

Policy Brief: Benefits of an innovative climate change adaptation mechanism for Ethiopia's sustainable development

Harnessing results-based finance mechanisms under the Paris Agreement to promote adaptation¹

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AFRICAN DEVELOPMENT BANK GROUP

Abbreviations

ABM	Adaptation Benefit Mechanism
AB	Adaptation Benefit
AF	Adaptation Fund
AfDB	African Development Bank
BAU	Business-as-usual
CA	Cooperative Approaches
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
CIF	Climate Investment Funds
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP	Conference of the Parties
CRGE	Climate-Resilient Green Economy
CSP	County Strategy Paper
CSR	Corporate Social Responsibility
CVF	Climate Vulnerable Forum
DNA	Designated National Authorities
DOEs	Designated Operational Entities
ERPA	Emission Reduction Purchase Agreement
FDRE	Federal Democratic Republic of Ethiopia
GCF	Green Climate Fund
GHG	Greenhouse Gas
GoE	Government of Ethiopia
GoU	Government of Uganda
GTP	Growth and Transformation Plan
ITMO	Internationally Transferable Mitigation Outcome
MEFCC	Ministry of Environment, Forests and Climate Change
M&P	Modalities and procedures
MSIP	Multi Sector Investment Plan
NDC	Nationally Determined Contribution
NMA	Non-market approaches
PDD	Project Design Document
PPCR	Pilot Programme for Climate Resilience
SDG	Sustainable Development Goal
SDM	Sustainable Development Mechanism
UNFCCC	United Nations Framework Convention on Climate Change
V20	Vulnerable 20 Group of Ministers of Finance

Summary of Key Findings

- Ethiopia has been leading least developed countries in its ambition and level of detail related to its climate change mitigation and adaptation plan. In order **to finance its ambitious climate strategies**, the country must harness international climate finance and revenue from **innovative mechanisms**.
- The African Development Bank (AfDB) proposes the establishment of an **Adaptation Benefit Mechanism (ABM)**, which would become a **results-based** mechanism under the provisions of **Paris Agreement Article 6.8**. In contrast to other mechanisms such as the Clean Development Mechanism (CDM), the ABM would reward **adaptation outcomes** instead of greenhouse gas reductions.
- Ethiopia can play a key role in the further development of the ABM due to its leadership and **influence in negotiations**, as well as its tremendous **adaptation needs**. If the mechanism can be anchored in the international climate architecture, and if it is adopted by governments and the private sector, the ABM has the potential to **mobilize significant resources** for adaptation activities in Ethiopia. In order to achieve this, the government of Ethiopia should join forces with the AfDB to:
 - mobilize support to **define methodologies for assessment of adaptation benefits** within the international community;
 - develop **“lighthouse ABM transactions”** and the related **institutional infrastructure**;
 - align the ABM process with the **Multisector Investment Plan (MSIP) development** process of the Pilot Program for Climate Resilience, as well as procedures of other climate finance institutions such as the Adaptation Fund (AF) and Green Climate Fund (GCF); and
 - promote integration of the ABM under Art. 6.8 in the context of the international climate negotiations.

Ethiopia's climate policy ambitions

Ethiopia has gained international recognition for its leading efforts in international climate policy linked with ambitious national climate strategies. The country's Climate-Resilient Green Economy (CRGE) Strategy seeks to transform the country into a carbon-neutral middle income country by 2025 (GoE 2011). To achieve this objective, the CRGE targets several priority sectors including energy, green cities/buildings, forestry, livestock, soil, industry and transport. Importantly, the Strategy has also been mainstreamed into Ethiopia's second five year Growth and Transformation Plan (GTP II) 2015/6 - 2019/20. The CRGE Facility is the country's primary vehicle for mobilizing climate finance and leveraging investment for mitigation and adaptation activities in the context of the CRGE. The Ministry of Environment, Forests and Climate Change (MEFCC) is the Facility's technical arm, while the Ministry of Finance and Economic Cooperation (MOFEC) coordinates financial aspects.

