

# 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

# 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.



How else is he going to keep his business running?

# Climate change adaptation



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# 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

# 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 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<sup>1</sup>, adaptation finance will need to increase by **438 percent** by 2050.

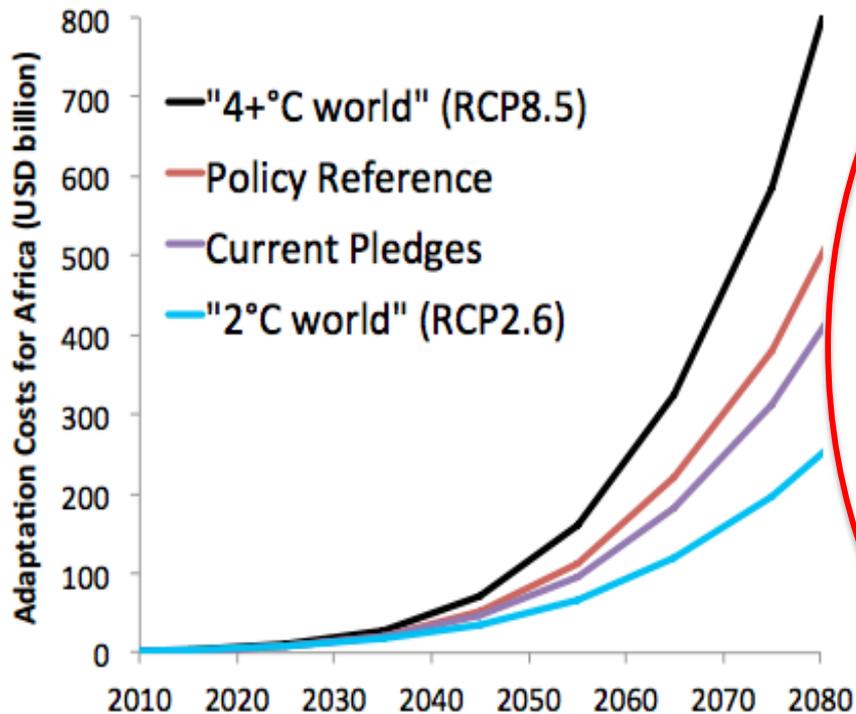
Gap Between Estimated Adaptation Needs and Available Public Finance  
(2013-2050, Low Estimate)



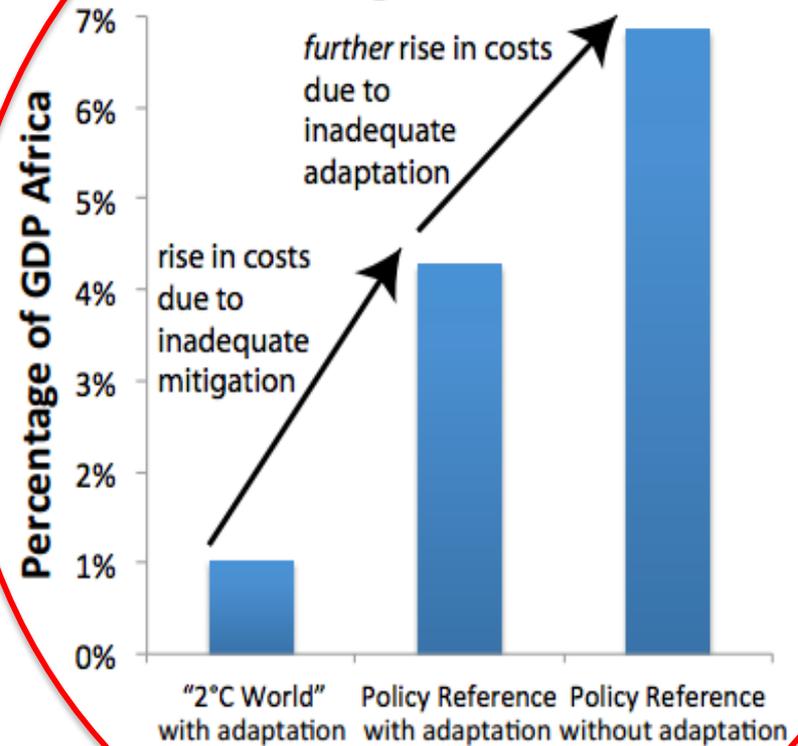
UNEP  
ADAPTATION  
GAP REPORT  
2016

# Financing Climate Adaptation & Resilience

Estimated Adaptation Costs for Africa



Total of Adaptation and Residual Damage costs for Africa (2100) excluding from sea-level rise



