ASIAN DEVELOPMENT BANK

Regional: Improved Decision-making for Climate Resilient Development in Asia and the Pacific

Project Name	Improved Decision-making for Climate Resilient Development in Asia and the Pacific
Project Number	54412-001
Country	RegionalArmeniaIndonesiaMongolia
Project Status	Proposed
Project Type / Modality of Assistance	Technical Assistance
Source of Funding / Amount	
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships
Sector / Subsector	Public sector management - Public expenditure and fiscal management
Gender Equity and Mainstreaming	Some gender elements
Description	The knowledge and support technical assistance (TA) will support selected developing member countries (DMCs) of the Asian Development Bank (ADB) Armenia, Indonesia, and Mongolia to strengthen (i) country systems for climate risk-informed fiscal decision making; and (ii) knowledge on climate risk-informed decision-making. The proposed TA is aligned with the climate change and disaster risk management-related priorities of the Work Program and Budget Framework 2020-2022, which mentions that ADB will promote climate-resilient development. The TA is not included in the management-approved 2020 results-based work plan of Sustainable Development and Climate Change Department.

Project Rationale and Linkage to Country/Regional Strategy	Developing countries in Asia and the Pacific are at high risk of climate change, and this can have a significant effect on their development strategies. Increase in temperature and changes in rainfall patterns can alter economic activities, especially in sectors that are highly sensitive to climatic conditions, with implications on revenue and wider inclusive economic growth. So too, increase in extreme weather events can burden government's fiscal position due to costs of response. With rapid increase in climate risk, it is expected that the costs of dealing with these impacts will increase in the future and potentially threaten the fiscal sustainability of the countries. Studies show that investing in climate adaptation benefits the economy by increasing the resilience of the capital stock, keeping public debt dynamics manageable, and maintaining adequate fiscal space to cope with disasters. Recent estimates show that investing $1.8 trillion globally in climate adaptation areasfrom 2020 to 2030 could generate $7.1 trillion in total new benefits (footnote 1). However, the opportunities for effective adaptation to climate change are reducing with time. This is because the effects of climate change are not increasing at a linear rate, and beyond a certain threshold the correlation between change in climate variable (such as temperature increase) and its impact on economy (such as agricultural productivity) becomes intensely negative and thereby weakens the effectiveness of adaptation measures. A _new climate regime_ is expected in some regions of Asia and the Pacific by the end of the century. It is therefore critical to raise adaptation ambition in revised Nationally Determined Contributions (NDC) in order to urgently scale up investments in climate adaptation. This need is more apparent in the current context of the coronavirus disease (COVID-19) recovery, as the pandemic has emphasized the importance of building resilience to shocks. As countries design their recovery packages, it will be important to understand the implication of potential recovery measures on climate resilient development, identify the trade off, especially in the context of addressing multi-hazard considerations, and promote green and resilient recovery measures. Key factors that determine an economy's fiscal vulnerability to the impacts of climate change, include, the degree of exposure to hazards; the level of protection in place; and the state's liability for damaged incurred (footnote 5). To address the degree of exposure, countries need to factor climate risk into fiscal policy and management processes to inform the appropriate level of spending on adaptation to ensure a high long-term economic growth trajectory and greater macroeconomic stability. Factoring climate risk into fiscal policy will allow countries to identify, prioritize and implement climate adaptation strategies, including public investments in resilient infrastructure and livelihoods that promote inclusive economic development (e.g., constructing sea walls); regulations that steer public and private development in a resilient direction (e.g. enforcement of zoning regulations in hazard prone areas); increases in fees and taxes on use of natural resources that will be affected by changes in climate variables (e.g., fees for water use); and formulating incentives to encourage investment in resilience building (e.g., incentives for rainwater harvesting in water scarce regions). Recognizing that the economies of many countries are dependent on climate sensitive sectors agriculture, tourism, and fisheries, it is critical to understand the long-term climate-related risks and opportunities on such sectors, informed by gender analysis, and develop climate resilient pathways. The pathways can guide the long-term vision and help prioritize policies and investmentsthat addresses risks and explores opportunities. This will require close cooperation between ministries of finance, sector ministries and climate change agencies. It will be also important to recognize such sectoral issues and priorities in relevant national climate change related documents, such as the NDCs and National Adaptation Plans (NAPs). Despite the increasing awareness of climate risk, and its potential adverse impact on long-term development, countries are at an early stage of integrating climate risk considerations in fiscal decision-making processes. They are often confronted with challenges including (i) limited availability of climate risk information and capacity to use such information to understand the fiscal impacts of climate change and the benefits in investing in climate adaptation,; (ii) limited capacity to integrate climate risk considerations into macro fiscal and public financial management tools and into strategies for economic sectors in the face of high uncertainties; (iii) institutional coordination between ministries of finance, sector ministries and the national climate focal agencies; and (iv) access to global and regional knowledge resources and opportunities for peer-to-peer sharing of experiences. The proposed TA aims to address these challenges in selected DMCs. Armenia. Increase in temperature and change