Climate Change Initiatives

Update on the Adaptation Benefit Mechanism

THE REPUBLIC OF UGANDA

MINISTRY OF WATER AND ENVIRONMENT
CLIMATE CHANGE Department

By
Chebet Maikut
Commissioner, Climate Change Department
Ministry Of Water And Environment

Why are we proposing an Adaptation Benefit Mechanism?

- Parties committed to financing adaptation and mitigation 50/50 but there is no suitable adaptation mechanism either historically or under preparation
  - As a result, adaptation financing lags behind mitigation finance
- Many countries, including much of Africa have prioritized adaptation over mitigation in their NDCs but there is no transparent way of addressing this need
- The Private Sector, whose involvement is critical, sees no price signal to invest in adaptation
- Supporting adaptation projects, with mitigation co-benefits, will help countries achieve their NDCs and raise their ambition

What is the Adaptation Benefit Mechanism?

- The ABM is a cross between a results based financing (RBF) mechanism and the Clean Development Mechanism (CDM)
- Under an RBF mechanism, an off-taker pays for units when they are delivered. The off-taker takes no risk but instead pays a project developer to take the risks in developing and delivering the units
- RBF can be used to deliver a wide range of outputs – all that is required is supplier, an off-taker and an agreement on what is to be delivered
- The CDM is a results based financing mechanism delivering CERs
- In the case of the ABM, the output is **any result which makes households, communities or economies economically stronger and hence less vulnerable to climate change**

An Innovative Financing Mechanism

- The signing of an off-take agreement with a creditworthy off-taker will help project developers reach financial closure
- The off-take agreement (called an ABOA – Adaptation Benefit unit Off-take Agreement) can be used to finance a variety of different types of financial models
  - Direct transfer of funds to build climate resilient infrastructure
  - Payments to project developers to overcome barriers to investment
  - Payments to support the longer time operation and maintenance of infrastructure
- The ABOA ensures that project developers remain engaged in projects until they are sustainably embedded in the local economy (this was also one of the success stories of the CDM)

How are the ABUs measured and priced?

- Adaptation Benefit Units (ABUs) are measured according to the approved methodology. There may be many different definitions of ABUs and in time there may be some consolidation
- ABUs are priced based on the cost of generation including the cost of capital and risk premium for the developer
- These costs are verified by third parties, and like in the CDM, verifiers will build databases of costs and thereby ensure off-takers get value for money
- ABUs will cost different amounts of money. It is the amount of money spent that counts, not the number of units delivered
- Off-takers will select projects based on preferences including adaptation needs, not the cost of generation

What does ABM get from CDM?

- The CDM developed and implemented a transparent and credible process
- ABM uses the registration and issuance procedures to ensure credibility
- And the creation of an ABM Methodologies Panel means that the mechanism can continually grow in scope whilst ensuring that ABUs remain credible

- But the ABUs are not fungible
- They are issued into an account for cancellation only
- There is no transfer of ABUs
- Hence the ABM is a non-market mechanism

The ABM has some additional attractions

- ABM offers a role for the private sector – they can be rewarded for delivering adaptation benefits whilst investing in much needed goods and services and bringing technology, capacity and finance
- Adaptation is independent of the targets and accounting units of the NDCs so it can financed without impacting on, or being impacted by, host country policies and measures
- ABUs do not need to be fungible since there are no quantified targets – this makes monitoring and reporting much simpler;
- Since they are not commoditized, there is no secondary trading and investors pick the most compelling projects, not the cheapest; and
- ABM projects bring mitigation co-benefits to host countries, helping them raise ambition

What next?

- We are asking the Parties to agree to create an Adaptation Benefit Mechanism under the Framework for Non-Market Approaches
- Encourage a prompt start and invite MDBs and interested Parties to elaborate the concept through pilot activities

- Questions please
- Thankyou for your attention

Annex: How does ABM work?

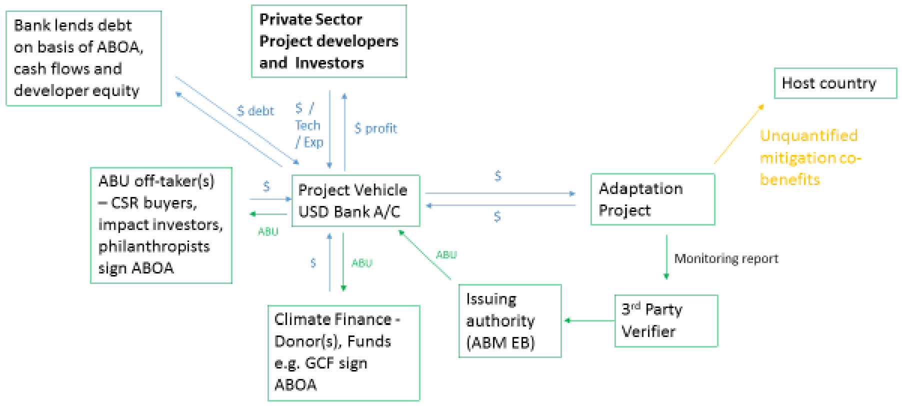
- We propose….
- To use the M&P of the CDM with some minor adjustments. Retain:
  - Approved baseline and monitoring methodologies;
  - PDD – amended to "tell the story" and show the cost of generating ABUs
  - Validation and registration; verification and issuance
  - ABM register for projects and issued ABUs
  - DOEs
  - Host Country LoA; DNAs
- Modify
  - Additionality tool – make it much simpler
  - Methodologies – make much simpler
  - Register for ABUs – only cancellation, no transfer of units out of the registry

Who buys ABUs? And at what price?

- Donors who have an obligation to transfer funds to developing countries under the Paris Agreement – bilaterally or through funds
- Development Banks – could use RBF mechanism to disburse funds
- CSR buyers – want an alternative to CER / VERs and offsetting
- Impact investors who want to do good with a modest return
- Philanthropists who may see it as a way of scaling up action

- Price will vary depending on the project
- Includes agreed / allowed costs plus a profit margin to reflect risk to investor
- Might be $10 for one ABU and $10,000 for another

Economic flows in an Adaptation Benefit Mechanism project



Thank You

End