# The Relationship: Adaptation and Mitigation

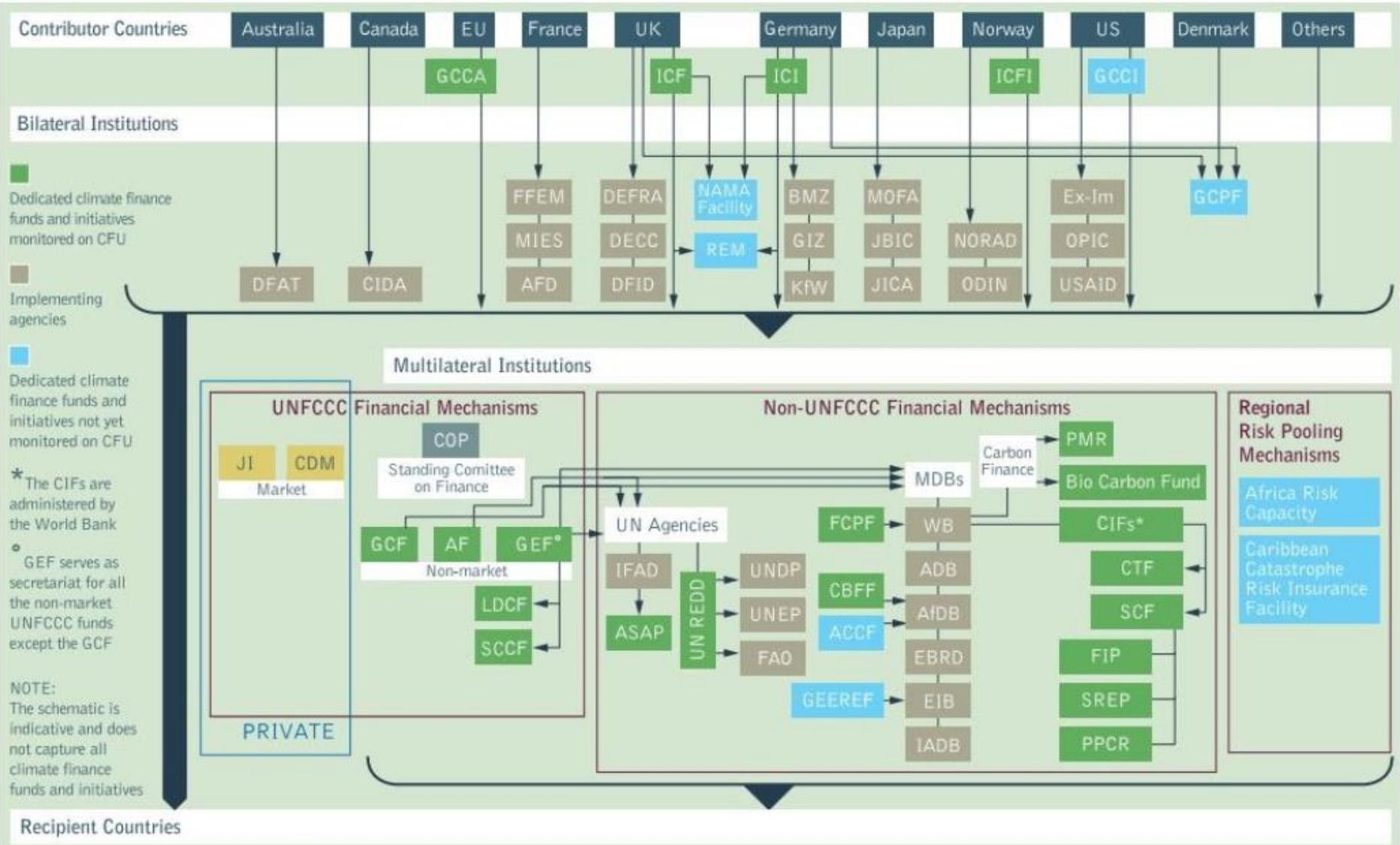
- **More mitigation less adaptation**
- **Mitigation receives more financing**
- **Projects with Co-benefits are particularly attractive to funders & investors**

