



# Adaptation Benefits Mechanism Pilot Phase Strategic Plan 2020 – 2023

## Executive Summary

The Adaptation Benefits Mechanism (ABM) is a results-based finance mechanism that aims to attract public and private sector funding to projects and programmes that enable households, communities, economies and ecosystems to adapt and build resilience to the negative impacts of climate change. It may be used as a non-market based approach under the Paris Agreement, which allows for Parties to use various voluntary approaches to implement their Nationally Determined Contributions (NDCs) and raise ambition. The ABM Pilot Phase was launched in March 2019 by the African Development Bank with the aim of demonstrating the approach at a modest scale, showcasing results from pilot activities, and building consensus around the design of an ABM that could be adopted and scaled up at the end of the pilot phase in 2023.

## 1. Context and rationale

### *Why the need for private sector investment in adaptation?*

Several studies have attempted to estimate the cost of climate change impacts for African economies. A recent study commissioned by UNEP<sup>1</sup> estimates that the costs of adapting to the unavoidable impacts of climate change across all sectors in Africa could reach USD 50 billion per year by 2050, in a scenario in which the international community manages to limit global temperature rise to 2°C above pre-industrial levels – the target set in the Paris Agreement. A warming of 2°C globally would put over 50% of the African continent's population at risk of undernourishment. However, the world is currently not on track to reach this goal, and UNEP estimates that this figure could rise to USD 100 billion per year by 2050, if the world does not manage to turn away from the current path that could lead to more than 4°C warming by 2100.

<sup>1</sup> UNEP 2015: Africa's Adaptation Gap: Bridging the Gap - Mobilising Sources.

Countries have made ambitious commitments to address the challenge. Under the Paris Agreement, reached at the 21st conference of Parties to the UN Framework Convention on Climate Change (UNFCCC) in December 2015, all countries agreed to take collective action on climate change to keep global temperature rise to 2°C above pre-industrial levels. The Agreement required all countries to prepare, communicate and periodically update their NDCs - commitments that they undertake to mitigate and adapt to climate change<sup>2</sup>. For most African countries, many of these commitments are conditional upon receiving financial and other support. According to estimate by the World Bank<sup>3</sup>, the implementation of sub-Saharan Africa's NDCs would require investments of at least US \$1.79 trillion for mitigation and another US \$485 billion for adaptation by 2030.

Progress is being made globally towards mobilising and scaling up climate finance – notably with the establishment of the Green Climate Fund (GCF), which has received pledges of USD20.1 billion. Developed countries have committed to providing USD100 billion per year in climate finance by 2020, and scaling up their climate finance beyond that. However, this figure, albeit ambitious, falls short of the estimated financing needs for addressing climate change. Estimates of actual climate finance flows are orders of magnitude below the needs. The Climate Policy Initiative (CPI)<sup>4</sup> estimates that, of the USD 579 billion in average annual global climate finance flows for 2017/2018, only USD 19 billion, or 3%, targeted sub-Saharan Africa. Furthermore, 95% percent of global climate finance flows to climate change mitigation, primarily in the form of investments in renewable energy in developed and emerging economies. Only 5% currently flows to adaptation, despite this being the overwhelming priority for African countries whose contribution to global greenhouse gas emissions is modest.

The evaluation by CPI clearly shows the importance of leveraging private sector investment for low-carbon development, and the critical role of public sector finance in creating an enabling environment, and addressing risk. Globally, approximately 60% of finance for climate mitigation comes from the private sector. Furthermore, 76% of climate finance is raised domestically. However, these figures are driven by investments in well established markets including western Europe, the US and China. While the story in Africa is very different - with much greater dependence on public funding from developed countries to finance climate investments – the experience of China shows that with the right combination of conducive and predictable policy and regulatory environment coupled with strategic use of public finance to address risk and crowd-in private capital,

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<sup>2</sup> Although NDCs have been primarily for reporting planned mitigation actions, many African countries have included adaptation actions as well. Article 7 of the Paris Agreement provides for Adaptation Communications which can be submitted as components of, or in conjunction with, NDCs, NAPs and National Communications. Further guidance on Adaptation Communications is to be developed.

<sup>3</sup> World Bank's NDC Platform: <https://www.worldbank.org/en/topic/climatechange/brief/the-ndc-platform-a-comprehensive-resource-on-national-climate-targets-and-action>

<sup>4</sup> Climate Policy Initiative 2019: Global landscape of climate finance 2019. <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2019/>

the potential for private sector investment in low-carbon and climate resilient development is vast.

The increase in private sector investment in climate change over the past decade has been driven in large part by the market-based mechanisms established under the Kyoto Protocol – the precursor to the Paris Agreement, which put a price on reducing greenhouse gas emissions. The Clean Development Mechanism (CDM) in particular was the first global emissions trading mechanism, which allowed countries with mitigation commitments under the Kyoto Protocol to invest in projects to reduce emissions in developing countries, thereby meeting their commitments at a much lower cost. The experience of the Kyoto Protocol demonstrated that an incentive mechanism can increase the return-to-risk profile of climate mitigation projects, thereby attracting increased private sector investment in mitigation. Currently, the funding flowing to adaptation in developing countries is mostly from public sector sources. However, there is increasing focus within the international climate finance community on exploring incentive-based approaches to attract private sector investment in adaptation, as it is widely recognized that public sector alone will never reach the scale required to meet the developing world’s adaptation needs.

A key difference in financing adaptation is that the impacts of and vulnerabilities to climate change are highly localized, and often felt at the community or household level. Unlike mitigation, in which emissions reductions are location agnostic, adaptation actions must be targeted to the specific vulnerabilities of a community, ecosystem or local economy, and these can differ widely from one location to another. This poses a challenge for scaling-up global adaptation finance. A study by IIED<sup>5</sup> found that less than 10% of climate finance reaches the local level, despite the fact that local level interventions can build resilience of these most vulnerable populations in ways that are often more effective, efficient and sustainable. This is in part due to a lack of innovation by climate funds and DFIs to offer instruments that address risk and attract private sector investment, as well as the use of intermediaries that have high transaction costs.

