The Adaptation Benefit Mechanism

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Introduction

• Welcome to the event - Prof Anthony Nyong, Director PECG
• Introduction to participants
• Objectives of today’s workshop
  – Introduce the ABM to range of stakeholders and practitioners
  – To build support for the creation of the ABM at CoP23
  – To find an early mover who is willing to sign an ABU offtake agreement
• Presentations on the ABM from AfDB and CPMA International
• Presentation of 4 pilot projects
• Discussion panel
• Refreshments and a light lunch closing around 1.30 pm
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 cancellation only (i.e. no transfer out)
- Cancellation 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

• 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
• It can be redeemed at any time by the owner of the cancellation code
Who would buy an ABU & what do they cost?

- Donors / Development Partners who wish to transfer climate funds for 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 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?

• Simpler than under the CDM, because the stakes are lower (commercial liability, not environmental liability)
• 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?

- 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

### Project Vehicle

**ABU off-taker(s) – Donors, CSR buyers, impact investors, philanthropists**

**Project Vehicle**

**Bank lends debt on basis of ABOA and equity**

**Private Sector Project developers and Investors**

**ABU**

**Project Financing**

**Donor(s) – Bilateral donors, Funds, GCF**

**Issuing authority (ABM EB)**

**3rd Party Verifier**

**Monitoring report**

**Unquantified mitigation co-benefits**

**Climate Financing**

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**Unquantified mitigation co-benefits**
Big differences from CDM

• Simpler – we are dealing with commercial liability on a contract between a willing buyer and a willing seller
• 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
• Which means buyers buy the story behind the project, not the cheapest units
• 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
Any burning questions?

Thank you for your attention

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