# **CLIMATE ADAPTATION: FROM NEEDS TO IMPLEMENTATION**

# **Landscape of climate finance flows & instruments**

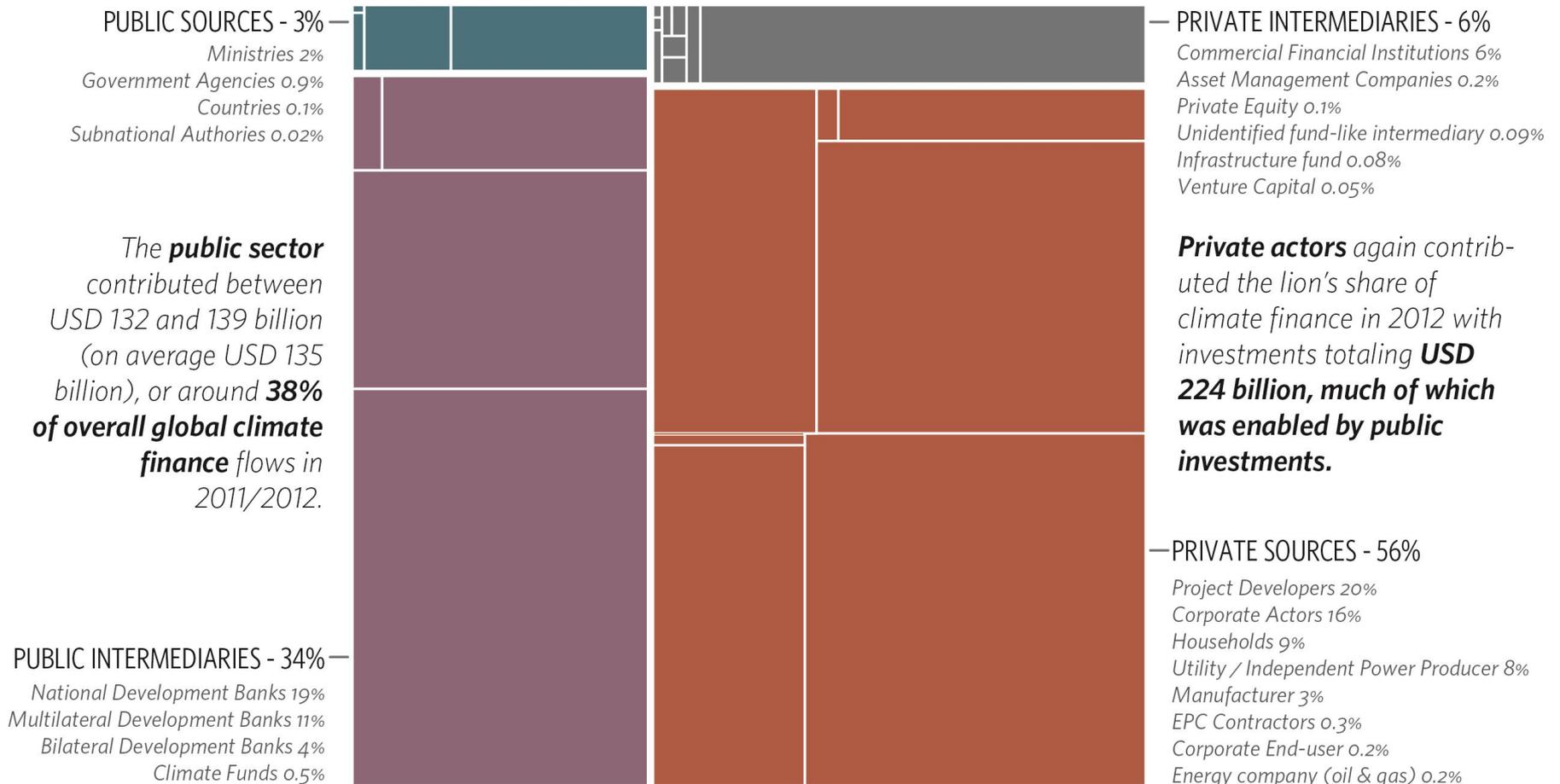
# Global Climate Finance Architecture

## The architecture of the funds



# Sources

## SOURCES OF CLIMATE FINANCE



