AFRICAN DEVELOPMENT BANK GROUP

The Adaptation Benefit Mechanism

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The Adaptation Benefit Mechanism - FAQs

- What is the ABM?
- What is an ABU?
- Why would an entity buy ABUs?
- Why is the ABM a non-market mechanism?
- How do you distinguish adaptation from development and ensure that adaptation projects are additional?
- How does the ABM stimulate private sector investment into developing economies?
- How is this different from the CDM?

What is the Adaptation Benefit Mechanism?

- **If created**…. the ABM is a results based mechanism which uses a credible and transparent process to deliver results
- In the process it offers a price signal for adaptation benefits
- The price signal is project / technology specific and is determined by the verified costs, which are defined in an approved methodology
- Projects are validated as meeting eligibility criteria including host country approval
- ABUs are issued, following verification against an approved methodology, into a registry for one time use (i.e. no transfer out)
- Utilization codes are sent to the buyer to redeem the credit when they wish, in exchange for a certificate confirming their actions

What is an Adaptation Benefit Unit?

- An adaptation benefit is an output or an outcome that makes households, communities or an economy economically stronger and therefore better able to withstand a climate-induced shock
- It is generated from a project which the host country indicates is part of their adaptation target in their NDC or NAP
- An Adaptation Benefit Unit (ABU) is a measured output or outcome, independently verified against an approved methodology, which is issued into the ABM Registry
- An ABU is a unique reference number in a registry
- It is non-fungible and non-transferrable

Who would buy an ABU & what do they cost?

- Donors / Development Partners who wish to transfer climate funds for long term adaptation in a transparent, efficient and cost effective manner
- CSR buyers who wish to demonstrate their global awareness to shareholders and stakeholders
- Corporations with supply chains which are threatened by climate change
- Impact investors who value long term non-financial and financial returns
- Funds that wish to support adaptation
- Cost is based on the cost of production plus a risk premium for the project developer
- Eligible costs may be defined in the methodology
- Verifiers will verify these costs and over time will establish a database of costs which can be used to ensure value for money

Why is the ABM a non-market mechanism?

- Because the primary instrument, the ABU, is non-transferrable, non-fungible and has a price set by the cost of production and not a global or local supply and demand curve

- But that does not mean that project developers will not compete in a market environment to develop projects and offer ABUs to buyers
- Local NGOs and not for profit organization may be well suited to develop some kinds of projects whilst multi-national EPCs may do other projects
- Developers may require high risk premiums if they are to develop projects in, for example, post conflict zones
- Buyers will see these costs and can make an informed choice

Additionality?

- Important to ensure that activities are additional to BAU
- But note that the liability is commercial, not environmental

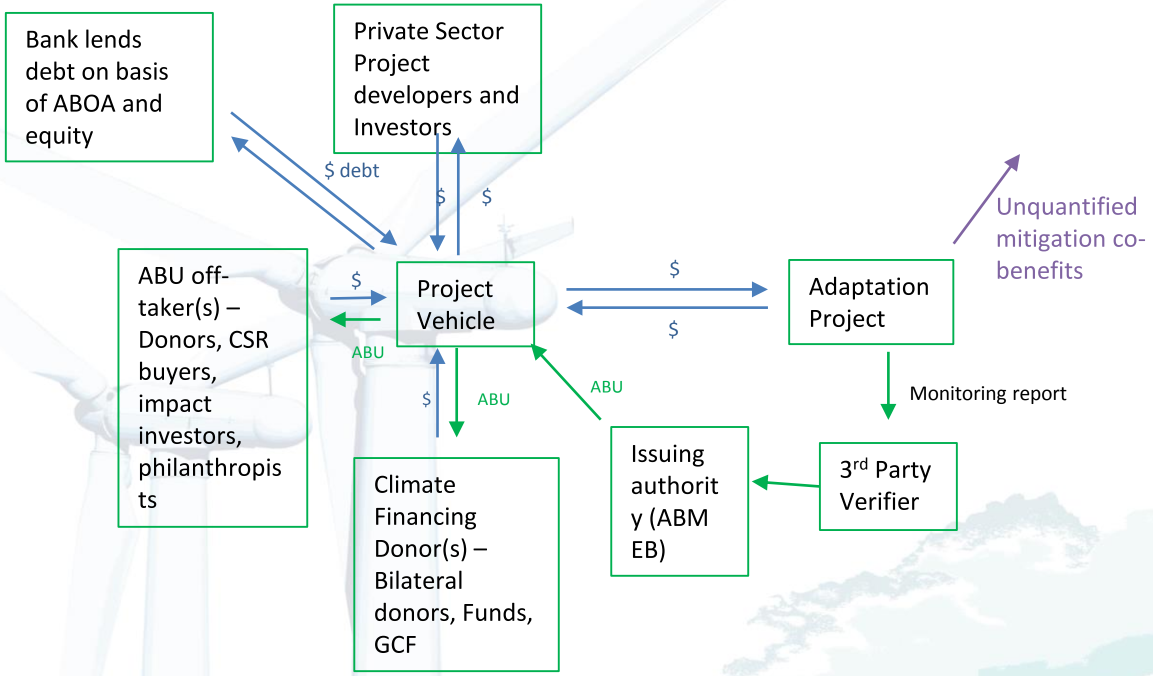
- Exact rules will be determined by the ABM EB

- For projects without revenue streams: if donor or Government has not budgeted for it in the next [5] years, then it is additional

- For projects with revenue streams: Must demonstrate barrier

How does the ABM stimulate private sector investment into developing economies (1)?

- Like the CDM, ABM offers a new source of cash flow in USD
- This cash flow is expected to improve returns and lower early stage risk to private sector investors
- MDBs and commercial banks may lend (pre- or post-commissioning) to leverage equity
- Private sector will bring entrepreneurial skills, capacity building, technology and potentially, equity
- Offers a low risk in-road for institutional finance into new markets



How does the ABM stimulate private sector investment into developing economies (2)?

- One of the strengths of the CDM was that project develoeprs had to operate their assets and monitor performance to gain CERs
- AMB could be used by donors or Governments to incentivize proviate sector companies / CSO organizations to maintain and operate assets to ensure they deliver their adaptation potential
- For example rural water infrastructure has a high failure rate. With ABUs as a source of revenues, local private operators could be supported to ensure the assets remain operational, representing a small additional cost to the donor but a massive increase in the adaptation / SD benefits which the project delivers

Big differences from CDM

- Simpler – we are dealing with commercial liability on a contract between a willing buyer and a willing seller, not an uncapped environmental liability
- The unit is non-fungible and not designed for submission against an obligation – hence registry is for cancellation only
- Hence there is no benchmark price, no secondary market and no speculation (means no profits derived by traders and speculators)
- Which means buyers buy the story behind the project, not the cheapest units (which levels to playing field or even advantages LDCs and SIDS)
- ABM will finance the most compelling adaptation needs (not the lowest levels of environmental regulation)
- It is independent from the accounting units of NDCs and, by generating mitigation co-benefits, it helps host countries achieve their Paris commitments and rise their ambition

Thankyou for your attention

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