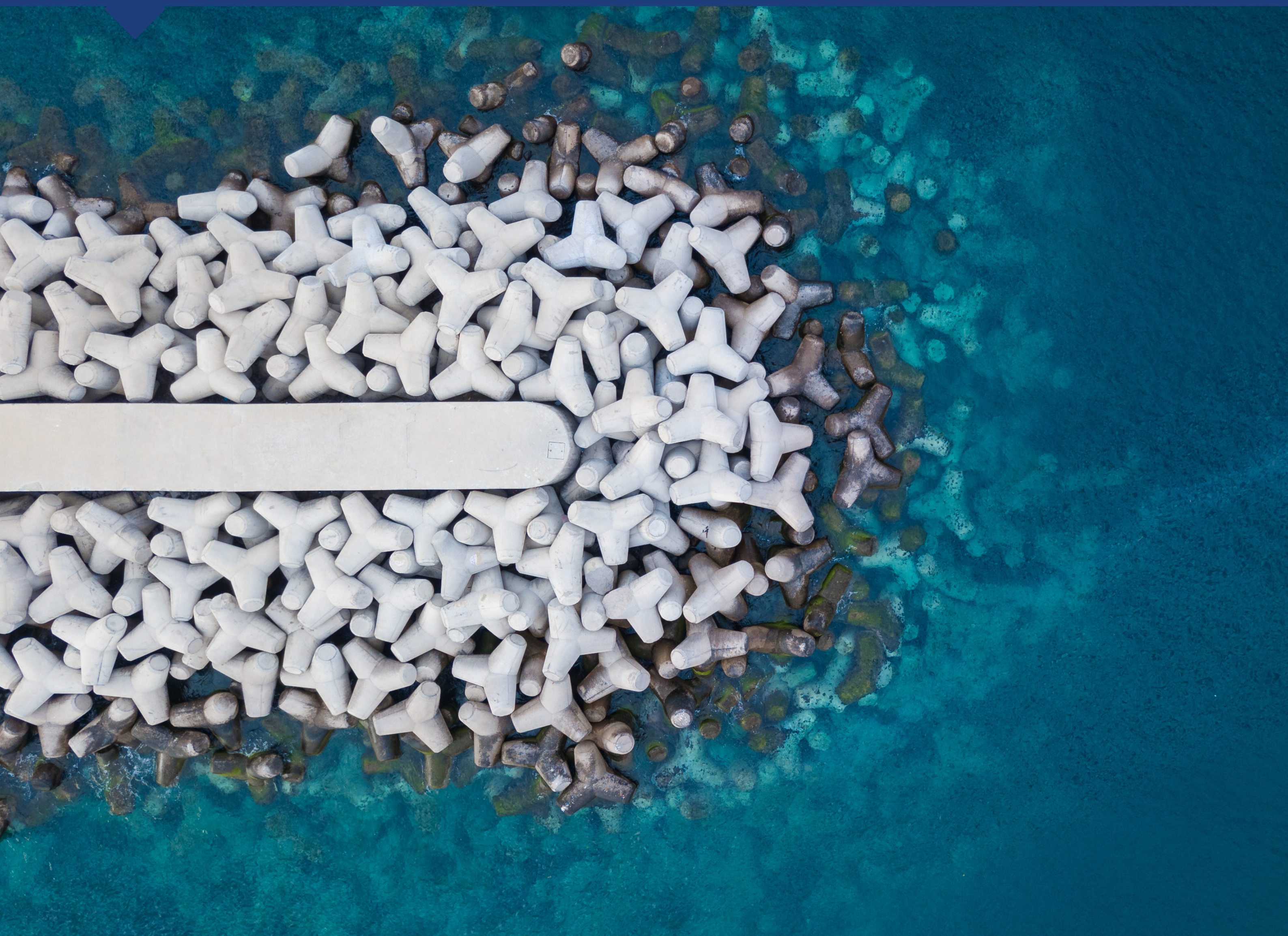
European Bank
for Reconstruction and Development

