# Multilateral Development Bank Efforts to Mainstream Climate Adaptation

## Progress from the perspectives of three countries

IISD REPORT

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**Multilateral Development Bank Efforts to Mainstream Climate Adaptation in Project Portfolios at the Country Level**

January 2023

Written by Deborah Murphy and Julia Donaldson

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# Foreword

The 4-year Mobilizing Development Finance for Strategic and Scaled-up Investment in Climate Adaptation research project (2019–2022) was implemented by the International Institute for Sustainable Development in partnership with the African Centre for Technology Studies in Kenya, Prakriti Resources Centre in Nepal, and Libélula in Peru. The project was supported by Canada's International Development Research Centre. A Project Advisory Committee comprised of representatives from the African Development Bank, Asian Development Bank, Inter-American Development Bank, World Bank, International Development Research Centre, Institute for Climate Economics, and governments of Kenya, Nepal, and Peru provided strategic advice on research directions and outputs.

The research project explored common challenges to scaling up finance for adaptation across different contexts from the perspective of select developing countries and multilateral development banks. The research provided insights into the barriers that limit the use of development financing to address national adaptation priorities and identified opportunities to overcome these constraints.

# Executive Summary

## Introduction

As the economic and social consequences of climate change become increasingly observable, the need to close the gap between the projected cost of adaptation and the ability of developing countries to access financing to make needed investments becomes more urgent. Multilateral development banks (MDBs) are expected to play a critical role in helping to close this gap, reflecting their commitment to scale up finance for adaptation and align their developing country investment portfolios with the goals of the Paris Agreement. Toward this end, MDBs have set individual ambitions to raise the amount of financing for adaptation. They are committed to assessing the climate risks associated with their investments and ensuring that they reflect the adaptation priorities of developing country governments.

This research paper explores the progress made by four MDBs to deliver on their commitments to mainstream adaptation in their developing country portfolios, specifically looking at experiences in Kenya, Nepal, and Peru. Drawing upon case studies prepared by three partner research organizations—the African Centre for Technology Studies, the Prakriti Resources Centre, and Libélula—it explores the progress made by MDBs to

- Scale up finance for adaptation at the country level across the full breadth of their investment portfolio—including designated climate finance and development finance streams.
- Incorporate climate risk screening and assessment in project design and implementation.
- Align their portfolios with national adaptation priorities identified by national governments in their National Adaptation Plans (NAPs) and nationally determined contributions (NDCs).

## MDB Finance for Adaptation

Each of the four MDBs that are the focus of this report—the African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IDB), and the World Bank—has increased its flows of finance for adaptation over the past decade, both at the global level and in the three case study countries. MDBs have improved their tracking of finance for adaptation with aggregate information reported annually in the joint MDB reports on climate finance.

As shown in Table ES1, the **Kenya case study** reported that total World Bank adaptation-related financing in Kenya amounted to USD 797.2 million from 2013 to 2019, compared to USD 703.5 million for mitigation. Out of 43 World Bank projects approved for financing in Kenya between 2013 and 2019, three had adaptation co-benefits, and seven had both

adaptation and mitigation co-benefits. These 10 projects with adaptation co-benefits amounted to 14.7% of total World Bank finance commitments in Kenya from 2013 to 2019, slightly exceeding the 13% of total World Bank finance that had mitigation co-benefits in the same period. The AfDB did not release country-level data on finance for adaptation and did not disaggregate climate finance from overall financing.

The **Nepal case study** demonstrated that out of 56 World Bank projects that had funding commitments from 2013 to 2020 in Nepal, nine had adaptation-related financing and eight had financial allocations for both adaptation and mitigation. Total adaptation-related financing in Nepal amounted to USD 1,197.8 million from 2013 to 2020, compared to USD 453.6 million with mitigation co-benefits. There was an average upward trend from 2013 to 2020 in the percentage of projects with adaptation financing out of the total number of World Bank projects approved for funding. A greater proportion of World Bank projects approved in 2018, 2019, and 2020 had portions of the total committed financing allocated to adaptation than in earlier years. An examination of 32 ADB-financed projects in Nepal between 2013 and 2020 found that nine had adaptation-related financing, while seven projects had financing allocated to both adaptation and mitigation. Total adaptation-related financing amounted to USD 321.5 million between 2013 and 2020. Of all ADB financial commitments in that time, 10.5% were for adaptation compared to 22% for mitigation.

The **Peru case study** indicated that, out of 28 World Bank projects in Peru between 2013 and 2020, four included financing commitments for adaptation, and three projects had financing allocated for both adaptation and mitigation. The total adaptation-related financing amounted to USD 149.5 million from 2013 to 2020, compared to USD 196.1 million for mitigation. Finance for adaptation was a relatively small percentage of total World Bank investments from 2013 to 2020, at 4.1%, as was the financial commitment for mitigation in the same period, at 5.4%. IDB finance for adaptation in Peru increased on average from 2013 to 2019. Finance for adaptation remained relatively low until 2019, when it went from nothing in 2018 to USD 104.1 million in 2019 (the result of one large project with a budget of over USD 100 million). However, mitigation (29.0%) exceeded adaptation (3.9%) as a percentage of total finance from 2013 to 2019.

**Table ES1.** Financing for adaptation by four MDBs in Kenya, Nepal, and Peru between 2013 and 2020

| | Kenya (2013–2019) | Nepal (2013–2020) | | Peru (2013–2020) | |
|---|---|---|---|---|---|
| | **World Bank** | **World Bank** | **ADB** | **World Bank** | **IDB** |
| Total number of projects | 43 | 56 | 32 | 28 | 177 |
| Projects with adaptation co-benefits | 3 | 9 | 9 | 4 | – |
| Projects with both adaptation and mitigation co-benefits | 7 | 8 | 7 | 3 | – |
| **Total finance commitment (in USD million)** | 5,411.4 | 4,592.4 | 3,067.1 | 3,653.4 | 3,407.1 |
| **Total adaptation-related financing (in USD million)** | 797.2 (14.7%) | 1,197.8 (26.1%) | 321.5 (10.5%) | 149.5 (4.1%) | 131.7 (3.9%) |
| **Total mitigation-related financing (in USD million)** | 703.6 (13.0%) | 453.6 (9.9%) | 674.7 (22.0%) | 196.1 (5.4%) | 988.5 (29.0%) |

Source: Bocanegra & Lahud, 2022; Singh & Sherhan, 2021; Wachira et al., 2021.

## Synthesis and Recommendations

The increase in finance for adaptation over the past decade has been impacted by MDBs' corporate commitments and ambitions, MDBs' efforts to mainstream climate change considerations into development projects, and improved tracking of MDB finance for adaptation. To improve on this reporting and scale up finance for adaptation, MDBs could:

- Provide information about the underlying assessments of how the amounts of finance for adaptation were calculated at the project and country levels.
- Provide technical assistance to build the capacity of government officials to track and report on finance for adaptation, which could encourage governments to prioritize climate-friendly investments in their MDB portfolios.
- Focus on investing in adaptation-focused projects that reduce climate vulnerability and increase adaptive capacity in addition to ensuring that resilience is integrated into their investment projects.
- Undertake research around measuring the benefits of investments in adaptation, which is a challenge for developing countries.
- Encourage increased coordination and engagement between environment ministries and finance ministries.

## Climate Risk Screening and Assessment

Screening for and assessing climate change vulnerability and risk have become standard practices with most MDBs. The AfDB, ADB, IDB, and World Bank have committed to screening all projects for climate risks at the project identification stage. The proportion of projects going to the next stage to assess climate risks in design and implementation has increased. As described below, the four MDBs increased their use of climate risk screening and assessment in the three case study countries from 2013 to 2020. It is likely that the allocation of upfront funding to assess climate risks, particularly for large infrastructure investments, has led to an increase in the proportion of project budgets determined to have adaptation co-benefits.

The **Kenya case study** reported that 15 of 50 World Bank projects in Kenya (or 30%) were screened for climate risks from 2013 to 2020. Over that time, the proportion of projects screened for climate risks increased, from one of 17 projects approved for funding commitments from 2013 to 2015, compared to four of six projects in 2020. The climate risk assessments impacted project design, with adjustments made to address climate risks in such sectors as water supply, electricity generation (renewables), water and wastewater systems, and transport. With respect to projects supported by the AfDB from 2013 to 2019, the case study reported that 65.2% (15 of 23) were screened for climate change risks. However, trend analysis shows that the percentage of projects screened for climate risks per year declined during this period.

The **Nepal case study** determined that 44.6% (25 out of 56) of World Bank projects that were approved for funding from 2013 to 2020 in Nepal were screened for climate risks. There was an average upward trend in the percentage of projects screened for climate risk, with 18.18% (two of 11) of projects screened in 2013 and 75% (three of four) in 2019. All ADB projects in Nepal were screened for climate risks from 2013 to 2020. This initial screening provided bank officers with an understanding of the climate risks and identified those projects that required further assessment. Climate risk assessments were undertaken for most large infrastructure projects financed by the ADB from 2013 to 2020, which identified the expected climate impacts on the project and set out actions to address those impacts.

The **Peru case study** determined that, out of 27 World Bank projects approved for financing from 2013 to 2020, eight (29.6%) were screened for climate risks, and the screening status of one project was not stated. Within this period, there was a significant shift concerning the consideration of climate risks. While no World Bank projects in Peru were screened for climate risk between 2013 and 2016, from 2017 to 2020, there was a consistent increase each year in the number of projects screened and assessed. All four projects approved in 2020 underwent climate risk assessments at the design stage. With respect to the IDB, only four of 21 adaptation projects approved for financing from 2013 to 2019 did not screen for or assess climate risk at any stage, and all projects approved from 2017 to 2019 were screened for climate risks.

### Synthesis and Recommendations

Infrastructure projects supported by MDBs are increasingly designed to address climate vulnerabilities and climate risks. In addition, MDBs are increasingly considering the impacts of climate risks in sectors that typically are not looked at through a climate adaptation lens, such as macro-economic budgetary support projects and education projects. Climate risk screening and assessments have improved MDBs' and client governments' understanding of climate risks and vulnerabilities, how to address the risks and vulnerabilities, the costs of doing so, and the importance of allocating budget to address climate impacts. To improve climate risk assessment at the country level, MDBs could

- Build the capacity of governments, who often do not understand the value of climate risk assessments or the need to increase project budgets to address identified climate risks and climate vulnerabilities.
- Provide technical assistance to build local capacity to undertake climate risk assessments.
- Place more emphasis on funding projects that contribute to adaptation, in addition to financing the additional costs of ensuring that projects address climate risks.
- Support countries in undertaking upstream climate risk assessments in key sectors to help identify suitable adaptation projects to support, particularly as MDBs place more emphasis on financing projects with high transformational adaptation impact.

## MDB Programming and Alignment with National Adaptation Priorities

MDBs have made corporate commitments to address climate adaptation in a manner that accounts for a country's priorities and aligns their operations with the Paris Agreement. As such, MDBs are beginning to draw on the information in these national documents—such as NAPs and NDCs—to guide their programming and project identification at the country level.

The **Kenya case study** confirmed that the country's adaptation priorities were identified through national processes and set out in national documents. The government had limited engagement with MDBs in the identification of Kenya's adaptation priorities, although MDBs were informed after the documents were completed and were engaged in processes to identify development partner support for the implementation of NDC priorities. The case study determined that 55% of the World Bank's projects approved for funding between 2013 and 2020 referred to climate change in their project documentation, with a greater proportion of these projects approved in later years. In addition, the country strategies of AfDB and the World Bank extensively addressed climate change.

The **Nepal case study** found that many of the World Bank and ADB's development projects in Nepal from 2013 to 2020 were aligned with the country's adaptation priorities, with a notable increase since 2018 in budget allocations to improve climate resilience in projects. The emphasis in later years likely was influenced by the country partnership strategies of these MDBs, both of

which included resilience as a priority area. The identification of MDB projects drew on and was informed by the government's national development plans and climate plans.

The **Peru case study** noted that the adaptation priorities in Peru's NAP and NDC informed the programming of the World Bank and IDB, and the analysis underlying these national plans was considered by the MDBs in the design of projects. MDBs were not engaged in national processes to identify adaptation priorities, but the results of these national processes contributed to the identification of MDB projects. MDB programming responded to government requests and was agreed on through an iterative process between the government and MDBs. The Ministry of Finance and Economy led discussions with MDBs, and MDBs held strategic dialogues with the Ministry of Environment recognizing the importance of these discussions for identifying adaptation opportunities in projects.

### Synthesis and Recommendations

MDBs are beginning to establish processes to align their financial flows with developing country governments' adaptation priorities set out in NAPs and NDCs. To improve their efforts, MDBs could

- Play a stronger role in assisting finance ministries to better understand the economic case for and benefits of adaptation, as well as the need for mainstreaming adaptation in national economic development strategies and budgets.
- Consider programmatic finance for adaptation that uses a wide range of instruments to support long-term programs that are anchored by countries' NDCs and NAPs.
- Ensure that MDB country framework strategies are aligned with the domestic adaptation priorities identified in NAPs and NDCs; be flexible in responding to changing policy environments and open to adjusting country strategies to reflect recent resilience policy changes adopted by the government.
- Use countries' NAPs and NDCs to identify the best and most strategic use of MDB climate and development finance.

## Conclusion

MDBs have increased financial flows for climate adaptation in their project portfolios at an aggregate level. A review of the flows of four MDBs' finance for adaptation in Kenya, Nepal, and Peru indicates that while they are generally increasing, it is very difficult to discern clear trends at the country level. This progress is likely influenced by corporate targets and ambitions to deliver on the aims of the Paris Agreement, increased and improved tracking of finance for adaptation, enhanced use of climate risk screening and assessment, and growing efforts to align programming with the adaptation priorities set out in developing countries' NDCs, NAPs and other climate plans.

In the three case study countries, challenges remain in scaling up MDB finance for adaptation, including a lack of transparency in how allocations of finance for adaptation are determined at the project level and a lack of awareness of finance ministries about the costs and benefits of investing in adaptation. Scaling up finance for adaptation in the three case study countries will require continued MDB support for technical analysis and country-led climate adaptation planning processes. Emphasis needs to be placed on funding adaptation projects, in addition to financing the additional costs of ensuring that projects address climate risks. MDBs could place greater emphasis on projects with high transformational adaptation potential and consider programmatic finance for adaptation that uses a wide range of instruments to support long-term adaptation programs that are anchored by countries' NDCs and NAPs.