As the world falls short of meeting its Paris Agreement commitments, local communities increasingly bear the burden of climate change impacts, adding greater urgency to the need for adaptation finance. The challenge to the international community therefore is to find ways to significantly scale up financing for adaptation by creating incentives for investment in adaptation and resilience, and to do so in a manner that ensures that adaptation investments are tailored to local needs and priorities, and that affected communities are actively engaged and empowered through their design and execution. In Sub-Saharan Africa, where SMEs account for 90% of all businesses<sup>6</sup> and contribute 80%

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<sup>5</sup> IIED 2017. Delivering real change: Getting international climate finance to the local level  
<https://pubs.iied.org/pdfs/10178IIED.pdf>

<sup>6</sup> Hambayi 2019. <https://nextbillion.net/future-african-smes/>

of employment<sup>7</sup>, the potential for local private-sector led investment in climate change adaptation and resilience is significant.

#### *What is the ABM?*

The ABM is envisaged as a results-based finance mechanism that channels resources to projects, programmes and initiatives (hereafter jointly referred to as “activities”) that enable households, communities, economies and ecosystems to adapt and build resilience to the negative impacts of climate change. The ABM will create an incentive for private sector investment in adaptation activities by facilitating payments upon delivery of adaptation and resilience results or “adaptation benefits”, thereby generating a new and additional source of revenue for adaptation. This new revenue source will increase the reward-to-risk profile of an adaptation investment, rendering investments financially viable for activity developers and investors that might otherwise have been too risky or too costly.

With the certainty of receiving revenues for adaptation benefits upon delivery of results, activity developers, which may be private companies including small business, non-governmental organisations or local authorities, will be incentivized to provide adaptation technologies and solutions, and will be able to access the debt or equity financing needed from investors. Investors may include commercial or development finance institutions, who agree to provide funding according to the needs of the activity, on commercial or concessional terms.

The resources for the results-based payments will be mobilized from funders, including traditional and non-traditional public donors who have commitments to funding climate adaptation, philanthropies and foundations who are engaged in the climate change response, and corporate donors who wish to invest in building more resilient societies in order to safeguard their product supply chains, or as part of their corporate social responsibility. Through the ABM, funders will be able to select adaptation activities to support in line with their interests and priorities (e.g. sectors, geographies, beneficiary groups, or technologies), and have the certainty that their funds are delivering impact, without the effort of monitoring activity performance themselves.

The adaptation benefits– the outputs or outcomes that make households, communities, ecosystems or an economy materially better able to adapt to climate change and withstand climate-induced shocks - will be determined based on approved methodologies, and will be activity specific. The activities will be eligible to receive revenues from the off-taking of certified adaptation benefits for as long as needed for the activity to become financially feasible (this could be less than the project life time). Activity developers will need to ensure that beneficiaries and other relevant stakeholders are engaged in the activity design, execution and monitoring. The specific structure of an

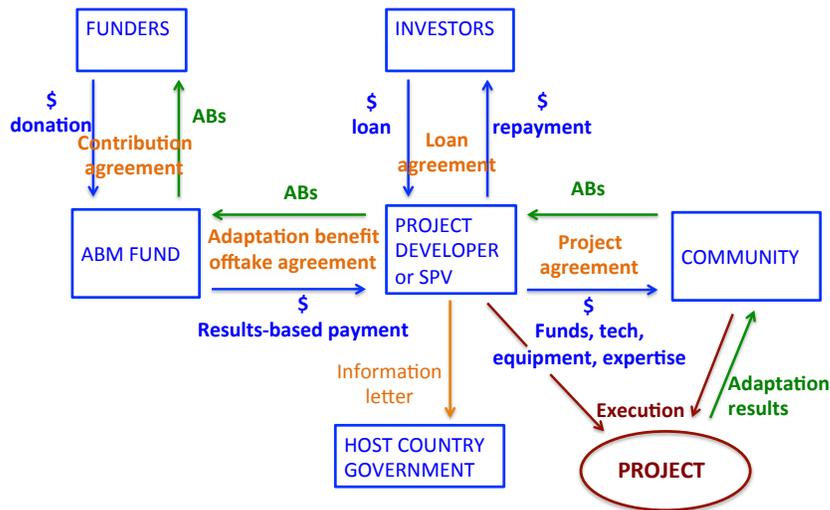
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<sup>7</sup> WEF 2015. <https://www.weforum.org/agenda/2015/08/why-smes-are-key-to-growth-in-africa/>

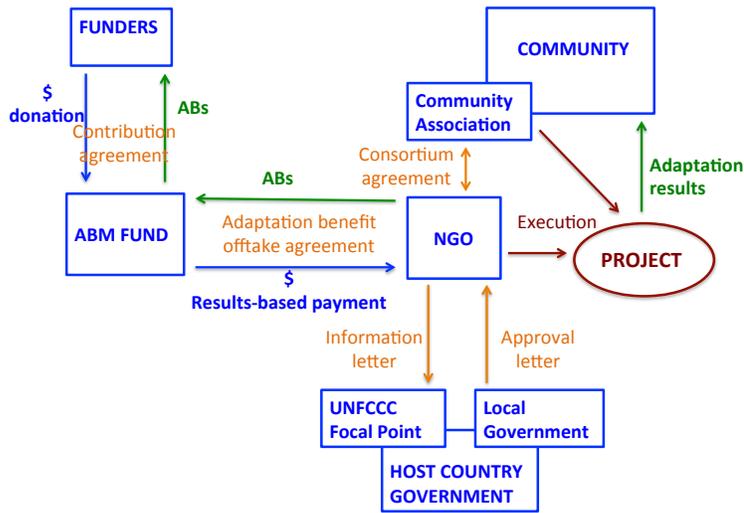
activity, and the timing and milestones for results-based payments, will be determined on a case-by-case basis and formalized in a legal agreement between the funder and the developer, the Adaptation Benefits Offtake Agreement (ABOA). Adaptation benefits achieved will be independently verified before being certified and recorded in a publicly-available online registry, in order to ensure the integrity of the mechanism. Figure 1 below shows some examples of the results-based payment model of the mechanism, while Figure 2 shows the ABM activity cycle.

