

Scaling up private sector investment to support climate change and disaster resilience

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Overview

- Climate finance: tracking and measuring
- Adaptation finance is insufficient
- Private sector finance, especially in adaptation, is lagging
- Private sector adaptation finance at ADB
- Opportunities for ADB
- Framing private sector adaptation finance
- Case studies (3)
- Conclusion/Questions

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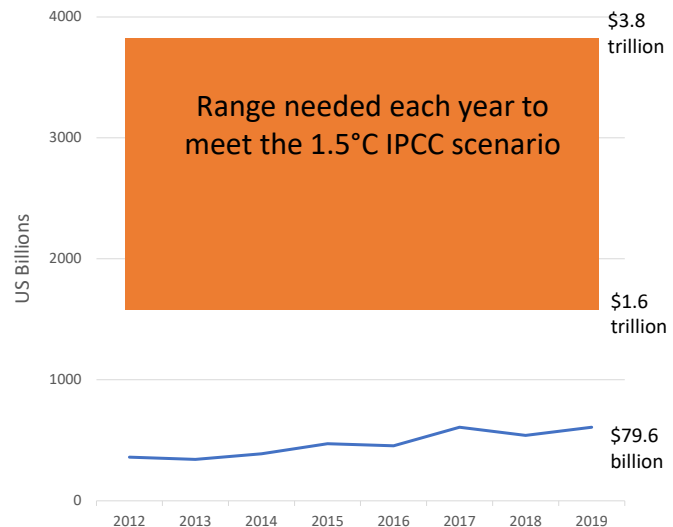
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Issues in tracking climate finance

Context

- **\$100 billion by 2020** in “**new and additional**” climate finance
- **\$1.6-3.8 trillion USD** needed annually between 2016-2050 to meet mitigation targets
- **\$140-300 billion** to meet adaptation between 2020-2030

Climate finance v. Investment needed annually



Adapted from the Climate Policy Initiative, “Updated View on the Global Landscape of Climate Finance 2019” (2020) and OECD, “Forward-looking Scenarios of Climate Finance Provided and Mobilized by Developed Countries in 2021-2025” (2021)

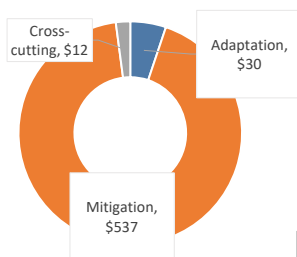
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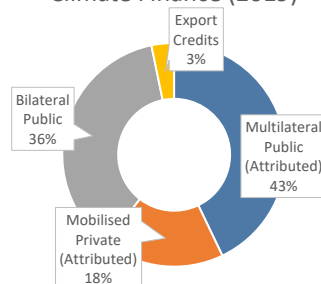
Adaptation is underinvested, especially by the private sector

Adaptation finance: \$140-300 bn annually needed between 2020-2030 (UNEP)

Adaptation v. Mitigation (billions)



Sources of Climate Finance (2019)



Problems

- Private investment uneven across the world – 76% stays in country
- Adaptation is not well defined, poorly accounted for, and hard to determine returns
- Conservative tracking practices likely underreports full scope

Trends

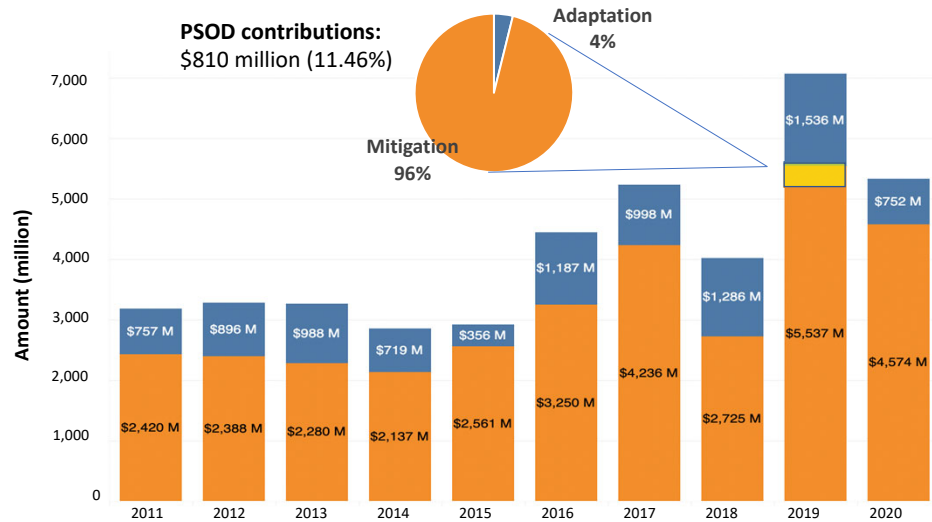
- 1) Evolving adaptation financing modalities in bilateral and multilateral support
- 2) Sustainable finance in the private sector

