

Sources of Financing for Climate Change Adaptation: Mobilizing the Private Sector

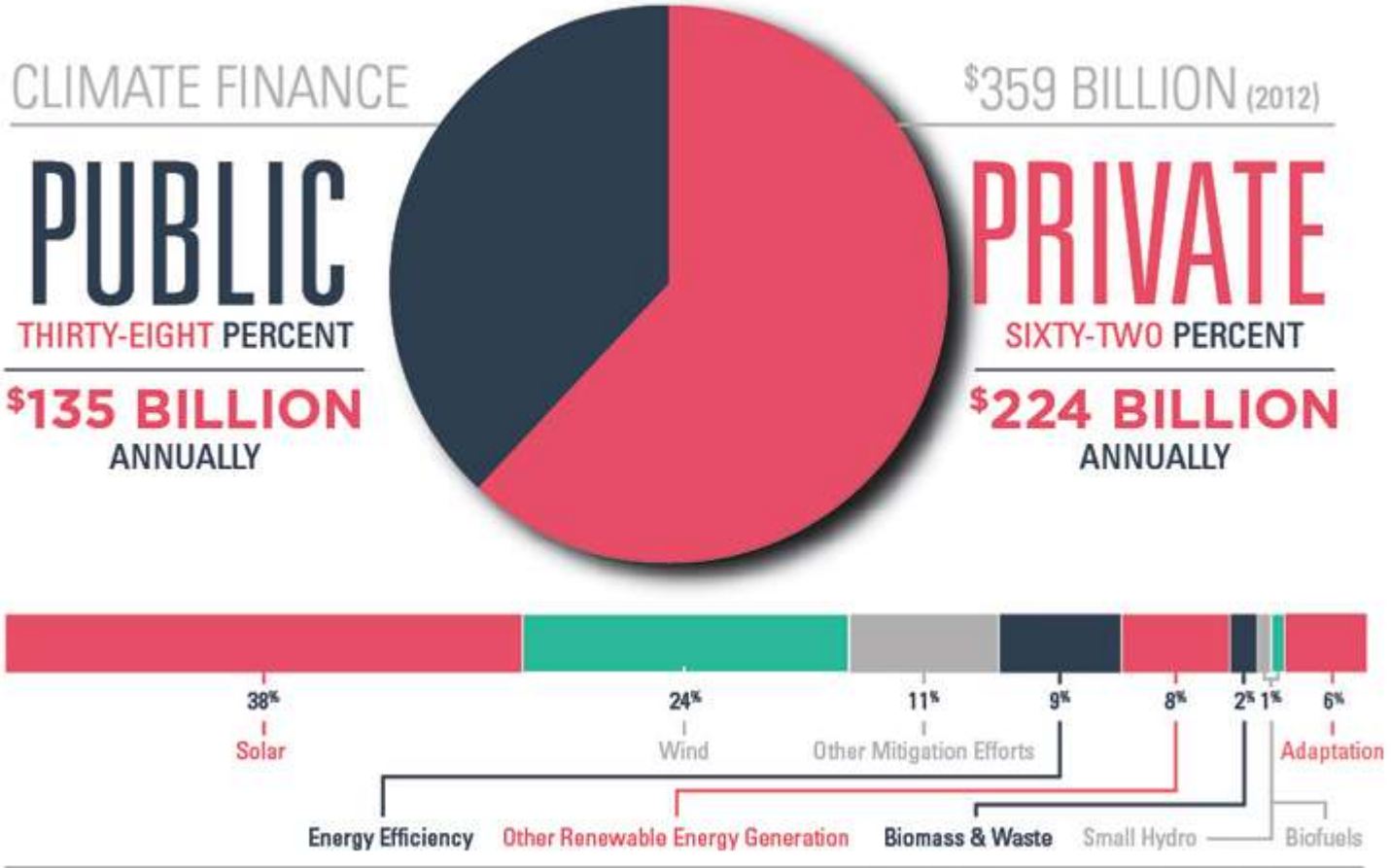
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Main Message

