AFRICAN DEVELOPMENT BANK GROUP

ADB

AIIB

European Bank
for Reconstruction and Development

European Investment Bank
The EU bank

IDB
Inter-American Development Bank

IDB Invest

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

WORLD BANK GROUP

IDFC International Development Finance Club

MULTILATERAL DEVELOPMENT BANKS CLIMATE FINANCE TRACKING WORKING GROUP AND THE INTERNATIONAL DEVELOPMENT FINANCE CLUB CLIMATE FINANCE WORKING GROUP

LESSONS LEARNED

FROM THREE YEARS OF IMPLEMENTING THE MDB-IDFC COMMON PRINCIPLES FOR CLIMATE CHANGE ADAPTATION FINANCE TRACKING

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EXECUTIVE SUMMARY

In 2015, as a voluntary joint initiative, the members of the Multilateral Development Banks (MDBs) Climate Finance Tracking Working Group and the International Development Finance Club (IDFC) Climate Finance Working Group agreed on a set of Common Principles for Climate Change Adaptation Finance Tracking (see Annex 1).[1]

Since then, these Common Principles have guided the preparation of adaptation-related interventions and the tracking and reporting of adaptation finance by MDBs and several IDFC members, including US$ 18.6 billion of adaptation finance that members of the MDB Climate Finance Group delivered during the period 2015-17, and US$ 20.5 billion of adaptation finance that IDFC members reported during the same period.[2]

The experience of applying the Common Principles over the past three years has generated important lessons, not only on the tracking and reporting of adaptation finance but also of mainstreaming adaptation into investment operations. These may be of interest to a range of public and private organisations working on adaptation finance, climate finance and sustainable finance more broadly. These lessons include the following.

LESSON 1

The context-specific nature of climate change adaptation and climate resilience means that a **process-based approach is appropriate for preparing adaptation-related interventions, and for tracking and reporting adaptation finance.** The "three steps" that form the core of the Common Principles guide the process in a logical sequence: i) setting out a project-specific context of climate vulnerability; ii) making an explicit statement of intent to address that climate vulnerability; and iii) articulating a clear and direct link between the context of climate vulnerability and the specific project activities. This is a fundamentally different approach from that used to track mitigation finance, in which MDBs and the IDFC use an activity-based or "positive list" approach.

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LESSON 2

A range of approaches is being used to determine shares of project costs that can be counted as adaptation finance. The Common Principles recommend that adaptation finance should be reported based on the disaggregation of adaptation activities from non-adaptation activities within projects, in line with a conservative principle that guards against over-reporting of adaptation finance. This is being implemented using a range of approaches that reflect the varying mandates and business models of the different MDBs and IDFC members.

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[1] The Common Principles build on and are consistent with the MDB methodology for tracking climate change adaptation finance. The methodology was developed in 2011 by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank and the World Bank Group. This group of MDBs has applied and further developed the MDB methodology over the years, as illustrated in the yearly joint report on MDB climate finance (https://www.ebrd.com/2017-joint-report-on-mdbs-climate-finance). The MDB methodology requires a high level of disaggregation to separate the cost of adaptation from the cost of other project activities, resulting in a more granular climate finance reporting than the Common Principles.

[2] https://www.idfc.org/wp-content/uploads/2018/11/idfc_greenfinance_4pager_180913-1.pdf

LESSON 3

The application of the Common Principles has generated valuable experience of how to determine the project-specific context of climate vulnerability. Approaches to reflecting climate variability and projected climate change in project-level analysis vary. Other challenges include the use of inconsistent and/or uncertain data and information from climate models and other impact models for project design choices, and the limitations on inclusion of climate-related information in project documentation.

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LESSON 4

Important progress has been made in integrating technical considerations into adaptation finance tracking. These considerations include clarifying the important role of adaptive management practices, in other words non-structural, technical and/or adaptive capacity-building activities within projects that may make a substantial contribution towards the overall climate resilience of a project without requiring the allocation of significant amounts of finance. The application of the Common Principles has also provided important case studies for handling conflicts and trade-offs between adaptation and mitigation outcomes within projects.

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LESSON 5

Setting out the project-specific context of risks, vulnerability and impacts related to climate variability and climate change, an important pillar of the three-step approach, remains challenging for many financing institutions. This particularly affects institutions with limited resources, and is chiefly due to significant uncertainties about projections of climate change and its impacts, or simply due to a lack of data in some countries. However, the application of the Common Principles has helped to **build institutional capacity and expertise in climate change adaptation** within MDBs and IDFC members. This has included the development of a range of technical resources and training or guidance materials, many of which are in the public domain and may therefore benefit a much wider range of organisations working on adaptation and adaptation financing.

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LESSON 6

The Common Principles have directly contributed to the consistency of MDB and IDFC adaptation finance reporting over the past three years, by providing clear principles and guidance, facilitating more efficient and consistent tracking and reporting mechanisms, and incentivising the development of technical institutional capacity on adaptation. In addition, as adaptation financing has scaled up, the demand for the **development of additional metrics for adaptation projects and financing** has increased, in order to enable consistent reporting on the results that this financing delivers.

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I. INTRODUCTION AND PURPOSE

In 2015, the members of the Multilateral Development Banks (MDBs) Climate Finance Tracking Working Group[3] and the International Development Finance Club (IDFC)[4] Climate Finance Working Group voluntarily agreed on a set of Common Principles for Climate Change Adaptation Finance Tracking[5] (the "Common Principles"), which are shown in Annex 1.

These Common Principles were developed and agreed to define a shared context for the reporting and tracking of adaptation finance, building on the approaches already used by the MDB Climate Finance Group and the IDFC. The Common Principles laid the basis for further joint work that has included addressing comparability of the reporting process and relevant process-based concepts and guidelines.

Since 2015, members of the MDB Climate Finance Tracking Working Group and several members of IDFC[6] have used the Common Principles to guide the way that they plan and prepare adaptation-related interventions, and track and report climate change adaptation finance. Over the past three years, this purpose has acquired further significance in the light of the 2015 Paris Agreement and its historic commitment to tackling climate change. In particular, Article 2 of the Paris Agreement (paragraph 1c) calls for "making finance flows consistent with a pathway towards low carbon and climate-resilient development.'

The purpose of this paper is to synthesise the experience acquired by the MDB Climate Finance Tracking Working Group and IDFC members on the application of the Common Principles over the three-year period 2015-17. The intention is to share this experience with other stakeholders, whether governments, intergovernmental agencies, civil societies or the private sector, all of which have an interest in tracking and reporting climate change adaptation finance and/or in climate resilience more widely. This paper reflects a broad range of experiences from across the MDBs and IDFC members. Box 1 summarises some of the highlights of these experiences.

BOX 1. OVERVIEW OF MDB AND IDFC ADAPTATION FINANCE OVER THE PERIOD 2015-17

Over the three-year period 2015-17 since the adoption of the Common Principles by the members of the MDB Climate Finance Tracking Working Group* and IDFC:

- MDBs have financed more than 1,000 projects, with total adaptation finance exceeding US$ 18.6 billion in developing countries and economies in transition, and additional volumes of adaptation finance also reported by IDFC members (US$ 20.5 billion during 2015-17**)
- there has been a **steady rise in the annual volume and share of adaptation finance** in MDBs' and IDFC members' own accounts and MDB- or IDFC-managed external resources
- the Common Principles have informed the **development of guidelines for the reporting of adaptation finance by other stakeholders,** such as the updated OECD DAC Handbook on Rio Markers for Climate (2016),*** which incorporates the three-step approach.
- MDBs and IDFC members have **stepped up efforts to build institutional capacity and expertise** in application of the Common Principles and have developed technical resources for assessing climate vulnerability and adaptation, many of which are available in the public domain.

* Further details are available in the most recent (2017) Joint Report on MDBs' Climate Finance: www.ebrd.com/2017-joint-report-on-mdbs-climate-finance
** https://www.idfc.org/wp-content/uploads/2018/11/idfc_greenfinance_4pager_180913-1.pdf
*** https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf

[3] The members of the MDB Climate Finance Tracking Working Group are the African Development Bank (AfDB), the Asian Infrastructure Investment Bank (AIIB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Development Bank (IsDB) and the World Bank Group (WBG).
[4] A full list of all 23 IDFC member countries can be found at: https://www.idfc.org/Who-We-Are/members.aspx
[5] https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Common_Principles_for_Climate_Change_Adaptation_Finance_Tracking_-_Version_1__02_July__2015.pdf
[6] Note that several IDFC members do not report adaptation finance.

