Translating adaptation strategies into investments

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An overview of Climate Policy Initiative

CPI works to help nations grow while addressing increasingly scarce resources and climate risk. With a particular focus on finance, we support decision makers through in-depth analysis on what works and what does not.

Climate finance work-streams:

- **TRACKING**
  - Climate Finance Landscapes

- **EFFECTIVENESS**
  - Case Studies

- **INNOVATION**
  - TheLab
  - The Global Innovation Lab for Climate Finance
Finance is one element of the story - Investment mobilization requires integrated approaches.
What is the state of play?
THE LANDSCAPE OF ADAPTATION FINANCE 2015 (2014 data)

The Landscape of Adaptation Finance 2015 illustrates adaptation finance flows along their life-cycle for the latest year available, mostly 2014, in USD billion.

**SOURCES AND INTERMEDIARIES**
- GOVERNMENT BUDGETS
  - AGENCIES
  - DEVELOPMENT FINANCE INSTITUTIONS
    - NATIONAL
    - BILATERAL
    - MULTILATERAL
  - CLIMATE FUNDS
- COMMERCIAL FIN'L INST.
- VC, PE & INFRASTR. FUNDS
- INSTITUTIONAL INVESTORS
- PROJECT DEVELOPERS
- CORPORATE ACTORS
- HOUSEHOLDS

**INSTRUMENTS**
- GRANTS $5
- LOW-COST PROJECT DEBT $13
- PROJECT-LEVEL MARKET RATE DEBT $7
- PROJECT-LEVEL EQUITY $0.2

**RECIPIENTS**
- PUBLIC $12
- PUBLIC/PRIVATE <$0.1
- PRIVATE (NGO) $0.5
- PRIVATE $1

**SECTORAL USES**
- WATER AND WASTEWATER MANAGEMENT $14
- AGRICULTURE, FORESTRY, LAND-USE & NRM $3
- DISASTER RISK MANAGEMENT $2
- INFRASTRUCTURE, ENERGY, AND OTHER BUILT ENVIRONMENT $2
- OTHER $2
- POLICY AND NATIONAL BUDGET SUPPORT, CAPACITY-BUILDING $1
- COASTAL PROTECTION $1
- INDUSTRIES, MANUFACTURING & TRADE $0.3
- UNKNOWN $12

**KEY**
- PUBLIC MONEY
- PRIVATE MONEY
- PUBLIC FINANCIAL INTERMEDIARIES
- PRIVATE FINANCIAL INTERMEDIARIES
- CAPITAL INVESTMENT
  - CAPITAL INVESTMENT AND INCREMENTAL COSTS
  - FINANCE FOR INVESTORS & LENDERS
- NE: NOT ESTIMATED

Source: Trabacchi and Buchner (2016)
A framework to inform investment decision-making

- Establish baselines to understand what action is taking place
- Identify sources of finance, possible gaps or opportunities
- Measure progress, learn, and provide a basis for better coordination amongst partners
EU investment came to at least ~USD 1bn in 2014.

Total investment in USD billion:
- TRANSREGIONAL: 1
- WESTERN EUROPE: 1
- MIDDLE-EAST & NORTH AFRICA: 1
- SOUTH ASIA: 3
- SUB-SAHARAN AFRICA: 3
- EAST ASIA & PACIFIC: 12
- CENTRAL ASIA & EASTERN EUROPE: 1
- JAPAN, KOREA, ISRAEL: <1
- LATIN AMERICA & CARIBBEAN: 3
- OTHER OCEANIA: <1
- AMERICAS: <1

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Data gaps hinder understanding of the EU adaptation finance landscape

- How much, how and where has the EU Budget been invested?
- How much, how, where, and from whom investments have occurred within Member States?
- Is private finance flowing towards adaptation in the EU?
- Are the EU resources invested in climate actions mobilizing private investments?
The EU planned to invest in adaptation around €32 bn from 2014-2020

### EU BUDGET - planned financing

<table>
<thead>
<tr>
<th>Fund/Programme</th>
<th>Amount</th>
<th>Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESI Funds</td>
<td>€ 28.6 bn</td>
<td>2014-2020</td>
<td>6% Tot</td>
</tr>
<tr>
<td>LIFE Programme</td>
<td>€ 190 mln</td>
<td>2014-2017</td>
<td>42% Tot</td>
</tr>
<tr>
<td>Horizon 2020</td>
<td>€ 3.1 bn</td>
<td>2014-2020</td>
<td>4% Tot</td>
</tr>
</tbody>
</table>

### EU MS BUDGETS - planned financing

<table>
<thead>
<tr>
<th>Fund/Programme</th>
<th>Amount</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESI Funds co-financing</td>
<td>€ 12.7 bn</td>
<td>2014-2020</td>
</tr>
</tbody>
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A closer look at ESI Funds from 2014-2020

Allocation 2014-2020 across MS
(USD bn, %)

Note: preliminary assessment of ESI Funds allocated to “Climate Change Adaptation & Risk Prevention”
Source: https://cohesiondata.ec.europa.eu/themes/5
A closer look at ESI Funds from 2014-2020

Allocation 2014-2020 across MS

(USD bn, %)

- Are resources being spent effectively, efficiently and targeted towards priority needs?
- Has it been effective in unlocking private investment?
- What lessons have been learned?

Note: preliminary assessment of ESI Funds allocated to “Climate Change Adaptation & Risk Prevention”
Source: https://cohesiondata.ec.europa.eu/themes/5
How can the public sector stimulate private investment?
The following gaps can hold back private investment

- **Policy, regulatory and institutional gaps**
  - Non-existent or deficient regulatory frameworks

- **Knowledge gaps**
  - Inability to evaluate and incorporate climate change risks into investment or financing decision making

- **Funding, viability & risk coverage gaps**
  - Inadequate access to finance, or uncertainties about investment returns, additional / higher up-front costs, risk aversion

➢ **Barriers vary by type of private actor & level of climate exposure**
Address ‘viability gaps’ between business as usual and adaptation investments to mobilize investment.
There are financial instruments that can help reduce costs.

- Investment grants
- Project prep. Grants
- Low cost loans, Guarantees
- Tax breaks

Costs ≈ Revenue (Net present value)
..and address funding gaps longer-than market term debt can trigger private investments

EXAMPLE:

EIB targeted viability gaps preventing water utilities from investing in more efficient and climate-resilient water management

Source: Trabacchi and Mazza (2015)
Gap analysis as a tool to shape public intervention in order to mobilize investment

Gap analysis as a tool to

• Clarify the specific needs of private investors by identifying potential gaps threatening project viability

• Identify ‘entry points’ for public financial support and incentives

• Support the design of tailor-made approaches to address actor-, sector- and context-specific barriers to private engagement
Outstanding questions

1. Have the financial resources provided by the EU and its MS for climate adaptation actions been used efficiently and where needed the most?

2. Are the EU resources invested in climate actions mobilizing private investments?

3. What lessons can be learned from existing investments and how can continued learning be ensured?
Thank you for your attention!

Climate Policy Initiative (CPI) works to improve the most important energy and land use policies around the world, with a particular focus on finance. We support decision makers through in-depth analysis on what works and what does not work.

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