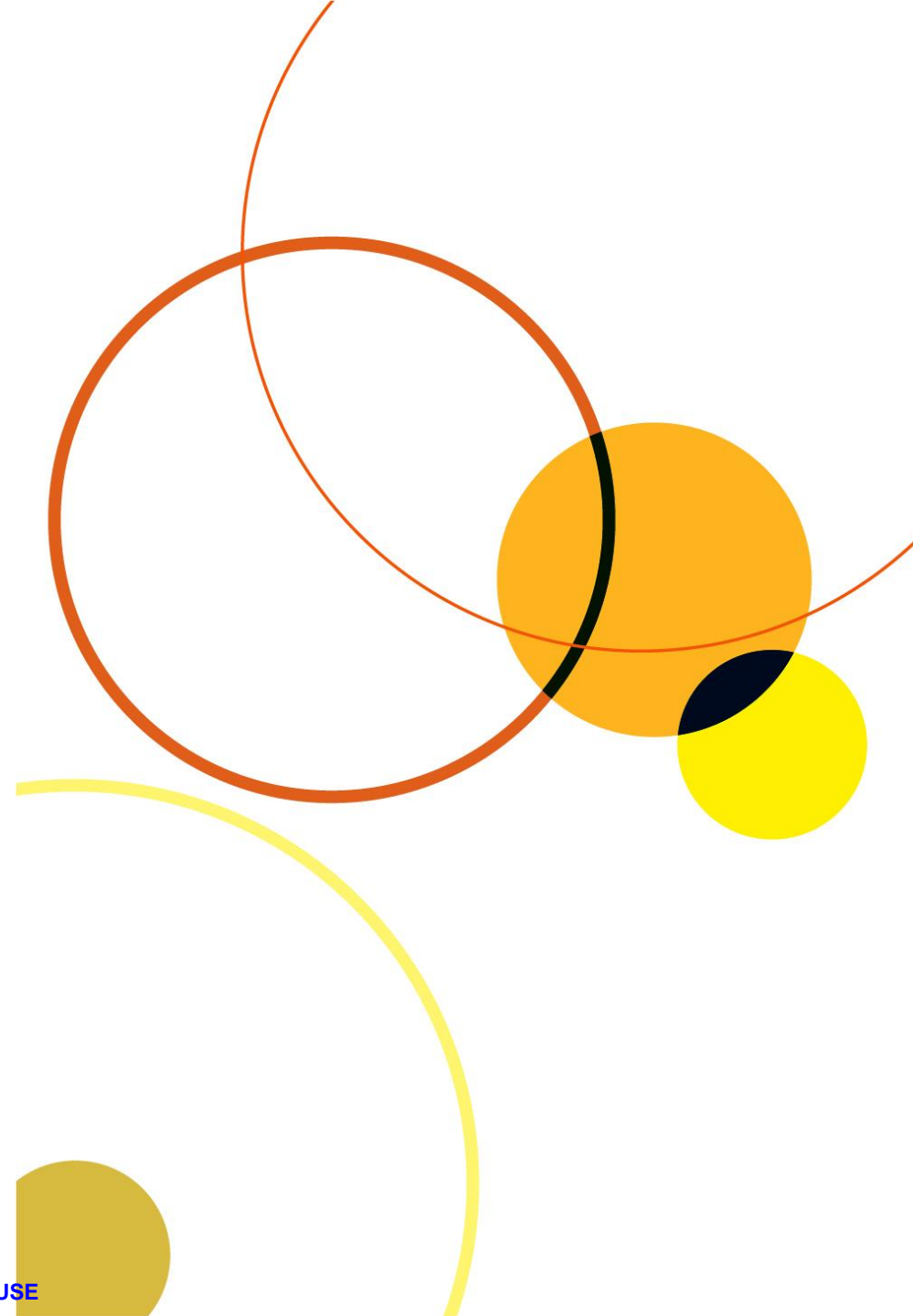


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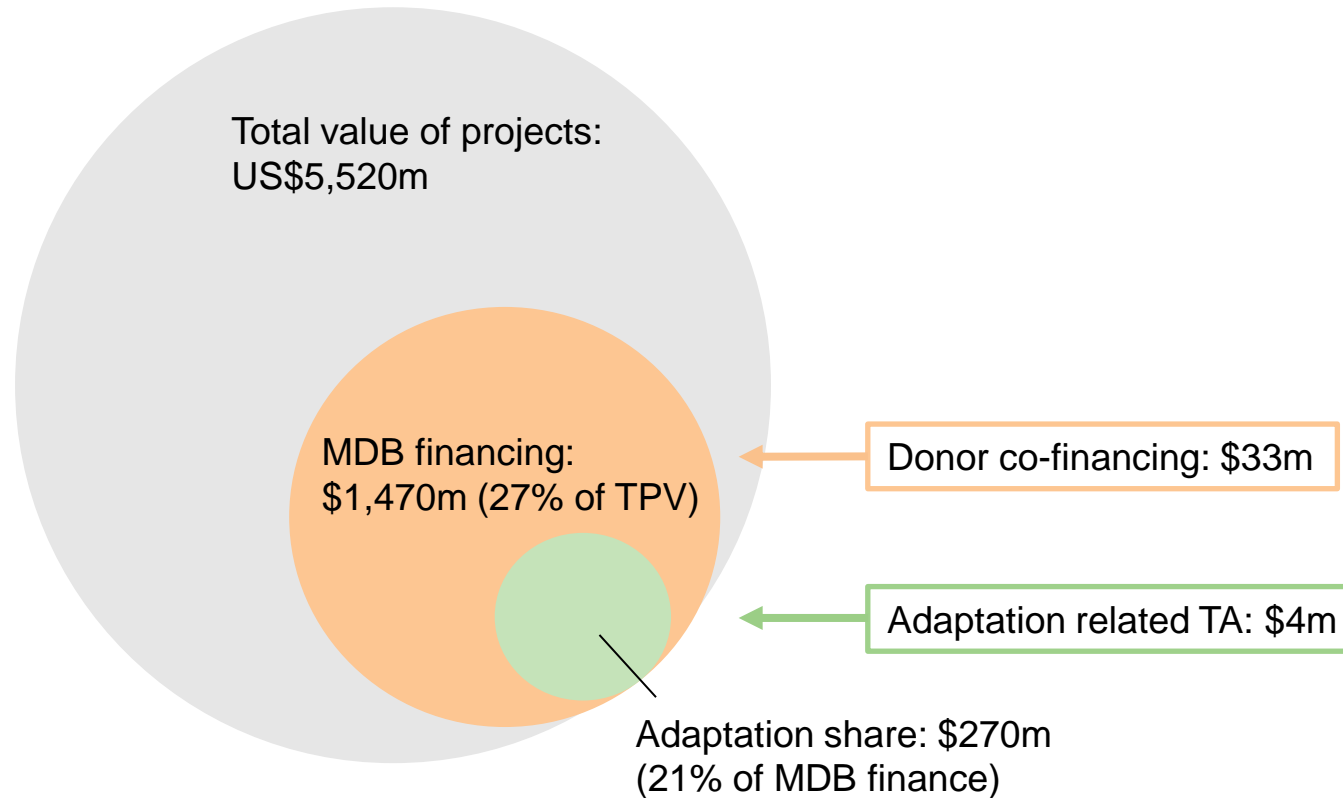
# Building an Evidence Base on Private Sector