Source: OECD, “Forward-looking Scenarios of Climate Finance Provided and Mobilized by Developed Countries in 2021-2025” (2021)

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Example: ADB's tracked climate finance is mitigation-heavy



Source: Climate Change Financing at ADB (2021)
<https://data.adb.org/dataset/climate-change-financing-adb>

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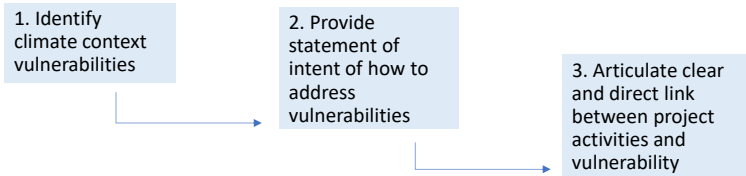
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ADB's adaptation finance targets and tagging

ADB's targets:

- \$100 billion of own resources cumulative between 2019-2030
- 75% of all projects by 2030
- Full Paris Alignment: sovereign → July 1, 2023, non-sovereign → 85% by July 1, 2023 → fully by 2025
- Adaptation and resilience to reach \$9 billion cumulative between 2019-2024

Joint MDB Climate Finance Guidelines for Adaptation



Type 1: Climate proofing

- Need to manage climate risks to the asset → climate proofing
- The majority of ADB activities (default)

Type 2: Activities predicated on the need for adaptation

- Sole or primary purpose of project
- Increasing

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Private sector adaptation activities are driven by two major motivations: risk management and opportunities

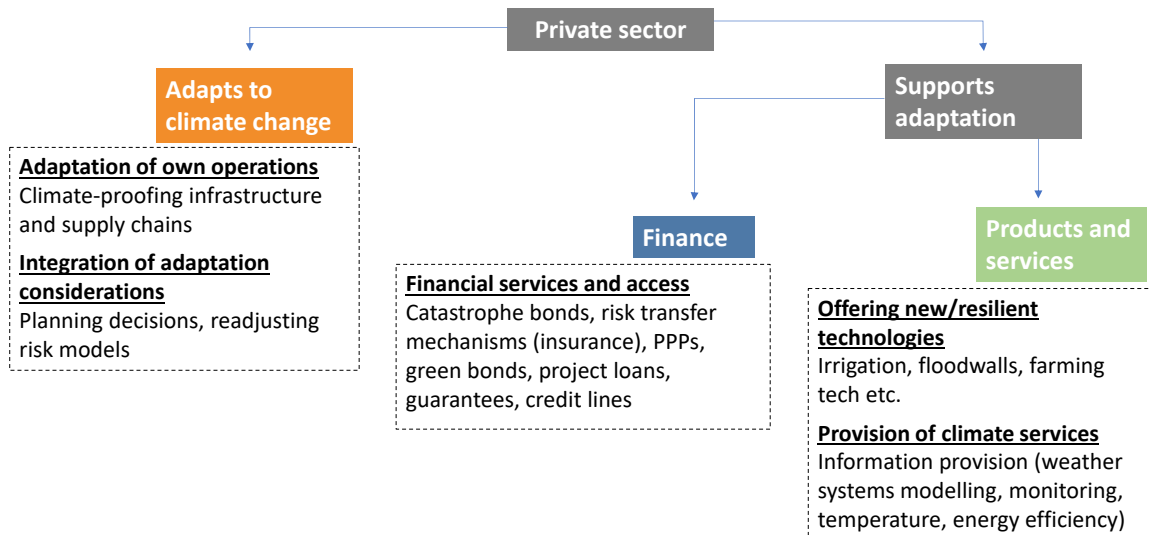
Barriers	Driver 1: Risk management	Driver 2: Opportunities
<ul style="list-style-type: none"> • Informational • Technology • Financial • Institutional • Markets • Regulatory • Cultural and social 	<div> <div>Direct</div> <ul style="list-style-type: none"> • Chronic physical • Acute physical <div>Physical</div> </div> <div> <div>Indirect</div> <ul style="list-style-type: none"> • Market • Financial • Regulatory and policy <div>Transitional</div> <div>Liability</div> </div>	<ul style="list-style-type: none"> • Mitigating physical climate risks, increasing efficiency and savings • Reputation, value, and financial performance • Filling new markets • Establish competitive advantage

Risk
Return

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Private sector roles in adaptation