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# Abbreviations and Acronyms

| | |
|---|---|
| **ACTS** | African Centre for Technology Studies |
| **ADB** | Asian Development Bank |
| **AfDB** | African Development Bank |
| **AIIB** | Asian Infrastructure Investment Bank |
| **COVID-19** | Coronavirus disease 2019 |
| **EBRD** | European Bank for Reconstruction and Development |
| **EIB** | European Investment Bank |
| **IBRD** | International Bank for Reconstruction and Development |
| **IDA** | International Development Association |
| **IDB** | Inter-American Development Bank |
| **IFC** | International Finance Corporation |
| **IISD** | International Institute for Sustainable Development |
| **IPCC** | Intergovernmental Panel on Climate Change |
| **IsDB** | Islamic Development Bank |
| **MDB** | multilateral development bank |
| **MIGA** | Multilateral Investment Guarantee Agency |
| **MoEF** | Ministry of Environment and Forestry |
| **NAP** | National Adaptation Plan |
| **NCCAP** | National Climate Change Action Plan |
| **NDB** | New Development Bank |
| **NDC** | nationally determined contribution |
| **OECD** | Organisation for Economic Co-operation and Development |
| **PRC** | Prakriti Resources Centre |
| **UN** | United Nations |
| **UNEP** | United Nations Environment Programme |
| **UNFCCC** | United Nations Framework Convention on Climate Change |

# 1.0 Introduction

The economic and social consequences of climate change have become increasingly observable, as articulated in the *Sixth Assessment Report* of the Intergovernmental Panel on Climate Change (IPCC, 2021). Addressing the impacts of climate change will require progress toward the achievement of the Paris Agreement's Global Goal on Adaptation of "enhancing adaptative capacity, strengthening resilience and reducing vulnerability to climate change" (United Nations [UN], 2015). The signatories of the Paris Agreement also agreed in Article 2.1(c) to make "finance flows consistent with a pathway toward low greenhouse emissions and climate-resilient development" and in Article 9(4) to "aim to achieve a balance between adaptation and mitigation" in the provision of financial resources (UN, 2015).

The need to close the gap between the projected cost of adaptation and the ability of developing countries to access financing to make these investments has become increasingly urgent. The 2021 *Adaptation Gap Report* estimated that the costs of adaptation in developing countries are expected to be in the upper range of the 2016 estimate of USD 300 billion by 2030 and USD 500 billion by 2050 (United Nations Environment Programme [UNEP], 2021b, p. vi).[1] Climate Policy Initiatives' 2021 review of all flows of climate finance (public and private) estimated that flows of finance for adaptation totalled USD 46 billion in 2019/2020, which accounted for just 7% of total global climate finance (Buchner et al., 2021). The IPCC reports that while flows of finance for adaptation have demonstrated an upward trend, the amounts are insufficient for required adaptation action, especially in developing countries (IPCC, 2022).

Multilateral development banks (MDBs) are expected to play a critical role in addressing the adaptation finance gap in many developing countries, reflective of their commitment to scale up finance for adaptation and to align their developing country investment portfolios with the goals of the Paris Agreement (Murphy & Parry, 2020). MDB climate finance flows were almost USD 82.7 billion in 2021, a figure that surpassed the 2019 pledge of nine MDBs to increase collective financing for climate change to total at least USD 65 billion annually by 2025. Similarly, MDB flows of finance for adaptation in 2021 of USD 19.2 billion surpassed their pledge to increase finance for adaptation to USD 18 billion annually by 2025 (African Development Bank [AfDB] et al., 2022).[2] In addition to their collective commitment, individual MDBs have individual ambitions to raise the amount of financing for adaptation,

[1] UNEP's 2016 *Adaptation Finance Gap Report* provided an in-depth assessment of the gap between the cost of climate adaptation and the amount of financing available to meet that gap. The report estimated the adaptation financing gap in developing countries to be between USD 140 billion and USD 300 billion by 2030 and USD 280 billion and USD 500 billion by 2050 (Puig et al., 2016).

[2] The nine MDBs that report through the joint MDB report on climate finance are the AfDB, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank, New Development Bank, and World Bank Group.

assess the climate risks associated with their investments, and reflect the climate priorities of developing country governments in their country portfolios.

While the MDBs have improved their reporting of financial flows for adaptation at the international level and demonstrated increases and an upward trend in the amounts flowing for adaptation, what this has meant for financing for country-level adaptation has been less clearly defined. To shed light on this issue, the research for this report explored the progress made by four MDBs—the AfDB, Asian Development Bank (ADB), Inter-American Development Bank (IDB), and the World Bank—to deliver on their ambitions to mainstream adaptation in their developing country investment portfolios. The research sought to understand how international pledges and MDB actions impact flows of finance for adaptation at the country level and focused specifically on experiences in Kenya, Nepal, and Peru. Case studies for these countries were prepared by three partner research organizations: the African Centre for Technology Studies (ACTS), Prakriti Resources Centre (PRC), and Libélula.[3]

This paper explores the progress made by MDBs to:

- Scale up finance for adaptation at the country level across the full breadth of their investment portfolio—including designated climate finance and development finance streams.
- Incorporate climate risk screening and assessment in project design and implementation.
- Align their portfolios with national adaptation priorities as identified by national governments in their National Adaptation Plans (NAPs) and nationally determined contributions (NDCs).

The case study research drew on information gathered through document reviews, interviews with government officials and representatives from MDBs, and reviews of the flows of finance for adaptation as reported by the MDBs in their joint reports on climate finance, which were published annually from 2011 to 2020. The case studies also examined the flows of finance for adaptation at the country level as reported in MDB reports and project documents available on the MDBs' project databases.[4]

[3] Other MDBs provide finance to these countries, but their flows of finance for climate adaptation make up a much smaller portion of their country portfolios, and there is a lack of readily available information about these allocations in the three case study countries.

[4] The authors acknowledge that MDB flows of finance for climate change are also reported through the Organisation for Economic Co-operation and Development's (OECD) climate-related development finance statistics (OECD, 2022) and analysis on climate finance provided and mobilized by developing countries (OECD, 2021). The 2020 OECD report on climate finance noted that MDBs provide aggregate figures for climate finance, but these figures are not compiled on the same basis as the OECD analyses of climate finance and cannot be directly compared (OECD, 2020). The authors of this report and the country case studies opted to explore the flows of climate finance from the perspective of the MDBs' joint reports, attempting to unpack the aggregate figures at the country level in Kenya, Nepal, and Peru.

The research paper begins with an overview of MDB flows of finance for adaptation and a review of the flows of MDB finance for adaptation at the country level in Kenya, Peru, and Nepal. Section 3 examines the progress made by MDBs in screening for and assessing climate risks, as well as how this progress has impacted adaptation programming and financial flows. Section 4 reviews the MDBs' efforts to align programming with national adaptation priorities in the three case study countries. Sections 2, 3, and 4 discuss issues and opportunities, and Section 5 provides concluding comments. Summaries of the country case studies that informed the analysis are included in Appendix A.[5]

[5] The full case studies can be accessed from the websites of ACTS, Libélula, and PRC. See Appendix A for further information.

# 2.0 MDBs and Finance for Adaptation

Individual MDBs have made commitments to increase finance for climate change and have indicated that they will take measures to encourage adaptation action.[6] The World Bank Group (2021a), for example, pledged that 35% of their total financing would address climate change from 2021 to 2025, with 50% of climate finance delivered through the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) directed to adaptation.[7] The ADB (2021a) announced its ambition to provide cumulative climate finance of USD 100 billion from 2019 to 2030, out of which USD 34 billion would be for adaptation. The AfDB (2021) committed to mobilizing USD 25 billion between 2020 and 2025 to support investments that address climate change. The IDB Group (2019, 2021a) committed to at least 30% of approved financing being climate related and pledged that 65% of projects approved between 2020 and 2023 would include investments in adaptation and mitigation.

These efforts to increase finance for adaptation have been accompanied by greater use of and improvements in the methodology used by MDBs to track financial flows for climate adaptation (see Box 1). This methodology enables comparison and consistency in reporting across MDBs, as demonstrated in their joint annual report, and enables analysis at an aggregate level of how investments for adaptation have been scaled up and how MDBs are delivering on commitments.

This section reviews the trends in MDBs' flows of finance for adaptation at the global level and emphasizes the trends in the financial flows of the AfDB, ADB, IDB, and World Bank. The analysis then turns to the case study countries. It reviews the flows of these MDBs' finance for adaptation in Kenya, Peru, and Nepal to examine how investments at the country level are aligned with international commitments and how these commitments have influenced programming in these countries.

[6] See Appendix B for an overview of MDB ambitions related to climate finance and adaptation.

[7] The World Bank is comprised of the IDA, which assists the world's poorest countries, and IBRD, which provides assistance to middle-income countries and credit-worthy poorer countries. The World Bank Group includes the IDA, IBRD, International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and International Centre for Settlement of Investment Disputes.

### Box 1. The common principles for climate change adaptation finance tracking

The MDB Working Group on Climate Finance agreed on a methodology for tracking finance for adaptation to determine the projects and activities within MDBs' development programs that are implemented in response to climate impacts. This process has three steps:

1. Set out the project's context of vulnerability to climate change.
2. Make an explicit statement of intent to address this vulnerability as part of the project.
3. Articulate a clear and direct link between the vulnerability and the specific project activities.

The finance estimates must include only the activities within a project that are linked to the climate vulnerability assessment and will specifically build resilience to those identified climate impacts. These requirements prevent over-reporting of finance for adaptation.

Recognizing that MDBs support adaptation actions in a range of sectors beyond infrastructure, the MDB methodology for tracking adaptation finance was updated in 2022 to reflect the need to go beyond climate-proofing and toward approaches that account for more system-wide resilience building. The updated methodology recognizes that (i) support for adaptation includes a wider range of sectors, such as education and health; (ii) adaptation finance can include a broader range of financial instruments that are deployed by MDBs, such as policy-based loans and credit lines; and (iii) there are improved approaches for reporting adaptation activities, including private investment in adaptation.

*Source: AfDB et al., 2022a, pp. 59–64; AfDB et al., 2022b.*

## 2.1 Overall Global Trends in MDB Finance for Adaptation

MDBs' financial flows for adaptation have steadily increased since 2011, as described in the MDB joint reports on climate finance. MDB financial flows for adaptation increased from USD 4.52 billion in 2011 to USD 17.61 billion in 2021 (AfDB et al., 2012; 2022). Despite these positive trends, the amount of financing for adaptation is still lower than mitigation and far below the estimated costs of adaptation in developing countries (IPCC, 2022).

In the *2021 Joint Report on Multilateral Development Banks' Climate Finance*, MDBs reported over USD 19.2 billion in commitments for climate adaptation finance in 2021, 23% of the total MDB climate finance committed that year (AfDB et al., 2022, pp. vii-viii). In 2021, the majority of MDB climate finance for adaptation—USD 17.61 billion or 92% of finance for adaptation—was committed to low- and middle-income economies (AfDB et al., 2022, p. 13). The total amount of finance for adaptation in 2021 was substantially larger than in 2011, the first year that the MDBs publicly reported their joint finances for climate adaptation. In 2011, MDB finance for adaptation

totalled USD 4.52 billion, which comprised 16.7% of total MDB climate finance for that year (AfDB et al., 2012, p. 3).

Each of the four MDBs that are the focus of this report—the ADB, AfDB, IDB, and World Bank—has increased its flows of finance for adaptation over the past decade. The **World Bank** has seen increases in flows of finance for adaptation from USD 2.4 billion in 2011 to USD 11.57 billion in 2021, with significant increases since 2017. This reported increase in finance for adaptation is partly because the monitoring and tracking of finance for adaptation is improving, in addition to corporate commitments to scale up financing for climate change in general and specifically for adaptation (Bocanegra & Lahud, 2022).

**AfDB** financial flows for adaptation increased from USD 595 million in 2011 to 1.6 billion in 2021, with slight decreases in 2016 and 2020 (the latter likely due to the coronavirus disease [COVID-19] pandemic) and significant increases in 2018 and 2019. While the AfDB's finance for mitigation "greatly exceeded" that for adaptation under the bank's first climate action plan from 2011 to 2015 (AfDB, 2016, p. 6), in 2021, the bank's total finance for adaptation (USD 1.6 billion) was significantly larger than finance for mitigation (USD 880 million) (AfDB et al., 2022). This increase in finance for adaptation was consistent with the AfDB's *Second Climate Change Action Plan 2016-2020*, which aimed to achieve equivalence between financing for adaptation and mitigation (AfDB, 2016). The second action plan recognized Africa's high vulnerability to climate impacts and aimed to double the AfDB's climate finance investments to USD 25 billion by 2025 (AfDB, 2016). To deliver on this financing commitment, the AfDB has partnered with the Global Center on Adaptation to implement the Africa Adaptation Acceleration Program to drive adaptation on the African continent, with goals that include reducing malnutrition for 10 million people and integrating climate resilience into approximately USD 7 billion worth of infrastructure investments (Global Center on Adaptation & AfDB, 2021).

**ADB** finance for adaptation trended upward from USD 754 million in 2011 to USD 1.3 billion in 2021, dropping most notably in 2015 and 2020 and sharply increasing in 2016. The drop in 2020 was likely due to the COVID-19 pandemic, while the decline in 2015 and subsequent sharp increase in 2016 were likely the result of financing announcements taking place at or after the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC) where the Paris Agreement was adopted. In 2018, the ADB committed at least 75% of its operations (on a 3-year rolling average) to supporting climate change by 2030; it stated that USD 80 billion would be allocated for climate finance cumulatively between 2019 and 2030, with increasing adaptation targets (ADB, 2022a). In 2021, the ADB committed USD 4.8 billion in climate finance, with 29% of that finance allocated for adaptation (ADB, 2022a). The ADB's Asian Development Fund 13, a fund for low-income countries for 2021 to 2024, has a specific thematic pool that provides additional grants to incentivize countries to undertake investments for adaptation purposes (Singh & Sherchan, 2021).

**IDB** finance for adaptation experienced an average upward trend from USD 292 million in 2011 to USD 1.948 billion in 2021, with a drop in 2020, likely due to the COVID-19 pandemic. An increasing share of the IDB Group's climate finance has supported adaptation, from an average

of 10% from 2012 to 2015 to an average of 22% from 2016 to 2020 (AfDB, ADB, European Bank for Reconstruction and Development [EBRD], European Investment Bank [EIB], IDB Group, International Finance Corporation [IFC] & World Bank Group, 2012, 2013, 2014, 2015; AfDB, ADB, EBRD, EIB, IDB Group, IFC & World Bank Group 2016, 2017, 2018; AfDB, ADB, EBRD, EIB, IDB Group, Islamic Development Bank [IsDB], & World Bank Group, 2019, 2020, 2021). Annual IDB climate finance reports provide information on the sectors that receive most of their finance for adaptation. In 2016, the highest percentage of finance for adaptation went to crosscutting issues (47%); in 2017, to water and wastewater systems (60%); and in 2018, 2019, and 2020, to institutional capacity support and technical assistance (41%, 45%, and 79% of annual finance for adaptation, respectively) (Almeida & Yurivilca, 2021; Yurivilca, 2019a, 2019b, 2019c, 2020).

## 2.2 Finance for Adaptation in Three Case Study Countries

The case studies examined the amount of MDB finance for climate change and adaptation committed to projects in Kenya, Nepal, and Peru from 2013 to 2020. The exercise attempted to apply the MDB adaptation tracking methodology at the country level, with the three case studies applying the same research methodology (see Box 2).

