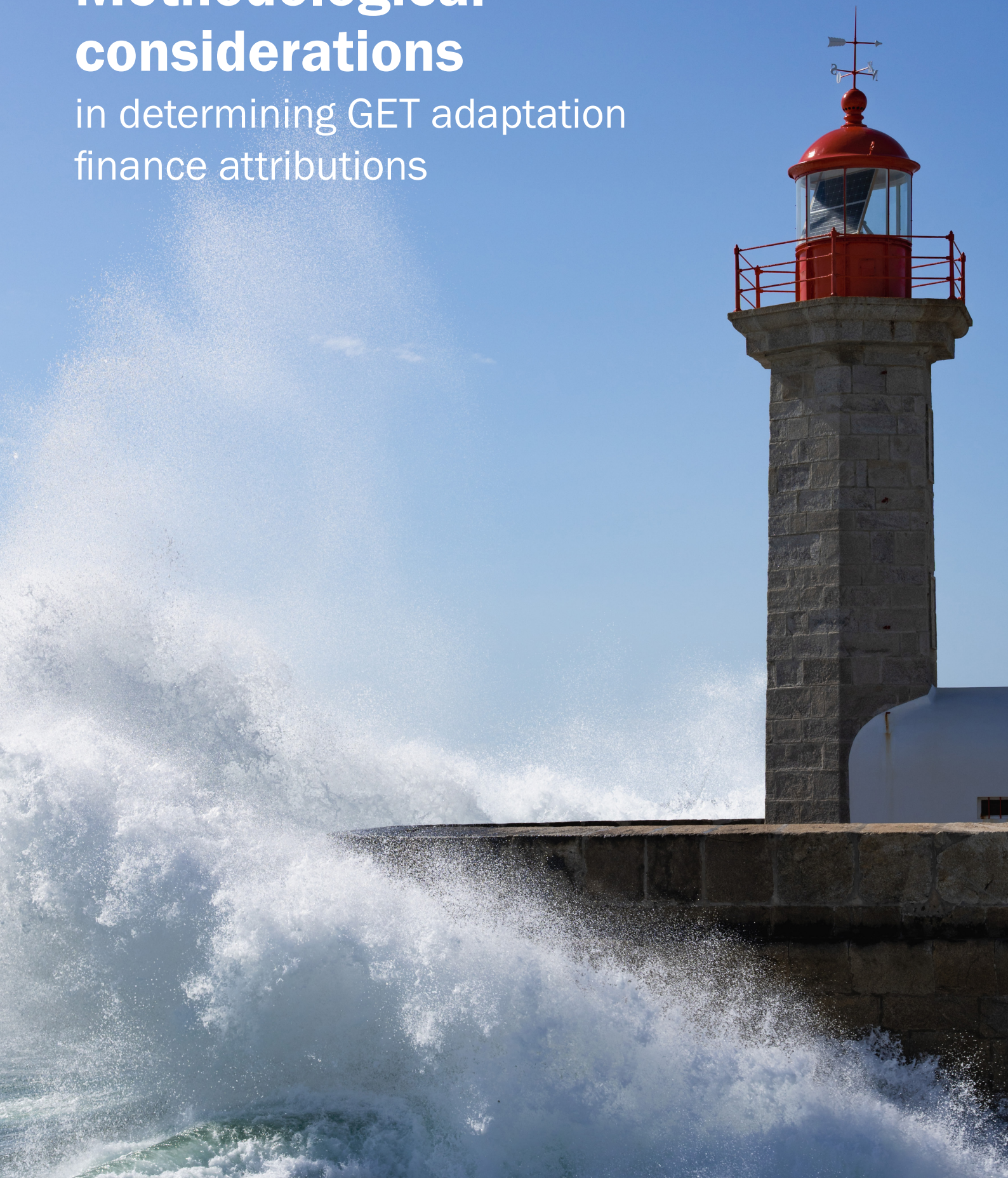
European Bank
for Reconstruction and Development

