Ministry of Infrastructure and the Environment

INTERNATIONAL CHAMBER OF COMMERCE
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INNOVATIVE FINANCE FOR CLIMATE RESILIENCE

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

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Paris, 20 May 2015

International Chamber of Commerce

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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

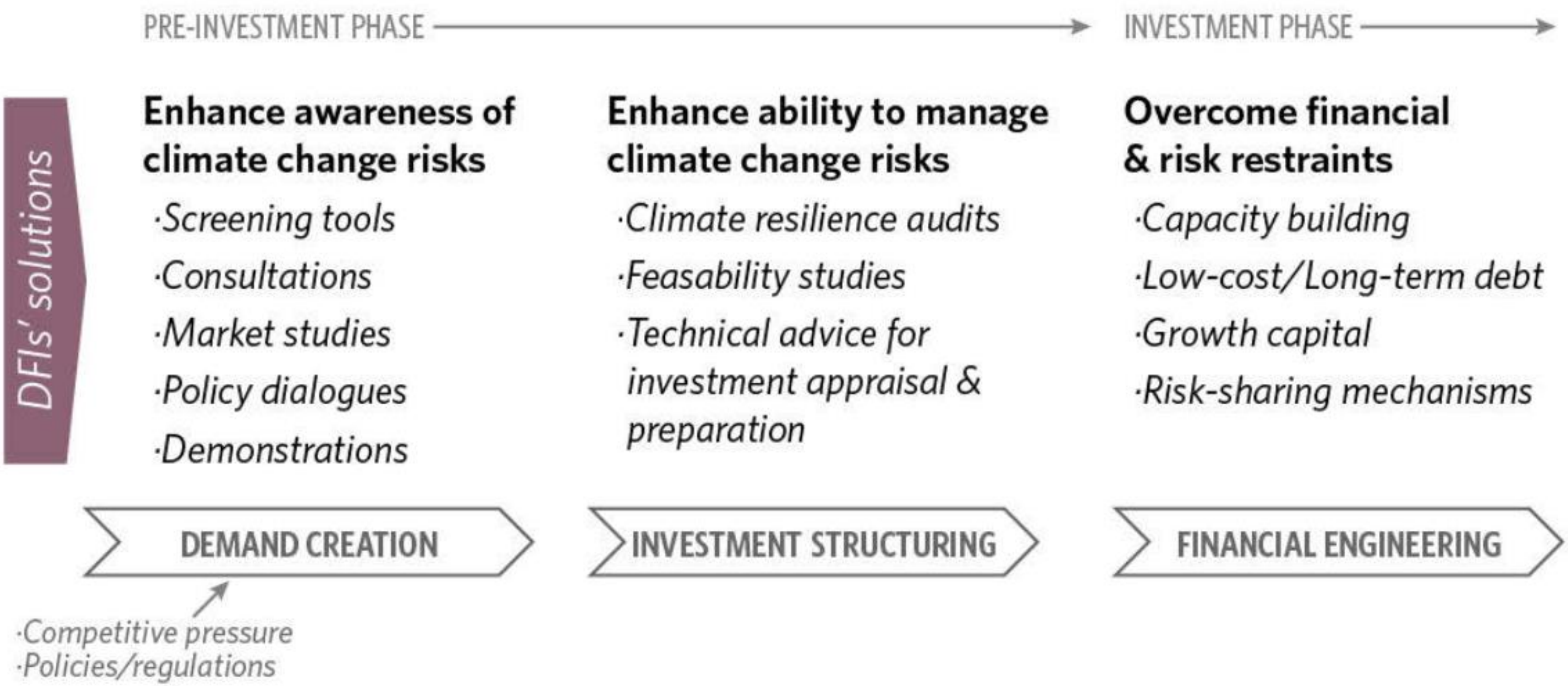
Policy Gaps: Deficient regulatory frameworks	**Knowledge gaps:** Lack of capacity, knowledge & information	**Funding, viability & risk coverage gaps:** Financial constraints & risk aversion

- Market conditions are often not favorable to adaptation investments, particularly in dev'ing countries
- Inability to evalute 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.

