African Water Facility
Facilité africaine de l'eau
Mobilising Resources for Water in Africa
Mobiliser des ressources pour l'eau en Afrique

European Investment Bank
The EU bank

Ministry of Infrastructure and the Environment

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Bundesamt für Umwelt BAFU
Office fédéral de l'environnement OFEV
Ufficio federale dell'ambiente UFAM
Uffizi federal d'ambient UFAM

UNECE

WORLD BANK GROUP
Water

INTERNATIONAL NETWORK OF BASIN ORGANIZATIONS

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

Dakar, Senegal, 21-23 June 2017

Introduction & Key Concepts for Adaptation Financing

Ana Maria Kleymeyer

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

Financing Climate Adaptation & Resilience

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.

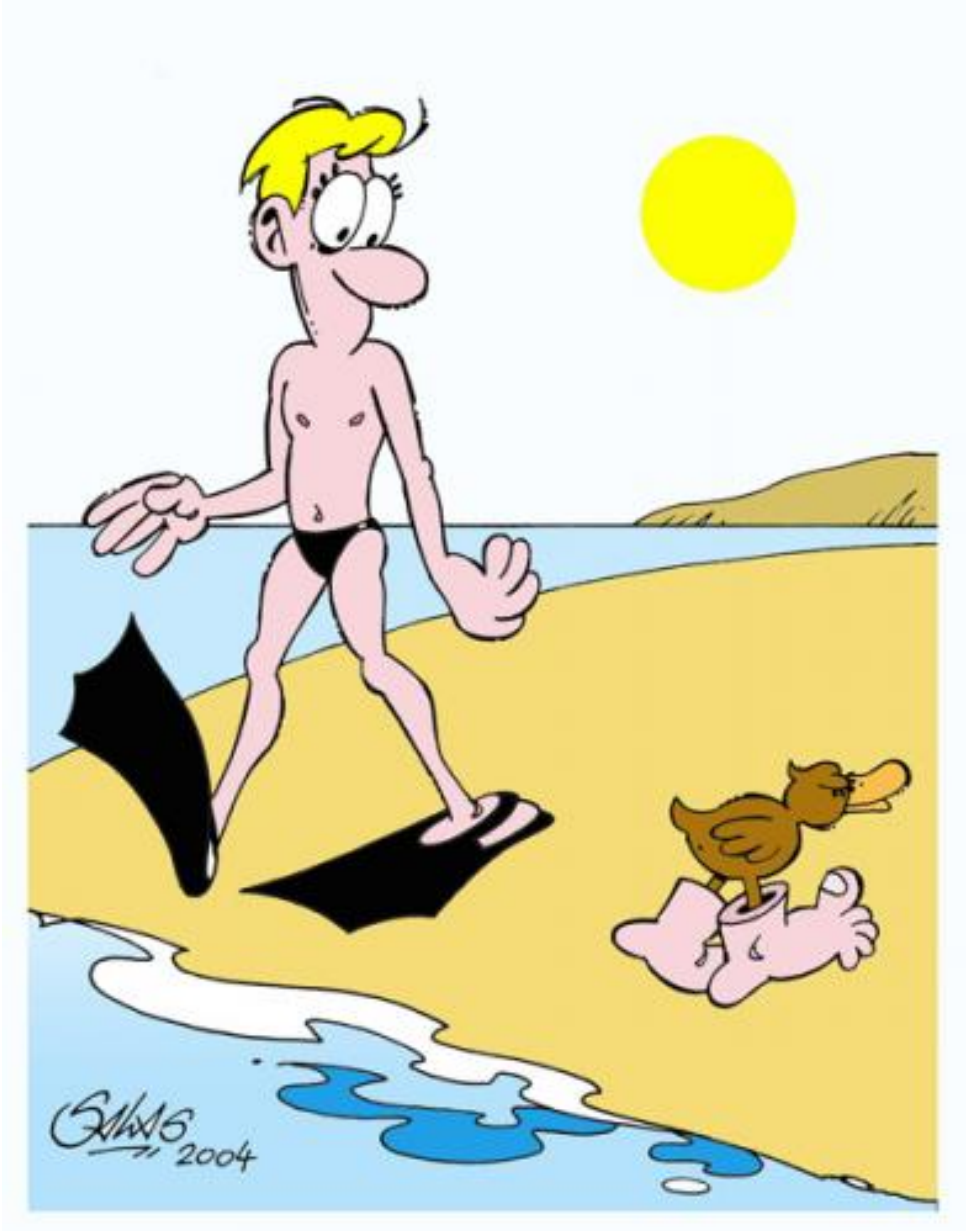
Financing Climate Adaptation & Resilience

