCF.
Climate Finance Instruments – World Bank Group Example

### Readiness
- **Policy Mapping & Analysis; Institutional capacity building; MRV, Baseline setting; Methodological framework; Enabling environment**
- Partnership for Market Readiness (PMR)
- CADF (CPF Readiness Fund)
- Forest Carbon Partnership Facility (FCPF) Readiness Fund
- Carbon Initiative for Development (Ci-Dev) Readiness Fund
- BioCarbon Fund Initiative for Sustainable Forest Landscapes (BioCF ISFL)
- Pilot Program for Climate Resilience (PPCR) I/II
- Global Environment Facility (GEF)
- Ozone Trust Fund (OTF)
- Least Developed Countries Fund (LDCF)
- Special Climate Change Fund (SCCF)
- Adaptation Fund (AF)
- Global Fund for Disaster Reduction and Recovery (GFDRR)
- Korea Green Growth Trust Fund (KGGTF)
- Carbon Finance Assist (CF-Assist)

### Investment
- Loan/Credit
- Grant
- Guarantee
- Equity
- Clean Technology Fund (CTF)*
- Forest Investment Program (FIP)*
- Scaling-up Renewable Energy Program (SREP)*
- PPCR I*
- GEF*
- OTF
- AF
- IFC-Canada Climate Change Program
- Green Climate Fund

### Results-based Payments
- Carbon credits (incl. REDD)
- Carbon-linked mitigation results
- CPF Carbon Fund
- FPCF Carbon Fund
- Ci-Dev Carbon Fund
- BioCF ISFL
- Methane Facility (PAF)
- Transformative Carbon Asset Facility (TCAF)

* IFC can access these sources of climate finance to support private sector projects

Note: IBRD, IDA, IFC internal financing instruments are not included.