Ethiopia has declared its intention to engage in the mechanisms referenced in Art. 6 of the Paris Agreement and has repeatedly made submissions regarding the design of rules for these mechanisms. Ethiopia participates in several international high-profile initiatives on mitigation, such as the New Climate Economy, the G7 Carbon Market Platform, and the Carbon Pricing Leadership Coalition, which has the long-term objective to introduce a carbon price throughout the global economy. Moreover, Ethiopia is currently chairing the Climate Vulnerable Forum (CVF), an international partnership of countries most vulnerable to the consequences of climate change, as well as the Vulnerable 20 Group of Ministers of Finance ("V20"). Ethiopia is also leading the Least Developed Countries climate negotiations alliance.

Ethiopia's Nationally Determined Contribution (NDC) under the Paris Agreement sets out the target to reduce greenhouse gas (GHG) emissions by 64% compared to the business-as-usual (BAU) scenario by 2030. The NDC is built on the CRGE Strategy. Taking into account the substantial need for capital investments, the NDC points out that the full implementation of both adaptation and mitigation measures is conditional to the disbursement of financial support to Ethiopia under the Paris Agreement. Market mechanisms represent a potential source of finance and the NDC emphasizes that Ethiopia intends to use existing and emerging mechanisms to support NDC implementation (GoE 2015).

Although a number of Clean Development Mechanism (CDM) activities were submitted from Ethiopia in the past and the area of programmatic CDM activities is still emerging, Ethiopia has had limited success in mobilizing climate finance from carbon market mechanisms. However, it is not a lack of ambition that is responsible for the limited market mechanism activity, but the already high share of renewable energy in the country that led to a low baseline emission factor for energy-related mitigation projects.

The key challenge now is how to mobilize finance through which Ethiopia can deliver on its ambitious CRGE and NDC targets. The CRGE strategy requires USD 7.5 billion annually to respond to climate change and the NDC states that over USD 150 billion is required until 2030 (GoE 2015). National budgets for climate action, however, are estimated to provide only around USD 440 million per year, complemented by several tens of USD million by the international community (Eshetu et al. 2014). Therefore, a significant financing gap needs to be filled.

To promote an increase of financing for adaptation which hitherto has lagged mitigation financing, the African Development Bank (AfDB) has proposed the establishment of an international Adaptation Benefit Mechanism (ABM), which has formally been submitted to the negotiations of the rules of the Paris Agreement by the government of Uganda in March 2017 (AfDB 2016; GoU 2017). The ABM can make an important contribution to Africa's climate policy priorities by mobilizing results-based

climate finance for adaptation projects. Such projects would generate Adaptation Benefits (ABs), which could be acquired by international development partners and other actors in the context of corporate social responsibility and philanthropy.

In light of Ethiopia's national and global leadership in climate change policy, it has been selected by the AfDB as one country in which to scope the ABM. In the Ethiopian context, projects under the ABM should be aligned with strategic priorities such as AfDB's Country Strategy Paper for Ethiopia (AfDB 2015), the Bank's High 5 strategic priorities² (AfDB 2017) and the Sustainable Development Goals (SDGs) in general. The ABM would build on lessons learned from the CDM with critical design differences that make it more attractive for countries that have had limited success in harnessing the opportunities presented by the CDM.

The ABM is proposed to be developed under Article 6 of the Paris Agreement, which establishes market and non-market mechanisms as key instruments to help countries achieve their NDC targets.

New opportunities for innovative climate finance instruments under the Paris Agreement

The Paris Agreement adopted in 2015 sets out an ambitious long-term goal to keep average global temperature increase to well below 2°C compared to pre-industrial levels, with an aspirational 1.5°C target. The Agreement, which entered into force in November 2016, also emphasizes climate change adaptation as a top priority in Article 2. Art 2.1 (b) states that the Paris Agreement aims to increase adaptive capacity to “adverse impacts of climate change and foster climate resilience and low greenhouse gas (GHG) development, in a manner not endangering food security” (UNFCCC 2015). This makes it clear that mitigation and adaptation actions are not mutually exclusive.