In order to ensure that the ABM supports activities that align with the needs and priorities of beneficiaries, activity developers will need to demonstrate that activities are aligned with local and national policies and plans, such as NDCs, national development plans, NAPs etc. Host country governments, through the UNFCCC focal point, will be informed of all ABM demonstration activities in order to facilitate transparency and reporting to the UNFCCC on adaptation actions. The design of the ABM is intended to facilitate its scaling-up at the end of the pilot phase, as a voluntary non-market-based approach for international cooperation on climate change adaptation under Article 6.8 of the Paris Agreement. If adopted by Parties, it would assist developing countries to achieve their adaptation commitments under the UNFCCC by leveraging public finance for adaptation to generate significant additional funding flows from the private sector towards adaptation activities that would not otherwise be funded.

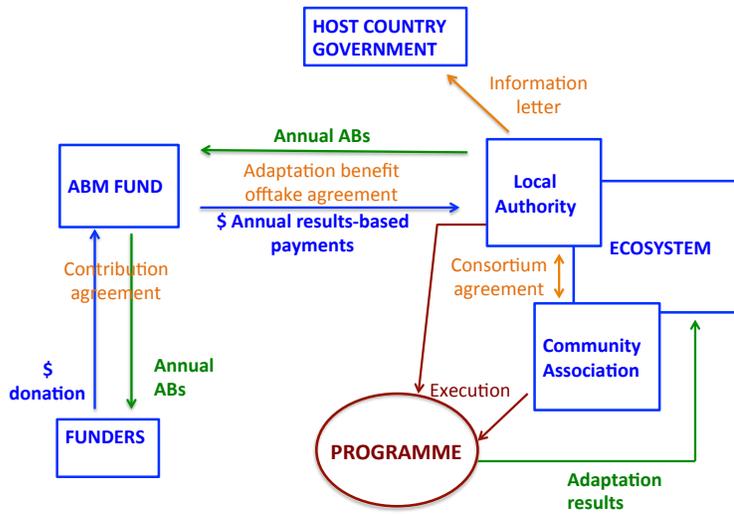
Figure 1: examples of activity structures using a results-based payment model in the ABM



Example 1(a): private sector-led community adaptation project

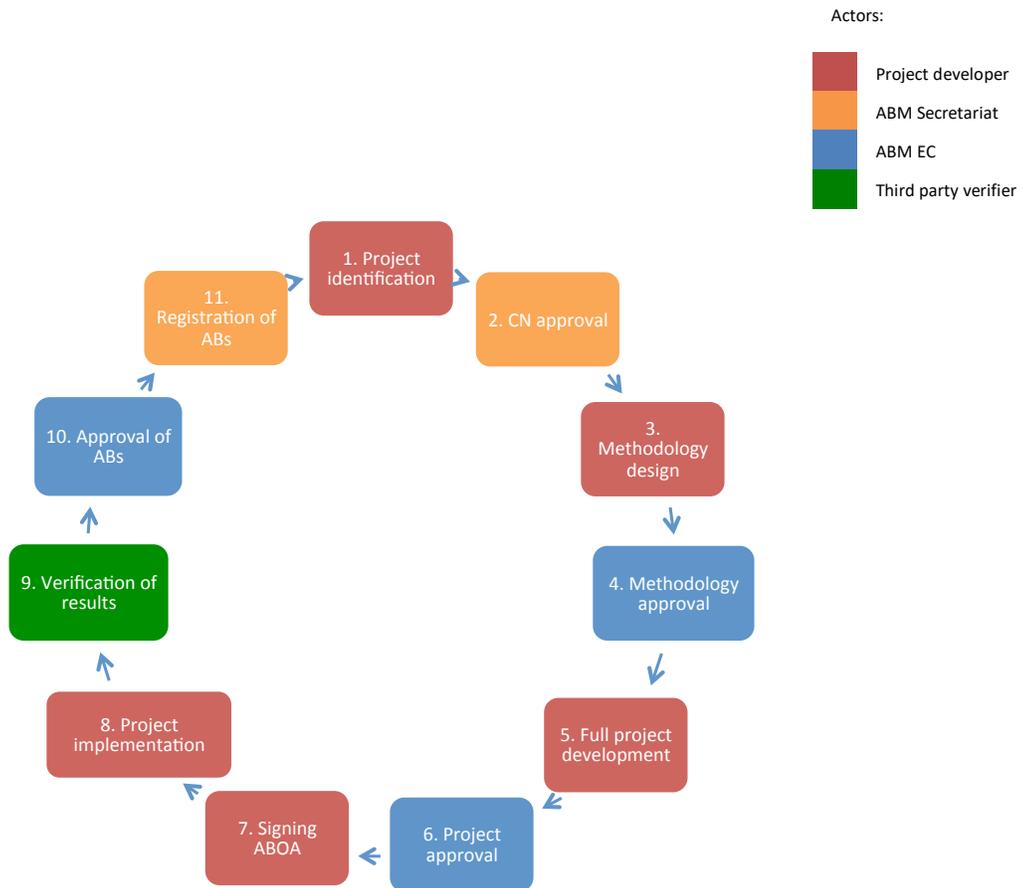


Example 1(b): NGO and community led local adaptation project



Example 1(c): local authority led ecosystem adaptation programme

Figure 2: ABM activity cycle <sup>8</sup>



<sup>8</sup> The ABM activity cycle is under development and this figure is subject to revision once the final activity cycle is adopted.

### *Background and status of the ABM*

The Paris Agreement introduced three new global goals - on mitigation, adaptation and climate finance, half of which for resilience and adaptation. However, it does not contain any concrete cooperative mechanisms for adaptation and adaptation finance. The African Development Bank (AfDB) proposed the ABM to Parties to the UNFCCC as an instrument for mobilizing climate finance for adaptation in response to a call for input in September 2016. The concept attracted the interest of several Parties and the AfDB has worked closely with African governments to further develop the concept. The Governments of Uganda and Cote d'Ivoire brought it into the discussions on Cooperative Approaches under Article 6 of the Paris Agreement as a non-market-based approach (Article 6.8) through interventions and submissions (2017-2019). Although the COP24 and COP25 did not reach agreement on an outcome on the Paris Agreement Rulebook for cooperative approaches under Article 6, the ABM is cited as an example of a non-market-based approach in draft negotiation texts under Article 6.8 from COP25.

