Module 3: Accessing financial resources

3.4. Adaptation cost and co-financing

LEG training workshops for 2012-2013

- Anglophone LDCs workshop

In this module

Where are we?

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Module 2: Implementation strategies for the NAPA

Module 3: Accessing financial resources for implementation of NAPA

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Module 4: Best practices and lessons learned

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Module 6: Tracking progress, M&E

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CASE STUDIES + REGIONAL INPUTS

Learning points:

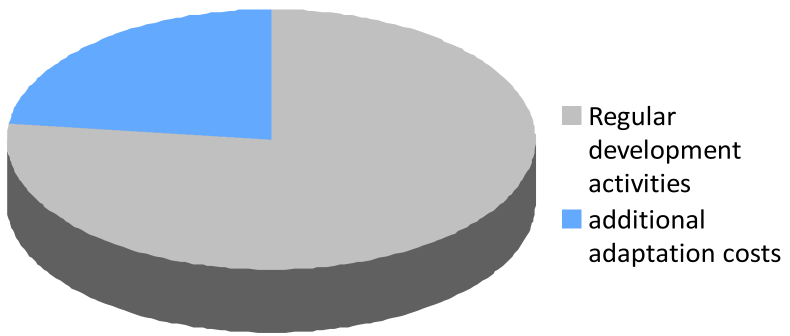
- Importance of knowing costs related to adaptation;
- Roll and responsibilities of the LDCF, Agencies and the country in finance structure.

Guiding questions:

- What is co-financing and what are potential sources of co-financing?
- Why is the co-financing important in accessing resources of the LDCF?

Adaptation cost in the context of the LDCF

- Adaptation is closely linked to development;
- Addressing the adverse impacts of climate change imposes additional costs (costs to meet immediate adaptation needs);
- Activities that would be implemented regardless of climate change are considered part of regular development (**business as usual** or **the baseline**);
- Additional cost (**adaptation cost**) is the amount of funding necessary to implement adaptation measures that would not be necessary in absence of climate change;
- The LDCF is primarily aimed at financing the full cost of adaptation (**adaptation cost**) for NAPA projects, i.e. urgent and immediate needs aimed to address effects of climate change;



Co-financing under the LDCF - the concept

- Serves to demonstrate that the proposed adaptation activities are securely anchored in existing (previously financed) development activities;
- There is no fundraising required for co-financing in the traditional sense (i.e. finding new financial resources which would be applied directly to the project);
- The co-financing relies on existing financing for development projects which provides de facto co-financing on the ground;
- To materialize the co-financing procedure the LDCF requires a declared commitment from relevant co-financiers of the existing baseline activities on which the proposed adaptation project will build;
- The co-financier(s) declare that they will allocate a certain part of their existing resources toward the project objective.

Mobilizing co-financing for NAPA projects

Sources include:

- Main national development plans, programmes and activities;
- National policies on key sectors;
- Poverty reduction policies;
- Economic growth strategies and national investment budgets;
- Governance policies (i.e. decentralization);
- Scientific and technical investments (data infrastructure);
- Disaster preparedness plans;
- Development partner strategies, plans and projects.

EXAMPLE 1 BUSINESS-AS-USUAL CO-FINANCING AND ADAPTATION COST

This example takes a fictional Business-as-Usual irrigation project that could already be either in the planning/design stage or already under implementation, and shows how a climate change adaptation intervention, funded by the LDCF, could be developed. **In this example, a low-lying area in a coastal zone is dependent on agriculture that has, so-far, relied on the exploitation of groundwater resources. However, this strategy is not sustainable, leading to the depletion and deterioration in the quality of water resources. The Government is, therefore, considering options to replace groundwater with surface water irrigation, and decides to request the assistance of a Multilateral Development Institution. Climate change, and its effects on future water resources, is not considered. The BAU Project Components are described under the Business-As-Usual column of this table.** *Even if implementation is underway,* climate change adaptation could be applied to components 2 and 3. However, as this example demonstrates, the climate change intervention is generally **most effective** *if incorporated in the earliest stage of the development intervention.*