Subsequent Paris Agreement articles define the political direction for achieving these long-term goals. Art. 4 defines the design principles for country-level NDCs as a vehicle for mitigation and adaptation. Art. 7 establishes the global goal of enhancing adaptive capacity, reducing vulnerability and strengthening resilience. The Paris Agreement has therefore established the broad political direction for countries to address climate change challenges over the next decades.

Art. 6 of the Paris Agreement provides an array of mechanisms to promote cross-country collaboration in climate change mitigation and adaptation. These comprise both market-based approaches and results-based financing as shown in **Text box 1**. The mechanisms are still at an early stage of rule-setting. Parties and observers made an initial round of submissions on their views prior to COP 22 in 2016. The spring negotiation round of 2017 did not provide convergence on the scope and design of Art. 6 mechanisms. The negotiations are now moving into a critical phase as the process of defining the rules for these mechanisms is to be finalized at the end of the first session of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at COP 24 in November 2018.

² Especially Priority 1 “Light Up and Power Africa” and Priority 5 “Improving the Quality of Life for the People of Africa”

Text box 1: “Nuts and bolts” of the mechanisms under Article 6 of the Paris Agreement

Art. 6 establishes a broad range of cooperative policy instruments to support parties in achieving their NDCs.

- Articles 6.2 and 6.4 reinstate the role of market mechanisms as key instruments to fight climate change.
 - Cooperative Approaches (CA): Art. 6.2 establishes that parties can use internationally transferred mitigation outcomes (ITMO) for achieving the mitigation targets of their NDCs.
 - Sustainable Development Mechanism: Art. 6.4 establishes a new centrally governed mechanism for generation of emissions credits that is building on principles of the Kyoto Protocol’s CDM.
- Non-market approaches: Art. 6.8 establishes a role for approaches which should achieve both mitigation and adaptation benefits without relying on markets. This paves the way for results-based climate finance.

Source: UNFCCC 2015

In contrast to the SDM of Art. 6.4 and CAs of Art. 6.2, Art. 6.8 provides a framework for non-market approaches, which does not allow transfer of mitigation or adaptation outcomes. As a first attempt for operationalization of Art. 6.8, the AfDB (AfDB 2016) and Uganda (GoU 2017) have proposed an Adaptation Benefit Mechanism (ABM) suggesting a pilot phase before 2020. Ethiopia, a country that exhibits vast potential for numerous adaptation project types, is a promising candidate for testing the ABM in such a phase for activities that are aligned with Ethiopia’s NDC and CRGE Strategy. We discuss below how the ABM can complement existing policies and promote interventions that generate adaptation benefits in priority areas.

Features of the Adaptation Benefit Mechanism

The ABM is envisaged as a results-based finance mechanism that channels resources to projects that deliver adaptation benefits. With the ABM, a price signal for adaptation benefits would be created for the first time. The “adaptation benefit units” (ABs) generated by the mechanism would however neither be commoditized nor fungible with a compliance obligation, as Article 6.8 is limited to non-market activities. While quantification of ABs might appear irrelevant since they are not fungible, it is required due to the results-based nature of the mechanism. Having a deliverable of a specific value defined as per the respective methodology, is a precondition for AB offtake agreements and adequate monitoring systems. As neither the AF nor the GCF use a quantitative adaptation metric, the AB concept could contribute to a more results-based orientation of these institutions.

Similar to the CDM, the ABM would represent a new source of revenue, which would improve project rate of return, thereby reducing the risk of investment in developing economies. One strong advantage of the mechanism is that it could complement larger financing sources such as the GCF and the AF. Their funds are accessible only by accredited entities that typically implement large-scale projects. The ABM would enable small-and-medium-sized enterprises, African NGOs, and other actors to develop and implement projects independent of AF/GCF, multilateral development bank (MDB) and development finance institution (DFI) involvement.