In parallel, the AfDB has worked with a number of partners to solicit input from stakeholders and to further develop the concept. In March 2019, at the African Climate Week in Accra, Ghana, the AfDB launched the pilot phase of the ABM, with the aim of demonstrating the mechanism. The ABM Pilot Phase will test the ABM on the ground in Africa by establishing an interim governance structure and funding demonstration activities, and will further refine the mechanism through partnerships and stakeholder consultations, so as to deliver a proposal to the international climate change community in 2023, the year of the Global Stocktake on progress made with the implementation of the Paris Agreement. The AfDB established an interim ABM Executive Committee of the ABM Pilot Phase comprised of eight independent experts, and hosted its first meeting in November 2019. The Secretariat of the ABM Pilot Phase is assumed by the AfDB.

### *SWOT analysis*

The below analysis in Table 1, sets out the strengths and weaknesses of the ABM Pilot Phase institutional architecture as well as the opportunities that the ABM Pilot Phase can take advantage of and the threats to its success that need to be mitigated.

*Table 1. SWOT analysis for the ABM Pilot Phase institutional architecture*

<b>STRENGTHS:</b> <ul style="list-style-type: none"><li>- AfDB's convening power at continent-wide level</li><li>- AfDB's relationships with traditional donors</li><li>- AfDB's relationships with African governments</li><li>- AfDB's status as AAA rated financial institution</li><li>- Status, experience and expertise of the ABM EC members</li></ul>	<b>WEAKNESSES:</b> <ul style="list-style-type: none"><li>- AfDB's limited mandate to receive and manage donor funding outside of an existing trust fund</li><li>- AfDB's trust fund policy limits flexibility to establish and run a fund for the ABM – slow to establish, limitations on eligible recipients, instruments and</li></ul>
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<ul style="list-style-type: none"> <li>- Existing strong network of the AfDB and the ABM EC members</li> <li>- AfDB's financial clout and potential to be a pioneer investor in the ABM Pilot Phase</li> </ul>	<p>activities, complex and slow processes for allocating and disbursing funding, complex legal conditions and procurement rules</p>
<p><b>OPPORTUNITIES:</b></p> <ul style="list-style-type: none"> <li>- Growing international focus on seeking ways to scale up adaptation by engaging private sector</li> <li>- Increasing interest among investors to support adaptation and among private sector to align with climate imperatives</li> <li>- Bank's President is member of the Global Commission on Adaptation</li> <li>- The Regional Center for Africa of the Global Center on Adaptation is hosted by the AfDB and the ABM is included in its work plan.</li> <li>- Considerable existing and past experience in results-based financing mechanisms internationally to draw upon</li> <li>- Emergence of new technologies that could facilitate ABM verification and payments (e.g mobile payments, GIS, blockchain)</li> <li>- Experts availability within Africa</li> <li>- Huge opportunities for adaptation in Africa in which both the private and public sectors, and local communities are interested</li> <li>- Increased global solidarity as a result of COVID19 and aspiration for a "green" recovery, where building resilience to climate change is taken into account</li> </ul>	<p><b>THREATS:</b></p> <ul style="list-style-type: none"> <li>- Perceived lack of legitimacy of ABM Pilot Phase due to insufficient transparency in the selection of ABM EC members and pilot activities limits buy in from international community</li> <li>- Insufficient buy-in from AfDB senior management leading to lack of financial and political investment by the Bank, reducing legitimacy of the mechanism and discouraging other investors</li> <li>- Reduced funding available globally as a result of COVID19 pandemic and global recession</li> </ul>

*Purpose of this strategy*

The purpose of this document is to set out a strategic plan for the ABM Pilot Phase in order to advance the mechanism in an organized, structured and strategic manner, and maximize the likelihood of achieving the vision of the ABM Pilot Phase. This document may be updated by the ABM EC from time to time as needed to reflect changes in the international context, decisions taken by the ABM EC, or any relevant decisions or guidance from the UNFCCC.

2. Mission, vision, and targets

**MISSION:** to design, pilot, and build consensus around a results-based financing mechanism to scale up public and private investment in adaptation and resilience to climate change, by demonstrating the mechanism at a modest scale, showcasing results from pilot activities, and engaging all key stakeholders.

**VISION:** A functional, results-based financing mechanism is demonstrated to effectively incentivize public and private investment in adaptation and resilience, adopted by the international community, and ready to be scaled up globally.

**TARGETS:**

- Mobilize at least USD 50 million from public and private sources and/or deliver 25 registered activities with issuance of Adaptation Benefits in order to demonstrate the mechanism;
- Establish a financial mechanism that will support ABM demonstration activities during the ABM Pilot Phase and beyond;
- Present the ABM to Parties to the UNFCCC as a non-market mechanism under Article 6.8 of the Paris Agreement Rulebook.

3. Guiding principles and theory of change

**GUIDING PRINCIPLES:**

The following principles shall guide the operationalization and execution of the ABM Pilot Phase and all activities that it supports:

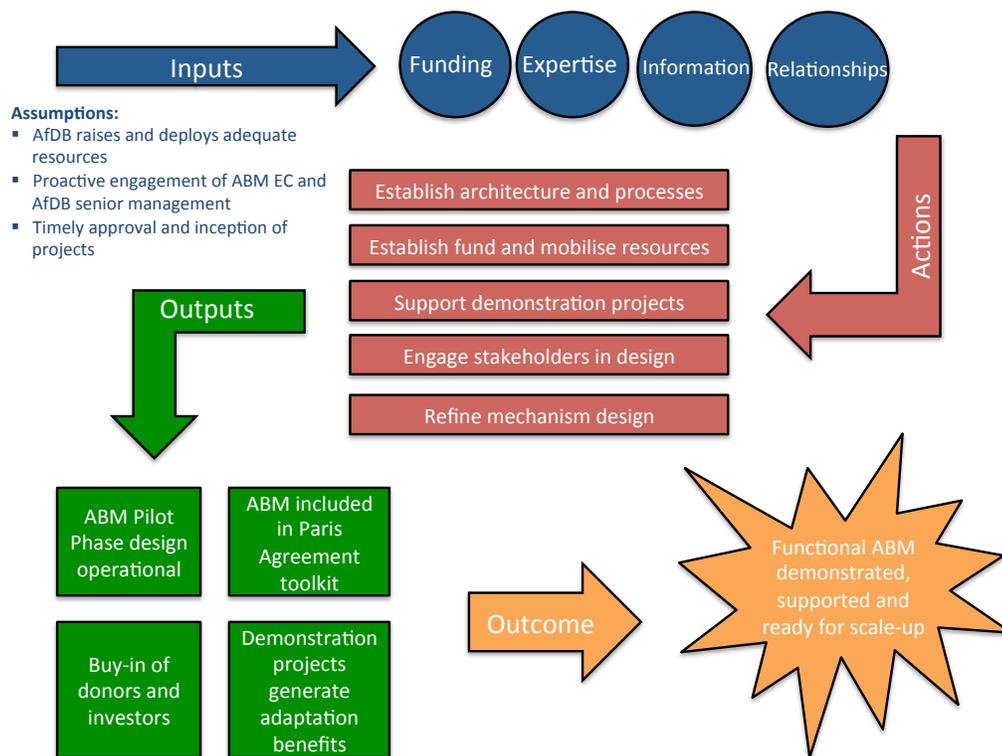
- **Collaboration** – the development and demonstration of the ABM is an inclusive process which welcomes the input, feedback and active collaboration of all stakeholders in order to capture and build upon the collective strengths, experience and knowledge of the international community.
- **Continuous learning** – as the ABM is a new and untested mechanism, a strong emphasis will be placed on continuous learning and improvement of the mechanism based on results and lessons learned during the course of the pilot phase.
- **Country-driven** – funded activities will be aligned with national and local sustainable and climate-resilient development objectives, plans, policies, and programmes (that are locally relevant) and driven by empowered national and subnational actors.
- **Delivering measurable results** – all ABM Pilot Phase activities will use a results-based payment model, with strong emphasis on monitoring, evaluation and verification of adaptation impacts, and reporting, and will produce real, additional, sustainable long term and measurable adaptation benefits.
- **Evidence - based** - funded activities are based on best available science, on observed climate and projected climate changes, as well as relevant traditional knowledge on climate impacts and potential responses.
- **Gender-sensitive** – the ABM Pilot Phase and its funded activities will promote the participation of women, take gender differences in vulnerability to climate change

- into account, address the needs and priorities of both women and men, and will not exacerbate gender inequalities.
- **Inclusivity** – ABM activities will strive for an equitable distribution of impacts on different groups, with particular consideration for the most vulnerable or marginalized groups.
  - **Innovation** – the ABM is a new and innovative approach to tackling a complex and global challenge, and as such it will invest in innovative activities that show high potential, but may also come with high risk, including those that use innovative new technologies.
  - **Participatory** – a wide range of stakeholders, including government, communities, civil society organizations, research community and private sector actors will be engaged in the planning, implementation and joint monitoring of ABM activities.
  - **Sustainability** – the ABM Pilot Phase will ensure that pilot activities do not contribute negatively to climate change, limit the ability of other parts of the natural environment, society or business to carry out climate change adaptation, cause any detrimental impacts on society, the economy or the natural environment.
  - **Transparency** –the governance structure, activity cycle and decision-making processes of the ABM are fully transparent and all policy and operational documents are publicly available.
  - **Vulnerable people-centred** – the ABM pilot phase will ensure that adaptation interventions are tailored to the needs of climate vulnerable populations and ecosystems, build resilience and adaptive capacities of the most vulnerable people.

#### THEORY OF CHANGE:

Figure 3 below sets out the theory of change for the ABM Pilot Phase, as further described in this Strategic Plan.

*Figure 3: theory of change for the ABM Pilot Phase*



#### 4. Key actors

The key actors in ABM Pilot Phase and their roles are the following:

- African Development Bank (AfDB):** The AfDB is the host of the ABM Pilot Phase. It appoints the ABM EC, hosts the ABM Secretariat, and mobilizes funding for the core operations of the ABM EC and ABM Secretariat. The AfDB is responsible for establishing an ABM Fund and securing its adequate capitalization.
- ABM Executive Committee (ABM EC):** The ABM EC's role is to oversee and provide strategic direction for the operationalization and execution of the pilot phase of the ABM in line with this Strategic Plan and to recommend modalities and procedures for a global ABM by 2023. It develops and adopts the various strategies, guidelines and documents necessary for the operationalization of the ABM, approves ABM methodologies and demonstration activities, and certifies adaptation benefits achieved by ABM demonstration activities. Its role is further described in its TORs.
- ABM Methodology Panel and other ABM EC advisory bodies:** The ABM EC may form advisory bodies to undertake specific tasks or to provide expert advice to facilitate the execution of its work. The Methodology Panel is an advisory body to the ABM EC that will review proposed ABM methodologies and advise the EC on their approval.