II. BACKGROUND

As international focus on the need to scale up finance for climate change adaptation ("adaptation finance") has continued to grow over the past five years, the role of MDBs and other development finance institutions (DFIs), including IDFC members, in increasing adaptation finance has been subject to greater attention.

The development of the Common Principles therefore took place at an important juncture and has played a significant role in setting out good practice rules for the tracking and reporting of adaptation finance. Box 2 provides a summary of the Common Principles.

Over the three-year period 2015-17 since the adoption of the Common Principles the members of the MDB Climate Finance Tracking Working Group[7] alone financed more than 1,000 projects, with total adaptation finance exceeding US$ 18.6 billion in developing countries and economies in transition. In addition, IDFC members also reported US$ 20.5 billion of adaptation finance during that period.[8] The Common Principles also informed the development of other guidelines for reporting adaptation finance, such as the updated OECD DAC Handbook on Rio Markers for Climate (2016)[9], which considers the three-step approach underpinning the Common Principles to be a good practice.

Experience with the application of the Common Principles is also relevant to the development of other climate finance and adaptation finance tracking and reporting processes such as, among others, the work of the United Nations Framework Convention on Climate Change (UNFCCC) to develop the relevant elements of the "Paris Rulebook", and the development of the European Union's sustainable finance approach[10] including the establishment of a taxonomy of climate change adaptation finance (as part of a wider taxonomy of sustainable finance).

BOX 2. SUMMARY OF THE MDB-IDFC COMMON PRINCIPLES FOR TRACKING CLIMATE CHANGE ADAPTATION FINANCE

- Adaptation finance tracking relates to the tracking of finance for activities that address current and expected effects of climate change, where such effects are material for the context of those activities.
- Adaptation finance tracking may relate to activities consisting of standalone projects, multiple projects under larger programmes, or project components, sub-components or elements, including those financed through financial intermediaries.
- The process of tracking adaptation finance consists of the following key steps:
  1. setting out the context of risks, vulnerabilities and impacts related to climate variability and climate change
  2. stating the intent to address the identified climate change-related risks, vulnerabilities and impacts in project documentation
  3. demonstrating a direct link between the identified climate change-related risks, vulnerabilities and impacts, and the financed activities.
- Adaptation finance tracking requires the disaggregation of adaptation activities from non-adaptation activities as far as reasonably possible. If disaggregation is not possible using project-specific data, a more qualitative or experience-based assessment can be used to identify the proportion of the project that corresponds to climate change adaptation activities. Consistent with the principle of conservativeness, climate finance is generally under-reported rather than over-reported.

[7] Further details are available in the most recent (2017) Joint Report on MDBs' Climate Finance: www.ebrd.com/2017-joint-report-on-mdbs-climate-finance
[8] https://www.idfc.org/wp-content/uploads/2018/11/idfc_greenfinance_4pager_180913-1.pdf
[9] https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf
[10] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

III. AREAS OF EXPERIENCE EMERGING FROM THE APPLICATION OF THE MDB-IDFC COMMON PRINCIPLES

LESSON 1: THERE IS BROAD CONSENSUS ON THE APPROPRIATENESS OF A PROCESS-BASED APPROACH TO DEFINING AND TRACKING ADAPTATION FINANCE

The Common Principles have helped to build consensus around the concept that adaptation finance should be defined using a **process-based approach**. This reflects the highly context- and location-specific nature of climate vulnerability, which requires a project-specific process of assessment in order to define appropriate and project-specific adaptation responses. This is different from climate change mitigation, in which an activity-based approach is taken to define categories of assets and technologies that may be used to classify associated financing as mitigation finance, in other words, a "positive list". The highly context-specific nature of adaptation financing dictates that a positive list approach, based on defining eligible activities, would not be appropriate for defining and tracking adaptation finance. This is because an activity that builds climate resilience in one location or project context may not necessarily deliver a positive adaptation impact in another location or project context. Furthermore, some baseline project activities with the potential to achieve adaptation impact may not be regarded as adaptation unless they are directly linked to a project-specific climate vulnerability that has been explicitly identified. The Common Principles emphasise the need for a direct link between the project-specific climate change context and the activities being financed under the project in question. Experience with applying the Common Principles has also shown that the process-based approach can be applied without difficulty in the context of private sector financing operations. This has been demonstrated by the private sector adaptation finance reported over the past three years by a number of MDBs and IDFC members.

The Common Principles set out a process-based approach, which entails the "three steps" outlined in Box 2, both as part of project development and in project documentation. Over the past three years, these three steps have become widely disseminated and understood across the adaptation financing community, and in this way the Common Principles have made an important positive contribution to the wider discussion about adaptation financing. The Common Principles have also made an important contribution to building consensus on the use of a process-based approach for defining and tracking adaptation finance with other stakeholders and processes, such as the OECD DAC Handbook on Rio Markers for Climate (2016),[11] which incorporates the three-step approach. The use of this three-step approach has also strengthened internal processes in support of climate adaptation finance tracking and for climate risk management in investments. Box 3 provides an example. Subsequent sections of this paper provide some further details and project examples of the application of the three steps.

BOX 3. CARIBBEAN DEVELOPMENT BANK CLIMATE ACTION LINE OF CREDIT

The European Investment Bank (EIB) and the Caribbean Development Bank (CDB) worked together to support climate action in the Caribbean through a multi-sector credit line. The EIB provided technical assistance to support the CDB in developing institutional capacity in the field of adaptation and climate resilience and thus enhancing adaptation planning. As a result, CDB projects are screened for climate risks and assessed against the three-step approach. Using the three-step approach ensures that climate adaptation is mainstreamed into the CDB's lending and facilitates the identification of climate resilience investment opportunities in the CDB's borrowing member countries.

[11] https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf

A. SETTING OUT A PROJECT-SPECIFIC CONTEXT OF CLIMATE VULNERABILITY

This step typically involves setting out the location- and project-specific context of climate vulnerability, because the impacts of climate change and climate variability, and climate resilience responses, are highly specific to a given location and context. A robust context of climate vulnerability is one that clearly explains how the project's region and/or beneficiaries are affected by climate change, now and in the future. It also includes information on sector-specific climate vulnerabilities and uses a scientific evidence base to describe the current and anticipated impacts of climate change. For project teams, a good test of a robust climate vulnerability context is to ask whether it is clear from reading the context why it is necessary to incorporate climate change adaptation measures into the project design. Box 4 gives an example of how this step could be carried out, and Lesson 3(a) expands this topic further.

BOX 4. ASSESSMENTS OF CLIMATE CHANGE VULNERABILITY IN THE LATIN AMERICAN AND CARIBBEAN REGION

Recognising the challenges that climate change has brought about in Latin America and the Caribbean, CAF (the Development Bank of Latin America) has dedicated resources to assessing and comprehending the state of the region's climate change vulnerability. In 2014, CAF published the *"Vulnerability Index to climate change in the Latin American and Caribbean Region"*, which evaluates the risk of exposure to climate change and extreme events. This publication also looks at the current sensitivity to that exposure and the capacity of each country in the region to adapt to, or take advantage of, the potential impacts of climate change. Since then, and based on the guidance provided by the IPCC working groups, CAF has been developing climate change vulnerability indexes, with a particular focus on cities, for example: Guayaquil (Ecuador), Arequipa (Peru), and São Paulo (Brazil). A series of additional vulnerability studies are to be rolled out between 2018 and 2019, as part of CAF's *"Sustainable Cities and Climate Change Program"*.

B. MAKING AN EXPLICIT STATEMENT OF INTENT TO ADDRESS THE CONTEXT OF CLIMATE VULNERABILITY

This step typically entails including in the relevant project documentation a specific statement of intent to address identified climate vulnerabilities. MDBs and IDFC members have found that the application of this step has in many cases led to increased discussions with partners and counterparts about climate risk. In practice, the step often helps projects to capture adaptation challenges and incorporate appropriate responses to climate risks. This focuses attention on addressing climate risks and improving stakeholder consensus, because it makes project teams and beneficiaries alike more aware of climate change risks and climate resilience challenges. The statements of intent may also often appear in a project-logical framework, thus defining adaptation as one of the objectives of the project. Boxes 5, 6 and 7 offer examples of the application of this step.

BOX 5. URBANISATION AND ENVIRONMENTAL SANITATION PROGRAMME FOR THE WATERSHED OF THE MANE DENDE RIVER, BRAZIL

This project, financed by the IDBG and a local counterpart, aims to expand and rehabilitate the sewerage system's infrastructure and prevent floods and landslides in the area of the Mane Dende River and its tributaries. The project will also invest in – among other features – the creation and rehabilitation of common public spaces such as plazas, green spaces, community and cultural centres.