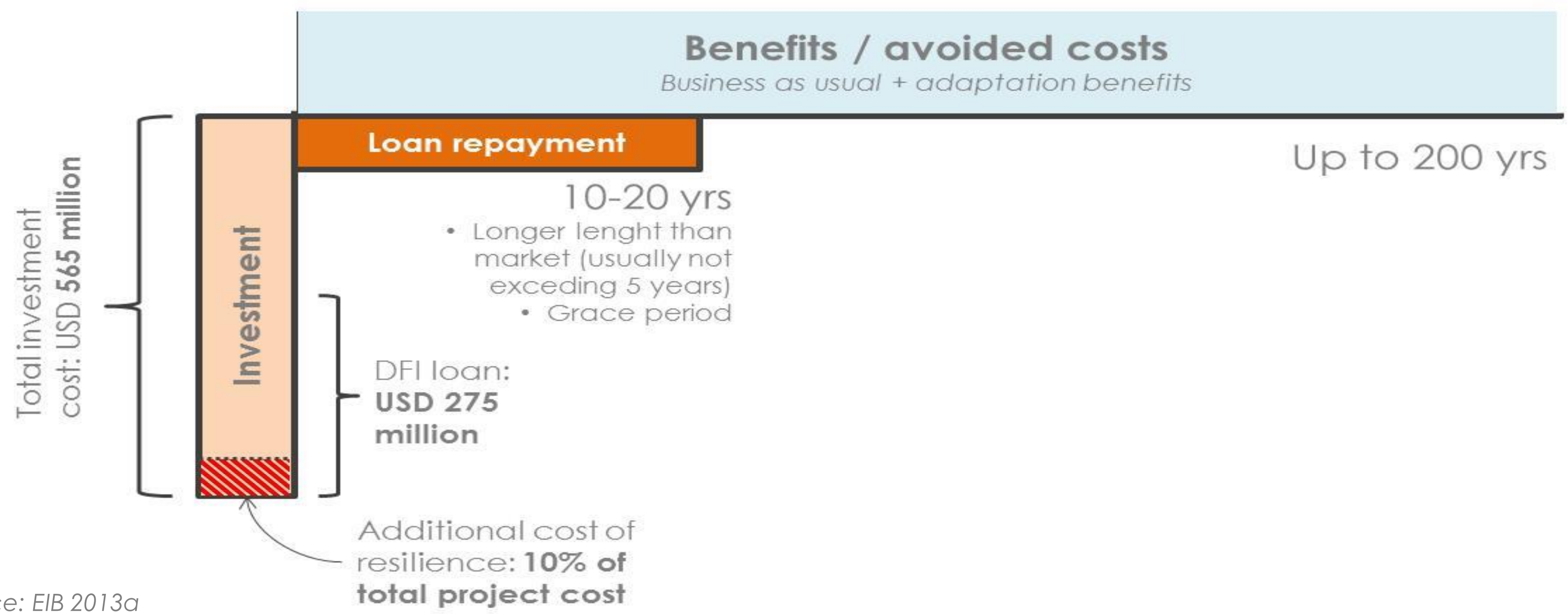
DFIs have targeted constraints associated with both the pre-investment and investment phases