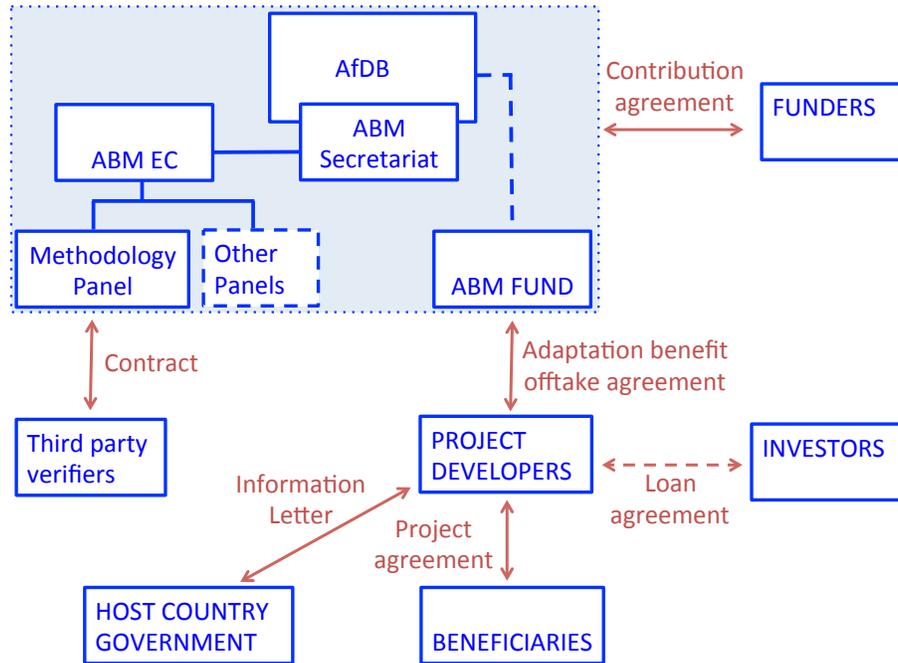
- **ABM Secretariat:** The ABM Secretariat's role is to support and facilitate the work of the ABM EC and its advisory bodies in the operationalization and execution of the ABM during its pilot phase. This includes preparing documents, arranging and keeping records of meetings, maintaining an ABM online platform and registry, and facilitating stakeholder engagement. Its role is further described in its TOR.
- **ABM Fund:** An ABM Fund will be established to mobilize funding from donors towards ABM pilot activities. The fund would stimulate demand and supply for adaptation benefits during the ABM Pilot Phase by funding the incremental cost of ABM pilot activities approved by the ABM EC, essentially acting as the off-taker in the ABM activity structure. Administrative costs of running the ABM Pilot Phase and the activity development costs could also be administered through the fund.
- **ABM Independent third party validators and verifiers:** Independent expert third parties shall be contracted to review and validate ABM methodologies and verify reported adaptation benefits before approval of the ABM EC.
- **ABM Donors:** Donors are funders willing to contribute payments in return for adaptation results through the ABM. Donors may include traditional and non-traditional public donors, private sector donors (e.g. companies through their corporate social investment budgets), philanthropies and foundations, climate funds, development agencies, or development finance institutions.
- **ABM Activity developers:** Activity developers are the institutions that develop and execute ABM activities. In the pilot phase, potential activity developers are likely to be NGOs or mission-driven enterprises (e.g. social enterprises) that are already working on activities that deliver adaptation and resilience results, but are limited in the scope and scale of their work by insufficient access to funding. The ABM Pilot Phase can offer an opportunity to scale-up adaptation technologies or solutions that have been tested at a small scale, or to replicate successes in areas that are not currently being reached. Activity developers should, ideally, be making some investment of their own in the activities they promote, in cash or in-kind. Partnership with NGOs can be catalytic in designing activities with high transformational potential due to their expertise, experience on the ground, and mission focus.
- **ABM Investors:** Investors are the financial institutions that provide debt or equity funding for an adaptation activity using an adaptation benefits off-take agreement as collateral. Investors provide the upfront working capital to finance the activity until it starts to deliver adaptation results, triggering results-based payments as per the agreement. Investors in the pilot phase are likely to be impact investors, development finance institutions (e.g. national development banks, national funds, local

commercial banks with credit lines from DFIs), or businesses that have a vested interest in securing the climate resilience of the value chain that they depend on.

- **ABM Host country governments:** Governments of the countries in which ABM activities take place. ABM activities should be aligned with the national priorities of host countries as set out in approved national development plans, NDCs, national adaptation plans etc. UNFCCC focal points in host countries should be informed of any ABM activities approved, and of the certification of any adaptation benefits, such that they can report on them to the UNFCCC. Appropriate country authorities (which may be national, regional, local or municipal depending on the activity) may provide approval for ABM activities where deemed necessary by the ABM EC.
- **ABM Beneficiaries:** Beneficiaries of ABM activities are the households, communities, ecosystems or economies made more resilient through the intervention of the ABM demonstration activity. They shall be involved in activity design, execution, monitoring and evaluation through their appropriate representatives.

The below Figure 4 provides a summary of the relationships between the main ABM Pilot Phase actors.

Figure 4: key actors in the ABM Pilot Phase



## 5. Objectives and strategy

### OBJECTIVES:

The key objectives of the ABM Pilot Phase are the following:

1. Establish the institutional architecture and processes
2. Mobilise resources and establish a fund
3. Approve & register pilot projects that deliver adaptation benefits
4. Establish partnerships and raise awareness
5. Propose functional ABM to the international community for scale-up

## STRATEGY:

### *1. Establish the institutional architecture and processes*

This involves putting in place the governance structure that will oversee the execution of the ABM Pilot Phase and developing the processes and guidelines, by which it will function.

### *2. Mobilise resources and establish a fund*

In order to realize the ambition of the ABM Pilot Phase, there is a need to mobilise funding at a scale sufficient to support a number of demonstration activities, and to fund the events, communication and outreach activities necessary to engage stakeholders and refine the mechanism. The fundraising target of the ABM Pilot Phase is USD50 million or 25 registered activities. In order to receive and deploy this funding, the ABM will need a fund that can receive contributions from a variety of funders and deploy results-based payments towards ABM pilot activities. The fund would stimulate demand and supply for adaptation benefits during the ABM Pilot Phase by funding the incremental cost of approved pilot activities, according to the terms set out in an ABOA. The options for the establishment of a fund and the resource mobilization approach will be further set out in a Resource Mobilisation Strategy.

### *3. Approve & register pilot activities that deliver adaptation benefits*

Pilot activities will be critical to testing the effectiveness of the proposed ABM, demonstrating the mechanism and building awareness among potential activity developers, beneficiaries, funders and investors, and gathering lessons to inform the design of the mechanism. The adaptation benefits generated through the pilot activities will demonstrate how the incentive created through results-based funding can drive investment in adaptation and resilience. The ABM Pilot Phase aims to support at least 25 micro-scale high-impact highly replicable pilot activities across different regions, sectors, and adaptation technologies/approaches in Africa.