This section reviews the findings of the case studies, which are summarized in Table 1 and Appendix A.

### Box 2. Applying the MDB adaptation tracking methodology at the country level

The researchers in the three case study countries—ACTS in Kenya, PRC in Nepal, and Libélula in Peru—applied a similar research methodology to track flows of MDB finance for adaptation at the country level. This methodology included a review of publicly available primary and secondary documents related to the projects funded by the select MDBs, such as the World Bank's project approval documents and the ADB's reports and recommendations of the President. The country analysis covered the period from 2013 to 2019 or 2020. The year 2013 was chosen as the starting point because it was the end of the fast-start finance period in which developed countries agreed to provide USD 30 million for mitigation and adaptation for the period 2010–2012. The researchers attempted to determine the amounts allocated to adaptation by tracking funding commitments by year at the country level. The financial flows were included only for individual national projects; the researchers did not attempt to determine the amount of finance committed to a particular country under a multi-country or regional project.

**Table 1.** Financing for adaptation by four MDBs in Kenya, Nepal, and Peru between 2013 and 2020

| | Kenya (2013–2019) | Nepal (2013–2020) | | Peru (2013–2020) | |
|---|---|---|---|---|---|
| | **World Bank** | **World Bank** | **ADB** | **World Bank** | **IDB** |
| Total number of projects | 43 | 56 | 32 | 28 | 177 |
| Projects with adaptation co-benefits | 3 | 9 | 9 | 4 | – |
| Projects with both adaptation and mitigation co-benefits | 7 | 8 | 7 | 3 | – |
| **Total finance commitment (in USD million)** | 5,411.4 | 4,592.4 | 3,067.1 | 3,653.4 | 3,407.1 |
| **Total adaptation-related financing (in USD million)** | 797.2 (14.7%) | 1,197.8 (26.1%) | 321.5 (10.5%) | 149.5 (4.1%) | 131.7 (3.9%) |
| **Total mitigation-related financing (in USD million)** | 703.6 (13.0%) | 453.6 (9.9%) | 674.7 (22.0%) | 196.1 (5.4%) | 988.5 (29.0%) |

Source: Bocanegra & Lahud, 2022; Singh & Sherhan, 2021; Wachira et al., 2021.

## Kenya

ACTS's case study reported that three of 43 World Bank projects in Kenya between 2013 and 2019 had only adaptation co-benefits, and seven had both adaptation and mitigation co-benefits. Total adaptation-related financing amounted to USD 797.2 million from 2013 to 2019, compared to USD 703.6 million for mitigation. These 10 projects with adaptation co-benefits amounted to 14.7% of total World Bank finance commitments in Kenya from 2013 to 2019, which slightly exceeded the 13% of total World Bank finance that had mitigation co-benefits in the same period. It was difficult to discern trends in World Bank finance for adaptation in Kenya because one large project with adaptation co-benefits (a situation that occurred in both 2014 and 2017) could skew the year-to-year trends. However, there was a slight downward trend on average in the percentage of total funding commitments with adaptation co-benefits (see Appendix A). The agriculture, fishing, and forestry sector received the most finance for adaptation from the World Bank, followed by the public administration sector and water supply sector (Wachira et al., 2021).

The AfDB did not release country-level data on financial flows for climate change and did not disaggregate climate finance from overall financing. As such, it was not possible to determine

trends in the flows of AfDB finance for adaptation in Kenya. Bank officials interviewed by Wachira et al. (2021) explained this gap:

> Internally we now have climate finance tracking where we can unpack activities into small units and can establish the amount of financial resources going into climate change mitigation and adaptation manually or by estimates from the Bank's perspective. This is important because different countries have different approaches to defining their climate finance. Kenya, for instance, may consider the climate finance component in an AfDB loan as domestic climate finance by the virtue of the fact that the loan will be repaid. The challenge with that is that in the event [of] AfDB report[ing] that as climate finance, [it] would result in double-counting. (AfDB officer, personal communication, February 17, 2021, as cited in Wachira et al., 2021).

Another AfDB officer acknowledged the gap and stated that the bank's management is working to improve reporting on financial flows for adaptation (Wachira et al., 2021). Bank officials underscored that the bank prioritizes finance for adaptation over mitigation, which remains the priority for the African continent, including Kenya (AfDB officer, personal communication, February 2021, as cited in Wachira et al., 2021).

## Nepal

The case study prepared by PRC demonstrated that nine of 56 World Bank projects in Nepal with funding commitments from 2013 to 2020 had adaptation co-benefits, and eight had both adaptation and mitigation co-benefits. Total adaptation-related financing in Nepal amounted to USD 1,197.8 million from 2013 to 2020, compared to funding of USD 453.6 million with mitigation co-benefits. The percentage of World Bank total funding commitments with adaptation co-benefits demonstrated an upward trend from 2013 to 2020 (see Appendix A, Figure A1), and a greater proportion of projects approved in 2018, 2019, and 2020 had portions of the total financing allocated to adaptation. The financing allocated for adaptation in these 17 projects amounted to 26.1% of total World Bank finance commitments in Nepal from 2013 to 2020, which exceeded the 9.9% of total World Bank finance that had mitigation co-benefits in the same period (see Appendix A, Table A3). The infrastructure sector received the most adaptation-related financing in that period, comprising 74.5% of total adaptation-related financing (Singh & Sherchan, 2021).

Singh & Sherchan's (2021) analysis determined that nine out of 32 ADB projects in Nepal between 2013 and 2020 had financing allocated for adaptation, while seven projects had financing allocated for both adaptation and mitigation. Total adaptation-related financing amounted to USD 321.5 million between 2013 and 2020. Of all ADB financial commitments in that period, 10.5% were for adaptation, compared with 22.0% for mitigation. The analysis indicated a slight downward trend in ADB finance for adaptation from 2013 to 2020, with adaptation-related funding sharply dropping in 2014 and 2017 (see Appendix A, Figure A2). The transportation sector received the most finance for adaptation in the ADB project portfolio in that period—a

total of USD 164.2 million or 51.1% of total finance for adaptation. Often the finance for adaptation was a relatively small proportion of the total ADB project budget, and it was used to address climate risks faced by the project (Singh & Sherchan, 2021).

### Peru

Libélula's case study indicated that, out of 28 World Bank projects in Peru between 2013 and 2020, four projects had financing allocated for adaptation co-benefits, and three had financing allocated for both adaptation and mitigation co-benefits. The total adaptation-related financing amounted to USD 149.5 million from 2013 to 2020, compared to USD 196.1 million for mitigation. Finance for adaptation was a relatively small percentage of total World Bank investments from 2013 to 2020, at 4.1%, as was the financial commitment for mitigation in the same period, at 5.4%. There was a slight upward trend on average for the percentage of World Bank funding commitments for adaptation when compared to total commitments (see Appendix A, Figure A3). The public administration sector received the most finance for adaptation from 2013 to 2020, followed by the water supply and fisheries sectors (Bocanegra & Lahud, 2022).

When excluding dual finance (climate finance whose allocation is not differentiated between mitigation and adaptation), the Peru case study determined that IDB finance for adaptation in the country increased on average from 2013 to 2019. Finance for adaptation remained relatively low until 2019,when it went from nothing in 2018 to USD 104.1 million in 2019—the result of one large project. However, mitigation (29.0%) exceeded adaptation (3.9%) as a percentage of total finance from 2013 to 2019. The water and sanitation sector received the most finance for adaptation in this period, with five projects accounting for 85.5% of total finance for adaptation (Bocanegra & Lahud, 2022).

## 2.3 Synthesis and Recommendations

MDB finance for adaptation has increased on a global level, increasing from USD 4.8 billion in 2013 to USD 16.1 billion in 2020. This increase reflects efforts to mainstream climate change considerations in development projects and corporate commitments that have helped to increase awareness of the need to align programming with the Paris Agreement (Bocanegra & Lahud, 2022). However, the trendlines for MDB financial flows for adaptation in the three case study countries are mixed. IDB finance for adaptation in Peru and World Bank finance for adaptation in Nepal and Peru increased from 2013 to 2020. At the same time, World Bank finance for adaptation in Kenya and ADB finance for adaptation in Nepal both experienced slight downward trends from 2013 to 2020. This decline is anomalous but reflective of the difficulty of discerning trends at the country level. The approval of funding for one large project can significantly impact allocations (or lack of allocations) of finance for adaptation initiatives, and the types of projects in the country pipeline can impact annual allocations of finance for adaptation. For example, the percentage of finance for adaptation will be higher in a year that includes the approval of more water and agriculture projects than transport or energy projects, as the latter typically

consider adaptation from an angle of additionality that includes the amounts to climate-proof the infrastructure investment, rather than considering the full investment as adaptation.

Overall, from 2013 to 2020, the public administration, infrastructure, and water sectors received the most finance for adaptation from MDBs in the case study countries. The emphasis on infrastructure (including transport and water) and public administration (development policy financing) was to be expected given the MDBs' mandates and emphasis on providing investments as loans (both concessional and non-concessional). It also reflects a growing recognition within governments and MDBs that effective sustainable development requires addressing climate impacts (Wachira et al., 2021).

MDBs have improved their tracking of finance for adaptation at both the project level and the aggregate global level, and they continue to improve the methodology and to better understand how MDB portfolios are aligned with countries' adaptation goals. All four MDBs reviewed in this report provide information about their flows of climate finance on an annual basis in the joint MDB reports. The ADB, IDB, and World Bank have improved the availability of information about climate finance flows at the project level. The ADB and IDB published climate finance reports that provide details of adaptation finance at the project level (ADB Data Library, 2022; Almeida & Yurivilca, 2021; Yurivilca, 2019a, 2019b, 2019c, 2020), and the World Bank released climate finance reports for 2018 and 2019 that provided details on the amounts of adaptation and mitigation finance in individual projects approved in each year (World Bank Group, 2019b, 2020a). Despite this, tracking of finance for adaptation is not reported at the country or sector level.

The MDBs updated the methodology for tracking adaptation finance in 2022 and continue to work toward creating more specific criteria to improve the measurement of financial flows for adaptation (AfDB, et al., 2022b). In addition, they are exploring approaches to improve information on how investment portfolios are aligned with corporate and developing countries' adaptation goals (MDB Paris Alignment Working Group, 2021). Box 3 describes how the World Bank and IDB applied the adaptation finance tracking methodology in Peru.

### Box 3. How MDBs apply the adaptation finance tracking methodology in Peru

The World Bank is working in Peru to better track its finance for adaptation. This process began with its Country Partnership Framework in Peru, which includes a national climate diagnostic that identifies necessary adaptation actions. This information is compared to Peru's request for support for adaptation actions. The World Bank's country office works with the Government of Peru to identify and design adaptation projects. The World Bank's corporate climate change group reviews all projects approved for implementation in Peru and helps to identify opportunities to increase the adaptation and climate resilience outcomes of projects. The group identifies and provides details about the amount of climate finance in each project, including the amount of finance that generates adaptation co-benefits using the MDB adaptation finance tracking methodology (described in Box 1). These estimates of climate finance are shared with the Government of Peru, which approves the project agreement that states the amount of climate finance and the amounts with adaptation co-benefits.

The IDB has a corporate team that undertakes climate finance analysis at the project level using the adaptation finance tracking methodology. The team identifies each project's percentage and dollar amount of finance with adaptation co-benefits, mitigation co-benefits, or dual co-benefits. The use of corporate teams to calculate the amounts of climate finance and finance allocated to adaptation co-benefits helps to ensure that a consistent approach is used and improves comparability across projects.

*Source: Adapted from Bocanegra & Lahud, 2022.*

The review of MDBs' finance for adaptation in Kenya, Nepal, and Peru indicates that MDBs are responding to developing country prioritization of adaptation over mitigation and ambitions to increase flows of finance for adaptation. There are opportunities to improve this information and how it is used by developing country governments, as discussed below.

- **MDBs could focus on investing in adaptation-focused projects that reduce climate vulnerability and increase adaptive capacity, in addition to ensuring that resilience is integrated into their investment projects.** Continued and increased investment in projects with a clear focus on adaptation and specific outcomes that respond to country-identified adaptation needs is important. MDBs should go beyond adaptation finance that addresses the physical climate risks of assets being financed by a development project to projects that explicitly increase the climate resilience of populations and systems. In addition, MDBs should work with countries to identify and promote a range of grants and special concessional instruments to incentivize adaptation.
- **Information could be made available about underlying assessments of how the amounts of adaptation co-benefits were calculated at the country level.** Weikmans and Roberts (2019) noted that there was "limited transparency" in how MDBs determine the amounts considered as finance for adaptation. Concerns were expressed about

"large amounts of climate finance for projects that have nothing to do with adaptation," including the World Bank project that provided support for rebuilding earthquake-resilient infrastructure in Nepal, which subsequently reported 86% of its budget as finance for climate adaptation (Hattle et al., 2021). In addition, as noted earlier, the AfDB did not release country-level data on climate finance with adaptation co-benefits. Increased transparency regarding the underlying assessments would increase confidence in the information being provided and improve understanding of the costs of adaptation at the country level.

- **MDBs could help countries improve the tracking of finance for adaptation at the country level.** Governments lack an understanding of the flows of domestic and international public finance for adaptation at the country level. For example, Peru has a limited climate finance tracking and monitoring system for its public spending, and there are methodological challenges that limit its ability to track finance for adaptation that flows from MDBs. The complexity of tracking finance for adaptation also stems from its outcomes being interlinked with other development objectives, as well as a lack of agreement on what to include as adaptation. For example, MDBs include loans as climate finance, while some countries that have access to concessional loans consider only the concessional element of the loan as climate finance. MDBs could provide technical assistance to help governments improve their systems for tracking adaptation finance, which in turn could help to ensure a more consistent approach across countries.
- **Building the capacity of government officials, particularly those from finance ministries, to track and report on finance for adaptation could encourage governments to shift their priorities to climate-friendly investments.** The World Bank is helping governments track finance for adaptation, such as through its work with the Ministry of Economy and Finance in Peru (Bocanegra & Lahud, 2022; see Box 2). MDBs approve and allocate investments based on governments' requests, and finance ministries are more likely to request and approve financing for adaptation if they understand the benefits of this investment (Singh & Sherchan, 2021; Wachira et al., 2021).
- **MDBs could undertake research on measuring the benefits of investments in adaptation, which is a challenge for developing countries** (Bocanegra & Lahud, 2022). MDBs provide intellectual and analytical leadership on a range of development policy issues, and focused attention on measuring the benefits of adaptation could help developing countries identify and prioritize investments that have the greatest adaptation impact.
- **MDBs could encourage increased coordination and engagement between environment ministries and finance ministries, which could help to improve tracking of both MDB and other finance for adaptation.** Wachira et al. (2021) reported that Kenya's National Treasury and Planning works with MDBs to design climate change adaptation projects, but the perspectives and priorities of the Ministry of Environment and Forestry (MoEF) do not always inform these deliberations. MDBs could encourage increased coordination between finance ministries and ministries responsible for climate change to enable improved tracking and reporting of adaptation projects and financial flows to the adaptation elements of these projects.