Methodological considerations

in determining GET adaptation finance attributions



Background and purpose

The European Bank for Reconstruction and Development (EBRD) follows the multilateral development bank (MDB) joint methodology for tracking climate change adaptation finance.[1] The Bank's approach when applying this methodology to investments is set out in the EBRD Green Economy Transition (GET) Handbook, specifically Annex 4.1: Tracking GET finance for climate change adaptation.[2]

The MDB joint methodology for tracking climate change adaptation finance was revised in 2022. Paragraph 19 of the methodology states:
"Adaptation finance can be estimated using one of the following two approaches:

a. The incremental approach estimates the additional costs associated with the activities required to adapt the project to climate change against a hypothetical baseline where the project would aim to deliver expected results without addressing physical climate risks.
b. The proportional approach refers to adaptation finance estimated as a proportion of the MDB finance that corresponds to the adaptation activities included in a project. This may be informed by a range of credible sources including assessments of the cost of adaptation in similar operations or expert knowledge on the relevant sectoral practice, together with information on the assumptions and calculations used. The multilateral development banks will continue to share and exchange knowledge on the criteria that may be used to inform the use of the proportional approach."

As the EBRD takes a proportional approach to attributing adaptation finance, this document sets out the range of information sources used and analyses undertaken in determining the proportional attributions.

History

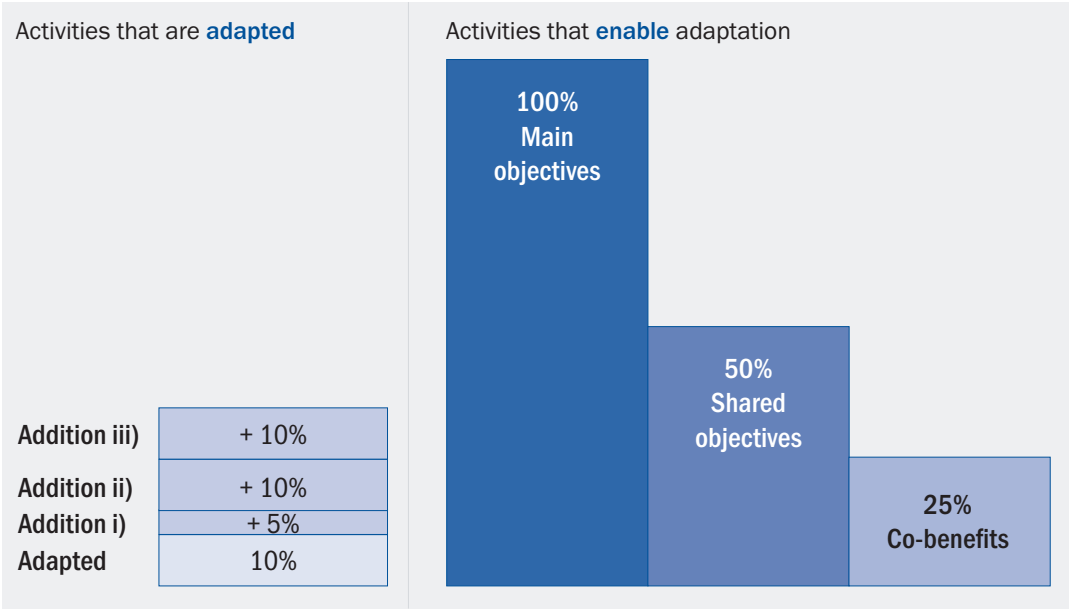
Since the EBRD started tracking climate adaptation finance in 2011, it has taken different approaches to quantifying the adaptation finance attribution of a given investment project. The first adaptation finance tracking approach (from 2011 to 2018) was the incremental approach. The EBRD recognised that this approach did not reflect the systemic nature of adaptation, so switched to an outcome-orientated approach in 2018 – the Climate Resilience Outcomes (CRO) ratio approach – which would incentivise transparent cost-efficient adaptive planning. The quantification of CRO is extremely useful in demonstrating the benefits of the Bank's adaptation projects and the EBRD will continue to use it to report on the results of its investments. However, when using these outcomes as a method of attributing finance, complexities in quantification (such as a lack of data, high levels of uncertainty, capturing intangible benefits and so on) result in GET shares being difficult to attribute consistently across adaptation activities that contribute to different CRO.