	BASELINE/BUSINESS-AS-USUAL		WITH CLIMATE CHANGE
PROBLEM DESCRIPTION	To increase agricultural production in a low-lying delta, the Government has supported agricultural growth through exploitation of groundwater resources. However, with the rapid development there has been an excessive depletion of the groundwater reserves with a commensurate decrease in water quality. To resolve this problem, the Government has been reviewing options to replace groundwater with surface water irrigation.		Climate change is expected to decrease the availability of water, increase the sea level rise in this low-lying area, which will lead to soil and aquifer salinization (salt-water intrusion). To address this problem, the Government has requested the Implementing Agency to incorporate climate change adaptation considerations in the said irrigation project.
PROJECT COMPONENTS	Component No. 1: Design, Construction, and Operation of Surface Water System and Connection Program (US$205M).		Incorporating climate change considerations may include a climate-resilient design, construction, and operation, such as ensuring adequate water amounts to counter climate change effects, planning and prioritizing areas to be irrigated based on climate-change considerations, and sizing the system in order to meet peak demand in summer months expected according to climate change scenarios. (US$3M)
	Component No. 2: Market-Driven Technical Support to Small and Medium Scale Farmers (US$2M)		Technical Support to Farmers on Climate Change, including sensitization of farmers, development of resilience-building strategies, such as income diversification, drought insurance, and water usage systems. (US$0.7M)
	Component No. 3: Support for Institutional Development and Capacity Building of the Project Management Unit (PMU), Regulatory Office and Water Users Council (WUC) (US$6M)		Support for Institutional Development and Capacity Building of the Project Management Unit, Regulatory Office and Water Users Council (WUC) specifically concerning climate change adaptation (US$1 M)
COST	**Business-As-Usual Development Cost**		**Additional Adaptation Cost**
FINANCED BY	MDB, Donor Government, Ministry of Water Resources and Irrigation		LDCF

"CO-FINANCING"

PROJECT INFORMATION FOR "PIF"

"LDCF FINANCING"

Example of co-financing

Project title: Strengthening climate information and early warning systems in Africa for climate resilient development and adaptation to climate change (Malawi)

A. FOCAL AREA STRATEGY FRAMEWORK:

Focal Area Objectives	Expected FA Outcomes	Expected FA Outputs	Trust Fund	Indicative grant amount ($)	Indicative co-financing ($)
CCA-2 Increase adaptive capacity to respond to the impacts of climate change, including variability, at local, national, regional and global level	**Outcome 2.2** Strengthened adaptive capacity to reduce risks to climate-induced economic losses	**Output 2.2.1** Adaptive capacity of national early warning networks strengthened to rapidly respond to extreme weather events	LDCF	960,000	10,500,000
CCA-3 Promote transfer and adoption of adaptation technology	**Outcome 3.1** Successful demonstration, deployment, and transfer of relevant adaptation technology in targeted areas	**Output 3.1.1**: Relevant adaptation technology transferred to targeted groups **Output 3.2.1**: Skills increased for relevant individuals in transfer of adaptation technology	LDCF	2,850,000	5,823,000
Sub-total				3,810,000	16,323,000

C. INDICATIVE CO-FINANCING FOR THE PROJECT BY SOURCE AND BY NAME IF AVAILABLE, ($)

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Amount ($)
National Government	Government of Malawi	Grant	2,000,000
National Government	Government of Malawi/GFDRR	In-Kind	1,114,000
GEF Agency	UNDP	Grant	12,462,749
Bilateral agency	Government of Finland	Grant	1,560,000
Total Co-financing			**17,136,749**

References

1. GEF, 2011. Accessing resources under the LDCF. Available at <http://www.thegef.org/gef/sites/thegef.org/files/publication/23469_LDCF.pdf>; and available in French at: http://www.thegef.org/gef/sites/thegef.org/files/publication/LDCF%20FRench.pdf

2. UNFCCC, 2009. Step-by-Step guide for the implementation of national adaptation programmes of action;