### *4. Establish partnerships and raise awareness*

If the ABM is to eventually be scaled up as a global mechanism, outreach and engagement of stakeholders and building partnerships will be key to raising awareness of the approach and building consensus in the international community on the way forward. Various thought leaders and adaptation finance practitioners are exploring and testing approaches to attract private sector investment in adaptation; it will be important to engage these actors and explore opportunities for collaboration. Securing the input of key thought leaders and champions will be critical for enhancing the legitimacy of the ABM in the eyes of the international community. The ABM can also benefit from harnessing the expertise and lessons from other similar approaches in order to refine the design of the mechanism. Building partnerships with other institutions engaged in financing adaptation will also be critical to the success of the Pilot Phase, in particular those that could play the role of investors by providing activity financing on the basis of an ABOA while the mechanism is in its pilot phase, or act as co-funders in demonstrating the results-based

approach. A strategic approach for engaging stakeholders will be elaborated in a Stakeholder Engagement Strategy, while a Communication Strategy will be developed to guide the ABM Pilot Phase communications with the public.

*5. Propose functional ABM to the international community for scale-up*

Upon completion of the Pilot Phase in 2023, it is expected that the awareness and experience generated will lead to an interest among the international community to scale-up the ABM. In particular, one of the targets of the ABM Pilot Phase is to present the ABM to Parties to the UNFCCC as a non-market mechanism under Article 6.8 of the Paris Agreement Rulebook. In order to do so, the lessons learned from the Pilot Phase will be identified through an independent evaluation, inputs from stakeholders will be compiled, and a proposal for a scaled-up ABM will be developed in collaboration with UNFCCC Parties and stakeholders. Transitional arrangements for the governance and funding of the ABM as the international architecture is developed will also be proposed. The ABM Fund, which is only expected to become operational towards the latter part of the ABM Pilot Phase, is expected to continue to support demonstration activities after the completion of the ABM Pilot Phase, and will play an important role in the transition.

Table 2 below summarises the ABM Pilot Phase strategy and provides the expected outputs, activities and indicators for each objective, as well as the responsible actors and timeline. All envisaged activities are subject to availability of resources.

*Table 2: summary of the strategy for the ABM Pilot Phase*

Output	Activities	Indicators	Responsible Actor	Timeline
<b>OBJECTIVE 1: Establish the institutional architecture and processes to operationalize the ABM pilot phase</b>				
1.1. ABM Pilot Phase institutional structure established and operational	<ul style="list-style-type: none"> <li>- Establish Executive Committee</li> <li>- Establish Secretariat</li> <li>- Establish Methodology Panel</li> <li>- Approve TORs for independent third party certifiers of adaptation benefits</li> </ul>	TORs adopted	AfDB  Secretariat	By mid 2020  By end 2020 By end 2020
1.2 Processes and guidelines for the execution of ABM Pilot Phase activities adopted and published	<ul style="list-style-type: none"> <li>- Adopt guidelines on methodology development</li> <li>- Adopt guidelines for determination of private sector finance leverage ratio</li> <li>- Agree on the activity cycle process</li> <li>- Adopt templates and guidelines for activity concept note and proposal</li> </ul>	Guidelines/ documents adopted by an ABM EC decision	ABM EC  ABM EC  ABM EC  ABM EC	All by end 2020

	<ul style="list-style-type: none"> <li>- Adopt guidelines for independent certification of adaptation benefits and private finance leverage ratio</li> <li>- Adopt guidelines on registration and issuance of certified adaptation benefits</li> <li>- Adopt guidelines on environmental and social safeguards</li> </ul>		<p>ABM EC</p> <p>ABM EC</p>	
1.3 Establish an ABM online platform and Registry	<ul style="list-style-type: none"> <li>- Establish a technology-enabled web platform to facilitate tracking, transparency and accountability, and an online activity registry</li> </ul>	Platform established and operational	Secretariat	By end 2020
<b>OBJECTIVE 2: Mobilise resources to implement the ABM pilot phase and establish a fund</b>				
2.1 Funding commitment secured for the ABM Pilot Phase from one or more donors	<ul style="list-style-type: none"> <li>- Adopt a resource mobilisation strategy (RMS) for the ABM Pilot Phase</li> <li>- Engage public sector, philanthropic and private sector potential donors</li> <li>- Sign contribution letter with donors</li> </ul>	<p>RMS adopted by EC decision</p> <p>Summary of donor meetings</p> <p>Signed contribution letter</p>	<p>ABM EC</p> <p>ABM EC and Secretariat</p> <p>AfDB</p>	<p>By end 2020</p> <p>From 2021</p> <p>By end 2021</p>
2.2 Fund established to support ABM demonstration activities	<ul style="list-style-type: none"> <li>- Develop TORs for the fund</li> <li>- Explore options for the establishment of the fund that can deliver on the requirements of the TORs and identify the most appropriate</li> <li>- Establish the fund and adopt its operational guidelines</li> <li>- Recruit a fund manager</li> <li>- Secure donor contributions to the fund</li> </ul>	<p>Approved TORs</p> <p>Fund established, funded, staffed and operational</p>	<p>ABM EC and Secretariat</p> <p>AfDB</p>	<p>By end 2020</p> <p>By end 2020</p> <p>By mid 2022</p> <p>By mid 2022</p> <p>By end 2021</p>
<b>OBJECTIVE 3: Approve and register ABM pilot activities and certify adaptation benefits and their leverage ratio<sup>9</sup></b>				
3.1 Methodologies validated and approved	<ul style="list-style-type: none"> <li>- Invite submission of methodologies for determination of adaptation benefits for key sectors</li> </ul>	Approved methodologies	Secretariat	From 2021