# 3.0 MDB Climate Risk Screening and Assessment

Climate risk screening and assessments are intended to identify climate risks and vulnerabilities and actions to address them. The climate risk information they generate also can be used in decision making and project design. As these assessments often lead to the incorporation of climate-proofing considerations in project design and budgets, the use of climate risk screening tools and assessments can help to increase flows of finance for adaptation in MDB investments. These assessments are increasingly being used beyond infrastructure projects in sectors not typically considered as needing climate risk assessments, such as education and health. This section briefly reviews how the four MDBs surveyed address climate risk screening and assessment and then explores how these processes have been applied in Kenya, Nepal, and Peru. The analysis leads to overall observations and recommendations.

## 3.1 Progress in Screening for and Assessing Climate Risks in MDB Projects

Screening and assessment of climate change vulnerability and risks have become mandatory across most MDBs, and the approaches used by the AfDB, ADB, IDB, and World Bank are discussed in this section. As summarized in Appendix B, all four MDBs have committed to screening all projects for climate risks, consistent with the MDB methodology to determine the alignment of projects with the adaptation goals of the Paris Agreement. This methodology includes a three-step process that assesses the climate risk and vulnerability context of the project; defines climate resilience measures to address identified risks and vulnerabilities; and appraises the broader climate resilience context of the project, ensuring that actions align with national policies and plans for adaptation (EBRD, 2021a).

MDBs typically first screen for physical climate risks at the project identification and design stage, which provides an indication of the type and significance of the climate risks to which it might be vulnerable. Projects flagged as being of medium to high risk usually move to a second stage that includes a more detailed assessment of the climate risks and the identification of actions to address the identified climate risks and vulnerabilities. As illustrated in the remainder of this section, the proportion of MDB projects going to the next stage to assess climate risks in design and implementation has increased.

### World Bank

The World Bank undertakes climate and disaster risk screening for most development projects. Climate risk screening has been applied to all new projects supported by the IDA since 2014 and to projects supported by the IBRD since 2017 (World Bank Group, 2022d). The World Bank

Group has made a commitment that all IFC and Multilateral Investment Guarantee Agency (MIGA) investments will be screened for climate risks by 2023 (World Bank Group, 2021c).

Climate risk screening is undertaken at the World Bank during the early stages of national-level planning processes and project design. To produce a project risk profile, the first stage is an evaluation of the extent to which a project or location is exposed to climate hazards. The second stage assesses the potential impact on the project's physical components, followed by an examination of the non-physical factors (such as institutional capacity and social context) that influence the level of climate vulnerability and risk (World Bank Group, 2021b). In addition, the World Bank supports climate risk management using the Country Climate and Development Reports, which are a diagnostic tool that was first released in 2022 to help countries align climate action and development efforts as well as incorporate new climate-related technologies (World Bank Group, 2021a). Country climate and development reports can provide information for climate risk screening and assessments as they provide information on the main climate change risks and the impacts of these risks on development priorities (World Bank Group, 2022a).

## AfDB

The AfDB (2021) has committed to incorporating climate-informed design into all investments by the end of 2021. The AfDB screens projects for climate risks in the early stages of the project cycle, specifically at the project identification and preparation stages. When needed, appropriate adaptation measures are incorporated into the design and implementation of the project, which could include improving regional and urban infrastructure, promoting early warning systems for disaster and disease management, and strengthening municipality capacities (AfDB Group, n.d.-a). The AfDB reported that 70% of the projects under its first *Climate Change Action Plan 2011–2015* cost-effectively built resilience and minimized climate risks due to screening (AfDB Group, 2016). In addition, climate risks are analyzed and integrated into country strategy papers (Wachira et al., 2021).

## ADB

The ADB has screened all projects for climate risks since 2013 (Singh & Sherchan, 2021) and has committed to climate-proofing or mainstreaming climate resilience measures in physical infrastructure investments (ADB, 2021a). Watkiss et al. (2020) explain that the ADB's climate risk management framework first uses a checklist to conduct a context-sensitive climate risk screening at the identification stage to inform project officers of key climate risks. This screening considers such factors as sectors, locations, and key parameters of the projects. A more detailed climate screening is undertaken for projects identified through the checklist process as potentially impacted by climate change. If the climate screening identifies the project as medium or high risk, a more detailed climate risk and vulnerability assessment is conducted during the project preparation stage. A technical and economic evaluation estimates the costs and benefits of the project, and adaptation options are identified in consultation with the implementing agencies, which are often government ministries (Watkiss et al., 2020). The types of projects for which

the ADB assesses climate risk in the project design are most often those in the agriculture, infrastructure, urban development, and water sectors (Singh & Sherchan, 2021).

### IDB

By 2023, the IDB has committed to undertaking a risk analysis and identification of resilience measures for projects categorized as having moderate or high disaster and/or climate risks through an initial climate risk screening (IDB Group, 2021a). The first stage is the identification of potential risks that may occur in the project's implementation stage by assessing physical climate and disaster risks. All projects initially identified as moderate or high risk will move to a second stage that will include a qualitative assessment of the climate and disaster risks. If the project is assessed as medium to high vulnerability, a sector-specific quantitative analysis will be undertaken by the IDB and the client government (IDB Group, 2021a).

## 3.2 Climate Risk Screening and Assessment at the Country Level

The case studies in Kenya, Nepal, and Peru examined the extent to which the MDBs utilized climate risk screening and assessment processes in their projects approved between 2013 to 2020. The analysis determined that the four MDBs increased their use of climate risk screening and assessment in the three case study countries during this time period. It is likely that increased efforts to screen and assess climate risks, particularly for large infrastructure investments, have led to increased funding to address those risks, which is reflected in the previously described trend toward greater financing of actions with adaptation co-benefits. The key findings are discussed below for each of the case study countries.

### Kenya

The Kenya case study reported that 30% (15 of 50 projects) of World Bank projects in Kenya were screened for climate risks by the World Bank from 2013 to 2020. Over that time, the proportion of projects screened for climate risks, as stated in project identification and approval documents, has increased. One of 17 projects approved for funding commitments from 2013 to 2015 was screened for climate risks, compared to four of six projects in 2020. The two projects that were not screened in 2020 were responses to the COVID-19 pandemic. The project documents noted that the climate risk assessments impacted project design, with adjustments made to address climate risks in such sectors as water supply, electricity generation (renewables), water and wastewater systems, and transport. The documentation for two development policy loans noted the need to enhance climate resilience through building codes and irrigation (Wachira et al., 2021).

With respect to the AfDB, the case study reported that 65.2% (15 of 23) of projects it supported from 2013 to 2019 were screened for climate change risks. However, a trend analysis shows that the percentage of climate risk-screened projects per year declined during this period, from 75%

(three of four) projects in 2013 to no projects (out of one) in 2020 (Wachira et al., 2021). This could be because, in the latter years, projects might have been studies, emergency projects, or private sector operations, which are not screened by the bank (AfDB Group, n.d.).

## Nepal

From 2013 to 2020, 44.6% (25 out of 56) of World Bank projects in Nepal were screened for climate risks. There was an average upward trend in the percentage of projects screened for climate risk, with 18.9% (two of 11) of projects screened in 2013 and 50% (five of 10) projects screened in 2020 (Singh & Sherchan, 2021).

All ADB projects in Nepal were screened for climate risks from 2013 to 2020. This initial screening provided bank officers with an understanding of the climate risks and identified those projects that required further assessment (see Box 4). After the initial screening process, climate risk assessments were undertaken for most large infrastructure projects from 2013 to 2020, which identified the expected climate impacts on the project and set out actions to address them. Three of these actions include (i) a loan approved in 2020 to manage flood risks in river basins that included an action to increase the embankment levels based on the climate risk assessment; (ii) a 2018 loan approval in the education sector that committed to construction work that would reduce potential weather-related hazards to school buildings; and (iii) a 2017 loan approved in the urban development sector that assessed the risks of urban flooding and adjusted the project to include training for managers on improved drainage and enhanced flood risk management. Climate risk assessments also were undertaken and informed project design from 2013 to 2020 in the agriculture and natural resources, energy, transport, water and urban infrastructure, and education sectors (Singh & Sherchan, 2021).

### Box 4. Climate risk screening and assessment: The ADB in Nepal

In Nepal, climate risk screening is the responsibility of the ADB task managers and project teams. Projects identified as moderate or high risk at the screening stage undergo a climate risk assessment that is undertaken by the project teams or delegated to environmental or climate change experts at the bank and, if required, to external consultants and experts. The ADB works with the Ministry of Finance for the approval and identification of projects for financing and primarily engages with the sector ministry responsible for implementing the project to conduct climate risk assessments.

The costs of climate risk assessments in Nepal have varied. In the water sector, for example, the assessments cost from USD 100,000 to USD 200,000. This expense is typically paid out of the ADB's Climate Change Fund (i.e., funded through the ADB's own resources). The additional costs of addressing climate risks in project design and implementation are non-negotiable for the ADB; the adaptation measures are undertaken by the government, or the ADB cannot lend money for the investment.

*Source: Singh & Sherchan, 2021, pp. 10–13.*

## Peru

The Peru case study determined that, out of 27 World Bank projects approved for financing from 2013 to 2020, eight (29.6%) were screened for climate risks, and the screening status of one project was not stated. No World Bank projects from 2013 to 2016 in Peru were screened for climate risk. Subsequently, there was a consistent increase from 2017 to 2020 in the number of projects screened and assessed for climate risks. All four projects approved in 2020 underwent climate risk assessments at the design stage. The World Bank projects assessed between 2017 and 2020 were in the disaster risk management, infrastructure, irrigation, and water and wastewater sectors (Bocanegra & Lahud, 2022). Further information about the climate risk screening process undertaken in Peru by the World Bank is provided in Box 5.

### Box 5. Climate risk screening and assessment: The World Bank in Peru

In Peru, the World Bank follows a climate risk screening and assessment process similar to that used with most developing country partners. A climate risk screening is undertaken during the early stages of MDB national-level planning processes and project design. The MDB projects that are classified as of medium to high risk for climate impacts undergo a climate risk assessment, the results of which are incorporated into the design and implementation of projects. The climate risk assessments draw on the country's climate diagnosis that was prepared as an input to the Peru Country Partnership Framework.

The World Bank's global corporate climate team reviews all project design documents to assist the in-country sectoral teams in understanding and improving the climate analysis and climate context of projects. This review identifies and builds on work undertaken by the Government of Peru, such as Peru's NAP and the climate risk and vulnerability assessments that informed it.

The World Bank engages with line ministries in Peru on the design and development of projects, including climate risk assessments. The core work of climate risk assessments is paid out of the bank's internal budgets, and the results become part of the environmental and social framework assessments that are financed and implemented by the Government of Peru.

*Source: Bocanegra & Lahud, 2022; World Bank Group, 2021b.*

Out of a total of 21 IDB adaptation projects from 2013 to 2019, only four were not screened or assessed for climate risks at any stage. All projects approved from 2017 to 2019 were screened for climate risks. For example, all the projects in the environment and natural disasters sector were screened for climate risk at some stage, and the only project in the urban development and housing sector integrated the climate risk assessment and recommended actions into the planning stage. The IDB's climate risk assessment included a climate vulnerability and ecological risk assessment, vulnerability study, and risk analysis. To identify actions, the project teams used vulnerability maps and climate change scenarios. They also identified and prioritized fragile

ecosystems to inform project design and implementation. The case study observed a positive correlation between projects with a high percentage of the budget allocated to adaptation and the use of climate risk assessments (Bocanegra & Lahud, 2022).

## 3.3 Synthesis and Recommendations

The data from the three country case studies indicates that the World Bank, AfDB, ADB, and IDB have increased their use of climate risk screening and assessment since 2013, and it has become mandatory among the MDBs. This trend reflects increased corporate-level commitments to align programming with the Paris Agreement, which has supported climate change teams that work with country teams and governments to undertake climate risk assessments (Bocanegra & Lahud, 2022). Infrastructure projects supported by MDBs are increasingly designed to address climate vulnerabilities and climate risks, and MDBs are increasingly considering the impacts of climate risks in sectors that typically are not regarded through a climate adaptation lens, such as macro-economic budgetary support projects and education projects (Bocanegra & Lahud, 2022).

Climate risk screening and assessments provide opportunities to improve MDBs' and client governments' understanding of climate risks and vulnerabilities, as well as how to address these risks and vulnerabilities. In addition, the climate risk assessment process has improved estimates of the costs and benefits of adaptation projects (Singh & Sherchan, 2021).

A body of knowledge is being built that provides a foundation for action, but there are additional opportunities to improve MDB climate risk assessment at the country level, as set out below.

- **MDBs need to build the capacity of governments, who often do not understand the value of climate risk assessments or the need to increase project budgets to address identified climate risks and climate vulnerabilities.** In particular, there is a need for increased capacity among officials from finance ministries that are responsible for budgeting and negotiations with MDBs but are not very connected on the topic of climate change (Singh & Sherchan, 2021). MDB efforts to screen and assess projects for climate risks have helped governments understand the value of adaptation and the need to address and allocate budgets for climate resilience, especially in large infrastructure projects.
- **MDBs could provide technical assistance to build in-country capacity to undertake climate risk assessments.** At present, these assessments are largely conducted at the banks' headquarters during the project development phase. A greater level of engagement of the MDBs' country teams, as well as sectoral ministries and local stakeholders in the climate risk assessment process, could strengthen in-country understanding of climate change scenarios, the expected impacts, and adaptation actions that will set the country on a climate-resilient pathway (Singh & Sherchan, 2021).
- **MDBs could place more emphasis on funding projects that contribute to adaptation, in addition to financing the additional costs of ensuring that projects address climate risks.** The screening of all projects for climate risks has improved how MDBs address climate change, including in sectors that did not consider adaptation

impacts prior to MDBs' blanket screening requirement. For example, MDBs have improved their adaptation responses in such sectors as education and health (Bocanegra & Lahud, 2022). The IPCC *Sixth Assessment Report* identified the need to move from incremental adaptation to transformational adaptation (IPCC, 2022), and MDBs could support this transition with a greater emphasis on projects with high potential for transformational adaptation.

- **MDBs could support countries in undertaking upstream climate risk assessments in key sectors.** While project-level climate risk assessments are important, upstream assessments could improve MDBs' and governments' understanding of climate vulnerabilities and climate risks, as well as help them to identify suitable projects to support, particularly as MDBs place more emphasis on financing projects with high transformational adaptation impact. The use of these tools can have broader applications, such as the Nepal Country Climate and Development Report that helped the World Bank and the Government of Nepal to align adaptation and development efforts. The report explored how investment in community-based forest management could help Nepal move from conservation to sustainable production to facilitate reduced greenhouse gas reductions, improved community resilience, and increased economic opportunity (World Bank Group, 2022c).