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.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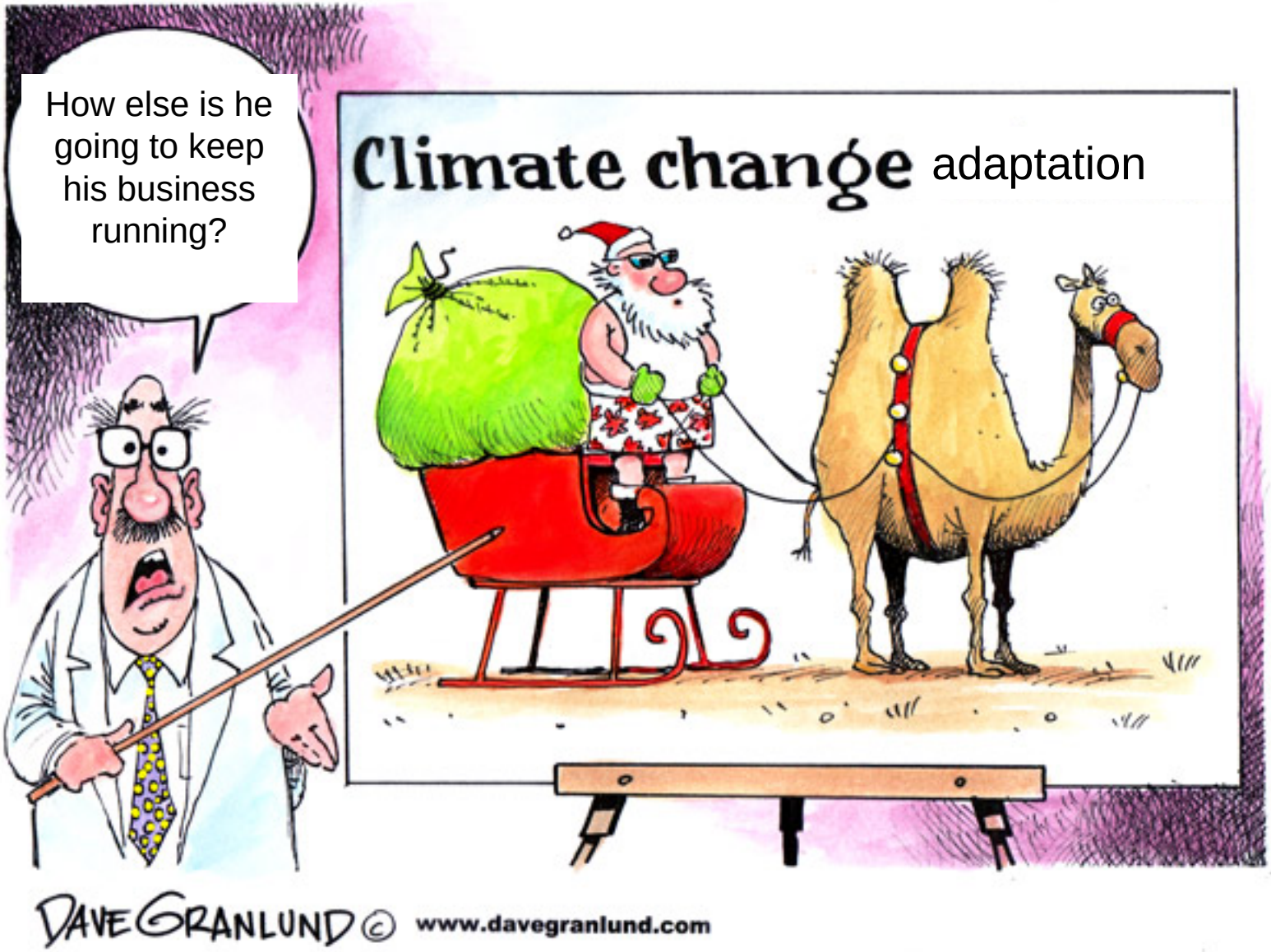
How else is he going to keep his business running?
Climate change adaptation
DAVE GRANLUND ©
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CLIMATE FINANCE

CLIMATE FINANCE =

- Finance <u>for</u> MITIGATION & ADAPTATION activities
- <u>From</u> Public, Private, Alternative, or Blended sources
- Delivered <u>through</u> 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**

Exercise

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 BROADER 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 adpation 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.

