



## JOINT MDB REPORT ON ADAPTATION FINANCE 2011

A report by a group of Multilateral Development Banks (MDBs) comprising the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), the World Bank (WB), and the International Finance Corporation (IFC)

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### INTRODUCTION

The international community recognizes the need to join forces to avert dangerous climate change. This requires mobilizing financial resources from a wide range of sources, public and private, bilateral and multilateral, including alternative sources. This makes it increasingly necessary to track and report financial flows that support climate change mitigation and adaptation, to build trust and accountability with regard to climate finance commitments and monitor trends and progress in climate-related investment. Yet there is currently no precise internationally-agreed definition of climate finance and current efforts to track climate finance lack transparency, comparability and comprehensiveness.

This report sets out the joint MDB approach for adaptation finance reporting, developed by a group of MDBs to work towards better tracking of climate finance. It responds to the particular context of the activities that the MDBs carry out in developing and emerging economies and is built on the premise that climate adaptation and sustainable development are closely aligned. A separate report on mitigation finance is being published in parallel to this report.

This harmonized methodology has emerged from a process to find commonalities between existing MDB approaches to adaptation finance, each reflecting a different set of sectoral, geographic and investment mandates.

The joint approach is also a work in progress aimed at assisting the MDBs, as well as other organizations that might want to follow a similar approach, in gradually converging towards a harmonized approach for the tracking of climate change finance.

### JOINT MDB APPROACH FOR ADAPTATION FINANCE REPORTING

The joint MDB approach for adaptation finance reporting is based on the following principles:

- ❖ **It is purpose, context and activity based:** A project activity must fulfill three design process criteria for finance to be reported. It must:
  - Set out a context of climate vulnerability (climate data, exposure and sensitivity), considering both the impacts from climate change as well as climate variability related risks;
  - Include a statement of purpose or intent to address or improve climate resilience in order to differentiate between adaptation to current and future climate change and good development;
  - Link project activities to the context of climate vulnerability (e.g., socio-economic conditions and geographical location), reflecting only direct contributions to climate resilience.

The three criteria need to be included in the Project Appraisal Report or equivalent and/or its technical annexes but no specific section or explicit inclusion in the project development objective<sup>1</sup> or equivalent is required. Table 1 provides some illustration of the application of these three criteria.

- ❖ **It follows a conservative approach** to prevent the mislabeling of development activities as adaptation. Activities that do not explicitly meet all the above criteria are not included in reporting.
- ❖ **Project activities should reflect at least one of the following adaptation categories**, reflecting the broad range of mandates of the MDBs<sup>2</sup>. These are:

<sup>1</sup> It refers to a very short description of what the key development objective of the project is.

<sup>2</sup> These categories are developed from work undertaken by WRI on the 'adaptation continuum'.

**Table 1. Examples of application of the three design process criteria**

Examples	Vulnerability context	Specific intent	Activity linkage
<b>Project example 1: Urban Development</b>	Possible changes in the frequency/severity of flash floods and storm surges brought by CV&C	Design of project takes into account the anticipated impacts of CV&C	Project will help better cope with CV&C through activities such as rehabilitation and upgrade of urban water drainage systems
<b>Project example 2: Water Supply &amp; Access</b>	CV&C likely to aggravate water scarcity, putting at risk irrigated agriculture – an essential source of food security, employment and livelihoods	Project aims to increase water productivity in <u>existing</u> irrigated areas to increase resilience to CV&C	Project will help better cope with CV&C by introducing water-saving measures such as introduction of crops which are less water intensive and higher value, preservation of soil moisture and fertility
<b>Project example 3: Rural Development</b>	Farmer communities likely to suffer from CV&C, through longer dry spells and increased variability in monsoon patterns	Project tackles drought risk as CV&C could otherwise imperil livelihood of rural communities	Project will help enhance rural livelihood through drought adaptation mechanisms like water resources management, diversification of farm and non-farm livelihoods and climate-risk management tools