# 4.0 MDB Programming and Alignment With National Adaptation Priorities

Developing countries often set out their climate adaptation priorities in their NAPs and NDCs. The NAP process is a country-driven, iterative process that enables countries to identify their medium- and long-term priorities for adapting to climate change and develop strategies, plans, and programs to address these needs (UN Climate Change, 2022a). As a requirement of the Paris Agreement, NDCs are a way for countries to outline and communicate their priorities and planned activities for mitigating climate change to the UNFCCC and can also be used to communicate a country's adaptation priorities (UN Climate Change, 2022b).

The alignment of MDBs' country portfolios with developing countries' stated adaptation goals is nascent. While country programs and MDB projects are driven by governments, and MDBs act at the request of governments, work is needed to ensure that national adaptation documents, such as NAPs, NDCs, and long-term strategies, are used to guide the formulation of country partnership strategies and to identify priority sectors for adaptation action (Bendahou et al., 2022). MDBs are beginning to draw on the information in these national documents to guide their programming and identification of projects at the country level, such as the IDB's commitment that all country strategies prepared from 2020 to 2023 will consider the country's NDC or long-term decarbonization strategy (IDB Group, 2021a).

This section reviews the ways that national adaptation priorities are incorporated into the plans, loan programs, and grant and technical assistance programs of the four MDBs highlighted in this report. The section first describes the MDBs' corporate commitments to align their programming with countries' adaptation priorities and MDB programs that help developing countries identify and assess adaptation priorities. The discussion then explores MDB alignment with the adaptation priorities of the case study countries. Finally, the section highlights lessons learned from the country case studies.

## 4.1 MDB Efforts to Align Programming With National Adaptation Priorities

MDBs are increasingly recognizing the need to address adaptation priorities identified through countries' national processes, reflecting a growing awareness that climate change can negatively impact the achievement of their core mandates to alleviate poverty. This awareness is reflected in the MDB principles for aligning their operations with the Paris Agreement, which highlights the need for programming that is consistent with developing countries' low-emissions and climate-resilient development pathways (ADB, 2021b). An assessment tool has been prepared by the MDBs to determine if projects and their components are aligned with the adaptation and resilience goals of the Paris Agreement (AfDB Group et al, 2021).

As described below, the four MDBs examined within this research have also made corporate commitments to align their support with the adaptation priorities identified in NDCs and, to a lesser extent, NAPs of their developing country partners. They have also established a number of support programs to strengthen the capacity of developing countries to implement their NDCs.

## Corporate Commitments

In its *Climate Change Action Plan 2021–2025*, the **World Bank Group** indicates that it will assist countries to prepare and implement NDCs, recognizing the critical role of these documents in identifying projects that help the World Bank Group align financial flows with the objectives of the Paris Agreement (World Bank Group, 2021c). The World Bank (IDA and IBRD) aims to align all new operations by July 2023, with 85% of all new IFC and MIGA operations to be aligned by July 2023 and 100% to be aligned by July 2025 (World Bank Group, 2021c, p. 4). This alignment is linked to the World Bank providing technical assistance to help countries develop or update their NDCs (such as the NDC Support Facility; see Box 6) and providing grants and loans to implement projects that deliver on the priorities of countries' NDCs. At least 50% of climate finance is to support adaptation (World Bank Group, 2021c, p. 17).

The country climate and development reports prepared with support from the World Bank consider client countries' NAPs, NDCs, and long-term decarbonization strategies and inform the bank's country diagnostics and country partnership frameworks (World Bank Group, 2021c). MIGA is also assessing alignment with countries' NDCs and long-term decarbonization strategies for "high-impact projects" (World Bank Group, 2021c).

The **AfDB** has organized the actions in its second *Climate Change Action Plan 2016–2020* along four main pillars that are aligned with Paris Agreement priorities, one of which is adaptation and climate-resilient development (AfDB, 2016). The action plan highlights how the bank is helping countries convert NDCs into actions plans, working along the lines of the "High 5s"—five priority areas to light up and power, feed, industrialize, and integrate Africa, as well as to improve the quality of life for its people (AfDB, 2016; n.d.-b). In addition, the bank has ensured that its Ten-Year Strategy (2013–2022) is compatible with countries' NDCs (AfDB, 2016).

The **ADB**'s *Climate Change Operational Framework 2017-2030* states that the bank will support developing member countries in fulfilling their NDCs (ADB, 2017, p. ix). In Phase 1 (2017–2023) of the framework, the ADB will work to scale up investments in climate change that are based on the needs and demands of client countries and are in line with their NDCs. Phase 2 (2024–2030) will respond to the countries' scaled-up climate-resilient priorities as listed in their NDCs or other strategies (ADB, 2017). The ADB's Climate Change Action Plan includes a commitment to address climate change in at least 75% of its operations by 2024 (ADB, 2021a). The ADB's country partnership strategies have begun to reflect NDC priorities (ADB, 2017; Singh & Sherchan, 2021).

The **IDB** set aspirational targets in 2021 that all loans and programs would be aligned with the Paris Agreement by 2023 (IDB Group, 2021c), meaning that the IDB's work must be consistent

with a country's priority actions for mitigation and adaptation, as set out in NDCs, NAPs, and other relevant policy documents. The *Climate Change Action Plan 2021-2025* notes that the bank will include investments in adaptation and mitigation in 65% of approved projects from 2020 to 2023. It also notes that in this time frame, all country strategies will consider a country's NDC or long-term decarbonization strategy and that the IDB's work must be consistent with a country's climate-resilient development goals (IDB Group, 2021a). After more countries develop their long-term decarbonization strategies and update their NDCs, these priorities will be used to specify the IDB's annual priorities (IDB Group, 2021a). The IDB Group is developing a screening tool for investment alignment with clients' NDCs and will train investment officers on how to use the tool (IDB Group, 2021a, p. 18).

## MDB Support Programs

In addition to corporate commitments to address adaptation in a manner that accounts for a country's adaptation priorities, MDBs have committed "to continue to support countries to mobilize finance, build capacity, and provide knowledge and other support needed to implement and update their NDCs" (UN Climate Change Conference UK 2021, 2021). Toward this end, MDBs have established a number of support programs that provide technical assistance to countries for NDC preparation and implementation. As described in Box 6, these programs include the World Bank's NDC Support Facility, the AfDB's Africa NDC Hub, the ADB's NDC Advance, and the IDB's NDC Invest.

### Box 6. MDB programs to assist developing countries with their NDCs

**World Bank: NDC Support Facility –** This multi-donor trust fund helps developing countries update their NDCs, including adaptation, and provides capacity-building support to assist these countries in understanding climate vulnerabilities and integrating climate resilience into their policies, plans, and sectors. The World Bank has supported countries in updating the adaptation component of their NDCs and in preparing climate-smart agriculture investment and coastal resilience plans. It has provided capacity-building support to help countries understand climate vulnerability and integrate climate resilience into policies and plans.

**AfDB: Africa NDC Hub –** This program aims to help member countries achieve their respective NDC targets by 2030 and provides support for the third round of NDC submissions due in 2025. The hub helps African countries align their NDCs with national development plans, develop NDC investment plans, and convene stakeholder dialogues and workshops. The hub assists countries in making progress on adaptation actions set out in NDCs and mobilizing finance to implement NDCs.

**ADB: NDC Advance –** Established with a USD 5 million grant from the ADB, the program aims to boost financing for priority adaptation and mitigation actions set out in countries' NDCs. It provides technical and knowledge support to help member countries mobilize

finance for NDCs, including through the use of innovative financing mechanisms, the development of climate investment plans, and the establishment of monitoring and reporting mechanisms to track progress in implementing NDC priority projects. The Technical Assistance program was expanded in 2022 to include a sub-project that will help to translate adaptation priorities identified in NAPs into investment plans.

**IDB: NDC Invest –** This program provides technical and financial assistance to Latin American and Caribbean countries to achieve the goals of the Paris Agreement. Since 2016, NDC Invest has supported countries in preparing their NDCs and translating national adaptation and mitigation priorities into investment plans and bankable projects. The NDC Invest approach includes four components: the programmer (public policy plans), pipeline accelerator (planning and design of projects), market booster (overcoming barriers and identifying innovative financing approaches), and finance mobilizer.

*Source: ADB, 2021c, 2022b; Africa NDC Hub, n.d.; Fazekas & Nuñez Castillo, 2021; World Bank Group, 2020b, 2022b.*

## 4.2 MDB Alignment With National Adaptation Priorities in the Case Study Countries

The case studies examined the extent to which MDBs aligned their programming with the adaptation priorities of Kenya, Nepal, and Peru, as identified in each country's national planning documents. The key findings are discussed below for each of the case study countries.

### Kenya

Kenya has articulated its national adaptation priorities in its NAP, NDC, and national climate change action plans (NCCAPs)—all of which were developed through national processes. Its NAP is the basis for the adaptation actions set out in Kenya's NDC, both of which are implemented through 5-year NCCAPs. The most recent of these action plans, the *National Climate Change Action Plan 2018-2022*, identifies seven priority action areas—disaster risk management; food and nutrition security; water and the blue economy; forestry, wildlife, and tourism; health, sanitation, and human settlements; manufacturing; and energy and transport (MoEF, 2018). The alignment of adaptation priorities across these national plans helps the government present consistent messaging in discussions with MDBs.

As adaptation is its priority, Kenya encourages its development partners, including MDBs, to focus their financing on adaptation as well as adaptation measures with mitigation co-benefits rather than simply on mitigation. While their engagement in the identification of Kenya's adaptation priorities is limited, MDBs are informed of these priorities once national documents are completed to promote alignment with their country strategies. For example, the Climate Change Directorate of the MoEF and the National Treasury and Planning work with the World

Bank and AfDB to ensure that the country's adaptation priorities are considered in the banks' strategies and projects (Wachira et al., 2021).

These efforts lead to greater alignment of the AfDB's and World Bank's country strategies with Kenya's adaptation priorities. The AfDB's Country Strategy Paper for Kenya highlighted the country's climate change framework and noted the importance of mainstreaming climate change in projects and initiatives supported by the bank (AfDB Group, 2019). As well, since 2018, the AfDB portfolio has approved projects in Kenya's priority adaptation action areas of food and nutrition security, water, and energy. The AfDB emphasized that it does not implement climate change projects but rather mainstreams climate change concerns into its development projects (Wachira et al., 2021).

In reviewing the World Bank's projects approved for funding between 2013 and 2020, Wachira et al. (2021) found that only one project document mentioned Kenya's NAP (published in 2016), and the documentation of two projects referred to Kenya's NCCAP (the first action plan was launched in 2013, the second in 2018). Despite the lack of reference to these national planning documents, the World Bank portfolio is aligned with the adaptation priorities identified in these documents (Wachira et al., 2021). Of the seven priorities identified in the NCCAP 2018–22, the World Bank projects addressed needs related to food and nutrition security, disaster risk reduction (including social protection), water, human settlements, and energy. Moreover, the World Bank's systematic country diagnostic prepared to inform its 2022–2027 country partnership framework mentioned the priority areas for action set out in Kenya's second Climate Change Action Plan and noted the importance of continuing investments in adaptation.

## Nepal

The Nepal case study found that many of the World Bank and ADB's development projects in Nepal from 2013 to 2020 were aligned with the country's adaptation priorities, with a notable increase since 2018 in MDB budget allocations to improve climate resilience in projects. The emphasis in later years likely was influenced by the two MDBs' country partnership strategies, both of which included "resilience" as a priority area (ADB, 2019; Singh & Sherchan, 2021; World Bank Group, 2018).

The Nepal case study determined that the identification of MDB projects drew from and was informed by government national development plans and climate plans. The country's *National Climate Change Policy, 2019* addressed climate change adaptation, and Nepal's second NDC, approved in 2020, highlighted the adaptation actions that are needed in the priority sectors identified in the policy. Furthermore, the government's *Fifteenth Plan: Fiscal Year 2019/20–2023/24* aimed to undertake adaptation actions aligned with Paris Agreement priorities. Recent MDB projects that are aligned with the country's adaptation priorities have been approved in the agriculture, flood risk management, renewable energy, and urban development sectors. Importantly, concessional loans for large infrastructure projects in the transport, earthquake reconstruction, and energy sector include budget allocations to address adaptation—specifically, actions to address the identified climate risks (Singh & Sherchan, 2021).

The ADB and World Bank have agreed to support the Government of Nepal's Green, Resilient and Inclusive Development approach. This initiative brings together government and development partners in a coordinated manner to address the impacts of the COVID-19 pandemic and Nepal's structural challenges (including a high vulnerability to climate change) in a manner that builds on Nepal's NDC (Shrestha, 2021). The World Bank has allocated grant funds for advisory services, including analytics on the impacts of climate change. Moreover, the World Bank and ADB have committed to promoting long-term green growth, climate actions, and sustainable development that includes financing projects in the infrastructure, urban development, and natural resources sectors, and providing support to reduce climate vulnerability (Chhetri, 2021).

### Peru

The Peru case study noted that the adaptation priorities in the country's NAP and NDC inform the programming of the World Bank and IDB, and the analysis underlying these plans is considered by the MDBs in the design of projects. MDBs are not engaged in government-led national processes to prioritize adaptation actions, but the results of these national processes contribute to the identification of MDB projects. MDB programming responds to government requests and is agreed upon through an iterative process between the government and MDBs, although this engagement has been impacted by changes in personnel at both the governments and the banks. The Ministry of Finance and Economy leads the discussion with MDBs, which also hold strategic dialogues with the Ministry of Environment, recognizing the importance of these discussions for identifying adaptation opportunities in projects (Bocanegra & Lahud, 2022).

The World Bank's Country Strategic Framework recognized the need to increase Peru's resilience capacity and included adaptation as an element of the strategic pillars (World Bank Group, 2017). Bocanegra & Lahud (2022) determined that four out of six adaptation projects financed by the World Bank from 2013 to 2019 were aligned with Peru's thematic areas in its NDCs—two from the water sector, one from the fisheries sector, and one from the health sector.

The Peru case study found that, from 2013 to 2019, 12 out of 21 IDB projects that had financing allocations for adaptation were aligned with Peru's national adaptation priorities and that the IDB supported projects with adaptation components in the agriculture, water, and fisheries sectors. This is consistent with IDB's efforts to incorporate climate change and adaptation variables into its Peru portfolio, working within the requests of the government. A national loans program, agreed upon by the IDB and Ministry of Finance, is reviewed by the IDB to identify the projects that can or should include adaptation (Bocanegra & Lahud, 2022).

## 4.3 Synthesis and Recommendations

MDBs can engage with developing country governments in various ways that respect and account for the expressed needs of a country. For example, governments may choose not to engage MDBs in processes to identify national adaptation priorities (Bocanegra & Laud,

2022; Singh & Sherchan, 2021; Wachira et al., 2021). However, MDBs can still support these government-led processes through the provision of technical assistance and analysis, such as through NDC support programs. The outcomes of these national processes can inform MDB country partnership strategies, the identification of projects, and dialogue between governments and MDBs to discuss the required financing for adaptation priorities or the costs of addressing climate resilience in development projects.