Engagement in Financing Climate Change Adaptation

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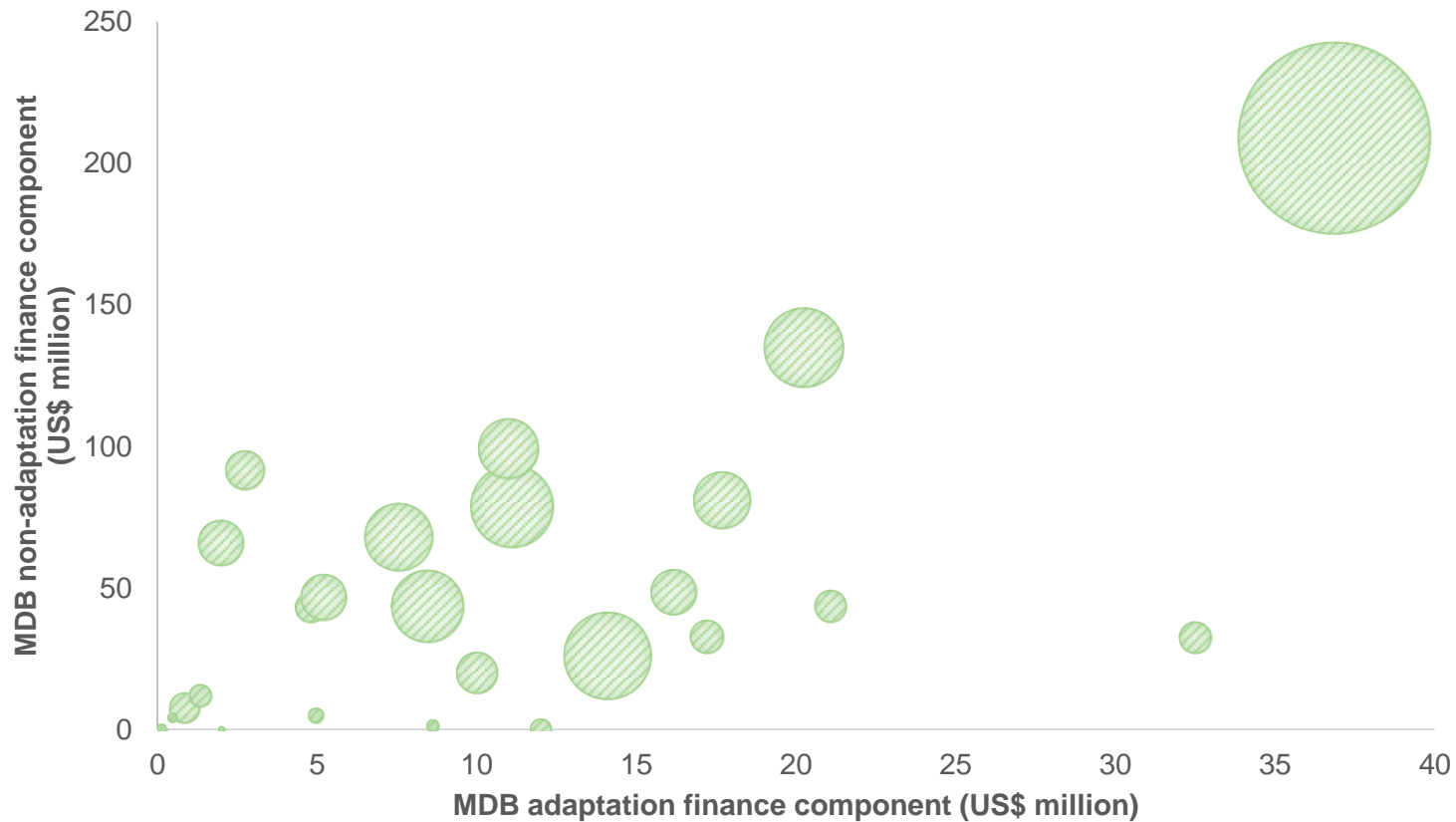
**CIF Side Event, 11.05.2015**