2023 GET climate adaptation finance – proportional shares

The proposed 2023 approach aims to avoid bias in the attribution of GET adaptation finance by focusing on the strength of process and the adaptation delivered by investments. The proposed approach balances "ease of application", generalisability and scalability with accuracy and technical rigour. Set percentages linked to the achievement of qualitative criteria across inputs, outputs, outcomes and results recognise quality investments and improve consistency across adaptation finance activities.

Figure 1 sets out the proportional attributions of GET adaptation finance for different types of adaptation activity (for more details, see the *EBRD GET Handbook*, Annex 4).[3]

Figure 1. GET adaptation finance attributions by adaptation category and type



Source: EBRD.

[1] See AfDB, ADB, AIIB, CEB, EBRD, EIB, IDB, IsDB, NDB and World Bank (2022). [2] See EBRD (2022). [3] See EBRD (2022).

Information sources and analyses

In determining the proportional attributions in Figure 1, the following information sources and analyses were considered:

1. a retrospective analysis of past projects from the EBRD's portfolio
2. an analysis of the average incremental cost of adaptation in infrastructure projects
3. a review of the typical adaptation finance attributions given by other financial institutions for similar investments
4. forward-looking consideration of the investments that may be financed in future and how they may deliver adaptation and resilience.

The combination of these factors led to the proposed percentages, as detailed below.

1. Analysis of past projects from the EBRD's portfolio

The EBRD undertook an analysis of all projects that received GET adaptation finance attribution in the preceding four years (2019, 2020, 2021 and 2022) when using the proportional CRO ratio approach. These projects were grouped into "adapted" and "enabling" categories and sub-types using information from GET information tables and EBRD staff knowledge of the projects. Table 1 shows the average GET adaptation attribution assigned to projects by adaptation type, broken down by adapted activity and the relevant additions, plus the three sub-types within the category of enabling activity.

Table 1. Average GET climate adaptation percentage for 2019-22 EBRD investment projects

Activity type and sub-type	Average GET adaptation percentage attributed, 2019-22	Proposed GET adaptation percentage
Adapted activities (all)	**25.0%**	**22.5% (mid-point)**
Adapted activities – base	10%	10%
Adapted activities, base + addition i	N/A, no examples (as GET attribution can only currently be achieved with addition iii)	15%
Adapted activities, base + addition ii	N/A, no examples (as above)	20%
Adapted activities, base + addition iii	12.7%	20%
Adapted activities, base + additions i + ii	N/A, no examples (as above)	25%
Adapted activities, base + additions ii + iii	55% (not considered relevant to drawing reasonable conclusions due to low sample size)	30%
Adapted activities, base + additions i + ii + iii	33.3%	35%
Adapted activities, base + additions i + iii	23.7%	25%
Enabling activities		
Enabling activities – main objective	85.1%	100%
Enabling activities – shared objectives	50.1%	50%
Enabling activities – co-benefits	16.6%	25%

Source: EBRD.

In certain cases, it was not possible to derive an average GET share due to a lack of portfolio projects in that category, which meant that a suitable sample size could not be determined. This was because GET adaptation can currently only be attributed when the CRO have been calculated (adapted activities addition iii), so there were no examples where this had not been done.

The analysis was undertaken at portfolio level, consisting of GET shares allocated at "project level" not "activity level". This meant that where projects had been disaggregated to activity level in the past, this nuance was not captured in the average project-level GET share. The GET shares for the adaptation activities within projects would have been higher, therefore, had this analysis been feasible. Note that the average percentage of 85.1 per cent for "enabling activities – main objective" is due to this disaggregation anomaly.

The analysis was back-tested to apply the proposed new shares to the previously approved projects sorted by activity type. In the case of financial intermediary investments, a 50 per cent share of the whole investment was used as an assumption of the share of adaptation activities within the project. Table 2 shows the results of this analysis, presenting what the shares across the portfolio would have been if the proposed 2023 proportions had been applied to the 2019-22 investments. This analysis shows that the total adaptation finance percentage across all adaptation investments would have been 29.19 per cent rather than the 28.89 per cent reported.