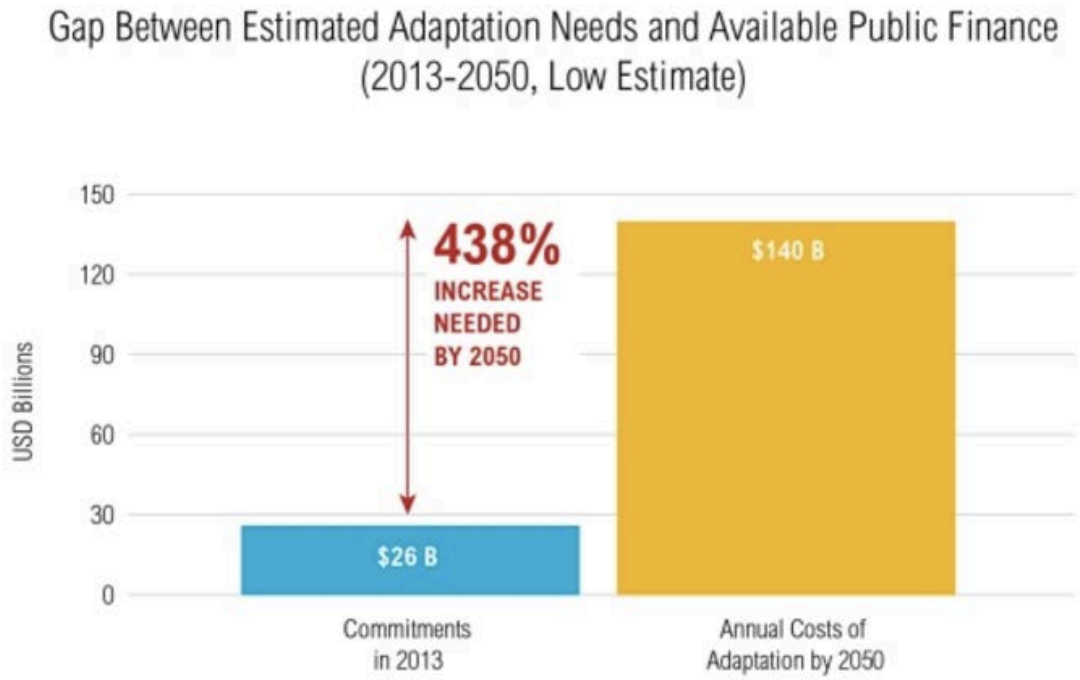
Financing Climate Adaptation & Resilience

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

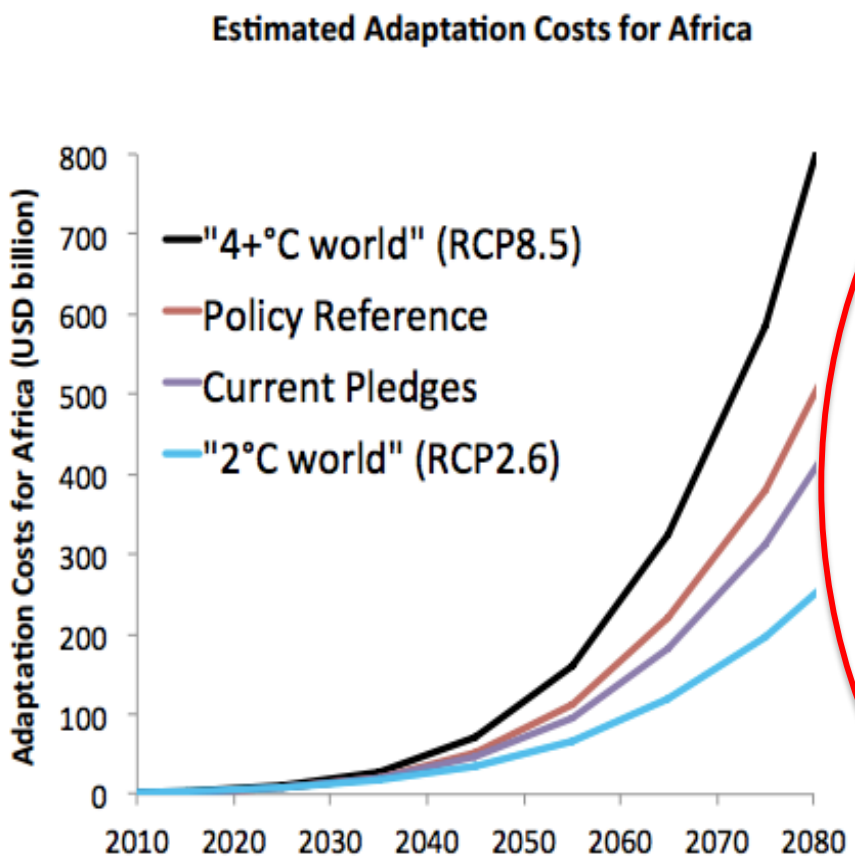
- The most recent estimates show that the developing world will require $140 to $300 billion a year by 2050 to adapt to climate change.