It is important to note that the considerations made regarding the concrete design of the ABM and the governance of the mechanism are still at an early stage and are based on initial AfDB proposals which

have not undergone international negotiations yet. This means that the features described in this Brief are likely to be adjusted as negotiations about ABM modalities and procedures (M&P) progress.

Table 1 describes the expected similarities and differences between the ABM and CDM.

Table 1: Overview of ABM features

Similarities with CDM	Differences from CDM
<ul style="list-style-type: none"> • Purpose is the mobilization of private sector investment for climate change mitigation while delivering sustainable development benefits • Similar M&P as CDM, drawing on its strengths such as monitoring and reporting • Methodologies for quantification of ABs will be developed in line with the ABM M&Ps • ABs may be monetized through an Adaptation Benefit Offtake Agreement, which is equivalent to an Emission Reduction Purchase Agreement (ERPA in CDM terms) 	<ul style="list-style-type: none"> • No transfer of units needs to take place as there are no quantified national adaptation contributions • ABM cancellation codes will be exchanged between willing sellers and willing buyers • Level of detail and burden of proof associated with additionality, baselines and project activities substantially lower

Source: AfDB (2016); Author’s elaboration

Adaptation Benefits. ABs represent a project’s quantified adaptation benefits as defined in an approved methodology, stored as a unique reference number in a registry. An AB is a measured output or outcome that makes households, communities or an economy materially stronger and therefore better able to adapt to climate change and withstand climate-induced shocks. Depending on the respective project type, different benefits would be quantified. For example, clean cook stoves that generate a range of adaptation benefits including health, time management, reduced deforestation and saved fuel costs. In this case, it may be sufficient to simply quantify the benefits as the number of households using the cook stoves for more than 50% of their cooking needs. Similarly, rural electrification leads to multiple economic resilience benefits and therefore the number of households with safe grid connections may be counted as a proxy for the adaptation benefits (AfDB 2016). ABs would be priced based on the cost of generation with an additional profit margin added by the project developer to reflect the project risk. The price data, together with the underlying logic, would be presented in the form of a Project Design Document. Depending on the geographic location, the scale of the project, technology costs and other risk factors, the prices of ABs could vary between projects of the same type. This is not problematic since the units are purchased voluntarily and not used to serve compliance obligations, which explains why it is not necessary to have a convergence of prices of different ABs. Since many adaptation projects also generate mitigation benefits such as the cook stove example above illustrates, these mitigation benefits should be taken into account as well. Although the mitigation benefits can be quantified in terms of tons of CO₂e emission reductions, they are considered to be “co-benefits” in the context of the ABM and do not serve as a metric for AB calculation.

Source of demand. Demand from credits (ABs) would not come from an underlying compliance obligation but instead from Donor commitments to mobilize climate finance, philanthropic organizations, corporate social responsibility (CSR) buyers and impact investors that seek opportunities to support adaptation projects in an effective approach that also incentivizes private sector participation. The same motive drives buyers in the carbon markets today, who buy CDM CERs and Verified

Emission Reductions to cancel them voluntarily afterwards. In addition, development partners could be a source of demand since they would be able to increase their spending on adaptation in a transparent, efficient and cost-effective way. As there is no secondary market, demand would not be directed towards the ABs with the lowest prices. Thus, buyers' decisions to purchase ABs would primarily be informed by the underlying adaptation benefits, and thus the potential impact on livelihoods, rather than the cost of the ABs. This is a key advantage of the ABM over the CDM, and is expected to lead to a more equitable spatial distribution of adaptation projects and diverse coverage of project types, since buyers would be free to choose projects depending on the kind of adaptation benefits they want to promote, independent of the price.

Governance. The ABM could operate under the authority of the Conference and Meeting of the Parties to the Paris Agreement (CMA), governed by an Executive Board with the support of the UNFCCC Secretariat. Drawing on the lessons learned from the CDM, including already established rules and procedures, the ABM would be able to leverage the existing regulatory framework. The same holds true for the existing institutional infrastructure. For instance, Designated Operational Entities (DOEs) as well as Designated National Authorities (DNAs) or those that will be accredited to operate under Art. 6.4 could also serve the ABM.