The analysis and documents developed by countries—such as NDCs, NAPs, and climate change action plans—can help MDBs to better understand countries' adaptation priorities and to work with countries to translate these priorities into actionable investments. At the same time, MDB programs and analytics have helped countries improve data and planning frameworks in addition to realizing the costs and benefits of incorporating climate resilience into investment decisions.

MDBs are working to align their financial flows with developing country governments' adaptation priorities set out in NAPs and NDCs, and there are opportunities for MDBs to improve these efforts, as discussed below.

- **MDBs could play a stronger role in assisting finance ministries to better understand the economic case for and benefits of adaptation, as well as the need for mainstreaming adaptation in national economic development strategies and budgets.** Adaptation may not be prioritized in countries' master plans or national economic strategies, despite the presence of an NDC and NAP, which impacts MDBs' ability to fund adaptation priorities. MDBs' engagement and policy development support could contribute to improved analysis and understanding of adaptation priorities by governments, which in turn could inform their requests to MDBs and shape project design. MDB support could also be used to help governments prepare national development plans and sectoral strategies that are aligned with adaptation and climate plans, and support could be provided to help countries prepare their NDCs and NAPs (Bendahou et al., 2022).
- **MDBs could consider programmatic finance for adaptation that uses a wide range of instruments** (such as project loans, policy-based loans, and results-based financing) to support long-term programs that are anchored by countries' NDCs and NAPs. This approach would require support to identify and develop a robust pipeline of investments, policy and institutional reforms, needed capacity building and technical assistance, and the adaptation actions that could be financed by MDBs. This process would likely require increased coordination of MDB support within and across countries.
- **MDB country framework strategies could aim for greater alignment with the domestic adaptation priorities identified in NAPs and NDCs.** This will likely require a more systematic approach that considers NAPs and NDCs when formulating strategies, as well as increased engagement with ministries responsible for climate change and encouraging ministries of finance to consider adaptation in their requests to MDBs. MDBs need to be flexible to respond to the changing policy environments and open to

adjusting country strategies to reflect recent resilience policy changes adopted by the government (Singh & Sherchan, 2021).

- **MDBs could strengthen their use of countries' NAPs and NDCs to identify the best and most strategic use of MDB climate and development finance.** MDBs could work with governments to undertake strategic assessments of the best use of MDB finance to achieve adaptation priorities and systematically integrate this information into their country engagement processes. This analysis could consider the best use of grant funds (e.g., for public goods that do not generate revenue flow) and concessional loans (e.g., for blended finance projects to incentivize private sector investment) and also consider where addressing climate resilience in infrastructure and other projects makes financial sense.

# 5.0 Conclusion

MDBs have made significant progress in increasing financial flows for adaptation in their project portfolios and are making positive strides to align their entire development finance portfolios with the Paris Agreement. This progress is likely influenced by corporate targets and ambitions to deliver on the aims of the Paris Agreement, increased and improved tracking of finance for adaptation, enhanced use of climate risk screening and assessment, and growing efforts to align MDB programming with the adaptation priorities set out in developing countries' NDCs, NAPs, and other climate plans.

When examined at the country level, a review of the flows in Kenya, Nepal, and Peru indicated that flows of finance for adaptation are generally increasing. However, it is difficult to discern trends at the national level, which can be impacted by the timing of the approval of a large project that allocates a portion of its budget to adaptation. Despite this, the increased use of climate risk screening and assessments, as well as greater attention to the priorities set out in NAPs and NDCs, means that MDBs are increasingly aligning their country programs with the Paris Agreement. In the three case study countries, some challenges remain in scaling up MDB finance for adaptation, including a lack of transparency in how allocations of finance for adaptation are determined at the project level and the lack of awareness in finance ministries about the costs and benefits of investing in adaptation.

Continued MDB grant support for technical analysis and country-led climate adaptation planning processes is critical for Paris-aligned MDB programming in these three countries. MDBs can assist countries in the monitoring of financial flows by building the capacity of ministries responsible for finance and climate change. Addressing climate resilience in large projects and designing appropriate adaptation projects can be facilitated by an improved understanding of the costs and benefits of adaptation, enhanced processes to track the flows of finance for adaptation (including that of bilateral funders at the country level), rigorous analysis of climate risks and vulnerability, and consultative dialogue processes to inform the updating of NDCs and NAPs. Building the capacity and awareness of officials from ministries of finance is critical, as is the engagement of officials from ministries responsible for climate change in processes to prepare MDB country strategies, assess projects for climate risks, and design MDB projects that address national adaptation priorities.

Emphasis needs to be placed on funding projects that contribute to adaptation and on financing the additional costs of ensuring that projects increase resilience to climate risks. MDBs need to place greater emphasis on projects with high transformational adaptation potential and consider programmatic finance for adaptation that uses a wide range of instruments to support long-term programs that are anchored by countries' NDCs and NAPs. This focus would likely require increased coordination of MDB support within and across countries. These enhancements to MDBs' ongoing efforts to align their financial portfolios with the Paris Agreement will further support efforts to scale up financing for adaptation, close the adaptation finance gap, and strengthen countries' resilience to climate change.

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# Appendix A. Summary of Case Studies

In 2020 and 2021, the African Centre for Technology Studies (ACTS) in Kenya, the Prakriti Resources Centre (PRC) in Nepal, and Libélula in Peru undertook an assessment of the flows of financing for adaptation from selected multilateral development banks (MDBs) within their countries using a common methodology. This appendix includes summaries of the three case studies completed by these organizations. The case studies analyzed financing for adaptation provided to Kenya, Nepal, and Peru by the Asian Development Bank (ADB), African Development Bank (AfDB), Inter-American Development Bank (IDB), and World Bank from 2013 to 2020. They examined how MDBs mainstream adaptation in their portfolios in these countries with a focus on trends in financial flows for adaptation, the use of climate risk screening and assessments, and alignment of MDB financing with national adaptation priorities as identified by national governments in National Adaptation Plans (NAPs) and nationally determined contributions (NDCs).

## A1.1 Kenya[8]

### Introduction

Kenya's legislation and policies on climate change (such as the Climate Change Act 2016, National Climate Finance Policy 2017, updated NDC 2020, and National Climate Change Action Plan [NCCAP] 2018-2022) underline the country's high climate vulnerability and the need for large and diverse climate change adaptation investments. Indeed, of the USD 62 billion required by Kenya to adapt to and mitigate climate change by 2030, the cost of climate change adaptation amounts to USD 44 billion, or about 70%, by 2030 (Ministry of Environment and Forests [MoEF], 2020).

The case study explored AfDB and World Bank efforts to mainstream finance for adaptation across their investment portfolios in Kenya. The case study reviewed the progress made by these banks to scale up financing for climate change adaptation in their programs in Kenya, how the banks incorporated climate risks in their development finance portfolios, and how they aligned their portfolios with Kenya's climate change adaptation priorities.

### MDBs and Finance for Adaptation

The AfDB and World Bank have made notable progress in incorporating climate adaptation considerations into their financing arrangements in Kenya. The World Bank's financial commitments for adaptation (USD 797.2 million) exceeded its mitigation commitments from 2013 to 2019 (USD 703.6 million). The commitments that included finance for adaptation comprised 14.7% of total World Bank finance commitments, compared to 13% for mitigation (see Table A1).

[8] This section is based on Wachira et al., 2021.

**Table A1.** World Bank finance for adaptation and mitigation in Kenya, 2013–2019

| Year | Adaptation co-benefits (USD million) | Mitigation co-benefits (USD million) |
|---|---|---|
| 2013 | 121.1 | 4.4 |
| 2014 | 200.0 | 0.0 |
| 2015 | 2.4 | 27.0 |
| 2016 | 90.0 | 108.6 |
| 2017 | 271.7 | 308.8 |
| 2018 | 60.0 | 180.0 |
| 2019 | 52.0 | 74.7 |
| **% of total commitments/total** | **14.7%/797.2** | **13%/703.5** |

Source: Wachira et al., 2021.

However, there was a slight downward trend on average for the total funding commitments with adaptation co-benefits from 2013 to 2019. Ten of a total of 43 projects had finance committed to adaptation during this time, seven of which also contributed to mitigation co-benefits. World Bank projects in the agriculture, fishing, and forestry; public administration; and water supply sectors had the largest amounts of committed finance for adaptation from 2013 to 2019 (see Table A2).

**Table A2.** World Bank finance for adaptation in Kenya by sector, 2013–2019 (in USD)

| Year | Public administration | Water supply | Agriculture, fishing, and forestry | Central and subnational government | Social protection | Cross-sectoral |
|---|---|---|---|---|---|---|
| 2013 | 121.1 | - | - | - | - | - |
| 2014 | - | 200 | - | - | - | - |
| 2015 | - | - | - | - | - | 2.5 |
| 2016 | - | - | 112 | - | - | - |
| 2017 | - | 52.5 | 250 | 69.2 | - | - |
| 2018 | 185.7 | - | - | - | 61.5 | - |
| 2019 | - | - | - | 52.1 | - | - |
| **Total** | **306.8** | **252.5** | **362** | **121.3** | **61.5** | **2.5** |

Note: Some similar sectors have been combined for the purpose of space.
Source: Wachira et al., 2021.

The AfDB does not release country-level data and does not disaggregate climate finance from overall financing. Bank officials acknowledged the gap and stated that the bank's management is working to improve this situation. They noted that the bank has a climate financing tracking group that estimates the flows of finance for adaptation and mitigation and is also working with countries to accurately track finance for adaptation in a way that avoids double-counting. Bank officials underscored that the bank prioritizes finance for adaptation over mitigation, which remains the priority for the African continent, including in Kenya (AfDB officer, personal communication, February 17, 2021).

The National Treasury and Planning has been involved in the co-design of climate change adaptation projects with the World Bank (World Bank officer, personal communication, May 2021). Many government officers engaged in focus group discussions indicated that discussions about finance for adaptation mainstreaming processes have been highly interactive and consultative, and opportunities exist to improve this process by ensuring more involvement and capacity building of government experts (focus group discussion, personal communication, October 23, 2020). Bank officials emphasized the need for enhanced capacity and participation among the Kenyan experts involved in the process (World Bank officer, personal communication, July 5, 2021).

## MDB Programming and Alignment With National Adaptation Priorities

Kenya's adaptation priorities are identified through national processes and set out in national documents. There is limited engagement with MDBs in the identification of Kenya's adaptation priorities, although MDBs are informed after the documents are completed. For example, the MoEF and National Treasury and Planning work with the World Bank and AfDB to ensure that the country's adaptation priorities are considered in the banks' programming.

Of the World Bank projects that were approved from 2013 to 2020, 55% refer to climate change in their project identification or appraisal documents. However, only one project's documents make explicit reference to the country's NAP (submitted to the United Nations Framework Convention on Climate Change [UNFCCC] Secretariat in 2016), and two projects' documents refer to the NCCAP (the first action plan was launched in 2013, the second in 2018) (Ministry of Environment and Natural Resources, 2016; MoEF 2018). From a sectoral perspective, MDB project portfolios are aligned with these two documents—possibly because climate change was extensively addressed in the World Bank's *Kenya Country Partnership Strategy: FY 2014-2018,* where the bank acknowledged the country's high vulnerability to climate impacts and aimed to improve capacity to manage risks from climate change (World Bank Group, 2014). Indeed, government representatives reiterated in interviews that climate change adaptation is Kenya's priority and that extensive stakeholder engagement has seen external actors, including MDBs, adjusting programs to focus more on adaptation interventions that have mitigation co-benefits rather than focusing solely on mitigation (MoEF official, personal communication, May 7, 2021).

### Lessons Learned

The case study has increased understanding of MDB flows of finance for adaptation in Kenya and offers lessons and suggestions for scaling up MDBs' finance for adaptation and aligning programming with national adaptation priorities. The key lessons are summarized below and elaborated in the full case study.

- **Increased coordination –** MDBs can encourage increased coordination between ministries that are core to making requests for climate adaptation financing, such as the Climate Change Directorate, MoEF, and Climate Finance Unit of National Treasury and Planning.
- **Technical assistance –** Opportunities exist for MDBs to use technical assistance to engage expert technical teams to support the government in mainstreaming climate adaptation. MDBs are well placed to work with National Treasury and Planning officials to raise awareness of the benefits of adaptation.
- **Capacity building –** Enhanced capacity building and more active engagement of stakeholders in the design of climate-sensitive projects and programs could promote enhanced mainstreaming of adaptation in the design and implementation of MDB-financed programs in Kenya. This engagement could include national and county government departments, civil society, and private sector actors.
- **Enhanced dialogue –** Encouraging dialogue between MDBs and the government on the NAP, NDC, and NCCAP can increase MDB awareness of national adaptation priorities. While the government opted to develop and update these documents and identify adaptation priorities through national processes that did not include MDBs, sharing and discussing these completed documents with MDBs helped to ensure that national adaptation priorities inform MDB investment decisions.

## A1.2 Nepal[9]

### Introduction

Nepal's NAP, submitted to the UNFCCC in October 2021, estimated that by 2050, USD 47.4 billion would be required to implement priority adaptation actions, with USD 45.9 billion expected to come from external international support (Ministry of Forests and Environment, 2021). MDBs are expected to play a role in providing this external funding, including the World Bank and ADB—the largest MDBs working in Nepal.

The case study's main objective was to explore how these two MDBs aligned their finance portfolios in Nepal with the adaptation goals of the Paris Agreement. The case study reviewed how the World Bank and ADB mainstreamed adaptation in their development financial assistance,

[9] This section is based on Singh & Sherchan, 2021.

how these MDBs incorporated physical climate risks in their development finance portfolios, and how their programs and financial flows were aligned with Nepal's adaptation priorities. The concluding section sets out lessons and suggestions for improving the mainstreaming of adaptation in MDB's development finance in Nepal.

## MDBs and Finance for Adaptation

The World Bank financed 56 projects in Nepal from 2013 to 2020. Of these projects, nine had solely adaptation co-benefits, nine had mitigation co-benefits, and eight had both adaptation and mitigation co-benefits. Thus, 26 projects in total included climate components. Total adaptation-related financing in Nepal amounted to USD 1,197.8 million from 2013 to 2020, compared to USD 453.6 million with mitigation co-benefits. The financing allocated for adaptation in these 17 projects amounted to 26.1% of total World Bank finance commitments in Nepal from 2013 to 2020, which exceeded the 9.9% of total World Bank finance that had mitigation co-benefits in the same period (see Table A3).