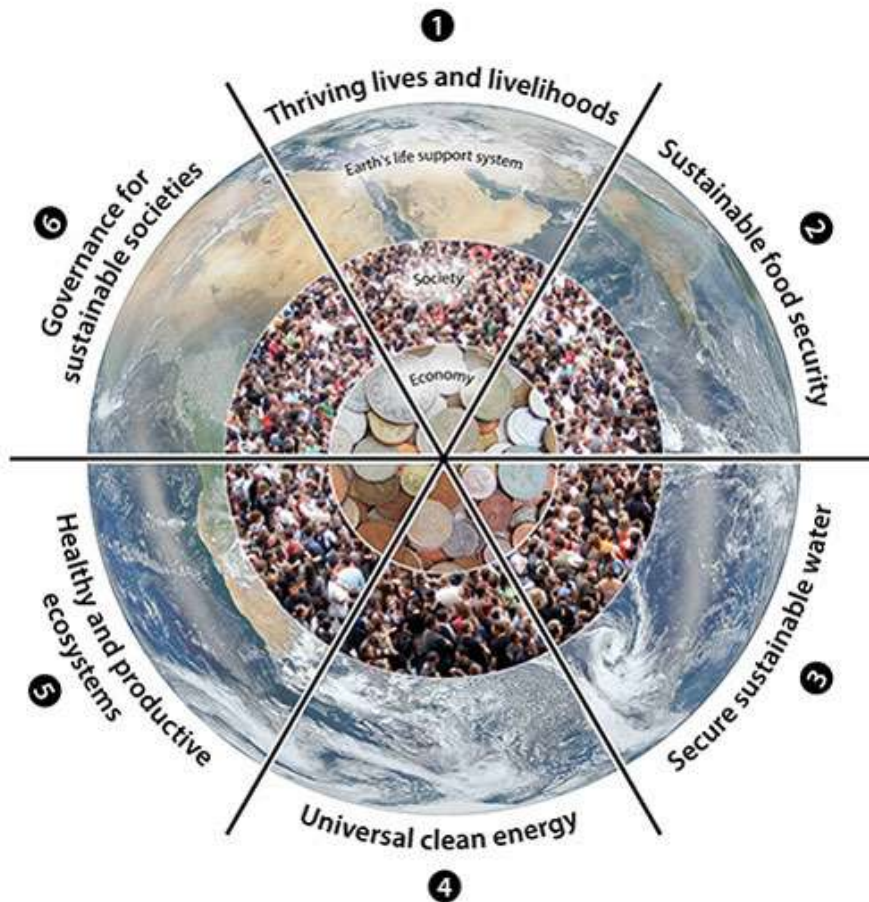
- There is **no shortage** of money – not even for climate change - \$360 billion in 2012, but not much for adaptation (\$22 billion);
- There is a lack of capacity – specifically a lack of **capability** in governments to implement funded projects efficiently and effectively, even if the funds are readily available, so the private sector must be involved;
- Above all there is a lack of **creativity** – thinking outside the box to create new revenue streams – like payment for ecosystem services, debt for climate swaps, or private sector investment in environmental goods and services;
- Too often the private sector is seen as the cause of environmental problems, including climate change, rather than a potential **source of solutions** – this must change;
- The private sector will respond when **informed** and **engaged** and will often develop their own adaptation strategies, because it is in their own long term interests (e.g. insurance companies and pension funds).

Most Climate Finance is Private but only 6% for Adaptation



Landscapes of Climate Finance 2013, Climate Policy Initiative

Multiple Types of Adaptation Needs



As the boundary between adaptation and sound development is blurred, so are the roles of the private sector and governments in adaptation finance.

Traditional Financing Sources Already Involve the Private Sector

- Official development assistance – globally around \$150 billion per year (proportion for climate change adaptation is uncertain, as adaptation funding is supposed to be “new and additional”);
- Multilateral Development Banks – World Bank Group – around \$80 billion per year (active portfolio in East Asia and the Pacific - \$30 billion; natural resources management and environment - \$20 billion);
- Asian Development Bank – around \$13 billion per year – (From 2001-2012 a total of \$30 billion on environmental sustainability projects);
- Private sector is already engaged as contractors, suppliers, and consultants – and often as co-financiers.