Registration of projects and issuance of ABs would need to be based on a verification process that, among other things, controls for double counting. Also, a letter of approval issued by the ABM focal point (for example the former CDM DNA) is needed to confirm that the project is aligned with national priorities and permitted to proceed to resource mobilization and implementation. This is important to ensure that project contributions are registered and are aligned with countries' NDCs. Verification will be undertaken by designated entities in accordance with guidelines prepared by the CMA. It should avoid a duplication of efforts and build upon lessons learnt so far. ABs are thus independently verified against an approved methodology and then issued into the ABM Registry

Current state of ABM piloting in Ethiopia

After submitting the ABM concept to the UNFCCC together with the Ugandan government, a feasibility phase started. For this purpose, the AfDB commissioned four studies in different countries to scope the opportunities and challenges of the ABM in Ethiopia, Uganda, Kenya and Nigeria. The results of these studies were presented during outreach events with potential investors in April 2017 in London. Prior to the outreach event, stakeholder consultations were held to agree on a prioritization of measures that are suitable for funding through the ABM in Ethiopia. This prioritization mission resulted in the selection of the activities shown in Table 2.

Table 2: List of prioritized project types

Project type	Description	Rationale	Adaptation benefits	Methodology exists?
1. Solar powered irrigation	Farmers are equipped with solar pumping technology, which allows pumping of water without the use of manual work or fossil fuel. Especially in dry season when sun radiation is high, these pumps run on full capacity and reduce farmers' vulnerability to prolonged periods without rain.	<ul style="list-style-type: none"> Over 80% of the country's population depends on rain-fed agriculture Rainfall variability expected to increase Decreased costs of solar make technology profitable Selection of project type highly aligned with GTP-II, Bank's CSP 2016-20 for Ethiopia and NDC 	<ul style="list-style-type: none"> Improved access and availability of water reducing the dependence on rainfall Reduced impacts of shifts in the rainfall patterns, especially in case of droughts Improved crop yields, leading to increased resilience against climate-induced shocks due to increased food security and increased income for farmers Reduced time required for collecting water, especially for woman and children Enhanced crop resilience and food security due to lower dependence on rain-fed irrigation Benefits for health due to better nutrition Supply of energy in rural areas if solar panels also used for energy generation 	
2. Grid extension	Often household grid connections are not established due to high costs although the grid has been developed. Consumers are equipped with wire connections between the grid and the household, with suitable metering technology.	<ul style="list-style-type: none"> Only 17% of Ethiopia's population living in electrified regions Heavy use of biomass for energy supply has led to deforestation and degradation of rural ecosystems 	<ul style="list-style-type: none"> Indirect increase of population resilience to meteorological shocks through: <ul style="list-style-type: none"> creation of new business opportunities and related jobs and income reduced dependence on biomass whose availability depends on climatic conditions 	

Project type	Description	Rationale	Adaptation benefits	Methodology exists?
		<ul style="list-style-type: none"> Costs to establish grid connection are still prohibitive for most rural households 	<ul style="list-style-type: none"> reduced dependence on fossil fuels (e.g. kerosene for lamps) whose supply may be disrupted Reduced exposure of vulnerable social strata due to reduction of rural-to-urban migration, with lesser occupation of areas at risk from impacts of extreme events Reduction of pressure on forest resources and thus lower impact of extreme precipitation events due to reduced runoff Lower vulnerability of the electricity grid to extreme events due to smart metering and improved management of grid loads 	
3. Clean cooking	<p>Introducing clean stoves for clean cooking in rural households, targeting poor households that are vulnerable to climate change and rely on traditional fuels for cooking. Ethanol stoves are particularly suitable in the case of Ethiopia because the country has an excellent potential for the production of bio-ethanol.</p>	<ul style="list-style-type: none"> Over 700 million Africans use solid fuels for cooking 4.3 million people worldwide die prematurely every year due to exposure to indoor air pollution Solid fuel cooking also comes with other significant costs ranging from outlays for solid fuels, time consuming firewood collection and environmental degradation 	<ul style="list-style-type: none"> Number of households regularly using cooking equipment that reduces non-renewable biomass use Number of households reverting to pre-project cooking equipment Reduced mortality and sickness from acute respiratory infections linked to indoor pollution Reduction of pressure on forest resources and thus lower impact of extreme precipitation events due to reduced runoff Less dependence on climatic conditions that determine availability of biomass fuel for cooking Time savings, especially for women and children, due to reduced time for fuel collection that can be used for education, and thus indirectly increases population resilience to meteorological extreme events Reduced spending on fuel for cooking increases household expenditures on other consumables (improving health and living conditions and thus indirectly increasing 	