THE EBRD CLIMATE ADAPTATION ACTION PLAN 2023-25

Investing in climate resilience to support economic and social development in a changing world



1. Introduction

Global temperatures are already on average over 1°C above pre-industrial levels,[i] causing material, often severe effects on business and communities. Catastrophic flooding, extreme temperatures, persistent droughts and large-scale fires are becoming more frequent and severe, not only in vulnerable regions, but also increasingly in areas that were not previously considered at significant risk.[ii]

While we work to limit global warming in accordance with the Paris Agreement, we must also protect lives and livelihoods from the risks a hotter world creates. Our current infrastructure, our cities, and the business models that underpin our economies are not designed to deal with a rapidly changing climate. Considerations around climate resilient design, investment and systems — far from being add-ons or a future concern — must take their place at the very centre of how we transform society and business in the face of global warming. This requires rethinking business and social interactions, whereby building resilience and adapting to the impacts of climate change is not seen as a cost, but an investment to preserve economic growth and social cohesion.

AN OPPORTUNITY TO BUILD A MORE RESILIENT ECONOMY

Investments in climate adaptation are an opportunity to build a more resilient economy and simultaneously a greener, more nature-positive future.

Current global financial flows are insufficient as most finance focuses on mitigation efforts, but not as much on climate adaptation and resilience.[iii] While global action on adaptation has been increasing, including greater mainstreaming into policy and planning, progress is uneven. The most recent science suggests that the 1.5°C target is hanging by a thread, the incidence of serious and potentially catastrophic climate events is bound to increase significantly, and we are not adapting fast enough. The UNEP Adaptation Gap Report now estimates that adaptation finance needs are higher than previously thought, and finance availability is not reaching commitments made, so need may be as much as ten times higher than current financing.[iv]

This sinking realisation has created a renewed sense of urgency around the climate adaptation challenge. To confront it, the EBRD has developed a Climate Adaptation Action Plan (CAAP) to catalyse ambitious transformation, investment and policy activity over the next three years in our countries of operation.

2. Climate adaptation at the EBRD: an established practice shaped by the Bank's mandate and operational model

The EBRD region comprises a vast geographical area with diverse climates and vibrant and dynamic communities, with a rich history and traditions. While historically no stranger to extreme weather events, the effects of global warming are now regularly and acutely felt across all EBRD regions. As heatwaves in Central Asia reach temperatures of over 45°C, severe flooding across the Balkans causes millions of Euros of damage, wildfires threaten the Eastern Mediterranean, and drought conditions require water rationing in North Africa, the need for building climate resilience in these regions is more urgent than ever.

Climate adaptation is a key component of our delivery model, embedded in the Bank's investment activities and shaping its policy dialogues. The EBRD recognises the need to build resilience across all sectors to complement the low carbon and sustainable development of the region. As such, climate adaptation considerations have been included across EBRD's key strategic and operational frameworks for over 10 years.

Today, our Strategic Capital Framework 2021-25 puts climate change and the green economy at the core of the EBRD's value proposition and strategic priorities. The importance of the climate adaptation to our mission is further reflected in our commitments to be fully aligned with the adaptation objectives of the Paris Agreement by the end of 2022 and becoming a majority green bank by 2025. At a project level, the EBRD assesses physical climate risks in all projects, applying a methodology based on best practice in the financial sector. We review alignment of all projects in respect to the climate adaptation objectives of the Paris Agreement, in line with an approach developed together with the other Multilateral Development Banks (MDBs).

The EBRD furthermore participates in a joint MDB architecture for tracking adaptation finance: as part of the joint MDBs Working Group on Climate Finance Tracking, we developed a common adaptation finance tracking methodology in 2012 to harmonise approaches between MDBs and inform the international financial sector. In the decade since its inception, the MDBs have gained significant collective experience, which has contributed to building the understanding of how financial products can embed climate adaptation and resilience. BOX 1 explains how the EBRD is furthering global goals for tracking adaptation finance.