CV&C: Climate variability and change

- *addressing current drivers of vulnerability*, especially in poorest countries or communities; e.g. investments in poverty reduction, income and livelihood diversification, or health programs, when specifically designed in response to climate risks;
  - *building resilience to current and future climate risks*: e.g. reducing land degradation, reforestation programs, introducing new varieties of crops or farming techniques better suited for increased droughts/shorter rainfall seasons, investment in adaptation products and services,<sup>3</sup> supporting effective early warning systems;
  - *incorporating climate risks into investments*, especially for infrastructure with a long lifespan: e.g. in energy generation and supply, airports, ports, water storage infrastructure, major roads, bridges, railways and other transport corridors, and
  - *incorporating management of climate risk into plans, institutions and policies*: e.g. in local and national planning, health system policies, water allocation programs/policies, education programs/policies, support for research including in climate information, agriculture, health etc.
- ❖ While fulfilling one of the above adaptation categories, project activities should also avoid inadvertent increases in vulnerability of systems or social groups, and avoid placing assets or systems in harm's way (bad adaptation or maladaptation).
- ❖ An additional set of indicative examples of adaptation activities is set out in Table 3, reflecting existing MDB experience in delivering climate resilience projects. However, such a list can never be exhaustive, and the primary test will be whether a project can demonstrate purpose, vulnerability context and activity response. Each MDB may develop its own sector coding guidance, reflecting its specific mandate and sectoral/geographical interests.

In terms of the MDB finance reporting process, the following aspects have been agreed:

- ❖ **Reporting is linked to MDB commitments:** The approach measures financial commitments at time of Board approval or signature of financial agreement. All types of capital are eligible for reporting irrespective of origin - including both MDB own resources as well as external resources such as from dedicated climate finance facilities (e.g. PPCR, Adaptation Fund, LDCF, etc.). To prevent double counting (where external resources may be covered in bilateral reporting), all external resources are clearly separated from MDBs own resources. All types of instruments deployed by MDBs (debt, equity, guarantees, technical assistance and grants) may be included.
- ❖ **Classification is made ex-ante project implementation:** The qualification of a project under this methodology does not imply evidence of the eventual delivery of climate change resilience benefits. Inclusion is not a substitute for project-specific ex-post evidence of resilience benefits, and projects seeking to demonstrate such effects must do so through project-specific data.
- ❖ **An activity can be a project, a project component, or a proportion of a project:** The joint approach aims to report on adaptation activities disaggregated from non-adaptation activities through a reasonable level of data granularity. This is done by dissecting projects into main activity components, (e.g. as set out in project budget

<sup>3</sup> Some projects or investments (particularly private sector) may be made in non-vulnerable sectors or geographies, but have as their outcome a resilience benefit for other affected groups in downstream markets. Examples may include investments in resilient housing production or loans to financial intermediaries who will on-lend for resilience purposes. These linkages are sufficient for classification purposes, assuming that the vulnerability of the end user can be sufficiently established in the vulnerability assessment.

lines or activity plans). For example, a project with a total cost of \$100 million may have a \$10m component focusing on climate resilient agriculture – only \$10 million would be reported.

- ❖ **A percentage of MDB lending may be recognized when linked to specific adaptation commitments or to a client’s proven ability to adaptation.** For example, a percentage of budget support to governments that make covenanted commitments to improve national resilience planning will be reported.<sup>4</sup>
- ❖ **Reporting mitigation-adaptation co-benefits:** Some activities provide both mitigation and adaptation co-benefits<sup>5</sup>. As a result, the financing for adaptation and mitigation should not be added together to prevent double counting. Although not been possible for all MDBs in this first trial year, it is expected that, going forward, where reported, climate finance figures would have any overlap netted out.

## MDB ADAPTATION FINANCE, 2011

Table 2 presents adaptation finance provided by the MDBs for fiscal year 2011. Data reported correspond to the financing of those components and sub-components within projects that provide adaptation co-benefits. The MDBs intend to publish a similar report each year in May.

Some projects included in the MDBs’ reported 2011 adaptation portfolios may not adhere strictly to the joint MDB framework as described in this report, as the framework has been applied retroactively to 2011 project documents, which reflect respective MDB reporting practices in place at that time. Such projects are included if equivalent documentation, such as project budget line items or activity plans, provide clear evidence of adaptation purpose and content.

**Table 2. MDB Adaptation Finance According to the Joint Approach, 2011 (USD millions)**

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	593	-	2	-
ADB	585	-	172	-
EBRD	181	-	16	-
EIB	225	-	65	-
IDB	13	275	1	3
WB	2,080	224	85	-
<b>TOTAL</b>	<b>3,677</b>	<b>499</b>	<b>341</b>	<b>3</b>

Notes and definitions:

- a) **Sources covered:** MDBs’ own resources, as well as a range of external resources managed by the MDBs.
- b) **External resources:** refers to trust-funded operations (including dedicated climate finance facilities) which might be reported to the OECD’s Development Assistance Committee by the contributor countries as well.
- c) **Policy-based instruments:** fast disbursing financing instruments provided to the national budget in the form of loans or grants together with associated policy dialogue and economic and sector work in support of nationally driven policy and institutional reforms.
- d) **Investments and technical assistance:** relates to all vehicles used by MDB clients to support specific investments covering a mix of capital and recurrent expenditures, as well as advisory services and capacity building.
- e) **Reporting period:** Data cover fiscal year 2011. Even though MDBs do not follow the same reporting cycle, data remains comparable as they all correspond to a 12-month period.
- f) **Point of reporting:** Data correspond to commitments at time of Board approval or financial agreement signature. All due efforts have been taken to prevent double-counting.
- g) **Financing instruments:** All instruments associated with the resources covered (grant, loan, guarantee, equity, performance-based instruments).

<sup>4</sup> Further analytical work is on-going to harmonize the allocation methodology among the MDBs.

<sup>5</sup> E.g. soil carbon sequestration and sustainable land management.

- h) **Extrapolation of data from 2011:** Given that the MDBs adaptation finance numbers are for only one year, the data should not be used to make any extrapolations about the MDBs' level of engagement in adaptation finance.
- i) EIB figures include only financing outside the 27 members of the European Union. WB and EBRD figures include some European Union countries.

**Table 3. Indicative Examples of Climate Resilience Activities by Sector**

Potential sectors	Potential impact of climate change	Example of adaptation activity
Finance	Increased risk of failure of public infrastructure due to increased extremes	Incorporation of climate risk assessment in ministerial investment appraisal processes
ICT	Damage to key national data centers from storms or floods	Identification of sites at greatest risk and enhancement of resilience of those sites
Manufacturing	Historic specifications for equipment inappropriate under new climate	Design of climate resilient equipment, e.g. stable cranes for harbors in cyclone zones
Trade	Disruption of national trade due to climate disasters	Local government support for business continuity planning amongst local employers
Professional Services	Increase in the demand for professional services for climate risk assessment	Provision of finance to SMEs providing relevant services, e.g. engineering or insurance
Education	Climate change results in technical syllabus is outdated for high risk sectors	Building technical capacity building for training the trainers in water and agri-sectors
Construction	Shift in zones affected by typhoons/ hurricanes/storm surges	More robust building regulations and improved enforcement practices.
Oil, gas, mining	Shift in zones affected by typhoons/ hurricanes	Increased intensity of seismic survey and off-shore drilling outside hurricane seasons
Health	Changing patterns of diseases in response to changing climatic conditions	Monitoring of disease outbreaks and development of a national response plan
Disaster risk management	Increased frequency and/or intensity of climate related disasters	Financial assistance for improved planning of government bodies/NGOs
Water Resources	Reduction in river water levels due to reduced rainfall	Improved catchment management planning and regulation of abstraction
(Waste) water infrastructure	Increased groundwater salinity due to sea level rise and/or coastal flooding	Provision of microfinance for domestic rainwater harvesting equipment and storage
Waste management	Increased risk of pollution of areas below landfill sites due to risk of flood	Completion of a climate risk assessment prior to location of landfill sites
Fossil fuel energy generation	Increased seasonality of rainfall, creating periods of low river flows	Investment in coal fired generators with minimal cooling water requirements
Renewable Energy	Reduction in river flows lead to loss of generation from hydroelectric plant	Hydro-infrastructure subject to due diligence against climate and hydrological models
Transmission and Distribution	Higher temperatures reduce distribution efficiency	Investment in embedded renewable generation to reduce distribution requirements
Tourism	Drought disrupts mammal migrations and causes large scale starvation	Diversification of tourist attractions to encompass biodiversity/conservation
Transport	High river flows cause erosion of embankments and loss of bridges	Use of revised recurrence intervals for extreme events in infrastructure design
Ecosystems	Drought causes loss of forest cover with impacts on livelihoods/biodiversity	Identification of protected areas and establishment of migration corridors
Forestry	Increased frequency of forest fires, causing damage to timber	Engagement with local communities to limit the source, e.g. uncontrolled burning
Agriculture	Increased variability in crop productivity	Provision of information on crop diversification options, with assessment of costs
Livestock production	Loss in forage quantity or quality	Increased production of fodder crops to supplement rangeland diet
Fishing	Loss of river fish stocks due to changes in water flows and/ or temperature	Adoption of sustainable aquaculture techniques to supplement local fish supplies
Urban development	Increased urban flooding from extreme rainfall events	Asset review to identify assets vulnerable to flooding, then prioritize protection works