Project type	Description	Rationale	Adaptation benefits	Methodology exists?
			population resilience to meteorological extreme events)	
4. Rural electrification (off-grid)	Supply of electricity through implementation from renewable energy-based systems such as solar home systems or renewable mini-grids	<ul style="list-style-type: none"> • Energy access being one of Africa's central development goals • Over 76% of the country's population lacks access to energy 	See benefits of project type 2 (grid extension)	
5. Watershed management	Improve a region's productive potential through watershed management techniques	<ul style="list-style-type: none"> • Watershed degradation is a problem that threatens agricultural productivity and rural livelihoods particularly in Ethiopia's highlands 	<ul style="list-style-type: none"> • Flood mitigation, erosion control, flow regulation • Increased crop yields and diversification • Improved food security • Improved water quality 	

Recommendations for Ethiopia to harness ABM benefits

The climate policy landscape is expected to change over the next 3 years due to the Paris Agreement. Thus, it is important to distinguish between the pre-2020 and post-2020 challenges and opportunities (Table 3) that need to be overcome and harnessed respectively. This temporal threshold is chosen because NDCs under the Paris Agreement are only expected to become effective from 2020. Consequently, any demand for units under the Paris Mechanisms – with the exception of pilot initiatives – will only accrue starting in 2020. However, private sector financing might be available before 2020 if companies see compelling reasons to acquire ABs.

Table 3 Challenges and opportunities of the ABM

<p>Pre-2020 Challenges</p> <ul style="list-style-type: none"> • Globally limited availability of resources for adaptation projects/ demand not certain • Set of methodologies still at a formative stage • Quantification of adaptation outcomes not trivial and can be object of criticism • International recognition required to increase interest from investors 	<p>Pre-2020 Opportunities</p> <ul style="list-style-type: none"> • Concrete design of ABM yet to be determined and features can still be shaped • Ethiopia’s high visibility, ambition and significant adaptation needs position the country to champion the ABM • Synergies with AF and GCF, which are looking for opportunities to strengthen result-based finance approaches for adaptation • Consistency between ABM project types and AfDB portfolio presents opportunities to embed the ABM concepts into the AfDB’s operations
<p>Post-2020 Challenges</p> <ul style="list-style-type: none"> • ABM competes with other sources of finance for strong adaptation projects. However, new sources are likely to emerge under PA Art. 7. • Demand for ABs needs to be generated. Without demand, the mechanism has no chance to survive. 	<p>Post-2020 Opportunities</p> <ul style="list-style-type: none"> • If ABM can be fully developed and established in time, it has the potential to be part of the post-2020 climate architecture. To achieve this, the ABM needs to become a generally accepted proposal in the negotiations and embedded in decision texts.