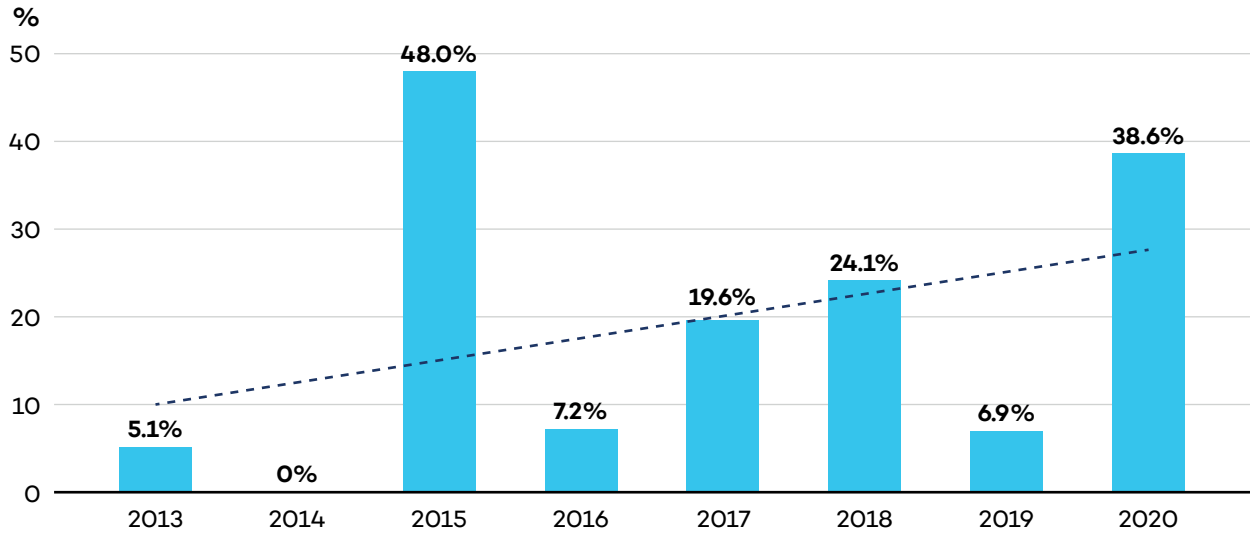
**Table A3.** World Bank finance for adaptation and mitigation in Nepal, 2013–2020

| Year | Adaptation co-benefits (USD million) | Mitigation co-benefits (USD million) |
|---|---|---|
| 2013 | 31 | 27.3 |
| 2014 | 0 | 183.9 |
| 2015 | 190 | 20 |
| 2016 | 19.3 | 0.3 |
| 2017 | 286.9 | 11.4 |
| 2018 | 153.6 | 75.2 |
| 2019 | 37.9 | 15.1 |
| 2020 | 499.6 | 113 |
| **% of total commitments/total** | **26.08%/1,197.8** | **9.88% /453.6** |

Source: Singh & Sherchan, 2021.

The percentage of total World Bank funding commitments with adaptation co-benefits rose slightly on average from 2013 to 2020, with no financing in 2014 and little in 2016 but sharp increases in 2015 and 2020 (see Figure A1).

**Figure A1.** Percentage of World Bank total funding commitments with adaptation co-benefits in Nepal, 2013–2020




Source: Singh & Sherchan, 2021.

The infrastructure sector received the most adaptation-related financing in that period, comprising 74.5% of the total adaptation-related financing (see Table A4).

**Table A4.** World Bank finance for adaptation in Nepal by sector, 2013–2020 (USD million)

| Year | Water supply and irrigation | Central and sub-national government | Social protection | Infrastructure | Agriculture, forestry, and livestock | Energy | Banking institutions |
|---|---|---|---|---|---|---|---|
| 2013 | 31 | - | - | - | - | - | - |
| 2014 | - | - | - | - | - | - | - |
| 2015 | - | - | - | 190 | - | - | - |
| 2016 | - | - | - | 19.3 | - | - | - |
| 2017 | - | - | - | 265.6 | 21.2 | - | - |
| 2018 | 26.8 | 22.2 | - | 56.6 | 22.7 | 2.6 | 20.8 |
| 2019 | - | 17.5 | 20.4 | - | - | - | - |
| 2020 | - | 105 | - | 375.1 | 12 | - | 7.5 |
| **Total** | **57.8** | **144.7** | **20.4** | **906.6** | **55.9** | **2.6** | **28.3** |

Note: Some similar sectors have been combined for the purpose of space.
Source: Singh & Sherchan, 2021.

The ADB financed 30 projects in Nepal from 2013 to 2020. Nine projects had solely adaptation co-benefits, five had mitigation co-benefits, and seven projects had both adaptation and mitigation co-benefits. Thus, 21 projects in total included climate components. Total adaptation-related financing amounted to USD 321.5 million, and mitigation-related financing amounted to USD 633.5 million from 2013 to 2020 (see Table A5).

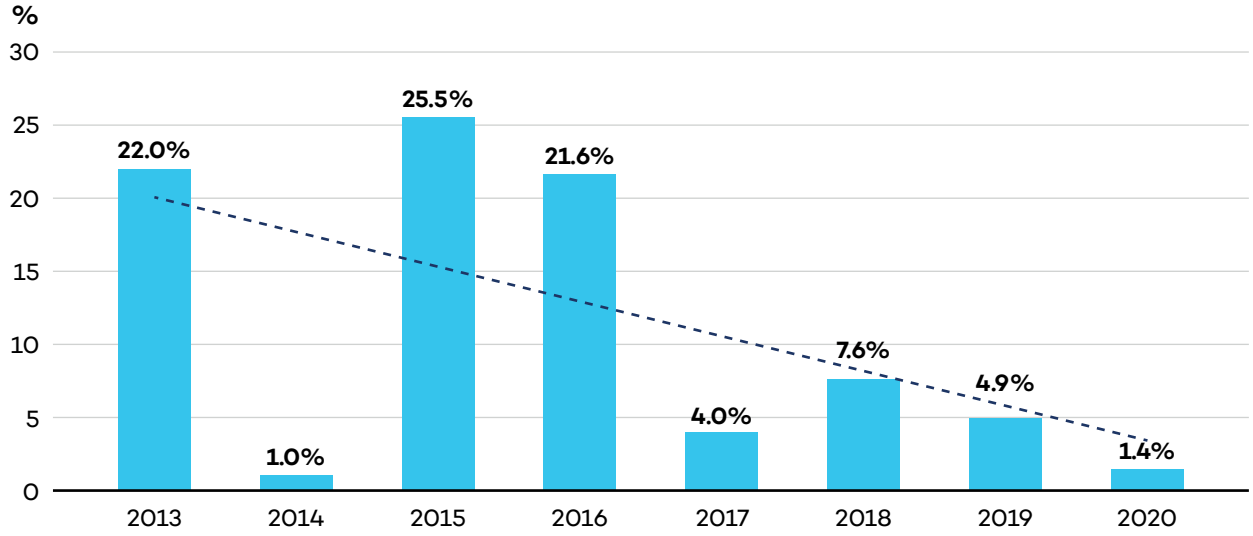
**Table A5.** ADB finance for adaptation in Nepal, 2013–2020

| **Year** | **Adaptation co-benefits** (USD million) | **Mitigation co-benefits** (USD million) |
|---|---|---|
| 2013 | 101.9 | 153.8 |
| 2014 | 2 | 151.2 |
| 2015 | 70.6 | 3.9 |
| 2016 | 66.5 | 0 |
| 2017 | 17 | 160.1 |
| 2018 | 37.8 | 26.8 |
| 2019 | 17.7 | 60 |
| 2020 | 8 | 118.9 |
| **% of total commitments/total** | **10.5%/321.5** | **22%/647.7** |

Source: Singh & Sherchan, 2021.

The percentage of total commitments with adaptation co-benefits declined on average from 2013 to 2020, with drops in 2014 and 2017 (see Figure A2). The ADB noted that the drop in adaptation finance in 2020 was because ADB prioritized a response to the COVID-19 pandemic. ADB development projects, such as infrastructure, often have an adaptation element that aims to climate-proof investments (ADB representative, personal communication, March 5, 2021).

**Figure A2.** Percentage of ADB total commitments with adaptation co-benefits in Nepal, 2013–2020




Source: Singh & Sherchan, 2021.

The transportation sector received the most funding with adaptation co-benefits from 2013 to 2020 (see Table A6).

**Table A6.** ADB finance for adaptation in Nepal, 2013–2020 (USD million)

| Year | Agriculture, natural resources, and rural development | Transport | Energy | Water and other urban infrastructure and services | Education | Cross-sectoral |
|---|---|---|---|---|---|---|
| 2013 | 26.4 | 75.5 | - | - | - | - |
| 2014 | - | - | 2 | - | - | - |
| 2015 | - | - | - | 35.6 | - | 35 |
| 2016 | - | 66.5 | - | - | - | - |
| 2017 | 2.3 | - | - | 14.7 | - | - |
| 2018 | - | 4.5 | - | 26.1 | 7.2 | - |
| 2019 | - | 17.7 | - | - | - | - |
| 2020 | 7 | - | 1 | - | - | - |
| **Total** | **35.7** | **164.2** | **3** | **76.4** | **7.2** | **35** |

Note: Some similar sectors have been combined for the purpose of space.

Source: Singh & Sherchan, 2021.

## MDB Climate Risk Screening and Assessment

From 2013 to 2020, 44.6% of World Bank projects in Nepal were screened for climate risks, with the percentage of projects being screened for climate risks increasing substantively from 2017 onwards. There was also an average upward trend in the percentage of adaptation-focused projects screened for climate risk from year to year. MDB climate change experts were engaged to undertake climate risk assessments for projects identified as medium to high risk of climate impacts and often offered advice and suggestions to improve the resilience outcomes of a project.

Climate risk screening is an internal ADB process, and the ADB has screened all projects in all countries for climate risks since 2013. For projects that are categorized as medium or high risk, a climate risk assessment is undertaken by ADB experts or external consultants. In Nepal, the climate risk assessments sometimes recommended measures to address expected climate impacts that cost additional money; however, the ADB did not negotiate costs with the Government of Nepal. The adaptation measures were undertaken by the government as part of the project, or the ADB could not lend money for the investment. If some of these recommended measures were critical (but not essential), the bank tried to mobilize funds from other sources. The ADB was most likely to address climate risk in the project design for initiatives in the agriculture, urban development, and water sectors. The ADB engaged with Nepal's Ministry of Finance for the approval and identification of projects for financing, including approval of the actions and budget to address climate risks. Depending on the project, the ADB might also have engaged with the relevant counterpart ministry, such as the Ministry of Forests and Environment.

## MDB Programming and Alignment With National Adaptation Priorities

The World Bank and ADB's actions in Nepal are increasingly focused on development projects with adaptation elements that draw from government master plans. The country's *National Climate Change Policy, 2019* and its NDC address climate change adaptation, and in late 2021, the government finalized its NAP summary under the leadership of the Ministry of Forests and Environment (Government of Nepal, 2020; Ministry of Forests and Environment, 2021). Furthermore, the government adopted the *Fifteenth Plan: Fiscal Year 2019/20–2023/24*, a development strategy that aims in part to undertake adaptation actions aligned with Paris Agreement priorities. The priorities of the ADB and World Bank, which are set out in the country partnership plans, align well with the priority sectors requiring adaptation support as identified by the Government of Nepal (ADB, 2019; World Bank Group, 2018).

## Lessons Learned

While increasing understanding of MDB flows of finance for adaptation in Nepal, the case study also points to key lessons and suggestions for scaling up MDBs' finance for adaptation and aligning programming with national adaptation priorities. These lessons are summarized below and elaborated in the full case study.

- **Improved information about the costs of adaptation –** The improved tracking of finance with adaptation co-benefits (in addition to projects that are dedicated to climate adaptation) has improved information about the costs of adaptation and generated a body of knowledge regarding the additional costs of addressing adaptation considerations in development project design and implementation.
- **The need for improved tracking of finance for adaptation at the country level –** MDBs have gained experience and greatly improved the tracking of finance for adaptation. MDBs could work with Nepal to improve its tracking of public finance for adaptation, both international and domestic.
- **Engagement at the country level on climate risk assessments –** Climate risk assessments are conducted at the project development phase largely by teams located at headquarters. A greater level of engagement of the country teams, as well as sectoral ministries and local stakeholders, could improve the risk assessment, increase understanding of the importance of adaptation, and build national capacity.
- **Capacity building and engagement of government experts –** MDBs can engage with the Government of Nepal to ensure that programming is aligned with national adaptation priorities. MDBs can help the finance ministry, as well as other sector ministries, to better understand the costs of adaptation and the benefits of taking action. Enhanced capacity building and more active engagement of government experts, including officials from the Ministry of Forests and Environment, in the design of MDB projects could increase flows for adaptation.
- **Improved data and information increases buy-in to address climate risks –** The emphasis on the climate risk assessment of MDB projects in Nepal has increased awareness in the policy domain about the importance and possibility of addressing climate risks in project formulation and implementation. The MDBs have generated useful knowledge products on conducting climate risk assessments across different sectors and have used assessment tools to estimate additional financing requirements in development projects to implement identified adaptation actions and minimize climate risks to the project.
- **Ensure flexibility to adjust to the government's adaptation priorities –** The MDBs' country programming strategies should be updated based on recent adaptation policy changes adopted by the Government of Nepal. MDB engagement in the formulation of Nepal's national climate plans is low. Still, ongoing discussion and engagement between MDBs and the ministries responsible for climate change and finance can help to ensure that adaptation priorities in the NAP and NDC inform the updating of country programming strategies.

# A1.3 Peru[10]

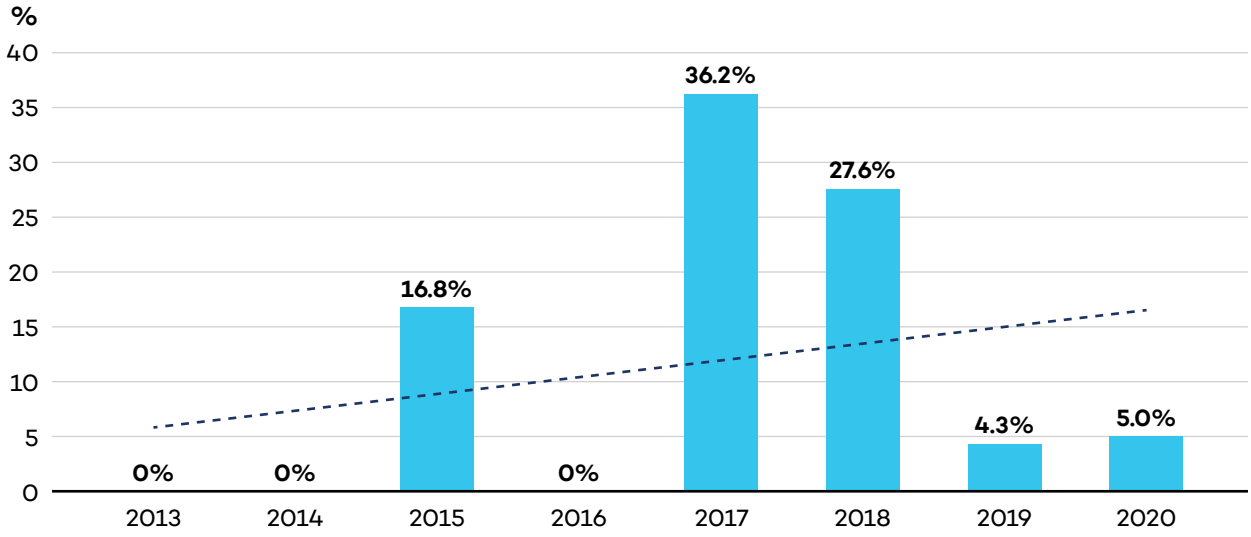
## Introduction

The case study examined how MDBs mainstreamed adaptation in their investments in Peru. The case study provided an analysis of financing for adaptation by the World Bank from 2013 to 2020 and the IDB from 2013 to 2019, examining how the joint MDB methodology for tracking adaptation finance was applied in Peru. This analysis provided an overview of how, in the case of Peru, adaptation was integrated into MDBs' investment portfolios and the trends in climate-related development finance. The analysis also explored how MDBs assessed climate risk in projects and programs and how these risks were incorporated into project design and implementation to address climate vulnerabilities. The analysis also examined how MDB financial flows were aligned with national adaptation priorities identified by the Government of Peru.