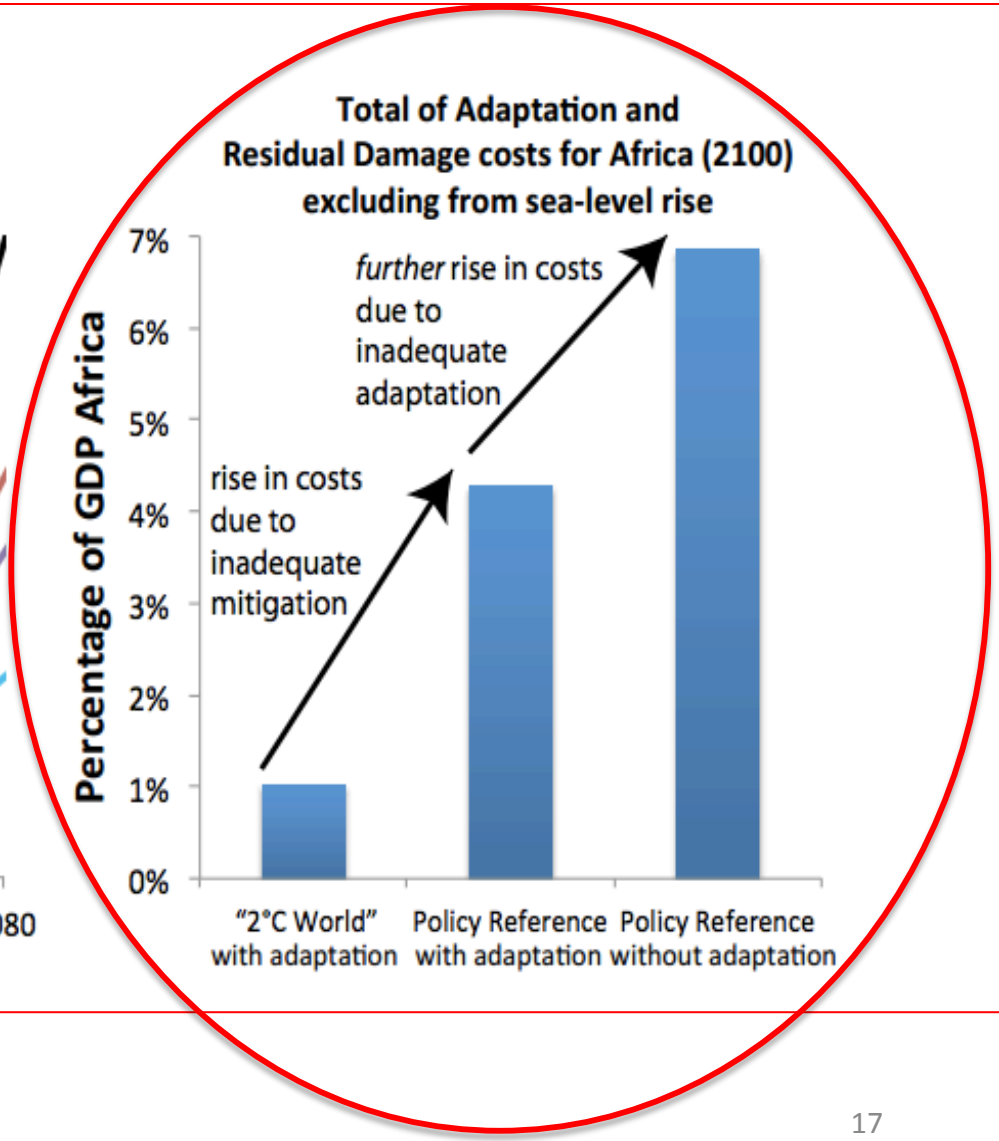
- Taking the most recent commitments for adaptation in 2013 and the lowest estimated needs by 2050[1], adaptation finance will need to increase by **438 percent** by 2050.