These commitments and tracking methodologies reflect specific channels for adaptation activities, but do not constrain our overall adaptation efforts. We will continue to deliver adaptation impacts wherever the opportunity arises.

CLIMATE ADAPTATION IS A KEY COMPONENT OF OUR DELIVERY MODEL

The EBRD finances adaptation investments across multiple financial products, directly to corporates, municipal companies and infrastructure owners and operators (BOX 2 provides an example of a recent project in the ports sector in Morocco), and indirectly through credit lines and other financial products deployed by our financial partners in the region.

BOX 1

EBRD APPLICATION OF THE JOINT MDB ADAPTATION FINANCE TRACKING APPROACH

The EBRD approach to tracking adaptation finance applies the joint-MDB approach and also includes an assessment of the climate resilience outcomes that our investments are expected to deliver, namely:

- Increased availability of water
- Increased availability of energy
- Increased agricultural potential
- Improvements to human health and/or productivity
- Reduced weather-related disruption
- Reduced weather-related damage

Responding to evolving financing modalities and increasingly systemic thinking about investing in resilience, the MDBs reviewed their methodology for tracking adaptation finance over 2021-2022 and will launch a new joint methodology at COP27.

Building on the 2022 update of the MDBs approach, and our own experience of implementing adaptation finance tracking within EBRD, we are currently reviewing our methodology to streamline the attribution process and increase transparency. This revised approach will be completed and applied in 2023.

BOX 2

AGENCE NATIONALE DES PORTS (ANP) OF MOROCCO CLIMATE RESILIENCE PROJECT

The EBRD is enhancing the climate resilience of several ports along Morocco's Atlantic coastline by providing a €40 million loan to Agence Nationale des Ports (ANP). A package of construction and infrastructure improvement works will deliver enhanced climate resilience against hazards such as sea level rise and extreme flooding caused by storm surges. The loan will be supplemented by an investment grant of US$ 5.7 million from the Global Environment Facility (GEF).

The project also comes with a comprehensive technical cooperation package, funded by a US$ 500k grant from the GEF and a US$ 1 million grant from the Bank itself. Designed to support the establishment of a dedicated working group for climate-aware decision-making and comprising key stakeholders in the Moroccan port sector, the technical capacity building package is expected to support the creation of improved environmental management systems and standards.

With many emerging markets highly exposed to climate-related risks, the response of private companies in vulnerable regions is not only instrumental to tackling the climate emergency, but also essential to mobilise the private sector and allow their participation in building robust and resilient economies. Many corporations today do not yet sufficiently consider their exposure and contributions to risks arising from the physical impacts of climate change and low carbon transition when making business and investment decisions.

In 2021, the EBRD launched a signature programme to enhance the Bank's additionally on climate in its financing operations. The EBRD Corporate Climate Governance Programme (BOX 3) supports clients in the financial, municipal and corporate sectors in understanding and assessing physical climate risks and incorporating climate change considerations in their management practices and investment decisions.

Over the past decade, we have financed close to 400 adaptation projects totalling over €3 billion of adaptation finance, including over €750 million in Central Asia and €567 million in our countries of operation in North Africa.

Between 2016 and 2021 alone, an additional €6.7 billion in climate adaptation co-finance from both public and private sources has been leveraged thanks to the EBRD's adaptation work. This has translated into tangible impact on the ground: projects signed between 2013 and 2022 deliver an estimated 500 million m^3 in annual water savings.

Based on this portfolio of climate resilience investments from across the Bank's regions, the EBRD launched in 2019 the first ever climate resilience bond, raising US$ 700 million from capital markets. Since then, this bond has been tapped several times for cumulative issuances of US$ 1.15 billion.