## MDBs and Finance for Adaptation

World Bank funding commitments with adaptation co-benefits in Peru slightly increased on average from 2013 to 2020. There was no finance for adaptation in 2013, 2014, and 2016, a spike in 2017 and 2018, and a drop in 2019 and 2020 (see Figure A3). Out of 28 projects between 2013 and 2019, four had adaptation co-benefits, while three had both adaptation and mitigation co-benefits.

**Figure A3.** Percentage of World Bank total commitments with adaptation co-benefits in Peru, 2013–2020




Source: Bocanegra & Lahud, 2022.

[10] This section is based on Bocanegra & Lahud, 2022.

Total finance for adaptation made up a relatively small percentage (4.1%) of total finance flows from 2013 to 2020, which was surpassed slightly by finance for mitigation (5.4%) in the same period. The total adaptation-related financing amounted to USD 149.5 million from 2013 to 2020, compared to USD 196.1 million for mitigation (see Table A7).

**Table A7.** World Bank finance for adaptation in Peru, 2013–2020

| Year | Adaptation co-benefits (USD million) | Mitigation co-benefits (USD million) |
|---|---|---|
| 2013 | 0 | 0 |
| 2014 | 0 | 0 |
| 2015 | 42 | 75.5 |
| 2016 | 0 | 0 |
| 2017 | 60 | 0 |
| 2018 | 26.4 | 14.6 |
| 2019 | 9.6 | 13 |
| 2020 | 11.5 | 93 |
| **% of total commitments/total** | **4.1%/149.5** | **5.4%/196.1** |

Source: Bocanegra & Lahud, 2022.

The public administration sector received the most finance for adaptation from 2013 to 2020, followed by the water supply and fisheries sectors (see Table A8).

IDB finance for adaptation in Peru increased from 2013 to 2019. Finance for adaptation remained relatively low until 2019, when financing went from nothing in 2018 to USD 104.1 million in 2019, which was the result of the approval of a project in the water and sanitation sector (see Table A9). Financial flows for mitigation (29%) exceeded adaptation (3.8%) as a percentage of total IDB finance from 2013 to 2019. USD 988.5 million went to projects with adaptation co-benefits, and USD 131.7 million went to projects with mitigation co-benefits (see Table A9).

The water and sanitation sector received the most finance for adaptation during this period (see Figure A4).

**Table A8.** World Bank finance for adaptation in Peru by sector, 2013–2020 (USD million)

| Year | Public administration | Fisheries | Water supply and sanitation | Subnational government | Law and justice | Health |
|---|---|---|---|---|---|---|
| 2013 | - | - | - | - | - | - |
| 2014 | - | - | - | - | - | - |
| 2015 | 42 | - | - | - | - | - |
| 2016 | - | - | - | - | - | - |
| 2017 | 40 | 20 | - | - | - | - |
| 2018 | - | - | 26.4 | - | - | - |
| 2019 | - | - | - | - | 0.3 | 9.3 |
| 2020 | - | - | - | 11.5 | - | - |
| **Total** | **82** | **20** | **26.4** | **11.5** | **0.3** | **9.3** |

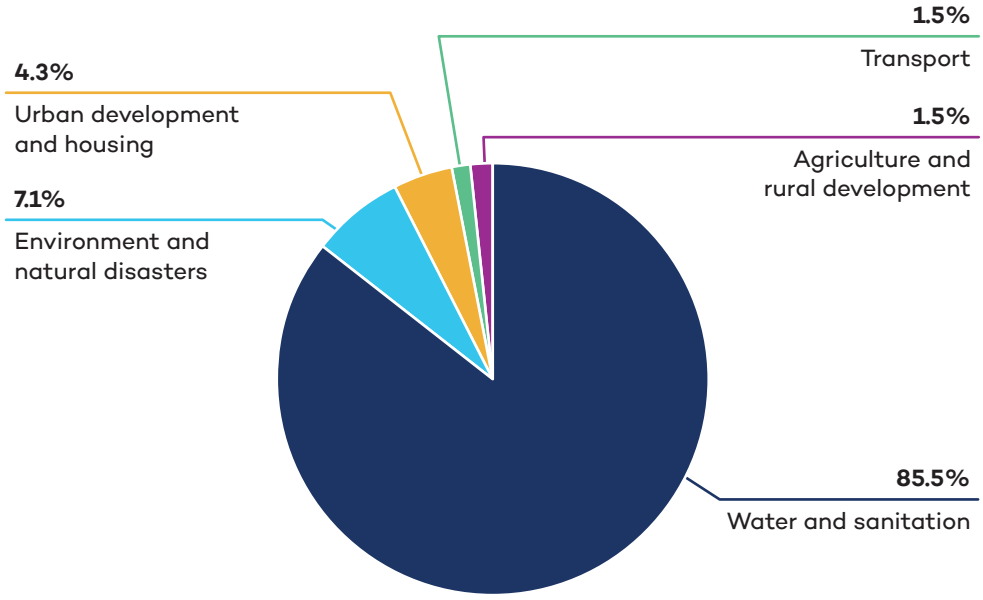
Note: Some similar sectors have been combined for the purpose of space.
Source: Bocanegra & Lahud, 2022.

**Table A9.** IDB finance for adaptation in Peru, 2013–2019

| Year | Adaptation co-benefits (USD million) | Mitigation co-benefits (USD million) |
|---|---|---|
| 2013 | 9.3 | 21.3 |
| 2014 | 2.8 | 813.8 |
| 2015 | 0.5 | 1.2 |
| 2016 | 3.1 | 0 |
| 2017 | 12 | 50.7 |
| 2018 | 0 | 87 |
| 2019 | 104.1 | 14.4 |
| **% of total commitments/total** | **3.9%/131.7** | **29%/988.5** |

Note: Bocanegra & Lahud (2022) worked with unofficial datasets provided by the IDB. Official data can be found at Almeida & Yurivilca, 2021; Yurivilca, 2019a, 2019b, 2019c, 2020.

**Figure A4.** Percentage of IDB financing allocated to adaptation by sector for all projects with an adaptation component in Peru, 2013–2019




Source: Bocanegra & Lahud, 2022.

## MDB Climate Risk Screening and Assessment

The World Bank carries out climate risk screening as a required step in project design and approval. To do so, the World Bank first generates a country climate diagnosis as part of the Country Partnership Framework and then identifies the work the government has already done so that the assessments build on this progress. In Peru, the World Bank has reviewed the NDC, NAP, and an economic valuation of adaptation action and recognizes that it is necessary to carry out additional analytics to meet the requirements of World Bank project design. Responsibility for undertaking the climate risk screening depends on the available technical expertise. The global corporate climate team usually undertakes the assessment and reviews all project design documents to assist the country's sectoral teams in improving the climate analysis (World Bank representative, personal communication, April 23, 2021).

Four out of the six adaptation projects financed by the World Bank for the 2013 to 2019 period addressed climate risk. The two projects that did not address climate risks belonged to the health and water sectors. The World Bank has significantly increased the number of projects that are assessed for climate risks. Climate risk assessments were not undertaken for any of the 14 projects approved from 2013 to 2016, while all four projects approved for funding in 2020 underwent an initial climate risk assessment.

Out of a total of 21 IDB adaptation projects approved for Peru from 2013 to 2019, only four projects did not assess climate risk at any stage. All projects approved from 2017 have been

assessed for climate risks. All projects in the urban development and housing sector and the environment and natural disasters sector were screened for climate risk at some stage.

## MDB Programming and Alignment with National Adaptation Priorities

The World Bank considers Peru's NAP and NDC as guideline documents for the design of climate interventions (Government of Peru, 2020; Ministry of Environment, 2021). Four of six projects financed by the World Bank are aligned with the thematic areas of Peru's NDC. These consist of two projects in the water sector, one in the fisheries sector, and one in the health sector.

Twelve of 21 IDB projects with adaptation co-benefits are aligned with Peru's national adaptation priorities. These include projects in the agriculture, water, and fisheries sectors.

## Lessons Learned

Key lessons from the review of MDB flows of finance for adaptation in Peru and efforts to align programming with national adaptation priorities are summarized below and elaborated in the full case study.

- **MDBs could support the Government of Peru in embedding adaptation in the project preparation process.** This process could include supporting responsible ministries to include adaptation measures at the project preparation and appraisal stages and to include ministry officials when undertaking climate risk assessments. Such technical support could help the MDBs and the Peruvian government to make informed decisions about adaptation and scale up MDB and domestic financing for adaptation.
- **MDBs could support processes that encourage multisectoral coordination for adaptation planning,** which could help the government have a cohesive approach when identifying priority adaptation needs and presenting these needs to MDBs.
- **MDBs could help the Government of Peru to take a broader approach to adaptation.** This approach can include encouraging the government to go beyond mainstreaming climate risks in infrastructure and water projects to considering "less tangible" and long-term development finance investments to improve climate resilience in the education and health sectors or in other sectors that are considered to have fewer clear linkages with adaptation (World Bank representative, personal communication, April 23, 2021).
- **MDBs could provide technical assistance to help the Government of Peru improve its limited climate finance tracking and monitoring system.** The Ministry of Economy and Finance has requested MDB grant support to improve its tracking system for the climate finance budget and the impacts of climate finance, drawing on the learning gained from the application of the MDB methodology. An improved understanding of the flows of finance for adaptation and the benefits that result from

spending on adaptation can be valuable in convincing MDBs and governments to scale up finance for adaptation.

- **A coordinated approach can help MDBs identify priority areas for adaptation finance.** For example, the Ministry of Environment has identified its adaptation priorities in the National Climate Financing Strategy, and these priorities should inform discussions with MDBs that are led by the Ministry of Economy and Finance (IDB representatives, personal communication, 2020).
- **Adaptation considerations need to be part of Peru's post-pandemic green recovery.** MDBs' investments to support Peru's green recovery could focus on ecological projects, climate-resilient infrastructure, and interventions that fully or partially address national adaptation priorities.
- MDBs provide loans to Peru for large infrastructure investments in the transportation, water, and sanitation sectors that are usually considered mitigation-related in a climate context. It is important to ensure, where appropriate, that the **MDB investment includes the cost to construct and operate the infrastructure in a climate-resilient manner.** This may include educating government officials on the costs and benefits of investments in adaptation.

# Appendix B. Multilateral Development Banks' Commitments on Climate Finance and Adaptation

Table B1 lists the climate change finance targets and commitments as well as the finance for adaptation targets and commitments of eight multilateral development banks (MDBs)—African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), Islamic Development Bank (IsDB), and the World Bank Group. The New Development Bank (NDB) is part of the MDBs' collective commitment but had not put forward a climate finance target as of April 2022.

**Table B1.** Climate finance and adaptation finance targets and commitment of eight MDBs, as of April 2022

| MDB | Climate change finance targets and commitments | Adaptation targets and commitments |
|---|---|---|
| **All MDBs –** ADB, AfDB, AIIB, EBRD, EIB, IDB Group, IsDB, NDB, and World Bank Group | Collective commitment of at least USD 65 billion annually for climate change by 2025, which is 50% above 2019 levels. | Collective effort to double the level of adaptation finance, compared to 2019 levels, to USD 18 billion annually by 2025. |
| **AfDB** | To mobilize USD 25 billion between 2020 and 2025 to support investments that address climate change in low-income African countries.<br>To allocate 40% of annual project approvals as climate finance by the end of 2021, with equal proportions for adaptation and mitigation. | To incorporate climate-informed design into 100% of investments by the end of 2021.<br>To commit to allocating 50% of internal resources to adaptation, inclusive of developing NAPs and capacity building. |
| **ADB** | To deliver USD 100 billion in climate finance cumulatively between 2019 and 2030.<br>By 2024, at least 75% of committed operations will address climate change (on a 3-year rolling average). | Cumulative finance for adaptation to reach USD 34 billion between 2019 and 2030.<br>Screen all projects for climate risks and climate-proof physical infrastructure and other projects. |

| MDB | Climate change finance targets and commitments | Adaptation targets and commitments |
|---|---|---|
| **AIIB** | 50% of climate finance in financing approvals, aiming for cumulative climate finance approvals to be USD 50 billion by 2030. | |
| **EBRD** | To increase the amount of green finance to over 50% of annual commitments by 2025.<br>To screen all investments for alignment with the Paris Agreement and national climate-related action plans. | Systematic integration of climate risk assessments and adaptation measures into investment options. |
| **EIB** | 50% of overall lending operations to support climate action and environmental sustainability by 2025. | Estimate and report on the physical climate risk of each investment loan using the bank's climate risk assessment system. |
| **IDB Group** (IDB and Inter-American Investment Corporation) | At least 30% of approved financing to be climate-related (adaptation and mitigation).<br>65% of projects approved from 2020 to 2023 should include investments in adaptation and mitigation.<br>All country strategies prepared from 2020 to 2023 will consider the country's NDC or long-term decarbonization strategy. | All projects categorized as having high disaster and/or climate risk to include a risk analysis and resilience measures by 2023. |
| **IsDB** | Climate finance target of 35% of investments by 2025. | |

| MDB | Climate change finance targets and commitments | Adaptation targets and commitments |
|---|---|---|
| **World Bank Group** (International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, and International Centre for Settlement of Investment Disputes) | An average of 35% of total financing for climate change from 2021 to 2025. In this period, the World Bank Group will double 5-year climate investments to approximately USD 200 billion. | At least 50% of IBRD and IDA climate finance will support adaptation.<br>Finance for adaptation to reach USD 50 billion from 2021 to 2025.<br>Pilot new approaches to scale up private finance for adaptation and help countries mainstream adaptation by systematically managing and incorporating climate risks and opportunities in policy planning, as well as investment design and implementation.<br>All IBRD and IDA operations to undertake disaster and climate risk screening. |

Source: AfDB Group, 2021; AfDB, ADB, AIIB, EBRD, EIB, IDB Group, IsDB, NDB & World Bank Group, 2019; ADB, 2021a; AIIB, 2021; EBRD, 2021; EIB, 2020; IDB Group, 2019, 2021a; IDB Group, 2021c; IsDB, 2021; United Nations Climate Change, 2021; World Bank Group, 2019a, 2021a.

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