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.**

# GLOBAL LANDSCAPE OF CLIMATE FINANCE 2015

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

# USD 391<sup>BN</sup> TOTAL

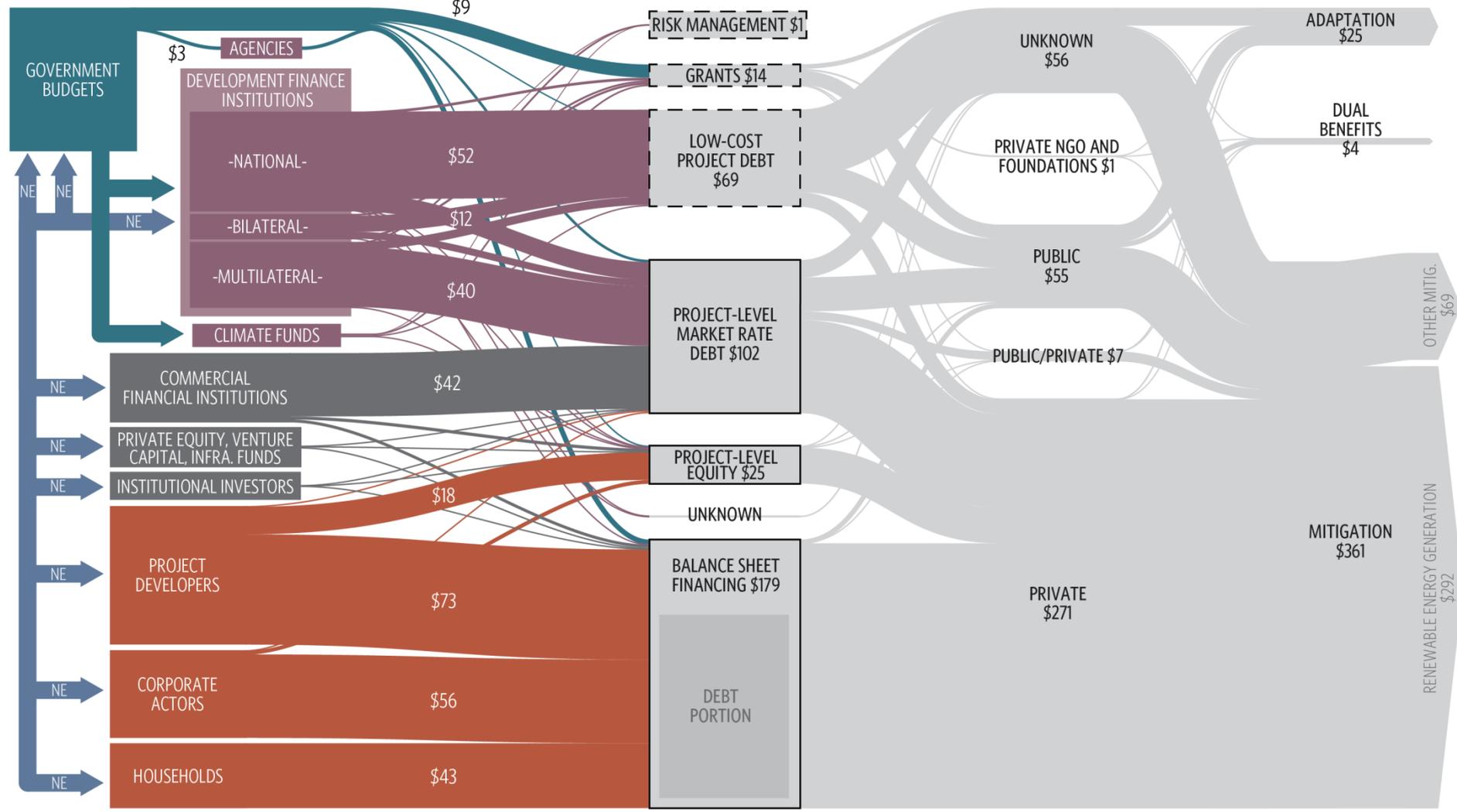


## SOURCES AND INTERMEDIARIES

## INSTRUMENTS