Likewise, the programme will also strengthen municipal units linked to the construction, subsequent operation and maintenance of the infrastructure and services of the programme. The appraisal document includes a technical viability annex to which the context of local vulnerability was added. In addition, this sub-section includes a summary of different projections based on climate change scenarios for the region. Analyses carried out for the design of the macro-drainage system indicated that the current return period needed to be increased to 50 years to reduce levels of vulnerability and flood risk. Even though the existing norm in Brazil is lower (25 years), the infrastructure was designed using a higher parameter to make sure it could handle larger flows.

BOX 6. METRO MANILA FLOOD MANAGEMENT PROJECT, PHILIPPINES

The Metro Manila flood management project, co-financed by the World Bank and AIIB, explicitly states the measures it intends to take to address climate-change related impacts through a range of flood prevention measures. These measures include the modernisation of the drainage area, improvements in solid waste management practices, and resettlement of homes away from highly vulnerable areas, in alignment with safeguards policies. The intent is further solidified by referencing existing plans and strategies, such as the Philippines Country Partnership Strategy (World Bank, 2014, *Philippines – Country partnership strategy for the period FY2015-2018 (English)*. Washington DC; World Bank Group)* for the financial years 2015-18 that this project is aligned with. In particular, project documents mention that one of the high-level objectives that the project contributes to is "engagement area 4" on climate change, environment, and disaster risk management. This area is specifically aligned with strategic outcome 4.1 (increased resilience to natural disaster and climate change impacts), and with strategic outcome 4.2 (improved natural resource management and sustainable development).

* http://documents.worldbank.org/curated/en/328351468332470964/Philippines-Country-partnership-strategy-for-the-period-FY2015-2018

BOX 7. PROJECT ON SATELLITE AND WEATHER INFORMATION FOR DISASTER RESILIENCE IN AFRICA

The lack of relevant weather or climate information at appropriate scales is often mentioned as being a major obstacle to addressing climate variability and climate change in African countries. African policymakers and development partners require credible and timely climate or weather information in order to reduce climate and disaster risks. The AfDB's project, *Satellite and Weather Information for Disaster Resilience in Africa,* explicitly aims to provide user-friendly climate information to build the capacities of regional centres of excellence. This includes building their capacities to meet the needs of disaster-risk reduction agencies and socioeconomic sectors in order to ensure efficient use of meteorological and climate services and early warning systems in real time.

C. ARTICULATING A CLEAR AND DIRECT LINK BETWEEN THE CONTEXT OF CLIMATE VULNERABILITY AND THE SPECIFIC PROJECT ACTIVITIES

This step is intended to establish a direct link between project activities and the identified project-specific climate vulnerabilities. It is usually connected to assessments of climate risks, and the description of the project activity aims to spell out precisely how these risks will be addressed. This step can be challenged if it requires substantial additional resources, as budget constraints may limit the scope of adaptation activities. Adaptation management practices (such as governance frameworks, knowledge management, and so on) may also be incorporated within projects in response to identified climate risks. Boxes 8 and 9 provide good-practice examples of this step.

BOX 8. CLIMATE RESILIENCE ROAD INFRASTRUCTURE UPGRADE, BOSNIA AND HERZEGOVINA

This project, financed by the EBRD, aims to build the climate resilience of critical sections of the road network by incorporating climate resilience measures into the rehabilitation and upgrade of road infrastructure assets. These include structural measures to avoid erosion and landslides, such as increased drainage capacities, reinforced road embankments and altered bridge designs. Adaptation management practices such as the adoption of a climate change adaptation strategy will underpin ongoing maintenance activities and systematic integration of climate resilience measures across the road network.

BOX 9. PROMOTION OF AGRICULTURAL WATER RESOURCE MANAGEMENT THROUGH IRRIGATION SCHEMES, TUNISIA

The Tunisian NDC (2015) anticipates a drop of 10 to 30 percent in annual precipitation by 2050 due to climate change impacts. Furthermore, it projects that by 2030 about 50 per cent of Tunisia's water resources will be lost through the salinisation of coastal aquifers due to rising sea levels. Reduced precipitation will particularly affect rain-fed cereal farming, where the area currently under cultivation is expected to shrink by 30 per cent (from 1.5 million hectares in 2015 to about 1 million hectares in 2030). Consequently, the GDP associated with agriculture is expected to fall by 5 to 10 per cent by 2030. In the event of successive extreme droughts, the land area used for cereal crops and arboriculture (mainly regions in the centre and south of the country) will decrease by 200,000 and 800,000 hectares respectively.

Three governorates, Sidi Bouzid, Kairouan and Kasserine are among those that are seriously affected. To deal with current and anticipated challenges, the African Development Bank's project titled *Developing Irrigation Schemes through the Value Chain in Tunisia* aims to address water stress caused by recurrent droughts and thereby strengthen climate resilience and adaptation in affected farming communities. The project interventions directly linked to addressing drought are: (1) increased efficiency of water-use in irrigation through the rehabilitation and modernisation of irrigation infrastructure and equipment for 20 public irrigation schemes (9,000 ha); (2) an increase in agricultural yields of about 30 per cent through the introduction of water-saving cropping techniques, drought-resistant seeds and advisory services; and (3) the preparation of a catalogue of resilient technologies and agricultural practices. The total number of households that will benefit directly from the project activities stands at 3,558 or about 20,000 people. As all three activities are clearly linked to addressing the project country's vulnerability to climate change, these activities qualify as climate adaptation finance. The project also includes activities such as produce marketing, which may improve the communities' adaptive capacities but are not considered to be a direct response to addressing the climate vulnerability caused by drought in the three governorates.

LESSON 2: A RANGE OF APPROACHES ARE BEING USED TO DETERMINE THE SHARES OF PROJECT COSTS THAT CAN BE COUNTED AS ADAPTATION FINANCE

The Common Principles recommend that adaptation finance should be reported on the basis of disaggregating adaptation activities[12] from non-adaptation activities within projects, as far as reasonably possible. This should be consistent with the principle of conservativeness, so that adaptation finance is under-reported rather than over-reported. In line with this conservative principle, adaptation-related projects should not automatically be counted as being 100 per cent adaptation finance. Wherever possible, adaptation activities or shares within such projects should be identified and only the finance allocated to those activities or shares should be counted as adaptation finance.

In line with the Common Principles, this disaggregation should be based on project-specific data whenever feasible. When this is not possible, a qualitative assessment may be applied to estimate the proportion of the project cost to be reported as adaptation finance, corresponding to adaptation activities. These types of qualitative assessments should also be estimated in as conservative and as granular a manner as possible.

MDBs and IDFC members currently employ various approaches to the disaggregation of adaptation activities or shares and non-adaptation activities or shares within projects in order to report project-level adaptation finance. These reflect the various business models and mandates of a very wide range of financing institutions, and the fact that there may be a number of valid ways of estimating project-level adaptation finance as long as they are consistently applied, in a conservative manner. The method used will depend on, among other factors, the mandate of the MDB or IDFC member concerned, the nature of its portfolio and the availability of resources for carrying out the necessary assessments. These considerations of practicality, robustness, and resource requirements may also apply to other financial institutions, potentially including commercial financial institutions.

A. ADAPTATION AND NON-ADAPTATION ACTIVITIES WITHIN PROJECTS

The application of the Common Principles calls for users to differentiate between project activities that correspond to adaptation, and those are not directly related to adaptation. One way of doing that is to look at the link between the climate vulnerability context and specific project activities. It is important to integrate this approach consistently into project preparation and associated decision-making processes. Box 10 provides an example of this application.

BOX 10. CROSS RIVERS WATER RESOURCES MANAGEMENT PROJECT, NIGERIA

This project by the Islamic Development Bank which focuses on investing in efficient water management to ensure an efficient and reliable water supply in rainforest communities (in Cross Rivers, a tropical location in Nigeria) is standard good practice and not necessarily a climate change adaptation measure. In this case, the assessment of the climate vulnerability context showed that the water shortages in Cross Rivers are not caused by climate change but are driven largely by the unavailability of – or inadequate – infrastructure investment in the water sector in these communities, thus creating a need to adopt water efficient techniques. However, similar measures in the Sahel zone of Nigeria (which experiences dry climatic conditions and has limited water resources, exacerbated by climate change) would be considered to be adaptation in addition to being good development practices, and could therefore be used as a basis for tracking adaptation finance.

[12] For the purposes of this discussion, the term "activity" is taken to mean an activity within a given project, in other words, a project component or sub-component.

