

# BASELINE PROJECTS, INCREMENTAL COSTS, and ADDITIONAL COSTS

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# BACKGROUND

- **Evolution of the concept and application of *global environmental benefits* and *incremental cost* in the GEF context**
  - Definition of *agreed global environmental benefits* and *incremental cost principle* at GEF Inception
  - Assessment by the Office of Evaluation
  - Operational guidelines for the application of the *incremental cost principle*
  - Current application of *incremental cost principle* in GEF Focal Areas
- **Establishment of new climate change funds under the Climate Convention**
  - Introduction of the concept of *additional cost* and its application
  - Comparison between incremental and additional costs principles and approaches

# ADDITIONAL COST

## Background

- **Least Developed Countries Fund (LDCF)** and **Special Climate Change Fund (SCCF)** -> established in 2001 under UNFCCC COP
- GEF manages LDCF and SCCF
- To access resources, countries and agencies must follow the “*additional cost*” principle



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# ADDITIONAL COST- DEFINITIONS

- **Additional Cost Principle:** The idea that coping with the adverse impacts of climate change imposes an *additional cost* on vulnerable countries in their effort to achieve their development goals.
- **Adaptation Benefit:** ability to achieve development goals despite a changing climate



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# ADDITIONAL COST PRINCIPLE

- LDCF/SCCF supports adaptation projects; therefore it follows the *additional cost principle*, which distinguishes those projects from the standard GEF practice which funds on the basis of incremental costs.
- The **full** costs associated with meeting the *additional costs* imposed on the country by the effects of climate change, are supported by the LDCF/SCCF.
- The *additional costs* of a particular project are calculated on the basis of:
  - **Baseline Project:** activities that would be implemented in the absence of climate change, or Business-as-Usual (BAU.)
  - **Adaptation Scenario:** the additional measures needed to build adaptive capacity, increase resilience to climate change and reduce vulnerability.

# BASELINE PROJECT

- Baseline Project: activities that would be implemented in the absence of climate change.
- The costs of the baseline activities are expected to be covered by normal development expenditures such as government budgets, bilateral aid, the private sector, NGO resources, and loans from international financial institutions, including IDA.
- In the context of adaptation, the costs of baseline activities are **existing development funding** (a.k.a., Business-as-Usual or BAU)



# ADDITIONAL COST- LDCF EXAMPLE

|                            | <i>Baseline/Business-As-Usual</i>   | <i>with Climate Change</i>   |
|----------------------------|---|--|
| <b>Problem Description</b> | To increase agricultural production in a low-lying delta, the Government has supported agricultural growth through exploitation of groundwater resources. However, with the rapid development there has been an excessive depletion of the groundwater reserves with a commensurate decrease in water quality. To resolve this problem, the Government has been reviewing options to replace groundwater with surface water irrigation. | Climate change is expected to decrease the availability of water, increase the sea level rise in this low-lying area, which will lead to soil and aquifer salinization (salt-water intrusion). To address this problem, the Government has requested the Implementing Agency to incorporate climate change adaptation considerations in the said irrigation project.   |
| <b>Project Components</b>  | Component No. 1: Design, Construction, and Operation of Surface Water System and Connection Program (US\$205M).   | Incorporating climate change considerations may include a climate-resilient design, construction, and operation, such as ensuring adequate water amounts to counter climate change effects, planning and prioritizing areas to be irrigated based on climate-change considerations, and sizing the system in order to meet peak demand in summer months expected according to climate change scenarios. (US\$3M) |
|                            | Component No. 2: Market-Driven Technical Support to Small and Medium Scale Farmers (US\$2M)   | Technical Support to Farmers on Climate Change, including sensitization of farmers, development of resilience-building strategies, such as income diversification, drought insurance, and water usage systems. (US\$0.7M)  |
|                            | Component No. 3: Support for Institutional Development and Capacity Building of the Project Management Unit (PMU), Regulatory Office and Water Users Council (WUC) (US\$6M)   | Support for Institutional Development and Capacity Building of the Project Management Unit, Regulatory Office and Water Users Council (WUC) specifically concerning climate change adaptation (US\$1 M)  |
| <b>Cost</b>                | <i>Business-As-Usual Development Cost</i>   | <i>Additional Adaptation Cost</i>  |
| <b>Financed by</b>         | MDB, Donor Government, Ministry of Water Resources and Irrigation   | <b>LDCF</b>  |

“Co-financing”
Project Information for “PIF”
“LDCF financing”



# COMPARISON OF INCREMENTAL AND ADDITIONAL COSTS

|        | Issue(s) to address                              | Grant justification   | Costs | Approach                        | Cofinancing  | Issue(s) to address |
|--------|--|-----------------------|-------|---------------------------------|--|---------------------|
| GEF TF | Global Environmental problems, threats, barriers | Through GEB           | ICs   | Incremental reasoning above BAU | Negotiated   | GEF TF              |
| LDCF   | Climate change (global environmental) impacts    | Through adapt benefit | ACs   | Additional reasoning above BAU  | Existing development financing; sliding scale option | LDCF                |
| SCCF   | Climate change (global environmental) Impacts    | Through adapt benefit | ACs   | Additional reasoning above BAU  | Existing development financing; sliding scale option | SCCF                |





# CONTACT INFORMATION

Bonizella Biagini

Head

Climate Change Adaptation

E-mail: [bbiagini@thegef.org](mailto:bbiagini@thegef.org)

Phone: 202. 458. 7506

Website: [www.thegef.org](http://www.thegef.org)