UNEP ADAPTATION GAP REPORT 2016



Financing Climate Adaptation & Resilience





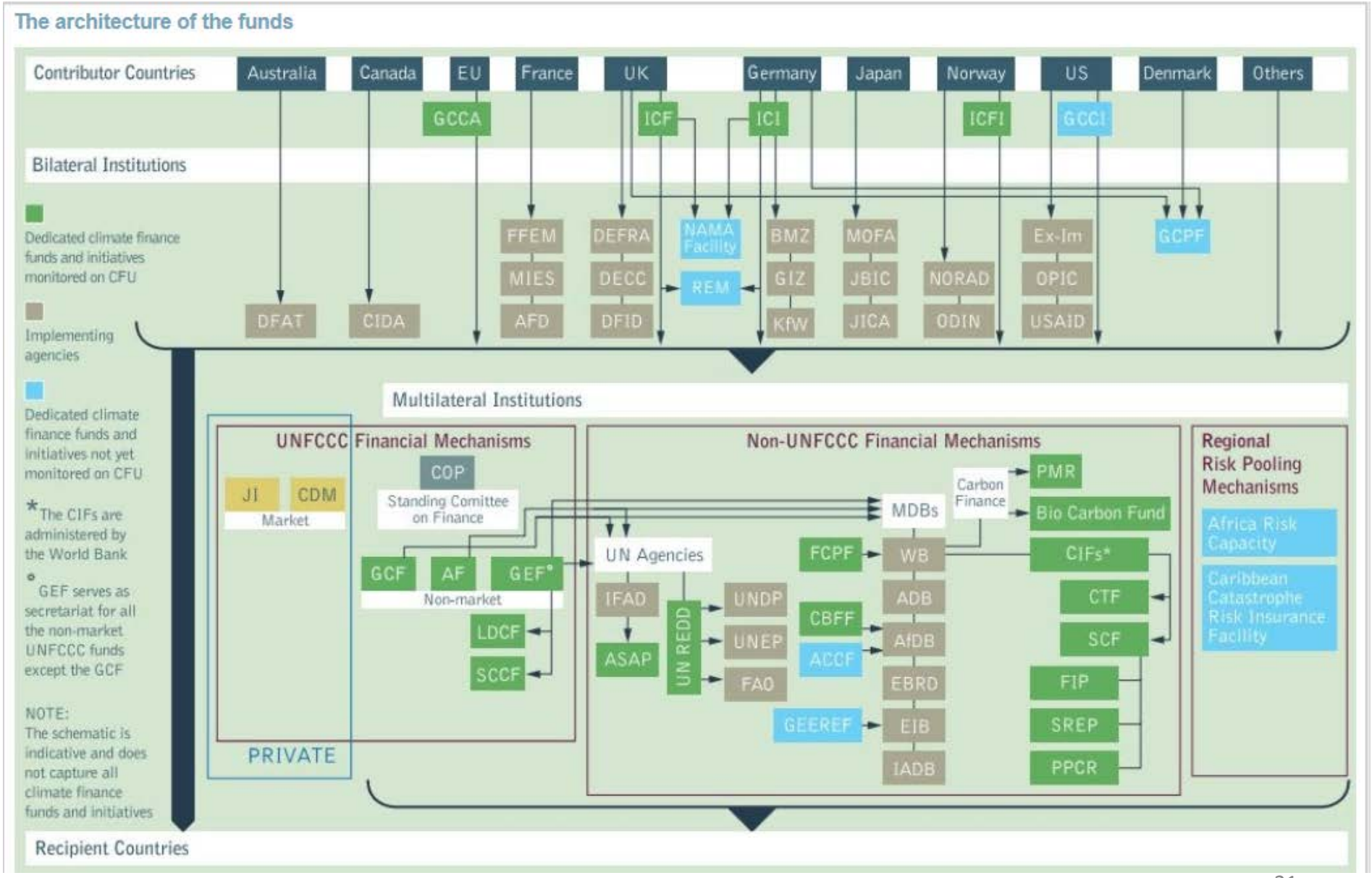
The Relationship: Adaptation and Mitigation

- **More mitigation less adaptation**
- **Mitigation receives more financing**
- **Projects with Co-benefits are particularly attractive to funders & investors**