B. CHALLENGES WITH ESTABLISHING COUNTERFACTUALS

In order to estimate and report adaptation finance, a hypothetical comparison between a "no climate change scenario" and a "climate change scenario" may be used to define the adaptation activities or shares within a given project. This may present difficulties for several reasons. For example, reliable historical observations and projections of future climate change may be unavailable at the appropriate scale. One potential solution may be the use of scenario analysis, to provide hypothetical climate change scenarios that could facilitate the exploration of potential adaptation responses even when there is uncertainty about future climate conditions.

C. REALISTIC AND CONSERVATIVE ESTIMATION OF THE FINANCIAL CONTRIBUTION TO ADAPTATION

The disaggregation of project activities can provide a more realistic and conservative estimate of a project's financial contribution to climate change adaptation, than a broad-stroke, generalised assessment that is likely to result in an overestimation. However, in practice, this disaggregation may be difficult, especially when an entire project is geared towards adapting to climate change. But it should be noted that among MDB and IDFC members, relatively few projects qualify as 100 per cent adaptation finance. When disaggregation of activities is not possible, results-based indicators or statements of expected impact can be used to define adaptation shares within a project. However, this approach can be technically very challenging. For example, a change of x per cent in a given climate vulnerability parameter may not necessarily result in a corresponding x per cent change in the project costs allocated in response to that particular climate vulnerability. In this case, expert review can help when figures are impossible to calculate, bearing in mind the principle of conservativeness. Box 11 provides an example of this.

BOX 11. AVEPOZO-ANEHO COASTAL INFRASTRUCTURE PROJECT, TOGO

This project entailed financing by the Islamic Development Bank of a major traffic corridor along the Avepozo-Aneho axis of the Atlantic Ocean in Togo. The initial cost of the project was €100 million. However, based on the climate vulnerability information provided during project design, a 13 km "Shore Works" component was added to the project, to help stabilise the coastline and protect the traffic corridor against coastal erosion – taking into consideration a predicted rise in sea levels – at an estimated cost of €44.3 million. Disaggregating the activities made it possible to ascertain a more realistic financial contribution to addressing climate vulnerability. The €44.3 million for shore works reflected the difference between what the project would have cost with and without including in the project the adaptation activity to address predicted coastal erosion. There is a clear link between the shore works and erosion, hence the reason for counting only this disaggregated shore works portion as adaptation finance.

LESSON 3: EXPERIENCE HAS BEEN GAINED IN HOW TO SET THE CONTEXT FOR TRACKING PROJECT-LEVEL ADAPTATION FINANCE

A. SETTING THE CLIMATE VULNERABILITY CONTEXT

The climate vulnerability context should explain how a project, including its assets, the services it is meant to provide, the ecosystem services it relies on and the targeted beneficiaries, are affected by climate variability and climate change, now and in the future. It should also include information on sector-specific climate vulnerabilities and use a scientific evidence base to describe the current and anticipated impacts of climate variability and change on the project, as well as on human and natural systems. For project teams, a good test of a robust climate vulnerability context is to ask whether it is clear from reading the context why adaptation measures must be incorporated into the project design. A robust evidence base should be used to set out the context of climate vulnerability, such as Intergovernmental Panel on Climate Change (IPCC) reports, National Communications to the UNFCCC, Nationally Determined Contributions (NDCs) or original analyses carried out to assess the climate vulnerability context of the project.

Climate vulnerability context analyses for projects vary in terms of their level of detail. In addition, while some projects may use peer-reviewed external sources such as reports from the IPCC and the UNFCCC to provide evidence of climate change impacts, others may use resources prepared internally by the MDBs and IDFC members. These may include country-specific climate briefs and repositories of climate change knowledge that aggregate climate change data from a variety of credible sources. General information, such as that provided at the national level, has to be contextualised, in order to reflect project-specific climate-related vulnerabilities. In other cases, a more detailed climate vulnerability analysis is carried out to assess risks to the project and identify adaptation options that can be integrated into the project design. The technical rigour of these assessments varies and may depend on the project complexity and the availability of climate data and information for the project area. The context of climate vulnerability should also take account of project-relevant timescales. These timescales may be chosen to reflect the expected lifespan of the assets or systems that are being financed in a given project. The context should also be looking at both extremes and average values, and both rapid and slow-onset events, which could affect the performance of investments in the longer term. In some cases, the use of harmonised country-risk profiles has been explored to provide consistent country-level information to different project teams within a given MDB or IDFC member.

Interpreting climate and climate impact information, particularly projections, may be difficult. Thus, for many financing institutions, especially those that lack specific technical expertise and resources, it may be very challenging to establish a climate vulnerability context and to define to what extent adaptation action is needed. Significant climate data gaps may exist in some developing countries where MDBs and IDFC members operate. In response, MDBs and IDFC members have prepared internal guidance and tools, such as country-specific climate briefs and climate change knowledge repositories, which aggregate climate change data from a variety of credible sources. In other instances, the climate vulnerability context may be drawn directly from the results of a climate and disaster risk screening or a more detailed climate vulnerability assessment or sensitivity analysis.

B. CHALLENGES ENCOUNTERED BY PROJECT TEAMS

While setting out an in-depth, evidence-based climate vulnerability context is intended to inform climate change adaptation measures in project design, project teams face several challenges in this regard. Some of the key challenges they encounter in developing a robust vulnerability context and using it effectively in project preparation are outlined below.

i. CLIMATE VARIABILITY VERSUS CLIMATE CHANGE

Climate finance, strictly speaking, is finance provided for addressing risks related to anthropogenic climate change. However, many countries already face severe challenges associated with high climate variability and extreme weather events, which may or may not be directly linked to climate change, and which may be difficult to separate out from climate change impacts *per se*. Operational teams working in regions with high or seasonal climate variability often face challenges in discerning between climate risks that pertain to climate variability and those caused by climate change.

The Common Principles do not attempt to delineate a clear gap between currently observed climatic variability and projected future impacts of climate change. In such cases, it is difficult to separate out the specific impacts of climate change in a given project location. It may also be difficult to determine whether or not existing climate variability and extreme events are already being caused or enhanced by anthropogenic greenhouse gas emissions. One possible approach to resolving these difficulties may be to consider the timescales that are relevant for the project concerned, with climate change being particularly relevant over longer time-scales (for example, 20- or 30-year trends) while climate variability may be more relevant over shorter time-scales.

In practice, MDBs and IDFC members typically deploy a range of approaches that reflect their respective business models. This is an important step in the project process, as the demarcation of the costs associated with addressing specific climate vulnerabilities contributes directly towards defining what can be acknowledged as climate finance. Box 12 provides an example of this.

BOX 12. EXTREME WEATHER EVENTS IN SOUTH ASIA

Some countries in South Asia such as India and Bangladesh often experience high climate variability during the annual monsoon season from June to September. This results in extreme precipitation, riverine flooding, inundation of urban and rural areas, landslides, and so on. Even though these events can be primarily attributed to seasonal climate variability, their frequency and intensity has increased in recent years. Projects in these locations invariably need to incorporate measures to mitigate seasonal climate risks in their design where possible, and in addition to consider the effect of climate change over and above the prevalent climate risks.

A World Bank project in India is financing the rehabilitation of a dam in a region susceptible to heavy rains and flooding. The risk of potential damage to this dam due to catastrophic flooding has escalated significantly, with increasing cloud bursts being witnessed in the Himalayan region and cyclonic rainfall in peninsular India. The hydrological review carried out in light of the changing climate provided a revised design flood (peak discharge), estimated to be about 27,000 m^3/s more than the original project design flood. The flood routing analysis indicated a need to construct new dam spillways for the additional water to pass through. The financing dedicated to the construction of these spillways has been counted entirely as adaptation finance because it is specifically designed to address the impacts of climate change on meteorological parameters.

ii. INADEQUATE OR CONTRADICTORY CLIMATE DATA AND CLIMATE MODEL OUTPUT

The availability of data and climate models can vary significantly, depending on the project sector and location. While some countries have good repositories of easily accessible climate data at various scales, as may be relevant for the (national, regional or local) project, other countries have very limited data. Using country-level climate data for regional or local projects in countries with geographically and climatically diverse regions can lead to inaccuracies in estimating the impacts of climate change on human and natural systems, and projects.