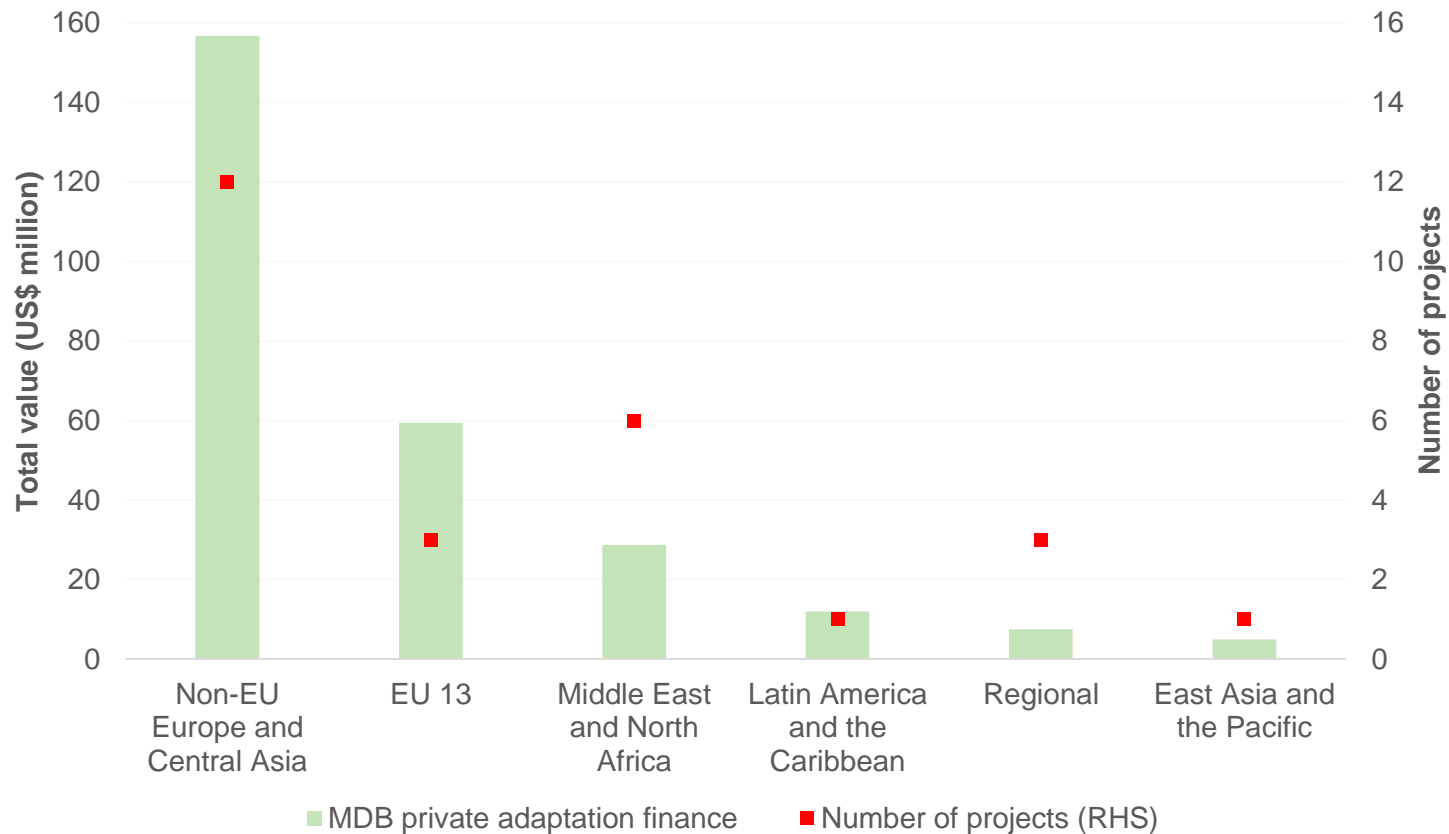
# MDB 2013-14 private sector adaptation finance is highly leveraged