## RECIPIENTS

## USES

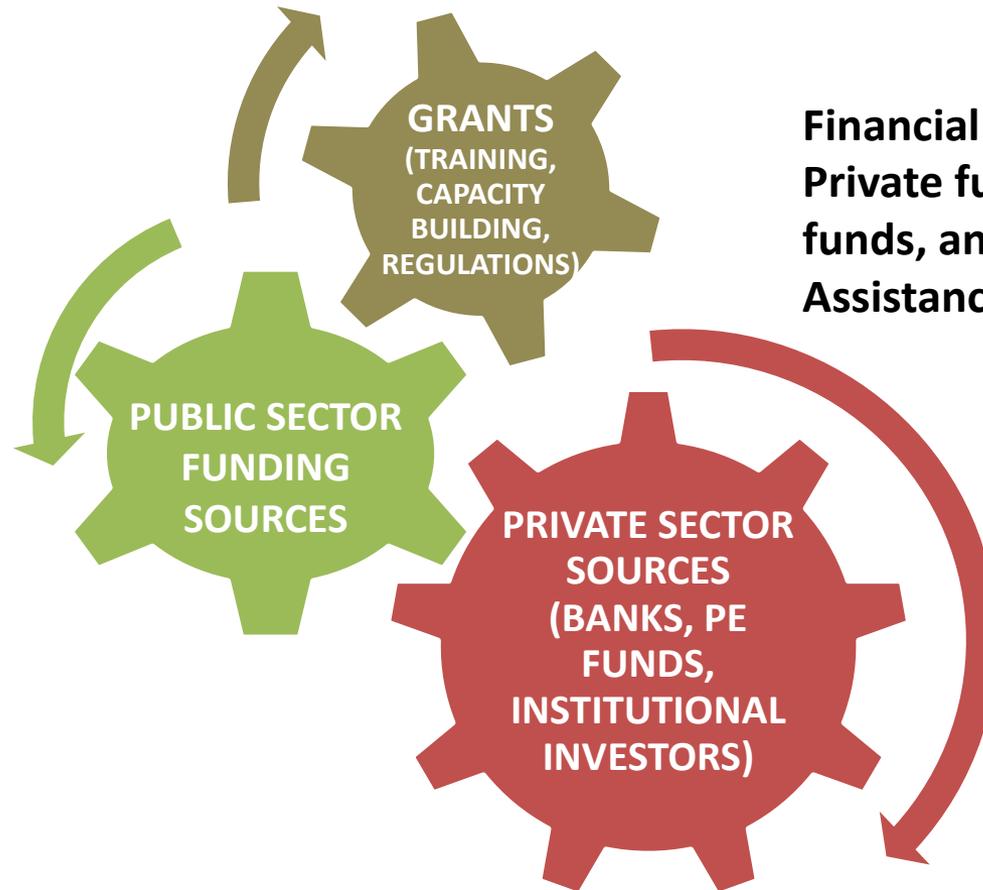


**KEY**

- PUBLIC MONEY
- PRIVATE MONEY
- PUBLIC FINANCIAL INTERMEDIARIES
- PRIVATE FINANCIAL INTERMEDIARIES
- CAPITAL INVESTMENT
- CAPITAL INVESTMENT AND INCREMENTAL COSTS
- FINANCE FOR INVESTORS & LENDERS