Traditional Financing Sources Already Involve the Private Sector

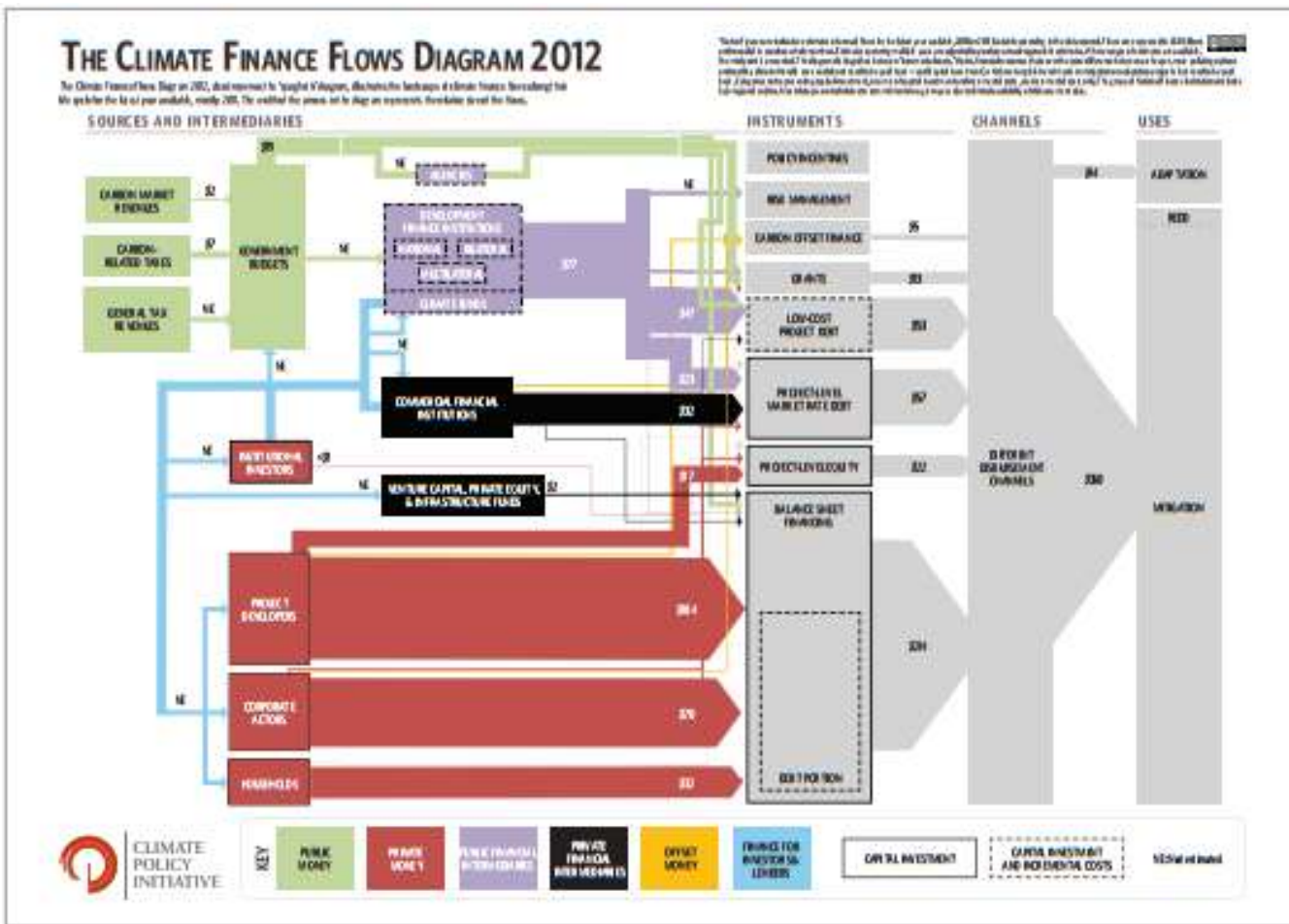
- The same goes for other traditional sources of finance:
- Food and Agriculture Organisation - \$500 million
- International Fund for Agricultural Development - \$1 billion
- United Nations Development Programme - \$5.7 billion
- United Nations Environment Programme - \$217 million
- World Health Organization - \$2 billion
- United Nations Office of Sustainable Development
- United Nations Framework Convention on Climate Change
- Etc.