Table 2. Back-testing of proposed proportions to the 2019-22 EBRD portfolio

Activity type and sub-type	Average GET adaptation percentage attributed in 2019-22	Average GET adaptation percentage if proposed 2023 proportions were used for 2019-22 investments
Adapted activities (all)	**25.0%**	**23.8%**
Adapted activities – base	10.0%	10.0%
Adapted activities, base + additions i + ii + iii	33.3%	35.0%
Adapted activities, base + additions i + iii	23.7%	20.0%
Adapted activities, base + additions ii + iii	55.0%	30.0%
Adapted activities, base + addition iii	12.7%	20.0%
Enabling activities		
Enabling activities – main objective	85.1%	100.0%
Enabling activities – shared objectives	50.1%	50.0%
Enabling activities – co-benefits	16.6%	16.9%
Total	28.89%	29.19%

This analysis does not consider projects that did not receive any adaptation finance in 2019-22, but which are now captured through better mainstreaming of adaptation into Bank operations, for example, through the Paris alignment screening approach or through greater EBRD staff awareness of adaptation opportunities. Factoring in those considerations, it is highly likely that the volume and share of adaptation finance will rise in future.

2. Analysis of the incremental cost of adaptation

The incremental approach was also considered as a point of reference against which the proposed proportional shares could be compared. The analysis considered both the incremental cost of adaptation measures and the GET adaptation finance amounts attributed by the EBRD when using the incremental approach (in 2011-17).

The incremental cost of adapting projects to climate change varies substantially depending on many factors, such as the type of project, the location, the extent of measures needed, available technologies, the knowledge and preparedness of the client, the legal and regulatory framework in the country, and so on. When adaptation is successfully integrated into project preparation from the outset, these costs are reduced to zero, as risks are avoided rather than mitigated with costly adjustments. Most analyses of the cost of adaptation measures have been undertaken on a country or sector scale (providing a total monetary cost) rather than on a project scale, so cannot provide an incremental cost compared with the baseline. However, the following references proved useful for investments in the infrastructure and transport sectors:

- For infrastructure, a 2016 report from the Global Commission on the Economy and Climate estimated that the cost of "climate-proofing" infrastructure could be around 3 per cent to 5 per cent of the total cost of new infrastructure investment, while the cost of retrofitting existing infrastructure could be significantly higher, in the magnitude of 10 times that.[4]
- For the transport and roads sectors, a 2019 Global Commission on Adaptation report[4] estimated the additional cost of making infrastructure resilient to climate change at between 3 percent and 10 percent of total project investment costs.[6,7] This includes the cost of increasing flood protection standards, upgrading the design standards for surface flooding, upgrading the drainage system and enforcing bridge design standards (other resilience measures are not included in this cost breakdown).

Incremental costs can only be potentially relevant for activities that are adapted and for typical capex or infrastructure-style investments. Data on the incremental cost of operational expenditures in the case of working capital investments are not available. Nor is it possible to apply the incremental cost approach to activities that enable adaptation, as enabling activities do not adapt incrementally, but rather enable adaptation beyond the boundaries of the activity.

These statistics represent a global average and may be vastly different in the context of the economies in which the EBRD invests, given the factors mentioned above.

Further to the portfolio analysis for 2019-22 described above, an additional analysis was undertaken for a subset of EBRD investments from the years 2011 to 2017, when the incremental approach was taken. This subset focused on typical investments that would be considered adapted activities. The average GET adaptation finance share for these projects was 25 per cent.

[4] See Corfee-Morlot et al. (2016). [5] See Global Commission on Adaptation (2019a; 2019b). [6] See UN Environment DTU Partnership (2018).
[7] See World Bank (2019).

3. Analysis of the average shares attributed by other financial institutions

The analysis included a review of the approaches to adaptation finance tracking used by other MDBs and financial institutions with a view to establishing a benchmark. Notably, this analysis found that the proposed shares aligned closely with the approaches used by other MDBs, as well as institutions applying the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) Rio markers.