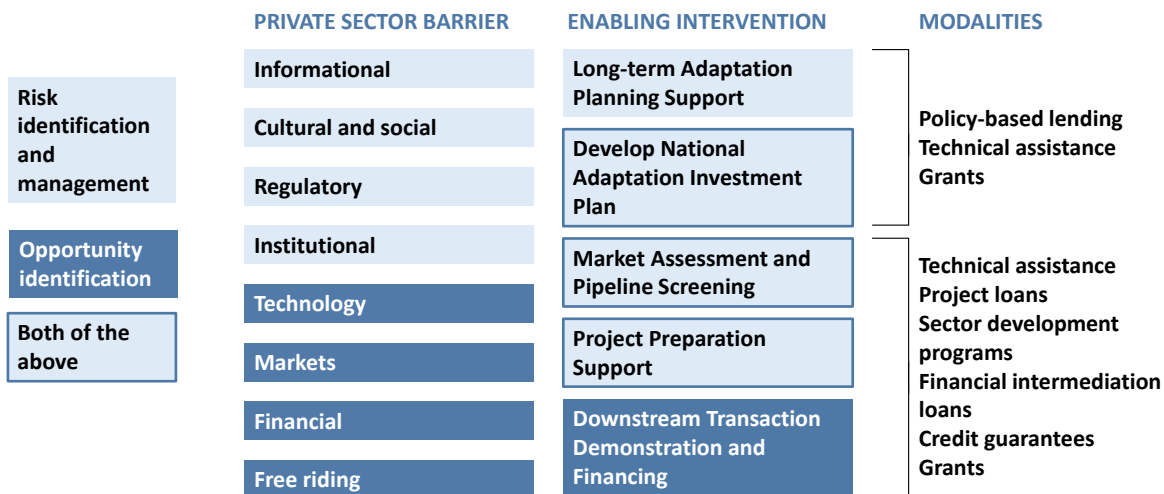


Adapted from: Cochu, A. Hausotter, T. Henzler, M (2019). The Roles of the Private Sector in Climate Change Adaptation – an Introduction, *adelphi*

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ADB role: overcome barriers and creating enabling environment for private sector investment from sovereign side



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Case study 1: SEADRIF (SE Asia)

Region	Southeast Asia	Beneficiaries	Direct: Nat governments Indirect: individuals, insurers and re-insurers, investors	Modalities	Grant (\$12 mil)	Sovereign support	Providing models to de-risk future investments
Entity	World Bank	Private sector component	Setting up a regional insurance pool and operational insurance company	Adaptation mechanism	Providing direct, and immediate financing following disaster events, encourage early adaptation preparation		Providing TA and knowledge to set up/structure SEADRIF company



Photo credit: New York Times

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Key points

- Insurance pooling as climate proofing
- Barriers addressed: financial, market, institutional, technology, informational
- Attaching supportive investment (ex ante risk reduction) to risk transfer
- ADB's Pacific Disaster Resilience Program (50028-001) → PBL

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Case study 2: CLIMADAPT (Tajikistan)

Region	Tajikistan	Beneficiaries	MSMEs, agriculture, residential stakeholders	Modalities	Concessional finance (\$5 mil PPCR), commercial loan (\$5 mil EBRD), TAs	Sovereign support	Direct support with resilience assessments
Entity	EBRD	Private sector component	Providing loans to FIs to build capacity to identify investment opportunities and promote LT financing	Adaptation mechanism	Increasing access to technologies, providing technical capacity building, promoting efficient water and energy use		

Key points

- Blended finance to stimulate first movers
- Capacity building to create replicable behavior and integrating adaptation in sub-project design
- Barriers addressed: market, technology, financial, informational, institutional, cultural/social, free-riding
- Energy efficiency and renewable energy (62%), water efficiency (36%), sustainable land (2%)



Photo credit: EBRD

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Case study 3: Arbaro Fund (global)

Region	Latin America and Sub-Saharan Africa	Beneficiaries	Direct: Forestry value chain	Modalities	GCF 25 mil USD equity investment, co-financing from private actors	Sovereign support	Concessional finance, first-loss capital protection
Entity	GCF, Mitsubishi UFJ Financial Group	Private sector component	First private equity fund to invest in sustainable forestry	Adaptation mechanism	Sustainable forestry practices and conservation in natural forests		Information provision MRV

Key points

- Cross-cutting solution, green value chain
- Private sector trend: making natural resources "bankable" via certification
- Job diversification also claimed as adaptation impact
- Barriers addressed: market, financial, free-riding, social/cultural, informational
- Problems: green wash potential, MRV



Photo credit: AKDN / Christopher Wilton-Steer

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Conclusion and opportunities

1. Climate adaptation is scaling too slowly to meet climate resilience priorities
2. Private sector engagement in climate adaptation finance requires an understanding of the barriers, drivers and possibilities of private sector-led adaptation activities
3. ADB can provide sovereign-side support to build an enabling investing environment for climate adaptation
 - Modalities:
 - Policy-based lending complementary with market development
 - FIs and project loans common but must have clear outcome and output metrics
 - TAs can support innovation through capacity building
 - Develop robust metrics in outcomes and outputs (instead of focus on ex ante inputs)
 - Opportunities: Natural capital valuation and nature-based solutions, systems-level projects, project pipeline development
 - Further research: green resilience bonds, debt for climate swaps

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