Plus – Multiple sources of bilateral finance and their specific reporting and accounting requirements

New Sources of Finance



Climate Funds are coming from Multiple Sources



Let's just say it is complicated!
 But the private sector is not tracked by CPI as providing any adaptation finance – is this a mistaken view?

Main Sources of Dedicated Adaptation Finance in Asia-Pacific

Funds managed by national governments

- Global Climate Change Alliance (GCCA) - European Union
- Nordic Development Fund (NDF)
- Nordic Climate Facility (NCF)
- International Climate Initiative (ICI) - Germany
- Japan's Fast Start Finance (FSF)
- International Climate Fund (ICF) – United Kingdom
- International Climate Change Adaptation Initiative (ICCAI) – Australia
- Etc.

Funds managed by multilateral institutions

- Adaptation Fund (AF)
- Least Developed Countries Fund (LDCF) (GEF)
- Special Climate Change Fund (SCCF) (GEF)
- Pilot Program for Climate Resilience (PPCR) – 5 MDBs

Green Climate Fund: A Game Changer for the Private Sector?

- The Green Climate Fund (GCF) was adopted as a financial mechanism of the UN Framework Convention on Climate Change (UNFCCC) at the end of 2011.
- It aims to make an ambitious contribution to attaining the mitigation and adaptation goals of the international community.
- Over time it is expected to become the **main multilateral financing mechanism** to support climate action in developing countries.
- It will have a Private Sector window, but no details yet.
- Raising \$15 billion by end 2014
- Half for climate change adaptation
- Half of adaptation funds for Africa, LDCs and SIDs.
- Direct access through National Implementing Entity (NIE) accreditation and a Designated National Authority (DNA)
- **How will the private sector be engaged?**

What Additional Motivation is needed for the Private Sector?



NEWS OF THE FUTURE : A TERRORIST GROUP CALLED "THE ENDANGERED SPECIES MARTYR'S BRIGADE" CLAIMS RESPONSABILITY FOR THE KIDNAPPING OF CITES SECRETARY-GENERAL JOHN E. SCANLON ...

Private Sector Funds for Adaptation?

Green Transition Scorecard - \$5.3 trillion since 2007

Green Bonds (about \$50 billion)

- Climate Bonds Initiative is mobilizing the \$80 trillion bond market for climate change solutions - **can it turn to adaptation?**
- **Global Environment Fund (GEF)** - global alternative asset manager with approximately \$1 billion in assets under management, investing in energy, environmental, and natural resources sectors – **needs good adaptation investments;**

Corporate social responsibility of companies (ISO 26000) - \$484 billion in **water sector alone since 2007;**

Divestment in the \$674 billion/yr investment in fossil fuels – so far about \$50 billion (can adaptation be included**);**

Pension funds - \$32 trillion (2013) (remind your fund about CC**);**

Insurance and re-insurance companies - \$4.6 trillion (2011)

Innovative Uses of Adaptation Financing?

Can governments and others create the enabling environment for private sector investment in:

- Reducing Emissions from Deforestation and Forest Degradation (REDD+) (with adaptation co-benefits) – **Palm oil and forest companies**
- Payment for Ecosystem Services (PES) – **Water supply companies, tourism, hotels, private parks**
- Debt for Nature (or Climate) Swaps – **Commercial banks and bond markets**
- Climate Change Trust Funds



Where to from here?

How Can Governments Mobilize Private Sector Interest in Adaptation?

- Tax penalties and concessions;
- Green procurement;
- Public-private partnerships in adaptation projects;
- Insurance of public assets against climate change damage;
- Issuance of climate change bonds;
- Creation of a climate change “index” in the stock exchange; and
- Subsidies for investment in adaptation measures.



Final Words



- ❑ Governments and the private sector need to work more closely together for adaptation.
- ❑ Ultimately you and I are also the private sector and equally responsible for investing in climate change adaptation.



Thank you