NE: NOT ESTIMATED

## 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

## 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



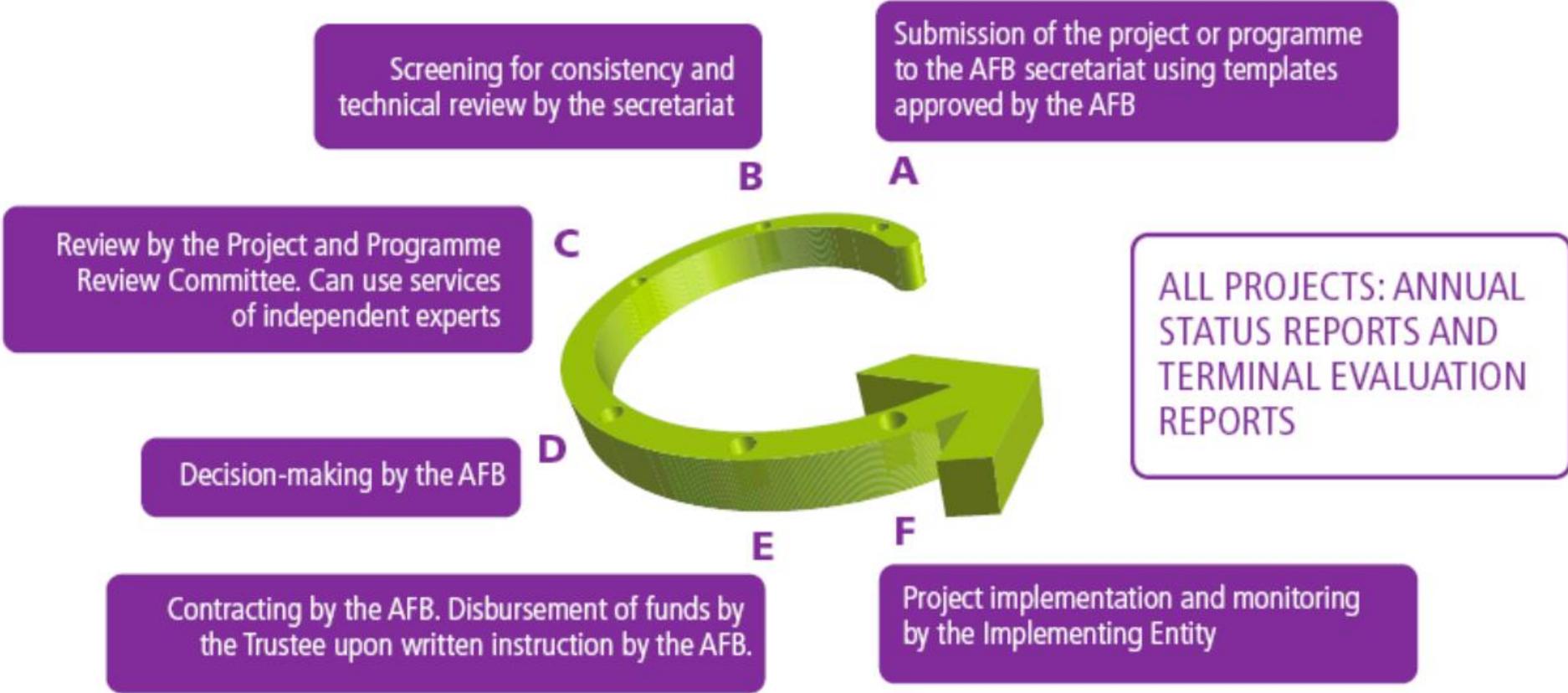
Project cycle

### Project Cycle

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- ▶ 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  
Guarantee*      *Grant  
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. 33