Contradictory outcomes from different risk assessment models can also pose a challenge in designing projects to adapt to the impacts of climate change. While a certain risk assessment tool could project an increase in precipitation patterns in the project location, which could result in a higher incidence of floods, another model could indicate a decrease in precipitation, and the possibility of prolonged droughts. In such scenarios, it is important to evaluate assessments using various tools, and to carefully develop an integrated analysis of the climate risks that are most relevant for the project. The use of multi-model approaches and scenario analysis are some of the ways that these challenges may be tackled. Box 13 provides an example of a project that involves conflicting model outputs.

BOX 13. INCORPORATING CLIMATE RISKS IN WATER SUPPLY INFRASTRUCTURE

A water supply and sanitation project may be financed in a region where one climate model predicts increased frequency of droughts, while another suggests an increase in precipitation. In such a case, it may be necessary to consider the impacts of increasing droughts on water sources in the project area and incorporate measures to address water scarcity during the dry season, while also determining whether investments such as reservoirs, pipes, and so on need to be made flood-resilient because of increased forecasts of heavy rains during the rainy season. Experience from projects facing similar climate change vulnerability contexts can also be used to inform project design in such cases. The World Bank has financed a water supply and sewerage improvement project in Iraq that tries to reconcile these contradictory phenomena through its project design.

The climate risk profile of a riverine city in Iraq shows a high level of future exposure to river floods and a moderate level of exposure to water scarcity due to higher temperatures and heat. This city has experienced an increased severity and frequency of drought and flood events as well as heatwaves. In addition, during floods, untreated wastewater has been leaking out of sewers, overflowing into the streets and contaminating the river that is the city's only local source of fresh drinking water. This World Bank project takes an integrated approach that relies on flexible designs and the use of climate action plans to mitigate these risks. The project seeks to improve institutional knowledge and preparedness on water security and resilience by focusing on measures such as sustainable water use, potential use of groundwater, the use of non-conventional water sources (reuse of wastewater), and stormwater management. Furthermore, the project finances the construction of a water reservoir to improve the availability of water and rehabilitate the wastewater system. Thus, through a series of integrated measures the project addresses the risks to water availability in the project area due to drought and floods.

iii. CAPTURING CLIMATE CONSIDERATIONS IN PROJECT DOCUMENTS

Project teams often undertake a series of robust analyses in the early stages of their project preparation, which have an early influence on project objectives and design. Project activities evolve continuously throughout the project preparation process and are affected by a number of supply and demand factors, such as changing client demands or changes in internal business priorities.

As MDBs and IDFC members move towards more efficient project preparation and approval processes, project documents are becoming slimmer, with limitations on the total number of pages, annexes, and so on. Consequently, it may be more difficult to fit a robust climate vulnerability context into the confines of a project document. This often incentivises project teams to provide – outside of the official project document – supplementary information on climate, to be considered in the assessment of climate finance. As a result, the climate vulnerability context and climate vulnerability reduction measures may sometimes be under-reported in the final project documents that are submitted for Board (or equivalent) approval,[13] even when climate change risks have been genuinely considered in the project design. This may result in under-reporting of a project's contribution in terms of adaptation finance. An example of such an incidence is provided in Box 14.

Most MDBs and IDFC members deal with this challenge on a case-by-case basis. However, experience from a number of MDBs and IDFC members is pointing to the need for a brief, standardised template or fiche summarising climate action and climate finance (including adaptation) to be systematically included in all final project documents that are submitted for Board approval or equivalent. It is important to note that such a fiche or standardised section should not detract from mainstreaming or streamlining climate considerations into the narrative of the project. Project teams are encouraged to view climate as integral to the project design and not as a separate, additional requirement.

BOX 14. DECISION-MAKING UNDER CONDITIONS OF UNCERTAINTY, MEXICO

A World Bank project seeking to increase the climate resilience of the water supply system in Mexico City used "decision-making under uncertainty" (DMU) methodologies in its early stages of project design. The outcomes of this assessment heavily informed the project's structure, with the primary intent of improving the reliability of the water supply system and strengthening the management of groundwater resources in the project location in the face of a changing climate. However, the project documents did not adequately recount this robust analysis and associated vulnerability context, resulting in an initial under-estimation of climate change adaptation finance (at concept note stage). Subsequently, the climate change group was alerted to this issue, and the task team detailed the relevant context in the project documents. As a result, a portion of the component financing dam rehabilitation and infrastructure for the bulk conveyance of water was counted as adaptation finance at the appraisal stage.

[13] Some MDBs or IDFC members make final project documents publicly available while others do not, especially with private sector investments where there are client confidentiality requirements.

LESSON 4: EXPERIENCE HAS BEEN GAINED IN INTEGRATING TECHNICAL CONSIDERATIONS INTO THE TRACKING OF ADAPTATION FINANCE

The accumulated experience of applying the Common Principles over the period 2015-17 has also generated important experience and useful lessons with regard to a number of technical considerations in adaptation finance tracking.

A. ADAPTATION MANAGEMENT PRACTICES

Although the Common Principles are intended to guide and inform the tracking of adaptation finance, their application in more than 1,000 projects so far has generated numerous examples of the importance of adaptation management practices in the design and delivery of effective adaptation projects. These may include, among others, the introduction of better management practices for climate resilience, improved use of climate information, and policy or regulatory reforms that incentivise more climate-resilient practices and behaviours (see example in Box 15).

It is important to recognise that such measures may not always require the specific allocation of finance for particular assets or technologies. This is different from the more traditional "financial" adaptation measures in which a defined allocation of finance (or capex) is targeted specifically at physical assets or components within the project or system in question, in order to build climate resilience in line with the defined context of climate vulnerability. Adaptation management practices can make very important contributions towards building climate resilience, and they need to be accounted for carefully in adaptation finance tracking to ensure that their important contributions are reflected in the amount of adaptation finance that is reported. Box 16 provides one example of this type of activity.

BOX 15. DEVELOPMENT POLICY AND FINANCE IN THE WATER SECTOR TO SUSTAIN ACCESS TO WATER UNDER A CHANGING CLIMATE, SOUTHERN AFRICA

The Development Bank of Southern Africa has funded a project to review funding policy to incorporate conservation finance into the water sector. Climate change and other developmental activities continue to modify biodiversity and ecosystems in various ways in South Africa. This has led to increased demand for water, while degradation of catchment ecosystems – exacerbated by climate change – reduces the availability of water. The drought that some parts of the country are experiencing has exacerbated the loss of ecosystem services, increasing pressure on water resources. Five per cent of the overall costs of the water infrastructure project supports policy and capacity-building for mainstreaming biodiversity and ecosystem values into the development and financing of projects in the water sector, in order to sustain the resource. The adoption and enforcement of the policy will influence decision-making in the planning, financing and implementation of all water infrastructure projects in the country in future. This additional five per cent for policy and capacity-building will contribute to the country's resilience to climate change.

BOX 16. INTEGRAL MANAGEMENT PLAN OF THE LUJAN RIVER BASIN, ARGENTINA

In the past 50 years the Buenos Aires Province has suffered rainfalls of great intensity, which have worsened in the past 10 years, with severely negative impacts on households and infrastructure in the Lujan River Basin. In order to address adaptation and resilience needs, CAF structured a financial operation to implement measures aimed at preventing floods and controlling stream-flows. The project´s success is based on a holistic approach that integrates structural as well as non-structural measures. The non-structural component of the operation consists of the development of an institutional framework to: i) ensure proper coordination and sustainability of flood-risk management; ii) take advantage of technological advances in weather and climate forecasting; iii) involve the population in awareness campaigns and iv) promote prompt responses by groups of first responders in the event of disasters.

B. ADAPTATION OR MITIGATION SYNERGIES AND CONFLICTS

The application of the Common Principles has also helped to build understanding of the importance of identifying and managing adaptation or mitigation synergies and conflicts within projects. These synergies and conflicts may take a number of forms. In some cases, they may involve an adaptation solution that could provide mitigation benefits. For example, a project aimed at agricultural commercialisation could consider the introduction of more drought-resistant crop varieties in order to adapt to projected reductions in water availability. Meanwhile, the reduced need for irrigation resulting from the introduction of more drought-resistant crops may lead to fewer greenhouse gas emissions from energy consumption due to pumping. Conversely, there may be cases where an adaptation solution results in increased greenhouse gas emissions, for example where energy-intensive air conditioning is used as a means of coping with increasingly frequent and severe episodes of extreme heat. Conversely, these conflicts may work in the other direction, in the form of a mitigation solution that neglects or exacerbates climate vulnerabilities (such as a hydropower plant that produces low-carbon energy but which has not been designed or managed to take account of climate change impacts and micro-climatic conditions).