For the activities that are adapted, where the EBRD proposes GET adaptation shares of between 10 per cent and 35 per cent:

- MDBs traditionally used the incremental approach for quantifying adaptation finance in adapted activities. Where information on additional costs was unavailable, the proportional approach had been used based on conservative estimates. Examples shared by MDBs in the annual joint report on MDBs' climate finance demonstrate adaptation finance shares were in the same order of magnitude (that is, in the range of 10 per cent to 35 per cent).
- Some financial institutions use the OECD-DAC Rio markers to track adaptation finance. Rio marker 1 refers to projects with a significant objective of adaptation and Rio marker 2 refers to projects where the principal objective is adaptation. These are comparable to activities that are adapted and activities that enable adaptation, respectively. For Rio marker 1, these institutions apply a 40-50 per cent adaptation share.

These external references are all broadly in line with the EBRD's proposed proportional shares for activities that are adapted.

For the activities that enable adaptation, where the EBRD proposes GET adaptation shares of 100 per cent, 50 per cent and 25 per cent:

- In all external methodologies and taxonomies (including the 2022 joint MDB adaptation finance tracking methodology and the EU taxonomy), activities that have the main objective of enabling adaptation receive a 100 per cent adaptation finance attribution. This is in line with the OECD-DAC Rio markers "principal" scoring system, whereby if the activity would not have been funded (or designed that way) without the adaptation objective, the full financing amount (100 per cent) counts towards adaptation finance. These external references are all in line with the EBRD's proposed proportional shares for activities that enable adaptation as a main objective.
- For activities that have shared objectives and those that deliver adaptation as a co-benefit to the wider system (50 per cent and 25 per cent, respectively) there are fewer external references to consider. This is mainly because the Type 2 category from the 2022 joint MDB adaptation finance tracking methodology has yet to be applied to projects financed by MDBs.

4. Forward-looking considerations

While there is information available on the past shares of adaptation finance attributed to projects already financed, it should be noted that this updated 2023 methodology allows the EBRD to identify adaptation finance in more types of investment where adaptation finance has not previously been tracked, in particular, investments involving financial intermediaries, working capital transactions and activities that enable adaptation. Projects that include activities that enable adaptation can be extremely varied and contribute in new and innovative ways to building climate resilience across systems and globally.

Furthermore, the methodology should be applicable to new types of financing instrument and support the EBRD in exploring business development for adaptation finance. As noted in the 2022 joint MDB adaptation finance tracking methodology, the wider adaptation finance community is moving away from a view of adaptation as an add-on activity. Therefore, the approach cannot be limited solely to what has been tracked in the past. As part of determining the proportional shares, this forward-looking lens was applied, envisaging new types of investment in the adapted and enabling categories and how to capture the true value of adaptation and resilience within these proportional shares.

Summary

Table 4 summarises the rationale behind each of the proportional attributions of GET adaptation finance for different types and sub-types of adaptation activity.