Ethiopia offers favourable conditions for further development of the ABM due to its national and international leadership position in terms of climate policy ambition and action, its intention to participate in PA Article 6 mechanisms, and its position to influence international climate negotiations. Moreover, an adaptation mechanism is suitable in a country that has had difficulty in attracting resources through mitigation mechanisms like the CDM, due to its high share of renewable energy generation as well as adaptation resources through the GCF, with its first proposal *de facto* rejected. In Ethiopia, where the bulk of the mitigation and adaptation potential lies in the agriculture and forestry sectors, which are closely related to water and energy, the ABM has the potential to deliver adaptation and mitigation outcomes simultaneously. These outcomes are also achievable without having to transfer mitigation credits internationally. These favourable initial conditions, in conjunction with the identified project types, render Ethiopia a strong candidate for pilot testing of the ABM. However, some short- and medium-term actions are required to effectively position Ethiopia as an ABM champion and beneficiary:

Short-term

- **Define adaptation benefits credibly** in a way that does not dilute them into general sustainable development benefits. Rigor in project selection will be required to avoid criticism from the media

and CSOs that the ABM is simply promoting “regular development projects” and thus, diverting climate finance. The remaining 18 months of UNFCCC negotiations on the Paris Mechanisms’ rules provide ample opportunity to enlist expert views on robust and generally accepted types of ABs. There might also be an opportunity to proceed towards a more unified metric of adaptation benefits as suggested by some researchers (Stadelmann et al. 2014).

- **Provide leadership** by identifying opportunities for ABM pilots in the AfDB’s project pipeline for Ethiopia and by providing resources for financing at least one “flagship” AB transaction. The successful implementation of flagship transactions would require, among other things, capacity building for a critical set of national level institutions. The government of Ethiopia could task the CRGE Facility to organize the necessary groundwork.
- **Align the ABM with the Multisector Investment Plan (MSIP) process.** AfDB should ensure that MSIP, which is currently being developed for Ethiopia by the Pilot Programme for Climate Resilience (PPCR), is aligned with the ABM. Ensuring complementarity of both initiatives will maximize synergies. On the one hand, it is conceivable that resources through the MSIP could flow into the creation and implementation of the ABM. On the other hand, the MSIP could use the performance indicators of the ABM. However, the MSIP process is ongoing and has not yet considered the ABM, which is natural since the ABM is just being developed at the conceptual level and remains to be anchored in international negotiations. Coordinating the development of the ABM and MSIP during the formative stages is therefore recommended. The MSIP should thus be taken into account when deciding on potential ABM project types.

Medium-term

- **Showcase the ABM potential in Ethiopia.** The ABM will only have the potential to mobilize substantial amounts of resources for adaptation if host countries can demonstrate to relevant stakeholders that the ABM concept is taken seriously. Illustrating the mechanics of the ABM will be crucial to prove that the concept is viable, which is expected to generate demand for ABs from potential investors. Ethiopia is at the forefront of various global climate policy forums and can leverage its position to promote the ABM. For instance, in addition to being a leading advocate of climate action in the negotiations, Ethiopia is chairing the CVF, V20, and also leading the Least Developed Countries climate negotiations alliance. Ethiopia should be part of a large outreach event to the financial and CSR sectors at the next Frankfurt “Innovate for Climate” Fair in 2018.
- **Set up the institutional infrastructure.** Once the ABM M&Ps are negotiated and finalized, Ethiopia needs to decide on suitable institutional arrangements. Experience with prior mechanisms reveals that institutional requirements will comprise: a coordinating entity that enables the establishment of the ABM infrastructure, a Designated National Authority to provide host country approval for ABM projects, and a Designated Operational Entity responsible for project validation. To reduce transaction costs, it is important that no new institutions are created but instead responsibilities are allocated to existing CDM and future SDM institutions under Art. 6.4.
- **Continuously engage in methodology development.** Further methodologies are important to substantiate the methodological basis of the ABM and to increase the diversity of project types that can be considered under the ABM. In particular, it is important to ensure that the methodologies quantify impacts based on a strong analytical framework to guarantee the credibility of the mechanism. This holds true in spite of the fact that no compliance motive is required to catalyse demand. In this respect, Ethiopia is well positioned to provide a testing ground for diverse ABM methodologies.

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ABOUT THIS PUBLICATION

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