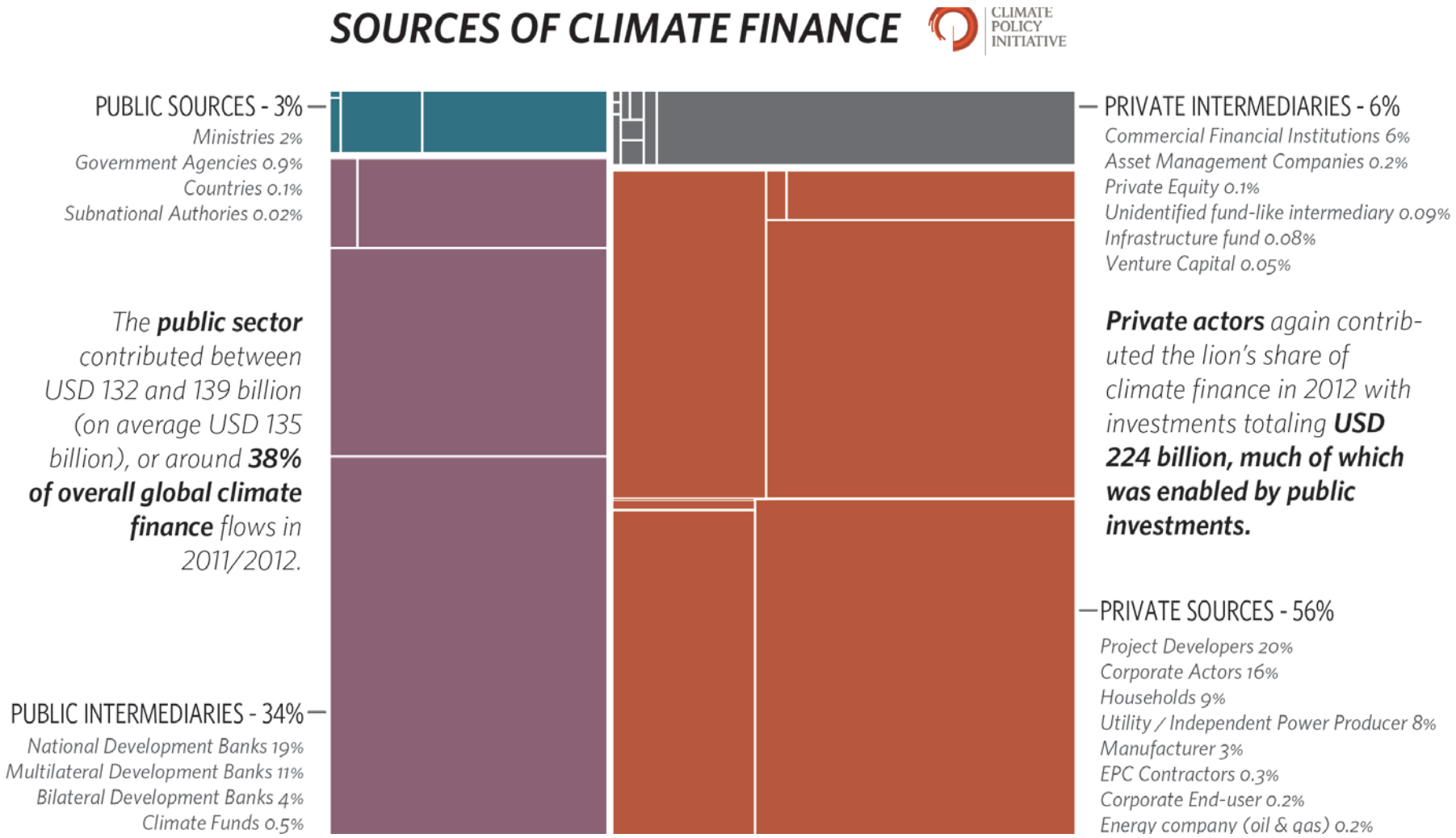
CLIMATE ADAPTATION: FROM NEEDS TO IMPLEMENTATION