The application of the Common Principles has demonstrated that it is important to coordinate the adaptation and mitigation angles of project development and appraisal. This may often require joint work between different teams or units, and a robust and impartial climate-related monitoring, reporting and verification (MRV) function that is able to identify such conflicts and arbitrate them effectively. Nevertheless, MDBs and the IDFC recognise the interplay between mitigation and adaptation as a key area for future work – one where greater clarity and guidance is needed for our institutions. Box 17 provides an example of this interplay.

BOX 17. FOOD SECURITY PROJECT IN SOUTH-EAST ASIA

The AFD received a proposal for developing a climate-resilient agricultural production system in South-East Asia. The investment aimed to improve food security in a context of increasing flood risk and dry spells on croplands, according to downscaled climate projections. The project was found to be highly carbon emissive because it was geared towards continuously flooded paddy-cropping. The project has since been reconsidered to promote more diversified crops, and cropping techniques that produce fewer emissions, resulting in high adaptation benefits and low emissions.

LESSON 5: EXPERIENCE WITH APPLYING THE COMMON PRINCIPLES HAS HELPED TO BUILD INSTITUTIONAL CAPACITY AND EXPERTISE WITHIN MDBs AND IDFC MEMBERS

In the process of strengthening the application of the Common Principles, MDBs and IDFC members have also been making progress in building their institutional capacity and expertise. This has been achieved through:

1) the development and dissemination of technical resources and guidance materials to facilitate the screening, assessment and incorporation of climate risks into projects, to identify adaptation interventions to manage these risks, and to evaluate the associated costs of incorporating such interventions in investment projects
2) ongoing engagement and collaboration between the teams mandated with climate change responsibilities (namely, strategy, policy and knowledge teams) and teams tasked with developing and designing investment projects (namely, operational teams) with MDBs and IDFC members, and
3) senior management engagement in encouraging the tracking of adaptation finance and the development of adaptation expertise.

A. SUPPORT FOR PROJECT TEAMS AND DEVELOPMENT OF INTERNAL BUSINESS PROCESSES

MDBs and IDFC members provide services and products to build institutional capacity and raise awareness in project teams about climate change adaptation. These include tailored resources, sector-specific guidance notes and technical backstopping that project teams can readily use to enhance the quality of their work in detailing the climate vulnerability contexts and identifying adaptation solutions. Institutions have often mandated climate and disaster-risk screening to ensure that risks are assessed and managed and to support the mainstreaming of climate resilience into strategies and operations. Screening tools have been developed to support the understanding and formulation of climate vulnerability contexts and to support climate-informed project design.

- Internal resources and tools, such as the World Bank's Country Climate Briefs, Climate Change Knowledge Portal[14] and Think Hazard!,[15] provide general profiles of climate risk for a project's location. The World Bank, for example, has also developed an internal *Reference Guide on Adaptation Co-Benefits for Project Teams,* which offers illustrative examples of robust climate vulnerability contexts. Another example is the KFW-GERICS Climate Fact Sheets.[16]
- Sector-specific and country-specific guidance notes (for example, those provided through the EBRD's internal Climate Resilience Knowledge Hub) have been developed in collaboration with sector experts, to better contextualise why climate actions are necessary for projects, and how these projects can incorporate climate change into their design and implementation. In addition, the World Bank has developed a *Reference Guide on Adaptation Co-Benefits,* which offers illustrative examples of robust assessments of climate change vulnerability contexts. The ADB has developed a set of sector-specific guidance notes on how to assess climate risks and plan for adaptation interventions (see Annex 2 for details).
- MDBs have also developed internal business processes to support the three-step approach and to mainstream adaptation. These business processes ensure enhanced monitoring and documentation of the steps taken to satisfy the Common Principles, and other internal requirements on adaptation. For example, the ADB has developed a climate risk management framework to integrate climate risk assessment and management into the project cycle.[17]

[14] http://sdwebx.worldbank.org/climateportal/
[15] http://thinkhazard.org/en/
[16] https://www.climate-service-center.de/products_and_publications/fact_sheets/climate_fact_sheets/index.php.en
[17] https://www.adb.org/sites/default/files/publication/148796/climate-risk-management-adb-projects.pdf

Information on the level of climate risk and on associated adaptation finance are integrated into project board documentation.[18] Meanwhile, the EIB is developing a climate risk management system that will be fully embedded in the project cycle and IT systems; this system will allow project teams to systematically integrate adaptation to address the identified climate vulnerabilities of a project and assess that project against the three-step approach. In addition, the IDBG is developing a methodology aimed at providing a clear, technically and operationally robust framework that provides guidance for assessing disaster risks and climate risks at different project stages. This complements the existing Disaster Risk Management (DRM) Policy guidelines (GN-2354-11) issued in 2008, which define a procedure for assessing project disaster risk, including: (i) a project screening and classification, integrated into the system of safeguards (the policy filter and screening form); and (ii) a disaster risk assessment (DRA) and disaster risk management plan (DRMP) if the project is classified as moderate or high risk.

- During project development, multiple reviews may be conducted at project milestones, so that project teams can assess if the context of climate vulnerability or other elements required by the three-step approach need to be strengthened. The IDBG modified its standard procedures for design and review of sovereign-guaranteed operations to allow for timely and thorough review of project climate finance (realised and potential) during the design stage, as carried out by their Climate Change Division. Meanwhile, the World Bank Assessment Team conducts preliminary estimates of a project's climate co-benefits at three stages prior to Board approval, which helps to identify potential improvements to the definition of the climate vulnerability context, where possible. The AFD's sustainable development analysis[19] ranks the degree of alignment with climate-resilient pathways and provides guidance on how to contribute to such pathways, in line with the Paris Agreement. Within the EBRD, the climate vulnerability context of a project and associated climate resilience responses are also formally assessed at three stages: concept review, final review and Board approval. At the ADB, the Climate Change and Disaster Risk Reduction team systematically reviews project documents at different stages of a project's formulation. As outlined in the ADB's climate risk management framework,[20] project documents (concept paper, detailed climate risk and adaptation assessment reports, Board paper) are reviewed and discussed with project teams to ensure that assessment of project risk and adaptation is technically sound, that appropriate adaptation interventions are incorporated into project design and that adaptation finance is estimated accurately and transparently.

B. DEVELOPMENT OF TECHNICAL RESOURCES AND GUIDANCE MATERIALS

The application of the Common Principles requires project teams to be supported in the technical approaches, with underlying information to assess project-specific climate vulnerabilities, and in the identification and prioritisation of adaptation options. Therefore, in order to strengthen the application of the Common Principles, MDBs and IDFC members have been working to develop and disseminate technical resources and training materials for climate vulnerability and adaptation assessments, in addition to guidance notes and procedures on the application of the Common Principles. Many of these resources are in the public domain and can be shared for the benefit of other institutions. Annex 2 provides an indicative list of relevant technical resources and guidance materials that MDBs and IDFC members have developed.

Some MDBs and IDFC members have mobilised financial resources to meet the cost of conducting assessments of project climate risks and climate vulnerabilities. Partnerships with the climate science community have also been pursued to expand access to climate information and strengthen technical capacity within institutions through training and technical communication. Box 18 provides an example of these approaches.

[18] For example, in the Report and Recommendation of the President to the Board of Directors (RRP) of projects, the level of climate change impacts on the project and adaptation finance are recorded in the "Project at a glance", and the three steps required to qualify adaptation activities are included in the technical due diligence and risk management sections. Furthermore, a summary of detailed climate risk and adaptation assessment, adaptation measures and associated adaptation finance estimates (including detailed workings behind the estimates) are included in a linked document to the RRP.
[19] https://www.afd.fr/en/sustainable-development-analysis
[20] https://www.adb.org/sites/default/files/publication/148796/climate-risk-management-adb-projects.pdf

C. ONGOING ENGAGEMENT AND COLLABORATION

In order to ensure the appropriate application of the MDB-IDFC Common Principles, closer ongoing engagement and collaboration has been established within institutions, between operational teams and teams that are tasked with providing policy and technical support. Although these interactions are often motivated by the need to reaffirm the estimated adaptation finance and the incentives to meet corporate targets for scaling up climate finance, they have evolved to include mutual support and broader sharing of technical knowledge between the operational teams and the teams that are more focused on strategy, policy and knowledge. Gradually, operational teams gain more in-depth understanding of the various aspects and analytical steps required for climate risk assessment and management, while the climate change strategy, policy and knowledge teams become better informed by operational priorities when developing knowledge and technical resources. Box 19 provides an example of how this engagement takes place in the ADB.