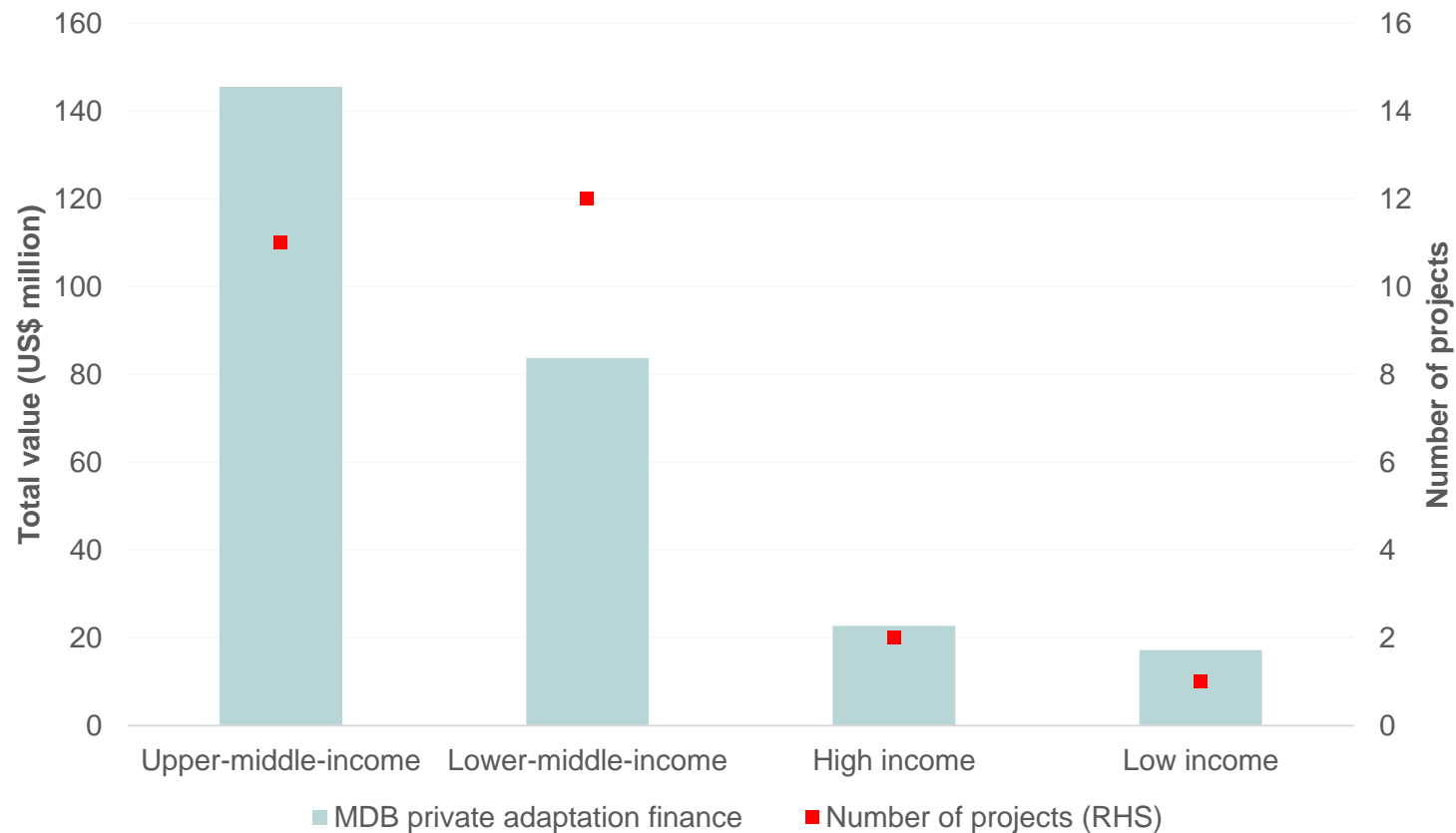
# Adaptation investments tend to increase with overall project size and overall MDB investment size



