

RESILIENCE LEARNING MONTH EVENT

Focus Group Discussion (FGD) on Climate Finance Tracking and Paris Agreement Alignment

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USG Guidance Note for Paris Agreement Alignment

Context

1. All sector groups, including USG, prepare a PAA Guidance Note (GN) to help determine the conformity of ADB projects in pipeline with **BB1 (climate change mitigation); and BB2 (climate change adaptation and resilience)** reflecting sector specificities
2. USG GN reflects urban sector particularities in the existing MDB methodology (which is cross-sectoral)

USG GN: current status

1. First draft (Jun. 2021)
2. Second draft (Jul. 2021) reviewed by operations departments/SDCD; over 150 comments collected
3. Third draft (Sep.2021) following SDCD template; as an annex of ADB PAA Guidance Note (under formulation by SDCD)

PAA procedure	<ul style="list-style-type: none"> • When and by whom the PAA is to be assessed ? • Financial/technical from SDCD to undertake PAA assessment? • Responsibility of PAA approval (CCDRM?) • Which role USG can play for PAA assessment ? • Climate finance vs. PAA: more clarity to simply the process
BB1: technical comments	<ul style="list-style-type: none"> • Two interim categorizations (probably aligned, probably not aligned) • Direct vs. indirect emissions due to the project • Clarifications about the Specific Assessment • How to assess a project with multiple sub-activities • Life cycle consideration (CAPEX/OPEX) • Water supply: gravity based vs. pumped • Green spaces, NBS as “aligned projects” under BB1 • Energy efficiency project
BB2: technical comments	<ul style="list-style-type: none"> • Specific climate scenarios recommended by IPCC? • How to deal with the expected marginal hazards due to climate change • Need for clear guidance on how to measure the future benefits of incorporating additional climate change adaptation measures • Strengthen CRVA to help streamline PAA
Other	<ul style="list-style-type: none"> • MDB building blocks • Policy-based lending, intermediary financing, RBL, SDP • References of activities in BB1 lists

BB1: Climate Change Mitigation

BB1 screening process

Through 2 step approach, to check the climate components of a project, including:

- Consistency with **long-term** low carbon development
- **Carbon lock-in risk:** comparison between costs of future lower-carbon alternatives and (current) more emissions-intensive alternatives

Step1

General screening

- List of “universally aligned” activities
- List of “universally non-aligned” activities



Step2

Specific Assessment

- 5 criteria including NDC; sectoral roadmaps; lock-in risk; stranded assets

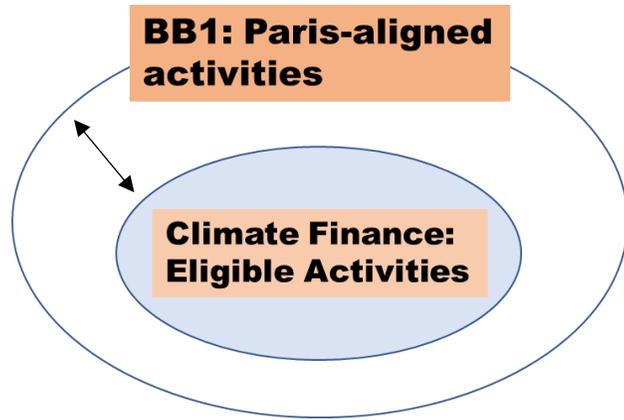
Preliminary findings:

- BB1 methodology looks complicated but actually not
- No urban projects are “universally non-aligned”
- Some urban activities can be added as “universally aligned” in USG GN, to make the process simpler?
- Most of ADB urban projects are aligned
- Aligned urban projects include activities that are relatively neutral in terms of GHG emissions and some low emitting activities
- Projects subject to the Specific Assessment include:

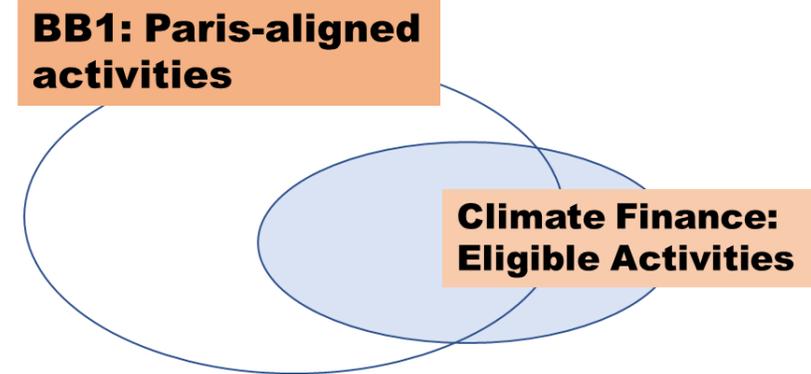
- District heating or cooling using various energy sources including fossil fuels
- Waste to energy facility including incinerators
- SWM project w/o segregation; w/o material and gas recovery
- Diesel bus or natural gas bus
- Desalination plant project
- Water project using fossil fuels including non-solar pumped water supply

BB1 Alignment vs. Eligibility for Mitigation Finance

In principle, not everything that is Paris aligned will be climate finance, but everything that is climate finance should also be Paris-aligned.



However, meeting the MDB's climate change mitigation eligibility criteria does not automatically imply that the activity is aligned with the countries' low-carbon, climate-resilient development pathways. (e.g. hydropower project).



- BB1 alignment and mitigation finance are interrelated but two different processes
- BB1 checks whether a project is aligned or not aligned, does not measure how much it's aligned
- PAA consideration from project scoping, and most importantly, feasibility study and DED
- PAA GN is to address this complexity, provide further clarity through concrete urban project cases