Table 4. Summary table

Activity type and sub-type	Percentage GET adaptation	Rationale
Adapted activities (all)	10-35% (22.5% mid-point)	The review of past EBRD projects (2019-22) showed that projects with adapted activities had an average of 25 per cent GET adaptation finance attributed. This is supported by EBRD GET attributions using the incremental approach (2011-17), in which the average GET adaptation share for adapted activities was 25 per cent. The attribution of a proportional share of between 10 per cent and 35 per cent, with a mid-point of 22.5 per cent, is reasonable, therefore, and in line with previous approaches.
Adapted activities – base	10%	The review of past EBRD projects showed that projects with adapted activities without any of the additions had an average attribution of 10 per cent when using the CRO ratio approach. This is supported by external references on the incremental cost of adaptation, at approximately 10 per cent.
Adapted activities – addition i	+5%	The review of past EBRD projects showed that the difference in GET attributions for projects with and without this criterion was 11 per cent. In addition, projects that undertake climate risk and vulnerability assessments, referencing international best practice, increase the capacity of project developers on climate adaptation beyond the scope of the individual project, so this added value should be recognised. The addition of 5 per cent GET adaptation finance is considered conservative in this context.
Adapted activities – addition ii	+10%	The review of past EBRD projects showed that the difference in GET attributions for projects with and without this criterion was 9.4 per cent. In addition, when clients have committed to managing climate adaptation on an ongoing basis, this will affect the resilience of their maintenance and management practices, linking to opex costs beyond the limits of the EBRD investment. The addition of 10 per cent GET adaptation finance is, therefore, considered reasonable.
Adapted activities – addition iii	+10%	The review of past EBRD projects showed that the difference in GET attributions for projects with and without this criterion was 2.7 per cent. However, there are few project examples making up this difference. The threshold for "significance" to achieve this criterion is set at a 10 per cent CRO-to-TPV ratio. For these reasons, a 10 per cent addition is considered reasonable.
Enabling activities – main objective	100%	In all methodologies and taxonomies, activities that have the main objective of enabling adaptation receive a 100 per cent share. This is supported by the review of EBRD portfolio projects of this type where the CRO ratio exceeded 100 per cent.
Enabling activities – shared objectives	50%	There are limited external references to provide a clear reference point for this type of activity. The review of past EBRD projects showed that projects with this type of activity previously had GET adaptation attributions of, on average, 50 per cent. The forward-looking approach, considering the wide range of activities that can be included in this category and the fact that the adaptation is delivered on a system-wide scale, larger than the activity itself, provided further reassurance that 50 per cent was a reasonable and conservative figure.
Enabling activities – co-benefits	25%	The review of past EBRD projects showed that projects with this type of activity previously had GET adaptation shares of around 17 per cent, on average. Within the current portfolio, the projects with these features primarily come from projects saving significant volumes of water. Looking to the future, other types of activity that may deliver adaptation as a co-benefit could include a much broader set of investments with very varied ranges of co-benefits. As the adaptation delivered by these activities is on a system-wide scale, 25 per cent is considered a reasonable average for the activity type.

The proportional GET adaptation finance percentages will be reviewed periodically after two years of implementation to ensure their continued relevance and to reduce the potential for misreporting adaptation finance.

References

AfDB, ADB, AIIB, CEB, EBRD, EIB, IDB, IsDB, NDB and World Bank (2022) Joint Methodology for Tracking Climate Change Adaptation Finance. Available at: https://www.ebrd.com/mdb-joint-methodology-for-tracking-climate-change-adaptation-finance.pdf.

J. Corfee-Morlot, J. Rydge, I. Gencsu and A. Bhattacharya (2016) The Sustainable Infrastructure Imperative: Financing for Better Growth and Development, Global Commission on the Economy and Climate. Available at: https://www.researchgate.net/publication/317237776_The_Sustainable_Infrastructure_Imperative_Financing_for_Better_Growth_and_Development.

EBRD (2022) Implementing the Green Economy Transition: Technical Guide, London. Available at: https://www.ebrd.com/what-we-do/get.html.

Global Commission on Adaptation (2019a) Adapt Now: A global call for leadership on climate resilience, Rotterdam, the Netherlands. Available at: https://gca.org/reports/adapt-now-a-global-call-for-leadership-on-climate-resilience/.

Global Commission on Adaptation (2019b) Background paper: Adaptation of infrastructure systems, Rotterdam, the Netherlands. Available at: https://gca.org/reports/adaptation-of-infrastructure-systems/.

UN Environment DTU Partnership (2018) Adaptation Gap Report 2018, Nairobi. Available at: https://www.unep.org/resources/adaptation-gap-report-2018.

World Bank (2019) Lifelines: The Resilient Infrastructure Opportunity, Washington, DC. Available at: https://openknowledge.worldbank.org/entities/publication/c3a753a6-2310-501b-a37e-5dcab3e96a0b.

European Bank for Reconstruction and Development
Five Bank Street
London
E14 4BG
United Kingdom

Tel: +44 20 7338 6000

www.ebrd.com

1649-Methodological considerations in determining GET adaptation finance attributions