Landscape of climate finance flows & instruments

Global Climate Finance Architecture



Sources

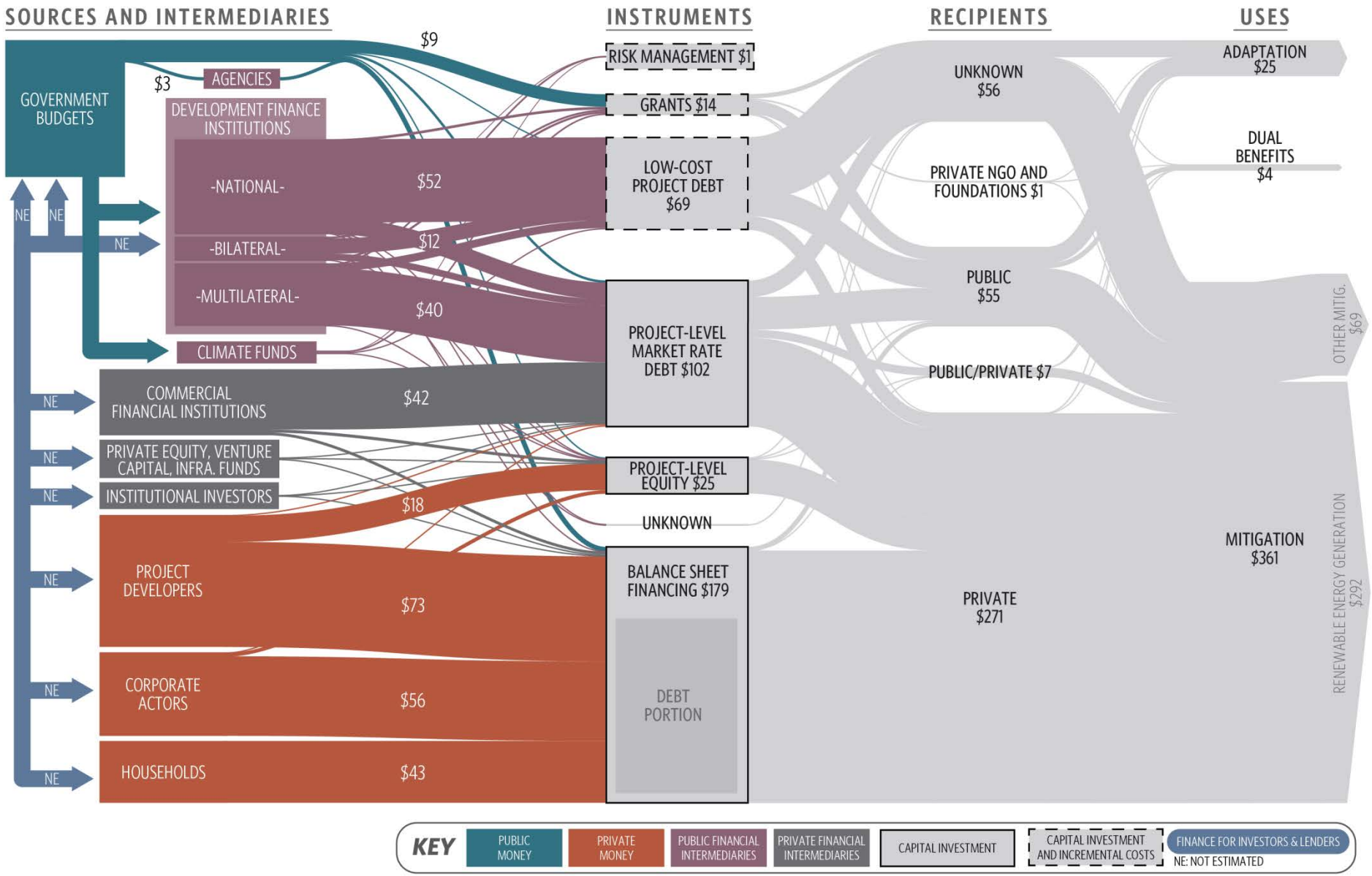

SOURCES OF CLIMATE FINANCE
CLIMATE POLICY INITIATIVE
PUBLIC SOURCES - 3%
Ministries 2%
Government Agencies 0.9%
Countries 0.1%
Subnational Authories 0.02%
The public sector contributed between USD 132 and 139 billion (on average USD 135 billion), or around 38% of overall global climate finance flows in 2011/2012.
PUBLIC INTERMEDIARIES - 34%
National Development Banks 19%
Multilateral Development Banks 11%
Bilateral Development Banks 4%
Climate Funds 0.5%
PRIVATE INTERMEDIARIES - 6%
Commercial Financial Institutions 6%
Asset Management Companies 0.2%
Private Equity 0.1%
Unidentified fund-like intermediary 0.09%
Infrastructure fund 0.08%
Venture Capital 0.05%
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.
PRIVATE SOURCES - 56%
Project Developers 20%
Corporate Actors 16%
Households 9%
Utility / Independent Power Producer 8%
Manufacturer 3%
EPC Contractors 0.3%
Corporate End-user 0.2%
Energy company (oil & gas) 0.2%