These results have been achieved with the support of bilateral and multilateral donors, including the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Climate Investment Funds (CIFs), and the EU, which have provided cumulatively €242.3 million co-finance and technical cooperation funds.

Building on our long history of investment in resilient development and recent successes and learnings in the climate adaptation space, we have developed a three-point action plan leveraging EBRD's private-sector focus and collaborative operating model to accelerate climate resilience in our countries of operation.

BOX 3

THE EBRD CORPORATE CLIMATE GOVERNANCE (CCG) PROGRAMME

Climate corporate governance denotes the set of rules and decision-making procedures according to which corporates make climate-related decisions. A flagship EBRD programme, CCG has been designed to help corporate clients understand and manage climate-related risks and opportunities through improved decision-making. Not only will this maintain and enhance their performance in a time of unprecedented change, it will also unlock green investments. The CCG will support our corporate clients on a range of climate-related issues, from assistance in preparing climate-related financial disclosures, to revealing the business opportunities associated with a low-carbon, climate-resilient world. On the topic of climate adaptation specifically, the CCG is expected to strengthen client capacity to identify future physical climate risks and take adequate action to make their assets, systems and supply chains climate resilient.

3. EBRD Climate Adaptation Action Plan 2023-25: an enhanced approach to support market transformation

Action 1: Accelerated mainstreaming and policy integration

The EBRD has made significant progress in mainstreaming climate adaptation across our operations, and we are committed to further embedding resilience considerations into our projects and practices.

The foundation for mainstreaming climate adaptation in our projects is a clear methodology for tracking the adaptation finance in the investments we support. We have worked with other MDBs since 2012 to ensure consistent assessment and reporting of adaptation finance. The EBRD is now refining our internal methodology for climate adaptation attribution and tracking to reflect the newly agreed 2022 joint MBD climate adaptation finance tracking principles (BOX 1).

We, like the clients we serve, must also understand the climate risk in our own operations. In 2018, the Bank became the first MDB to sign up to the Task Force on Climate-related Financial Disclosures. Our 2021 TCFD report includes an initial stress testing assessment of our top 100 corporate clients to climate scenarios of the NGFS.

Further, at our 2021 Annual General Meeting, the EBRD approved a climate action resolution in which we committed to fully aligning the Bank's activities with the objectives of the Paris Agreement by the end of 2022, including strengthening countries' ability to adapt to the impacts of climate change.

These three mutually reinforcing approaches (tracking adaptation finance in the projects we support, disclosing climate-related financial risk, and aligning our operations with the Paris Agreement) represent the key architecture for mainstreaming climate adaptation and resilience across our operations. Going forward we will build on these three pillars to further mainstream climate adaptation and resilience throughout the Bank. Enhanced mainstreaming will allow us to identify adaptation opportunities early on in the investment cycle and better address our clients' needs. This will include enhanced internal capacity building, ensuring that staff have the relevant tools, resources, knowledge and expertise to support our clients and grow the climate adaptation and resilience finance that we provide.

In line with these objectives, the EBRD will:

- Integrate diagnostics, policy roadmaps, and investment assessments related to climate resilience and adaptation in national and sectoral level climate policy activities.
- Support countries of operation to assess the vulnerability to climate change of critical energy, logistics, communication and water infrastructure systems, and develop prioritisation plans in line with individual countries strategic priorities and development objectives. In this context, we will work with national and local authorities and other development partners in strengthening the early warning systems and the institutional capacity to plan and execute climate adaptation interventions.
- Enhance the EBRD Green Cities tools and processes, in particular the Green Cities Action Plan, to identify key priorities for adaptation action at the city level, including through dedicated climate resilience strategies focused on deployment of digital technologies and nature-based solutions. The EBRD will engage with local businesses and civil society throughout the preparation and implementation of these strategies.
- Support corporate clients in understanding physical climate risks through the EBRD CCG programme and developing dedicated climate resilience investments plans.
- Screen all projects for alignment with the Paris Agreement, including the adaptation goals, enabling identification of vulnerabilities and providing opportunity to invest in resilience.
- Continue to integrate and identify opportunities to promote gender equality and inclusion through climate resilience and adaptation activities, as there is a growing body of scientific evidence showing that empowering women can contribute to helping economies adapt more effectively to the adverse impacts of a changing climate.[v]