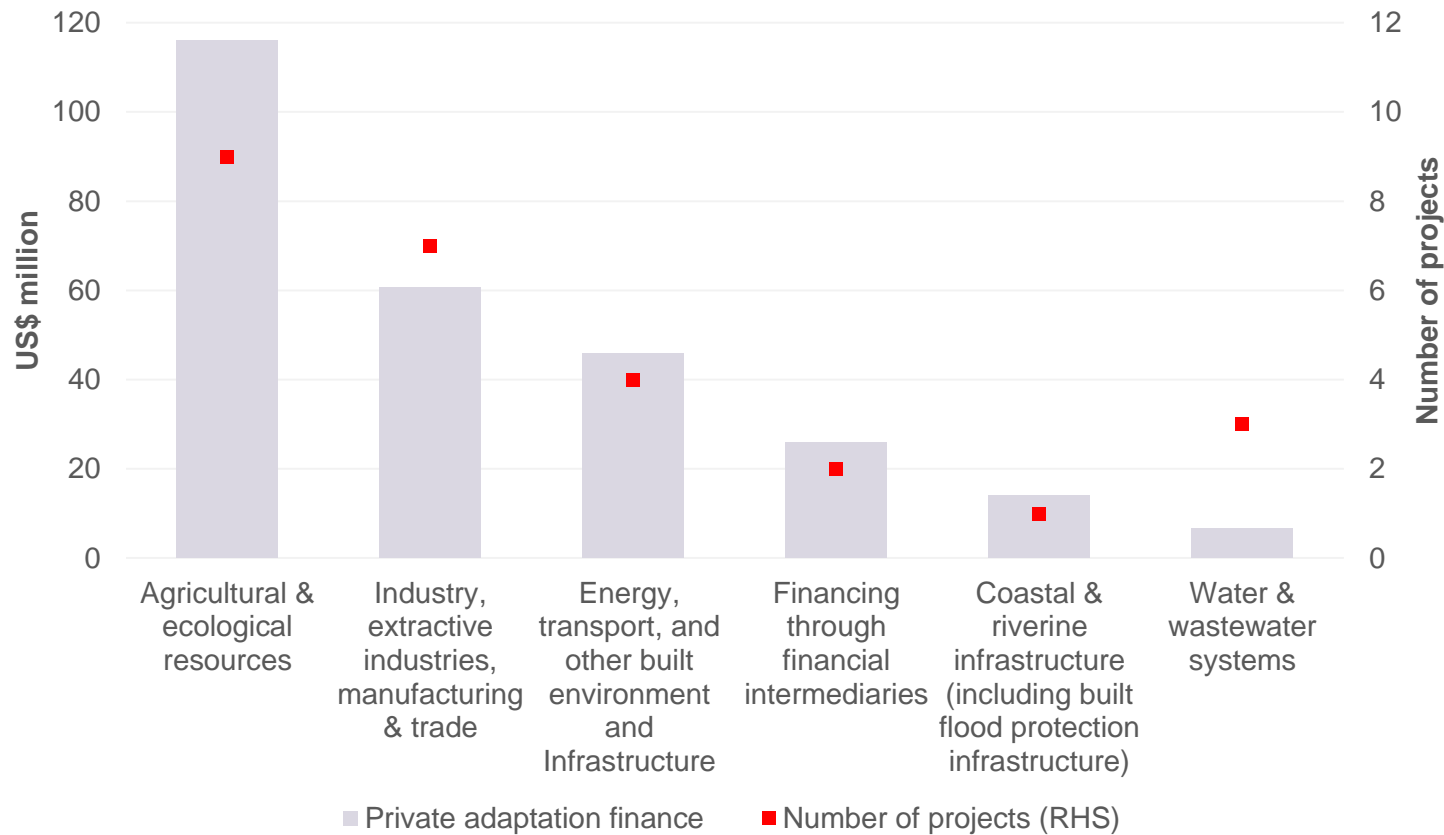
# The Non-EU Europe and Central Asia region is the largest beneficiary of MDB private sector finance in 2013-14



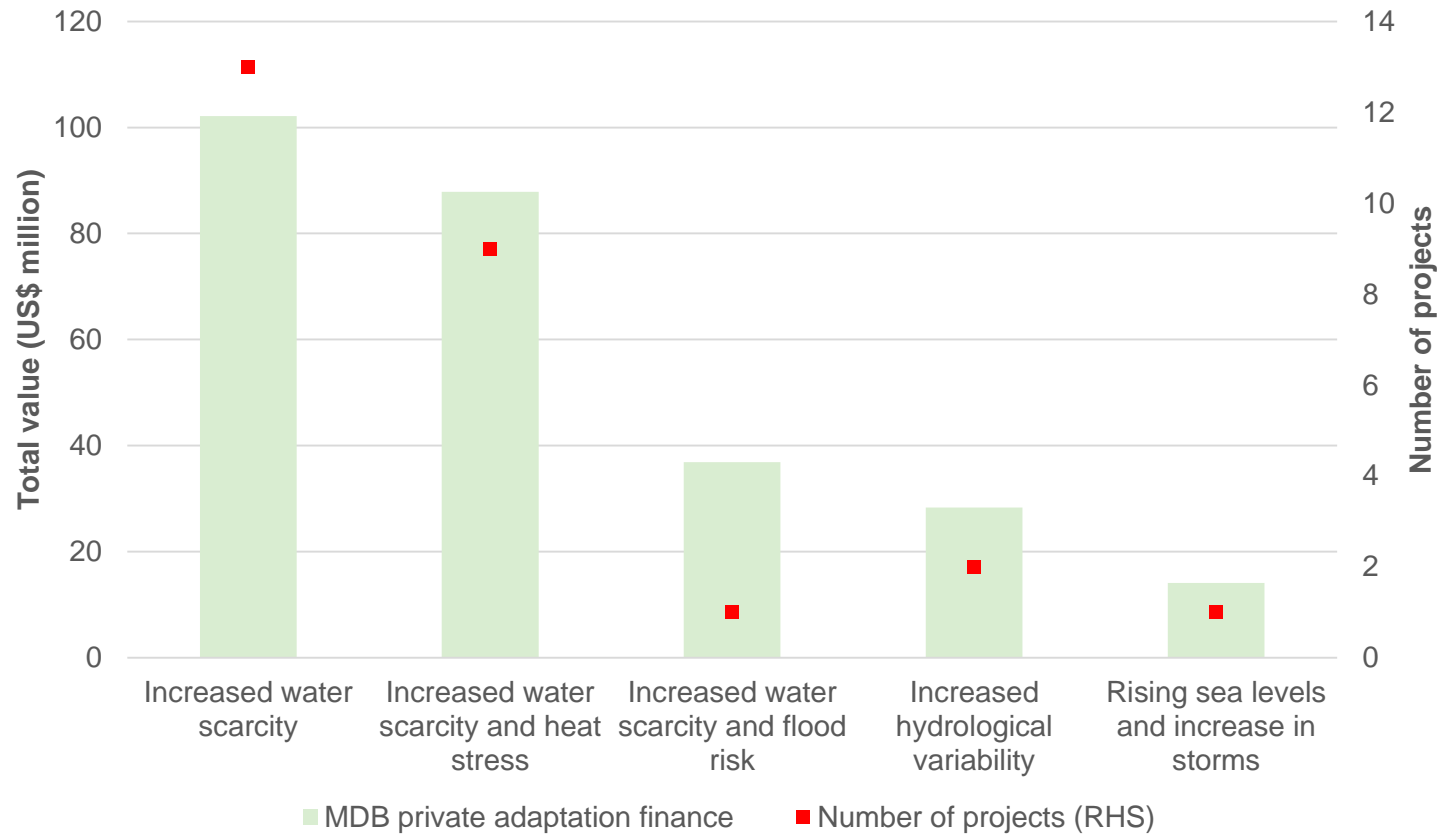
# Middle-income countries received more than 80 per cent of MDB private sector adaptation finance



