INNOVATIVE FINANCE FOR CLIMATE RESILIENCE

Managing Climate Risks in Infrastructure, Water-Related and Agribusiness Sectors

Chiara Trabacchi
Federico Mazza
International Chamber of Commerce
Project goals

1. Outline the **barriers to private sector’s investment** in climate resilience

2. Identify the **tools and approaches used by the public sector** for addressing such barriers

3. Discuss how to **scale up action**
Several barriers can impede the private sector’s incentive and ability to invest in climate resilience

- **Policy Gaps:** Deficient regulatory frameworks
- **Knowledge gaps:** Lack of capacity, knowledge & information
- **Funding, viability & risk coverage gaps:** Financial constraints & risk aversion

- Market conditions are often not favorable to adaptation investments, particularly in developing countries
- Inability to evaluate and incorporate climate change risks into investment or financing decision making
- Inadequate access to finance, including unsuitable terms and conditions, or uncertainties about the returns of investments and risk aversion

➢ Barriers to investment vary across countries and type of business actor

Sources: Authors’ elaboration based on Agrawala et al. (2011); Stenek et al. (2010a); UKCIP (2010); UN Global Compact, UNEP, Oxfam, & WRI (2011); Acclimatise (2012); Frisari et al. (2013); Pauw (2014) and interviews.
DFIs have targeted constraints associated with both the pre-investment and investment phases.

- **Enhance awareness of climate change risks**
  - Screening tools
  - Consultations
  - Market studies
  - Policy dialogues
  - Demonstrations

- **Enhance ability to manage climate change risks**
  - Climate resilience audits
  - Feasibility studies
  - Technical advice for investment appraisal & preparation

- **Overcome financial & risk restraints**
  - Capacity building
  - Low-cost/Long-term debt
  - Growth capital
  - Risk-sharing mechanisms

The approaches used vary across institutions, geography & sector.
In the EU, EIB enabled capital-intensive investment of water utilities by providing access to long-term finance

- **Regulations** and the **renewal of ageing assets** offered opportunities to invest in climate resilience measures

- **Capital intensive** investment, but commercial loans too short

- **Adaptation** can be a relatively **small, but critical component**

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**Benefits / avoided costs**

*Business as usual + adaptation benefits*

- **Up to 200 yrs**

- **Loan repayment**
  - 10-20 yrs
  - Longer length than market (usually not exceeding 5 years)
  - Grace period

- **Investment**

- **Total investment cost:** USD 565 million

- **DFI loan:** USD 275 million

- **Additional cost of resilience:** 10% of total project cost

Source: EIB 2013a
In developing countries, DFIs are targeting knowledge, viability and risk gaps, mostly in the agricultural sector

- **Safeguarding crop supplies** is an important driver for agribusinesses to work with the farmers in their supply chains.

- **Business outreach, feasibility studies, capacity building and finance aligned with investments’ pay-back profiles** are key ingredients to enable climate resilience.

- **Intermediated financing vehicles** and **dedicated facilities** can enhance access to finance at the local level, reaching numerous MSMEs.
Progress has been made, but more must be done to deepen private engagement in climate resilience

• Further action is needed to originate, structure and implement investments in climate resilience:

  ➢ **Policy action** to stimulate demand

  ➢ More **technical skills, information and pre-investment capital** to identify and develop bankable projects

  ➢ **Capital and trust** to disseminate and enable the uptake of new climate-resilient technologies
Example of new instrument: The Agricultural Supply Chain Adaptation Facility

Questions for discussion

• What **lessons** can be learned from existing financing and non-financing approaches?
  – Which ‘risk tranche’ should be targeted by donors’ capital to achieve the highest impacts?
  – How to best apply the principle of ‘least concessionality’ in adaptation financing?

• What are the **policy levers** that can spur private actors’ involvement in climate resilience?
  – What are the best practices for developed & developing countries aiming to achieve this?

• How can climate risk management be **integrated in the financial system**?

• **How are businesses responding** to climate change risks (or opportunities), and what are their views on the drivers and enablers of investments?
Thanks!