ADDRESSING OUR CLIENTS' NEEDS EARLY ON

Enhanced mainstreaming will allow us to identify adaptation opportunities early on in the investment cycle and better address our clients' needs. This will include enhanced internal capacity building, ensuring that staff have the relevant tools, resources, knowledge and expertise to support our clients and grow the climate adaptation and resilience finance that we provide.

Action 2: Partnerships and capacity building for enhanced impact

Effective climate adaptation action can only be achieved through collaboration and coordinated efforts to leverage the competences and capacities of relevant business, institutional and civil society stakeholders. Appropriately targeting this action may require significant advancement in data availability and expansion of the evidence base for adaptation – while mitigation has a wealth of data and experience to inform investment, more capacity building and knowledge sharing is essential for informed adaptation decision-making. The EBRD has strong experience in building partnerships at local and international levels that complement its private sector focused and commercially driven operational model.

The Bank will expand collaboration with existing partners for enhanced impact and will facilitate the development of new models of collaboration at international, regional, national, local and sectoral level:

- The EBRD will continue working with MDBs and the broader climate finance community including dedicated climate funds such as the GCF, GEF, and CIFs in developing the approaches and standards defining adaptation finance.
- We will enhance collaboration with scientific organisations, including the World Meteorological Organisation, to improve the understanding of climate resilience metrics and data underpinning the theory of change in climate adaptation.
- The EBRD will increase engagement with the financial sector, including international investors' networks (e.g., the Glasgow Alliance for Net Zero (GFANZ), Institutional Investors Group on Climate Change (IIGCC)) and the impact investors community (including through the Global Impact Investing Network (GIIN)) to develop new approaches to adaptation finance.
- The EBRD will expand its collaboration with the African Development Bank and the Global Center on Adaptation, to support the implementation of the ambitious objectives of the Africa Adaptation Acceleration Programme.
- The EBRD will also expand the work at regional and national level (particularly in Southern and Eastern Mediterranean region (SEMED) and Central Asia) to identify critical infrastructure that needs to be prioritised to reduce the risk of economic disruption and impacts to the livelihood

- of local communities. Increased cooperation with the Coalition for Climate Resilient Investments (CCRI) and the Global Infrastructure Facility (GIF), as well as our existing partnerships with national ministries in our countries of operation, will be critical in this area of work.
- The EBRD will increasingly promote programmes, products and initiatives, which increase the role and participation of the private sector in scaling up climate adaptation action and investments.

While commercial drivers for adaptation finance are starting to emerge, public sector channels will remain critical in delivering increased resilience, particularly in infrastructure planning, construction and operation. The EBRD will continue to develop partnerships with institutional organisations and state-owned companies to develop the necessary strategies and standards and to implement priority investments and interventions, including to enable increased private sector participation.

Availability of concessional funds for project preparation, capacity building, guarantees, co-financing and investment grants will be needed to address critical priorities and the substantial market barriers to unlocking private investments. In this context, the Bank will step up its efforts to develop effective support programmes and blended finance instruments in cooperation with bilateral and multilateral donors, including the Green Climate Fund, the Climate Investment Fund, the Global Environmental Facility, and the EU. The EBRD's High-Impact Partnership on Climate Action (HIPCA) will represent a key delivery channel to optimise use of donors' co-finance.

Building on our long history of investment in resilient development and recent successes and learnings in the climate adaptation space, we have developed a three-point action plan leveraging EBRD's private-sector focus and collaborative operating model to accelerate climate resilience in our countries of operation.