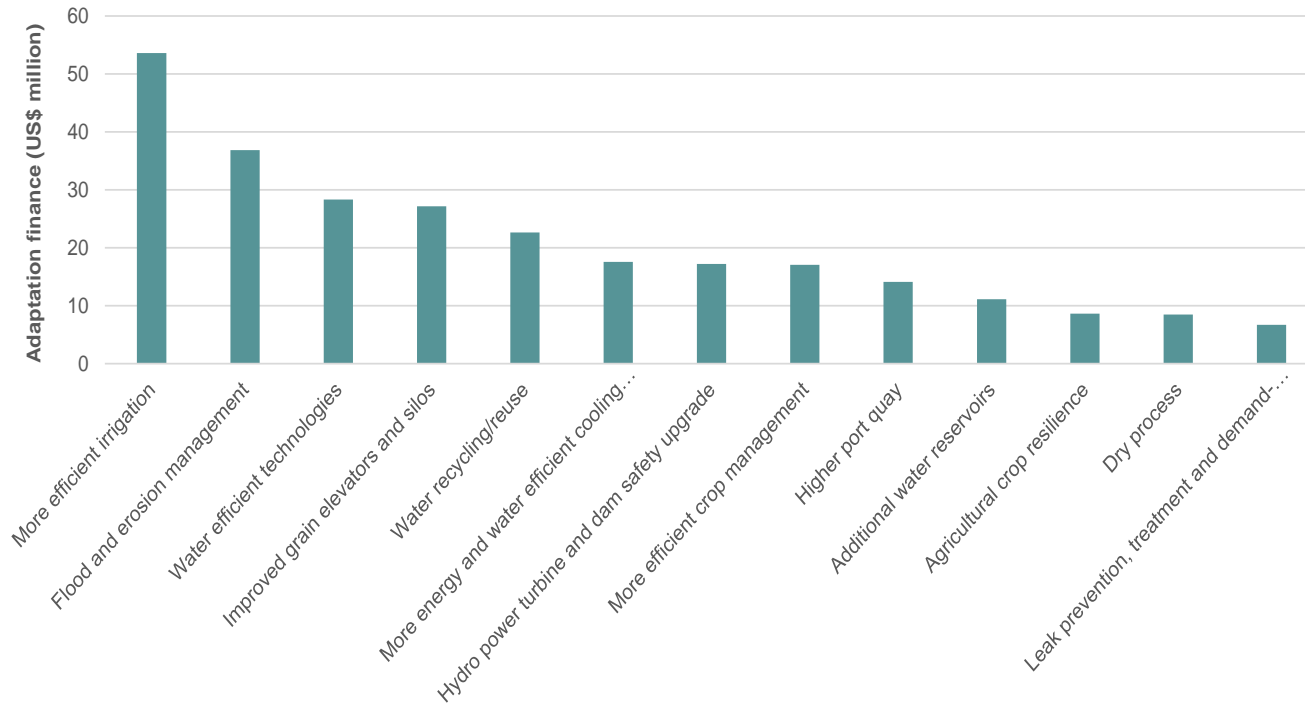
## The agricultural and ecological resources sector is the main beneficiary of MDB private sector adaptation finance



# Increased water scarcity is the main climate risk addressed



# Most private sector adaptation finance is invested in technologies that improve resilience to droughts and enhance water use efficiency