in precipitation patterns are significantly affecting Armenia's economic sectors. The NDC prioritizes adaptation in water resources, agriculture, energy, infrastructure, and tourism. While the government has initiated climate adaptation activities in agriculture and the water sector, scaling up adaptation investments in such vulnerable sector would require increased national capacity for climate-risk informed fiscal planning and budgeting processes. Armenia has taken the first step in this direction by initiating a study on climate finance budgeting and expenditure tracking which will provide guidance on integrating climate change indicators into national budget planning and reporting system and allow identifying and monitoring climate change-related public expenditure. However, mainstreaming such processes will require increased capacity of Ministry of Finance staff, and access to appropriate tools and guidance. It will also require increased coordination on climate risk issues between Ministry of Finance and different ministries that are part of the Inter-agency Coordinating Council on Climate Change, under the Ministry of Environment, which is responsible for coordinating climate change actions in the country. Indonesia. Future climate will impact the lives, livelihoods and health of millions of Indonesians. The Rencana Pembangunan Jangka Menengah Nasional 2020-2024 recognizes the importance of climate resilience in achieving the national development agenda. The NDC considers climate adaptation essential for building resilience and safeguarding food, water, and energy resources. The National Action Plan on Climate Change Adaptation has prioritized agriculture, water, marine and coastal, and health. In order to scale up financing for climate actions, the Ministry of Finance under its Fiscal Policy Agency has set up the Centre for Climate Change Financing Policy, which has been active in advancing climate-related budgeting processes. However, climate adaptation spending remains limited, and thus climate risk considerations need to be integrated into fiscal policy and management processes. So too, the need to factor climate risk in decision-making of economic sectors, such as agriculture and fisheries and develop resilient pathways for adaptation. It is important to strengthen coordination among Ministry of Finance, Ministry of National Development (BAPPENAS), Ministry of Environment and Forestry, Ministry of Social Affairs and other sector ministries. Mongolia. The climate in Mongolia is characterized by extreme fluctuations in both temperature and precipitation, made more prominent by the country's expanse and topographical diversity. These characteristics lead to a wide range of extreme events, often occurring within a single year, such as dzuds, as well as flash floods, dust storms, and steppe and forest fires. The extreme events are expected to increase with climate change with potential impacts on agriculture, livestock and water resources. The Vision 2050, the long-term development policy of Mongolia, recognizes the challenges associated with extreme climate conditions and the potential impact on achieving development outcomes. The NDC prioritises building resilience of ecosystem and socio-economic sectors. Mongolia has initiated the development of the NAP to support multi-sectoral, medium-to-long-term adaptation planning and the integration of climate adaptation aspects in development policies. The implementation of NAP priorities will require improved capacity on climate-risk informed fiscal planning. The Ministry of Environment and Tourism is the lead agency for climate change related activities in the country. The National Climate Committee under the Ministry of Environment and Tourism is the responsible government authority for climate change-related issues. The proposed TA is aligned with the priorities of the Global Commission on Adaptation, which in its flagship report Adapt Now: A Global Call for Leadership on Climate Resilience, calls for integrating climate risk into all aspects of planning and decision-making; the Helsinki Principles adopted by the Coalition of Finance Ministers for Climate Action; and the G20 Principles for Quality Infrastructure Investment. The TA will support implementation of ADB Strategy 2030 Operational Plans for Priority 3 tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability and the achievement of Sustainable Development Goals by promoting climate resilient development. ADB has been implementing a climate risk management approach since 2014, which has established a systemic process for screening and assessing ADB investments for climate risk, and integrating climate adaptation into the project design. Thus, the focus of past and ongoing climate adaptation-related TA projects have largely been to improve resilience consideration in the context of projects. However, there is increasing recognition that climate risk considerations need to be considered upstream in wider development planning and public financial management processes in order to inform adaptation policies and allocation of resources, including ADB investments in climate adaptation. Thus, the value addition of this TA is to expand ADB's efforts in building climate resilience from its operations to supporting selected DMCs integrate climate resilience in wider decision-making processes.
Impact	Climate risk considerations integrated in macro fiscal and public financial management processes
Outcome	Decision-making for climate resilient development in selected DMCs improved
Outputs	Country systems for climate risk informed fiscal decision-making strengthened Knowledge on climate risk informed decision making enhanced
Geographical Location	Armenia - Nation-wide; Indonesia - Nation-wide; Mongolia - Nation-wide

Summary of Environmental and Social Aspects
Environmental Aspects
Involuntary Resettlement
Indigenous Peoples
Stakeholder Communication, Participation, and Consultation
During Project Design

During Project Implementation

Responsible ADB Officer	Sinha Roy, Arghya
Responsible ADB Department	Sustainable Development and Climate Change Department
Responsible ADB Division	SDCD
Executing Agencies	Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines

Timetable	
Concept Clearance	05 Nov 2020
Fact Finding	06 Oct 2020 to 06 Oct 2020
MRM	-
Approval	-
Last Review Mission	-
Last PDS Update	06 Nov 2020

Project Page	https://www.adb.org/projects/54412-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=54412-001
Date Generated	11 November 2020