<sup>9</sup> Subject to revision once final activity cycle is approved

	<ul style="list-style-type: none"> <li>- Review and approve methodologies</li> </ul>		Methodology Panel, ABM EC	
3.2 Demonstration activities identified, approved and registered	<ul style="list-style-type: none"> <li>- Invite submission of demonstration activities as per guidelines</li> <li>- Review and approve demonstration activities and award grant funding</li> <li>- Register approved activity in the ABM Registry</li> <li>- Sign adaptation benefits offtake agreements (ABOAs) with activity developers</li> </ul>	<p>Activity submissions</p> <p>Approved activities in registry</p> <p>Signed ABOAs</p>	<p>Secretariat</p> <p>ABM EC</p> <p>Secretariat</p> <p>AfDB</p>	From 2022
3.3 Adaptation benefits (ABs) certified	<ul style="list-style-type: none"> <li>- Receive reports from activity developers on ABs generated during execution</li> <li>- Independent third party verification of ABs</li> <li>- Approve certified ABs</li> <li>- Register ABs</li> <li>- Register financial information, including private sector finance leveraged</li> <li>- Make results-based payments in line with ABOA</li> </ul>	<p>Reports submitted</p> <p>Verification reports</p> <p>Certified and registered ABs</p> <p>Leverage ratio</p> <p>Funds dispersed</p>	<p>Secretariat</p> <p>ABM EC</p> <p>Secretariat</p> <p>AfDB</p>	From 2023
<b>OBJECTIVE 4: Establish partnerships to demonstrate the ABM and raise awareness</b>				
4.1 Awareness of the ABM among key stakeholders is strengthened	<ul style="list-style-type: none"> <li>- Identify key stakeholders</li> <li>- Adopt a stakeholder engagement strategy (SES) that sets out how to engage key stakeholders</li> <li>- Adopt a communications strategy</li> <li>- Engage stakeholders and communicate on ABM as per strategy</li> </ul>	<p>Approved SES and communication strategy</p> <p>Summary of SE meetings</p> <p>Publications</p>	<p>ABM EC and Secretariat</p> <p>ABM EC</p> <p>ABM EC</p> <p>ABM EC and Secretariat</p>	<p>By end 2020</p> <p>From 2021</p>
4.2 Partnerships established to demonstrate and co-finance the ABM	<ul style="list-style-type: none"> <li>- Identify potential partners that could act as ABM investors</li> <li>- Engage and define partnership</li> <li>- Sign memorandum of understanding with core partners</li> </ul>	<p>MOUs signed</p>	<p>ABM EC and Secretariat</p> <p>AfDB</p>	<p>From 2021</p> <p>From 2022</p>
<b>OBJECTIVE 5: Propose a functional ABM to the international community for scale-up</b>				

5.1 Lessons from the ABM Pilot Phase and related initiatives compiled and shared with stakeholders	<ul style="list-style-type: none"> <li>- Commission an independent review of the ABM Pilot Phase and identify key lessons</li> <li>- Conduct a review of lessons from other relevant mechanisms/ results-based payment approaches that could inform the design of the ABM</li> <li>- Consolidate feedback and input from stakeholder engagement</li> </ul>	<p>Independent review report</p> <p>Lessons learned report</p> <p>Report on stakeholder engagement</p>	<p>AfDB</p> <p>Secretariat</p> <p>Secretariat</p>	From 2023
5.2 Proposal for an international ABM developed, supported by key stakeholders, and put forward to UNFCCC Parties	<ul style="list-style-type: none"> <li>- Engage relevant UNFCCC and other stakeholders on the ABM</li> <li>- Identify obstacles to the inclusion of the ABM as a non-market mechanism in the toolbox of the Paris Agreement under its Article 6.8</li> <li>- Facilitate dialogue to address obstacles and build consensus on way forward</li> <li>- Adopt proposal for an international ABM under the UNFCCC</li> <li>- Adopt transitional arrangements, including the role of the ABM Fund</li> </ul>	<p>Summary of meetings</p> <p>Workshop/ meeting reports</p> <p>Report on ABM Pilot Phase with proposal on scale-up and transition</p>	<p>ABM EC</p> <p>ABM EC</p> <p>ABM EC</p> <p>ABM EC</p> <p>ABM EC</p>	<p>From 2021</p> <p>2023</p> <p>2023</p>

## 6. Risk management

Table 3 below provides an overview of the key risks that the ABM Pilot Phase is likely to encounter, and the proposed mitigation measures to reduce the likelihood or impact of each risk.

*Table 3: Key risks facing the ABM Pilot Phase*

Risk	Probability	Impact	Mitigation action
The AfDB is not able to establish and operationalize a suitable ABM Fund within the timeframe of the Pilot Phase.	High	High	Consider the advantages and disadvantages of various fund options and ensure a Plan B in case preferred option fails.
Insufficient advocacy of AfDB senior management for the ABM leads to lack	Medium	Medium	Keep AfDB senior management engaged and informed.

of investment of own funds and effort in the ABM Pilot Phase and ABM Fund			
The ABM Pilot Phase is not able to attract funders.	Low	High	Resource mobilisation strategy to carefully evaluate and prioritise most promising options.
Perceived lack of legitimacy of the ABM Pilot Phase among UNFCCC Parties leads to lack of buy-in for including the ABM as a non-market mechanism in the Paris Agreement Rulebook under Article 6.8.	High	High	Explore alternatives for the scale-up of the ABM beyond the Pilot Phase by the AfDB and partners in the event that it is not included in the Paris Agreement toolbox.
Inadequate consultation and stakeholder engagement leads to lack of buy-in from international community.	Medium	Medium	Stakeholder engagement strategy to identify and prioritise stakeholders to engage and how, in order to secure buy-in.
The ABM Pilot Phase is not able to build partnerships with co-funders and investors to demonstrate the results-based mechanism.	Low	High	Stakeholder engagement strategy to identify and prioritise partners to engage in order to effectively demonstrate the mechanism.
Demonstration activities fail to deliver the expected adaptation benefits.	Medium	Low	Set modest goals for activity results in the Pilot Phase and manage expectations of funders.
Delays in approving and executing demonstration activities result in few/no adaptation benefits generated by the end of the pilot phase.	High	Medium	Prioritise approval of few activities as early as possible, provide for reporting on expected adaptation benefits for activities approved late. Consider extending the pilot phase.