GLOBAL LANDSCAPE OF CLIMATE FINANCE 2015

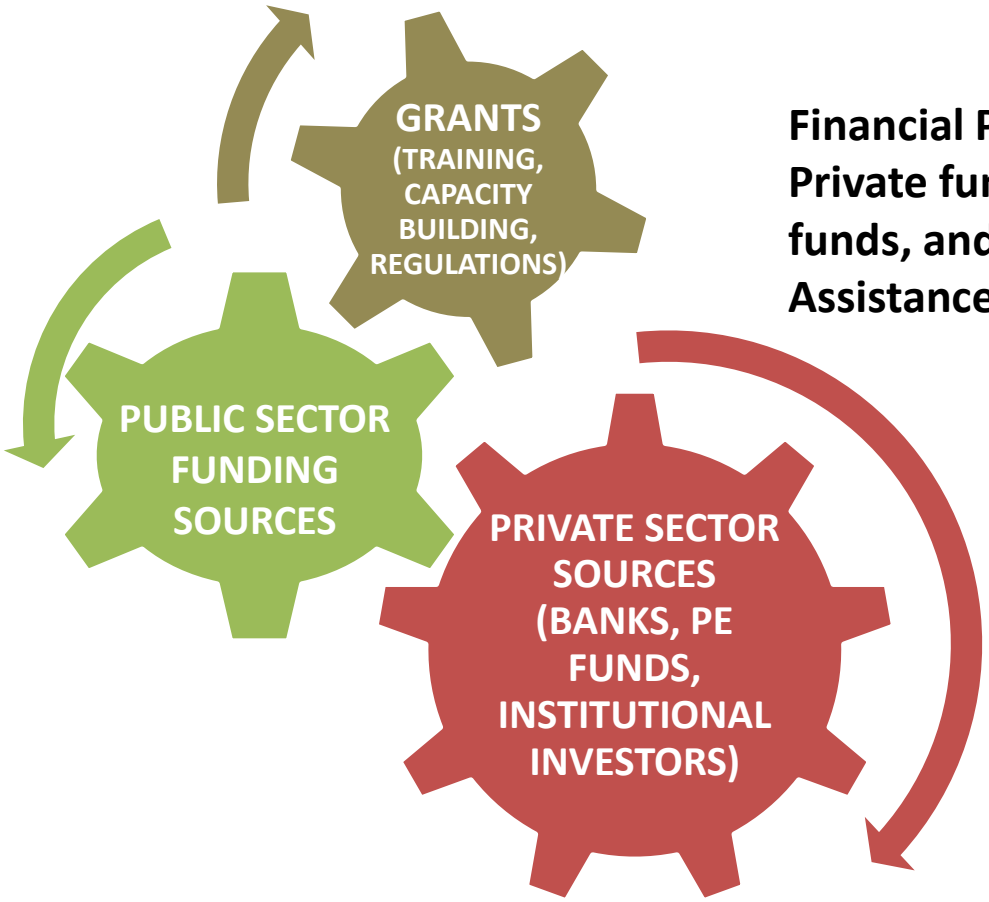
USD 391 BN TOTAL

CLIMATE POLICY INITIATIVE

Landscape of Climate Finance 2015 illustrates climate finance flows along their life cycle for the latest year available, mostly 2014, in USD billions



FINANCIAL LEVERAGE: PRIVATE - PUBLIC FUNDING SOURCES, WITH GRANTS



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

LEVERAGING THROUGH PUBLIC/PRIVATE PARTNERSHIPS

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

World Bank

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.

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

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.

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.

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.

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

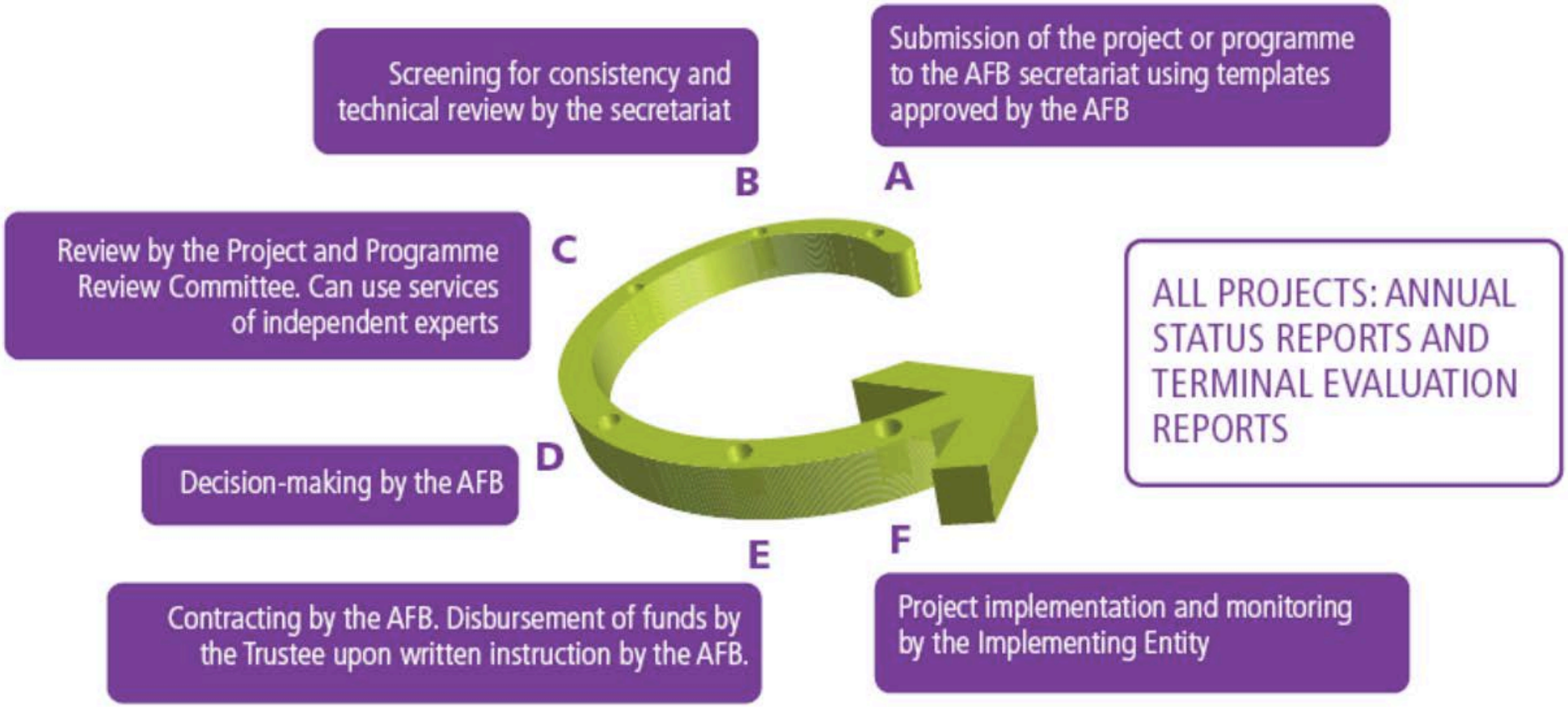
Project cycle

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



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

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

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)

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