- 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

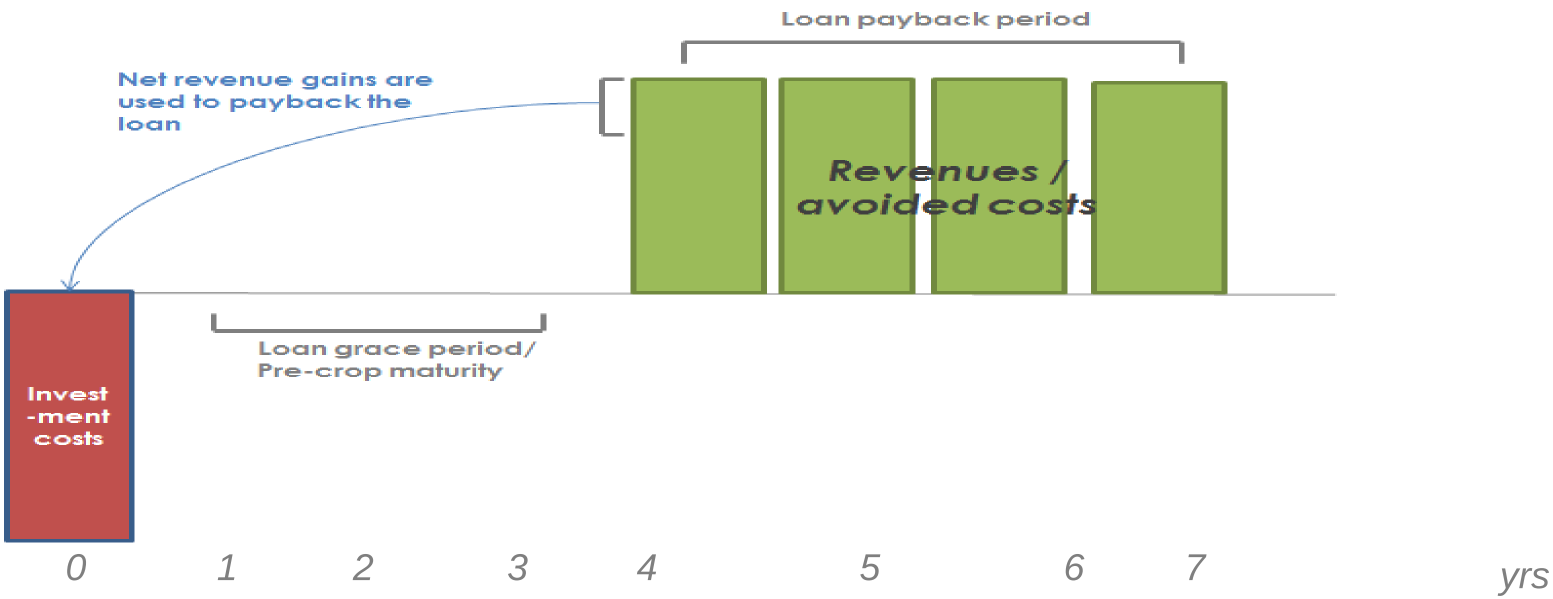
- **Regulations** and the **renewal of ageing assets** offered opportunities to invest in climate resilience measures
- **Capital intensive** investment, but commercial loans too short
- **Adaptation** can be a relatively **small, but critical component**



Source: EIB 2013a

In developing countries, DFIs are targeting knowledge, viability and risk gaps, mostly in the agricultural sector

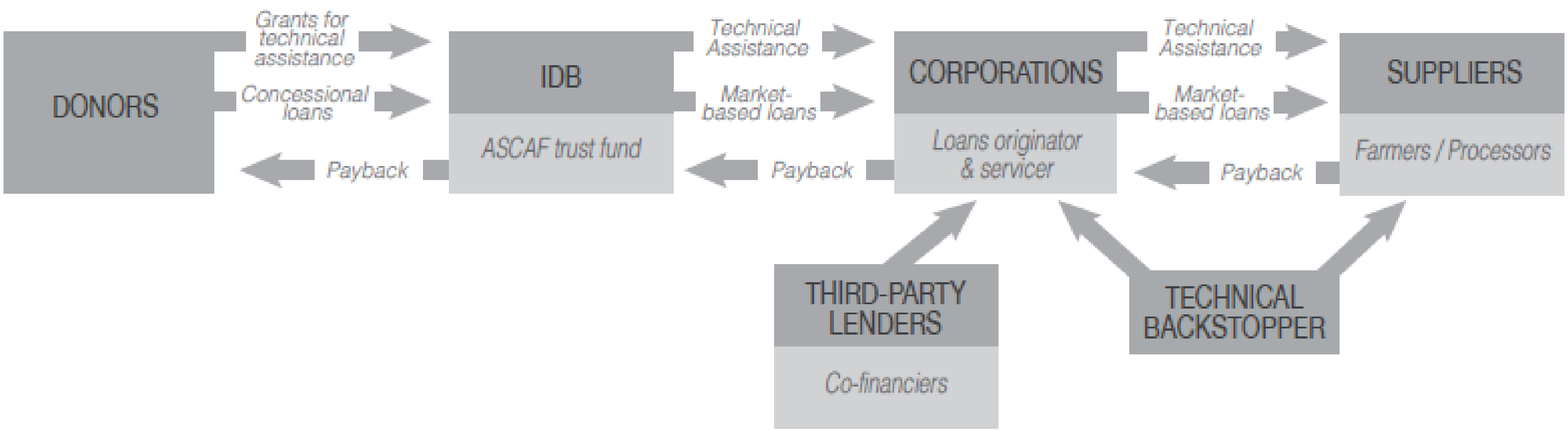
- **Safeguarding crop supplies** is an important driver for agribusinesses to work with the farmers in their supply chains
- **Business outreach, feasibility studies, capacity building and finance aligned with investments' pay-back profiles** are key ingredients to enable climate resilience
- **Intermediated 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



Sources: Trabacchi et al. (2015) at http://climatefinancelab.org/idea/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!

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