## Two out of 26 projects received donor co-financing

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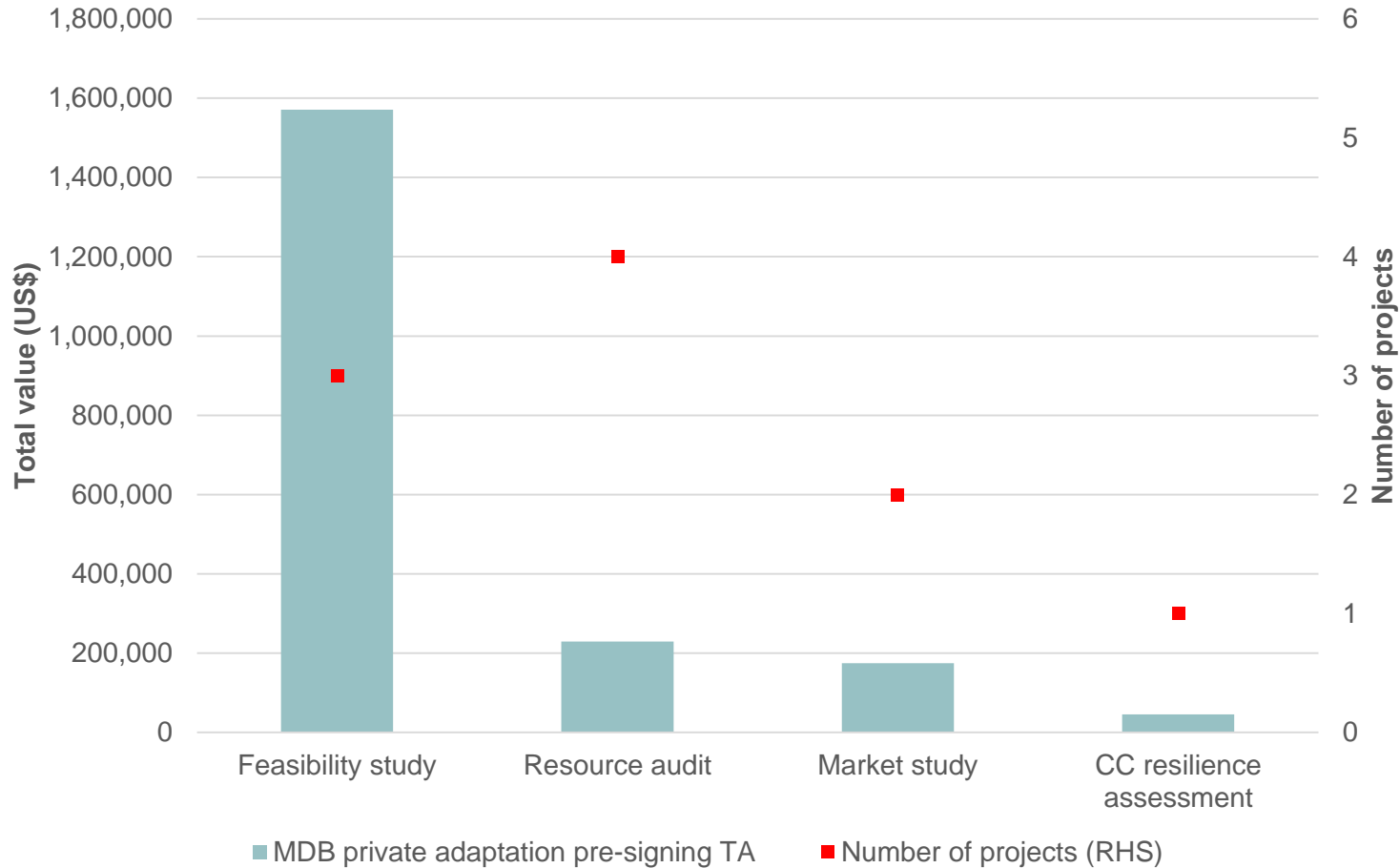
- two out of 26 projects received donor co-financing in the form of CAPEX grant and concessional loan resources
  - a residential buildings credit line in Turkey received a concessional loan of \$12 million
  - a hydropower rehabilitation project in Tajikistan received a concessional loan of \$10 million and an \$11 million CAPEX grant
  - both projects were reported by the EBRD; all concessional finance was provided by the CIF
- there may be considerable scope for scaling up private sector adaptation finance through targeted donor support for adaptation investments
- this could include approaches that integrate MDB finance, donor co-financing and commercial co-financing

# MDBs use different types of TA in private sector adaptation projects

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- Pre-signing TA
  - Resource audits
  - Feasibility studies
  - Market studies
  - Climate change resilience assessment
- Post-signing TA
  - Capacity building
- MDB private sector adaptation TA accounted for \$4 million in 2013/14, funded by different sources, including the CIF, bilateral agencies and in the case of EBRD the Bank's Special Shareholder Fund