Action 3: Proactive business development and private sector mobilisation

The EBRD will increase adaptation investments using appropriate direct and indirect channels of finance. Priority will be given to projects and programmes that maximise direct and indirect private sector mobilisation, as well as those that offer benefits to nature and biodiversity:

- The EBRD will expand its current range of financial products to increase the use of capital market instruments such as climate resilience bonds, building on the Guide for Issuers on Green Bonds for Climate Resilience, which we developed together with the Global Center on Adaptation (GCA) and the Climate Bonds Initiative (CBI). We will also pilot the introduction of climate resilience objectives in results-based financial instruments such as sustainability-linked loans. In this context, the EBRD will also support the development and deployment of financial approaches that reward adaptation outcomes (e.g., the African Development Bank Adaptation Benefits Mechanism) and explore the potential for non-market approaches, in particular through art. 6.8 of the Paris Agreement.
- The EBRD will expand the use of intermediated financial products to scale up the deployment of climate adaptation technologies and solutions across small and medium-sized enterprises (SMEs) and in the built environment by expanding the list of eligible technologies in the EBRD Green Technology Selector and by providing focused technical assistance to partner banks and sub-borrowers, directly and through forums such as the EBRD Green Finance Academy.
- In the infrastructure sector, the EBRD will prioritise intervention in critical infrastructure. Ensuring resilience of critical energy and transport infrastructure remains an ongoing priority. We will also support integrated approaches to resilience in the water sector that combine innovative policies to optimise water demand, reduce water losses and diversify the sources of water supply, including through water desalination investments. Water harvesting, smart reservoir solutions, application of digital solutions to water management and zero discharge systems, will be scaled up.
- At city level, the EBRD, through its Green Cities programme, will scale up investments to improve resilience of water and other infrastructure

systems and support the application of nature-based solutions to reduce the risk of flooding and heat stress in the built environment.

- The agriculture sector will be prioritised by supporting investments in advanced practices, technologies and techniques tailored to countries' agro-climatic conditions, including scaling up good agronomic practices, improved water management, and drought resistant crops. Special attention will be given to dedicated infrastructures that improve the capacity of food systems to cope with weather related stress. The Bank will support the private sector through the introduction of smart and digital solutions supporting precision agriculture practices and early warning systems, supporting the development of controlled environment agriculture, and expanding the capacity of efficient cold logistics. In addition, the Bank will promote the development of dedicated protective infrastructure and the deployment of techniques that reduce risk of flooding, loss of soil fertility and soil erosion.

Across all sectors, the EBRD will accelerate the deployment of its CCG programme to support clients in identifying and prioritising investments.

REPORTING ON PROGRESS AND IMPACT

The EBRD CAAP will cover the three-year period 2023-25. The Bank will report annually its progress on the implementation of the action plan in its sustainability report. We will likewise take the opportunity to review priorities and expectations in light of evolving business circumstances and to reflect the evolution of the development priorities of its countries of operations.

We will track our progress not only in terms of the volume of adaptation finance we provide, in line with the updated joint MDB methodology, but also in terms of impact achieved, following our climate resilience outcome approach.

Endnote

[i] IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. In Press.

[ii] IPCC, 2022: Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [H.-O. Pörtner, D.C. Roberts, M. Tignor, E.S. Poloczanska, K. Mintenbeck, A. Alegría, M. Craig, S. Langsdorf, S. Löschke, V. Möller, A. Okem, B. Rama (eds.)]. Cambridge University Press. Cambridge University Press, Cambridge, UK and New York, NY, USA, 3056 pp., doi:10.1017/9781009325844.

[iii] Climate Policy Initiative. 2021. Global Landscape of Climate Finance 2021.

[iv] UNEP, 2021. The Adaptation Gap Report (AGR) : The Gathering Storm.

[v] https://www.ebrd.com/gender-equality-and-inclusion.html

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