BOX 18. TRAINING FOR MDB AND IDFC STAFF ON TRACKING CLIMATE FINANCE

In 2016, the ADB prepared and released a general guidance note on counting climate finance (an "umbrella" guidance note) that describes the approach to counting both climate change mitigation and climate change adaptation finance provided by the ADB using the Joint MDB approach. Sector-specific guidance notes were also prepared for the energy sector, and urban and water sectors, while notes for the agricultural and financial sectors are currently being drafted. The ADB also conducted staff training in 2017 and 2018 on the tracking of climate finance.

In 2017, the IDBG prepared a general guidance note on climate finance tracking for internal application, and in 2018 will produce a set of sector-specific guidance notes for water and sanitation, transport, energy, urban development, natural resource management and disaster risk management. In addition, the IDBG carried out training aimed at mainstreaming climate change for all sectoral divisions during 2017, including specific training on the joint MDB approach, the IDBG's NDC Invest platform, and climate-risk screening, among other climate action tools.

In 2017, the EIB developed and disseminated guidance notes for project teams on climate finance tracking. The roll-out of the guidance material was supported by training on adaptation and finance tracking targeted at sector divisions and financial products. Training on adaptation and on tracking adaptation finance, including the use of the three-step approach, is now part of regular training and knowledge labs for staff.

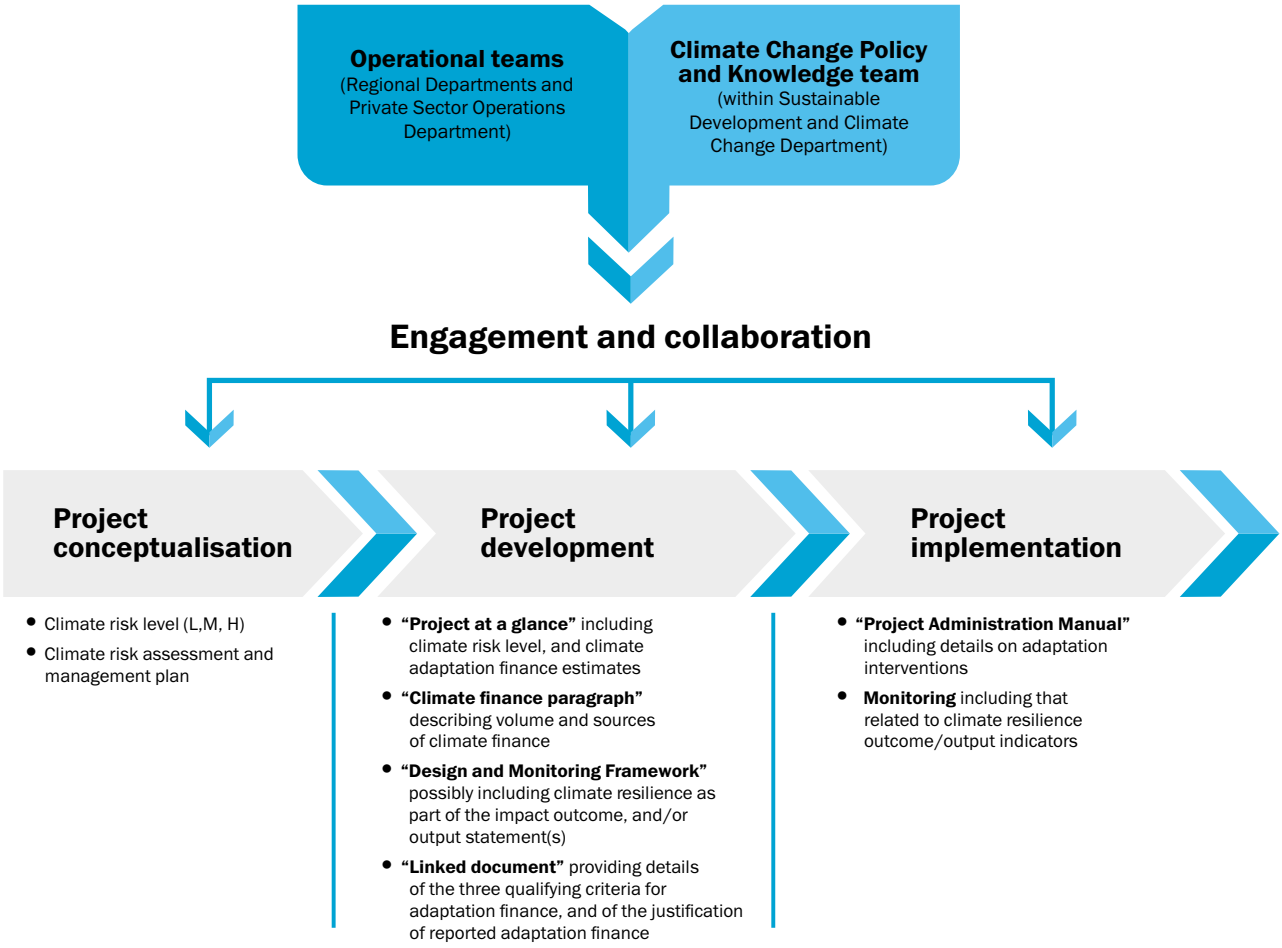
In 2017, CAF launched an internal online course on climate change adaptation. This course is available to all staff members responsible for financial operations, in the public and private sectors alike. The course introduces the main aspects of adaptation to climate change and intends to raise awareness about the importance of climate change considerations when evaluating projects.

As of 2018, all new AFD staff, including those at country offices, are receiving mandatory induction training on climate change, with a specific module on climate finance tracking under the MDB-IDFC principles.

BOX 19. ONGOING COLLABORATION BETWEEN OPERATIONAL TEAMS AND THE POLICY AND KNOWLEDGE TEAM ON CLIMATE RISK MANAGEMENT

Since 2013, the ADB has required climate risk management to be part of project development, ensuring that all of its climate-sensitive projects take climate risk into account in their design. Operational departments lead the delivery of climate operations and technical assistance in line with corporate targets and are responsible for mainstreaming climate change considerations into strategic programming and project design, as well as for the mobilisation of – and reporting of – climate finance. To systematically facilitate these actions, the ADB's project business process has incorporated key elements, including through the initial project climate-risk rating, climate risk and adaptation assessment results, adaptation interventions, climate finance and climate resilience outcomes or outputs in its project document templates. As Figure 1 illustrates, engagement and collaboration between the climate change team within the ADB's Sustainable Development and Climate Change Department and project teams from its operational departments are systematically facilitated by the joint development of the relevant elements of the project documents, from the concept stage through to project implementation.

FIGURE 1. ONGOING COLLABORATION THROUGHOUT THE PROJECT BUSINESS PROCESS BETWEEN OPERATIONAL TEAMS AND THE CLIMATE CHANGE POLICY AND KNOWLEDGE TEAM AT THE ADB



D. ONGOING CHALLENGES WITH IMPLEMENTING THE COMMON PRINCIPLES

While important progress has been made on technical and institutional capacity-building for adaptation finance tracking, as outlined above, challenges remain with regard to the practical implementation of the Common Principles. This is particularly relevant as there is an urgent need for an adaptation finance tracking methodology that can be used not only by MDBs and larger IDFC banks – which have sufficient resources available for using sophisticated methods – but also by smaller development banks (including IDFC members) as well as other institutions and private actors providing adaptation finance, and even by recipient countries that want to estimate the adaptation finance they have received as well as the amounts spent from their national budgets.

LESSON 6: EXPERIENCE WITH ADAPTATION FINANCE TRACKING HAS POINTED TO THE NEED TO DEFINE AND REPORT THE RESULTS OF ADAPTATION PROJECTS AND FINANCING

As detailed in the preceding sections, over the past three years the Common Principles have played a very important role in building understanding, sharing good practice on adaptation finance tracking and informing MDB and IDFC efforts to increase support for the adaptation process. However, as the amounts of reported adaptation finance have grown, institutions have become more aware that reporting on adaptation efforts needs to go beyond tracking the finance that goes into adaptation projects, to also capture the results that the projects and finance have delivered.

This brings into focus one of the limitations of the Common Principles, namely, that they only reflect the adaptation inputs of a project (financial inputs in the form of adaptation finance, and arguably also non-financial inputs in the form of the robust analysis and information that are needed to complete the three steps). However, the Common Principles currently offer no guidance on reporting the results of adaptation finance in terms of how projects – as well as the finance allocated to them – deliver results, such as contributions towards building the climate resilience of the project beneficiaries. In response to the need for approaches to measuring results for adaptation or climate resilience, the MDB-IDFC Adaptation Sub-Group has commenced work on scoping principles for the development and use of metrics for climate resilience results. This work is envisaged to continue during 2018 and 2019.