# \$4 million of TA consisted mostly of feasibility studies



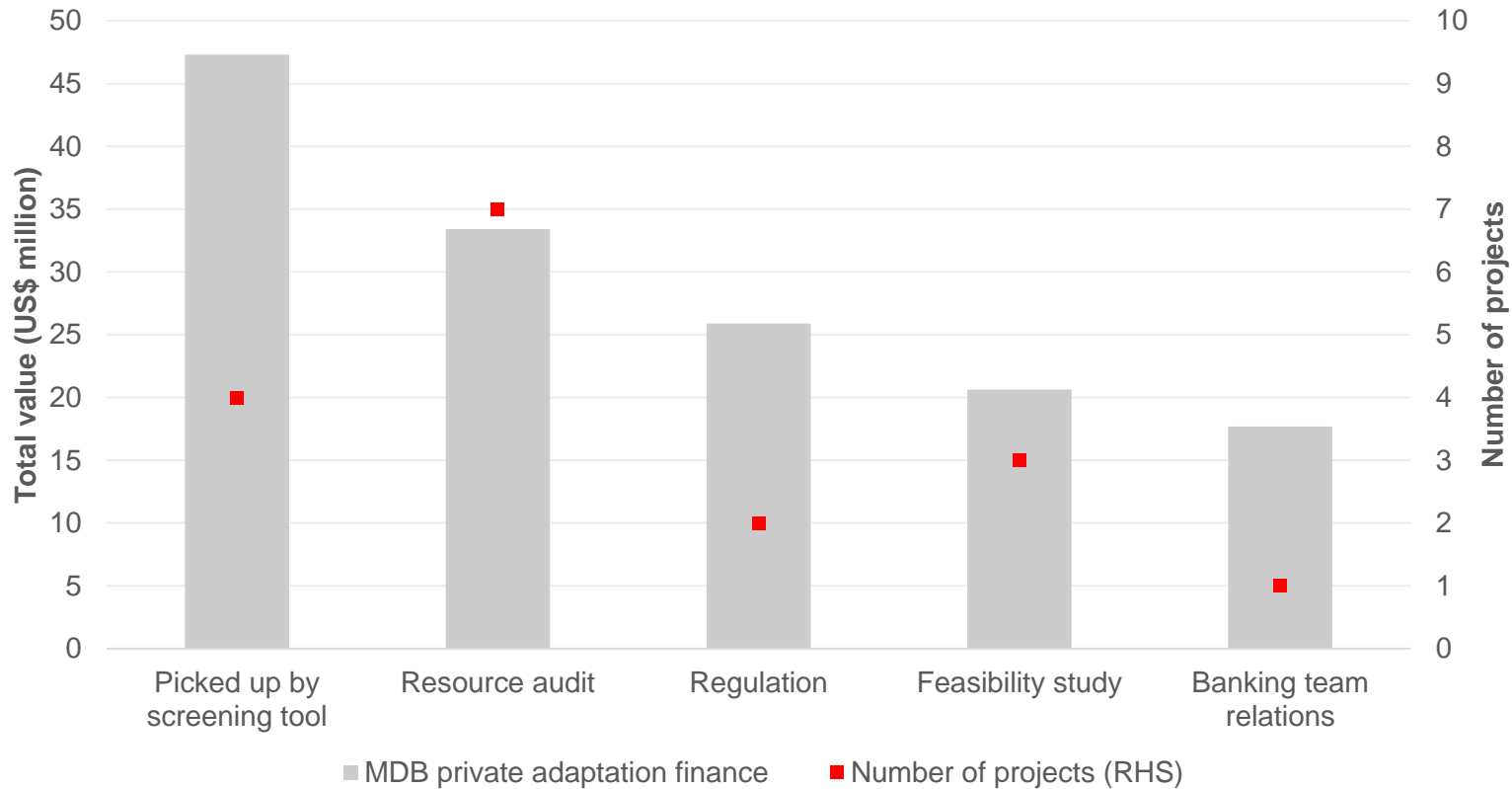
# MDBs are mainstreaming adaptation into their business operations

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MDBs have developed a set of different origination tools for private sector adaptation projects:

- Client driven MDB private sector adaptation projects
- Bank driven private sector adaptation projects, through
  - Adaptation screening tool: a simple tool used to identify projects with adaptation potential at the concept review stage. The team follows up and identifies climate risks and technical solutions with client and bankers
  - Technical assistance: this includes resource audits, feasibility studies, climate change risk assessments and capacity building
  - Adaptation market studies: a methodology for identifying financing priorities for supporting private sector adaptation projects in a particular market
  - Banking teams: as awareness for climate change adaptation increases, banking teams are initiating projects. They are often guided by sector and industry strategies which contain private sector adaptation priorities
- In many cases, MDBs use a combination of the origination tools to prepare private sector adaptation projects

# In the EBRD portfolio, TA (resource audits and feasibility studies) is a primary driver of private adaptation investment



# Behavioural barriers and regulatory shortcomings were the main observed barriers to adaptation investment

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Across MDB private sector adaptation finance projects, behavioural and regulatory barriers were observed

- behavioural barriers were present in e.g. the EBRD's harbour expansion project in Poland
  - Partial implementation of recommendations made as part of the EBRD's climate resilience assessment
  - Client unfamiliarity with the innovative measures proposed was a barrier to their adoption
  - Deployment of donor co-financing could have incentivised the client to consider the implementation of more robust adaptation measures
- a lack of regulatory incentives for water efficiency measures appears to be a hindrance to adaptation activity
  - in a selection of MDB target countries, low/uneven water tariffs and ensuing cross-subsidisation between sectors implies that economic actors lack incentives to invest in climate resilience
  - this suggests that there may be an opportunity for MDBs and other organisations to engage with policy-makers to stimulate private sector adaptation finance
  - an example of this kind of exercise is the IFC's Enabling Environment for Private Sector Adaptation programme

## Key findings

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key findings of the report are:

- MDB private sector adaptation finance in 2013–14 equalled **US\$270 million**, which made a total of \$1.5 billion of MDB investment more climate-resilient
- private sector adaptation finance is **highly leveraged**: the total project value of these MDB investments with adaptation components was \$5.5 billion
- **infrastructure, water and agribusiness** projects dominate the portfolio, which is broadly consistent with known adaptation priorities
- over 80 per cent of MDB private sector adaptation finance was delivered in **middle-income countries**
- **donor co-financing has played a modest role** to date, but may provide an opportunity for the expansion of MDB private sector adaptation financing activities
- **technical assistance is an important facilitator** of private sector adaptation finance: it provides evidence on the materiality of adaptation to clients' investment
- **MDBs can enhance the impact of their operations**, for example by continuing to mainstream climate change across banking teams

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**Company Profile**

Vivid Economics is a leading strategic economics consultancy with global reach. We strive to create lasting value for our clients, both in government and the private sector, and for society at large.

We are a premier consultant in the policy-commerce interface and resource and environment-intensive sectors, where we advise on the most critical and complex policy and commercial questions facing clients around the world. The success we bring to our clients reflects a strong partnership culture, solid foundation of skills and analytical assets, and close cooperation with a large network of contacts across key organisations.

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