ANNEX 1: COMMON PRINCIPLES FOR CLIMATE CHANGE ADAPTATION FINANCE TRACKING

PREAMBLE

On 31 March 2015, the group of Multilateral Development Banks (MDBs)[21], who jointly report on Climate Finance, and the International Development Finance Club (IDFC)[22] announced that they had agreed to work jointly towards improved understanding of definitions of the different approaches and principles for climate change adaptation finance tracking. Considering adaptation as a crosscutting development issue, both groups confirmed their intent to collaborate and develop Common Principles for Climate Change Adaptation Finance Tracking, and would aim to reach reasonable progress on this process by June 2015.

In order to demonstrate the significant progress made to date, MDBs and IDFC have agreed some outline principles as an essential and important first step. These define the context of adaptation finance in development and lay the base for further joint work that includes addressing comparability of the reporting process and relevant process-based concepts and guidelines.

INTRODUCTION

MDBs and the IDFC are fully committed to promoting and supporting climate resilient development, as an essential element of the sustainability of their investments, by integrating climate resilience and adaptation into their investments, operations and initiatives. This may include support at the national, territorial, local or project level to prepare and respond to the impacts of climate change, while capitalizing on the diversity of adaptation strategies and investments to further improve the quality of their contribution to climate resilient development pathways. This includes, among other steps, integrating project vulnerability assessments into their financing procedures and processes.

Climate resilience and adaptation are intrinsically linked to development. This may make it challenging to identify what can be defined solely as adaptation finance, and has resulted in different approaches and methods for tracking and reporting. Recognizing the challenges and the need for comparable approaches, MDBs and IDFC are committing to the development of appropriate initiatives and transparent reporting of methodologies, data and information related to adaptation finance. Therefore, the purpose of the Common Principles for Climate Change Adaptation Finance Tracking is to set out an agreed approach and next steps for tracking adaptation finance.

The Common Principles, intended to be primarily applied in development finance, consist of a set of initial principles related to tracking commitments in adaptation finance. They are a voluntary joint MDB and IDFC initiative and as such do not preclude any international mandatory standards under the UNFCCC. Recognizing institutional differences, including mandates and capacities, at this stage they do not cover aspects related to their operationalization, including quality control procedures.

PURPOSE

The MDBs and the IDFC commit to developing common principles and guidelines based on their respective, group based climate change adaptation finance tracking and reporting. MDBs and IDFC invite other institutions to adopt the Common Principles and therewith further increase transparency and credibility of adaptation finance reporting.

As an inherent and important part of improving climate change adaptation finance tracking, the Common Principles will be subject to further revision by MDBs and IDFC jointly, based on amassed experience and following the identified next steps. In this respect, MDBs and IDFC are committed to work together, maintaining an open and transparent exchange of information around institutional experience and learning, as well as to jointly discuss potential proposals to improve the

[21] 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); and the International Finance Corporation (IFC) and World Bank (IDA/IBRD) from the World Bank Group (WBG).
[22] www.idfc.org

Common Principles. To the extent possible, parties will strive to reach consensus around proposed changes or additions. Alignment requires a process that improves common understanding and facilitates convergence of different approaches. In case of differences in defining or tracking climate change adaptation finance, the parties commit to communicating these in full when reporting.

PRINCIPLES

- Adaptation finance tracking relates to tracking the finance for activities that address current and expected effects of climate change, where such effects are material for the context of those activities.[23]

- Adaptation finance tracking may relate to activities consisting of stand-alone projects, multiple projects under larger programs, or project components, sub-components or elements, including those financed through financial intermediaries.

- Adaptation finance tracking process consists of the following key steps:
  - Setting out the context of risks, vulnerabilities and impacts related to climate variability and climate change
  - Stating the intent to address the identified risks, vulnerabilities and impacts in project documentation
  - Demonstrating a direct link between the identified risks, vulnerabilities and impacts, and the financed activities.

- Adaptation finance tracking requires adaptation activities to be disaggregated from non-adaptation activities as far as reasonably possible. If disaggregation is not possible using project specific data, a more qualitative or experience-based assessment can be used to identify the proportion of the project that covers climate change adaptation activities. In consistence with the principle of conservativeness, climate finance is underreported rather than over-reported in this case.

[23] The purpose of this Principle is to frame the space of activities that can be classified as adaptation finance tracking in the context of MDB and IDFC developmental work. As such, it recognises the existence of differing scientific and institutional definitions of adaptation to climate change and does not attempt to define adaptation to climate change in a wider global context, for example whether to include adaptation to current climate variability or not. However, as a next step the joint MDB and IDFC group will work on further refinement of definitions for adaptation activities in the context of adaptation finance tracking.

ANNEX 2: INDICATIVE LIST OF TECHNICAL RESOURCES AND GUIDANCE MATERIALS FOR STRENGTHENING THE APPLICATION OF THE MDB-IDFC COMMON PRINCIPLES AND OF CLIMATE RISK MANAGEMENT IN GENERAL

ADB
- Guidelines for climate proofing investment in the energy sector[24]
- Guidelines for climate proofing investment in agriculture, rural development and food security[25]
- Guidelines for climate proofing investment in the transport sector (road infrastructure projects)[26]
- Guidelines for climate proofing investment in the water sector (water supply and sanitation)[27]
- Economic Analysis of Climate Proofing Investment Projects[28]
- A technical note on information sources for supporting ADB climate risk assessment and management[29]

ADB, EIB and IsDB
- *AWARE for Projects* (a web-based tool for rapid screening of climate risk)

AFD
- VCC tool[30] (a web-based tool for rapid screening of climate vulnerability for projects) to undertake the mandatory vulnerability screening of each project that AFD supports.

AfDB
- Climate Safeguards System (a web-based climate risk screening tool for projects)

DBSA
- DBSA is working with UNEP-FI to develop a natural capital credit risk tool which specifically addresses vulnerability risks across sector, region and project

EBRD
- Comprehensive internal Climate Resilience Knowledge Hub accessible to all EBRD staff

EBRD, EIB, AFD and KFW (EUFIWACC)
- Integrating climate change information and adaptation in project development (emerging experience from practitioners)[31]

EIB
- Internal climate action resources and operational guidance accessible to all EIB staff

KFW
- KFW-GERICS Climate Country Fact Sheets[32]

IDBG
- NDC Profiles per each of the 26 borrowing member countries
- Development of Disaster and Climate Risk Assessment Tools and screening process
- Process to scan an early version of the annual pipeline to identify opportunities for climate adaptation (and mitigation) actions
- During 2018, Guidelines for Climate Mitigation and Climate Adaptation Finance by priority sector
- Climate Change Action Plan 2016-2019

IDFC
- Typology of project activities with potential climate co-benefit by IDFC Green Finance Mapping Report,[33] p. 34)

[24] https://www.adb.org/sites/default/files/institutional-document/33896/files/guidelines-climate-proofing-investment-energy-sector.pdf
[25] https://www.adb.org/sites/default/files/institutional-document/33720/files/guidelines-climate-proofing-investment.pdf
[26] https://www.adb.org/sites/default/files/institutional-document/32772/files/guidelines-climate-proofing-roads.pdf
[27] https://www.adb.org/sites/default/files/institutional-document/219646/guidelines-climate-proofing-water.pdf
[28] https://www.adb.org/sites/default/files/publication/173454/economic-analysis-climate-proofing-projects.pdf
[29] https://www.adb.org/sites/default/files/publication/458756/adb-climate-risk-assessments-info-sources.pdf
[30] http://afd.climatescreening.com/
[31] http://econadapt.eu/sites/default/files/2016-11/EUFIWACC_Adaptation_Note_Version_1.0_ENGLISH_FINAL_20160601%5B1%5D.pdf
[32] https://www.climate-service-center.de/products_and_publications/fact_sheets/climate_fact_sheets/index.php.en
[33] https://www.idfc.org/Downloads/Publications/01_green_finance_mappings/IDFC_Green_Finance_Mapping_Report_2017_12_11.pdf

IsDB

- Climate Change Sector Guidance Notes (Water and Sanitation, Agriculture, Energy and Transport)

The World Bank

- Climate Change Knowledge Portal[34] (which contains a wide range of technical resources including latest climate projections, country adaptation profiles, and so on.)
- Climate and Disaster Risk Screening Tools[35]
- Think Hazard![36]

[34] http://sdwebx.worldbank.org/climateportal/
[35] https://climatescreeningtools.worldbank.org/
[36] http://thinkhazard.org/en/