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Engaging the Private Sector for National Adaptation Plan (NAP) Implementation: The Role of the Public Sector

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What This Presentation Will Cover

- Scale of climate change finance
 - Role of private sector to date
 - What is needed for adaptation
- Overview of public and private sector roles in adaptation
 - Challenges to private sector involvement
- Public sector roles to facilitate private sector engagement in NAPs
- Public sector roles to encourage private sector engagement in adaptation finance
 - e.g., Public Private Partnerships (PPPs)



Scale of Annual Climate Change Finance (2014)

Public Sector

- \$148 Billion
 - National Development Financial Institutions (DFIs): \$66 billion
 - Multi-lateral DFIs: \$47 billion
 - Bilateral DFIs: \$17 billion
 - Governments and Agencies: \$15 billion
 - Climate Funds: \$2 billion

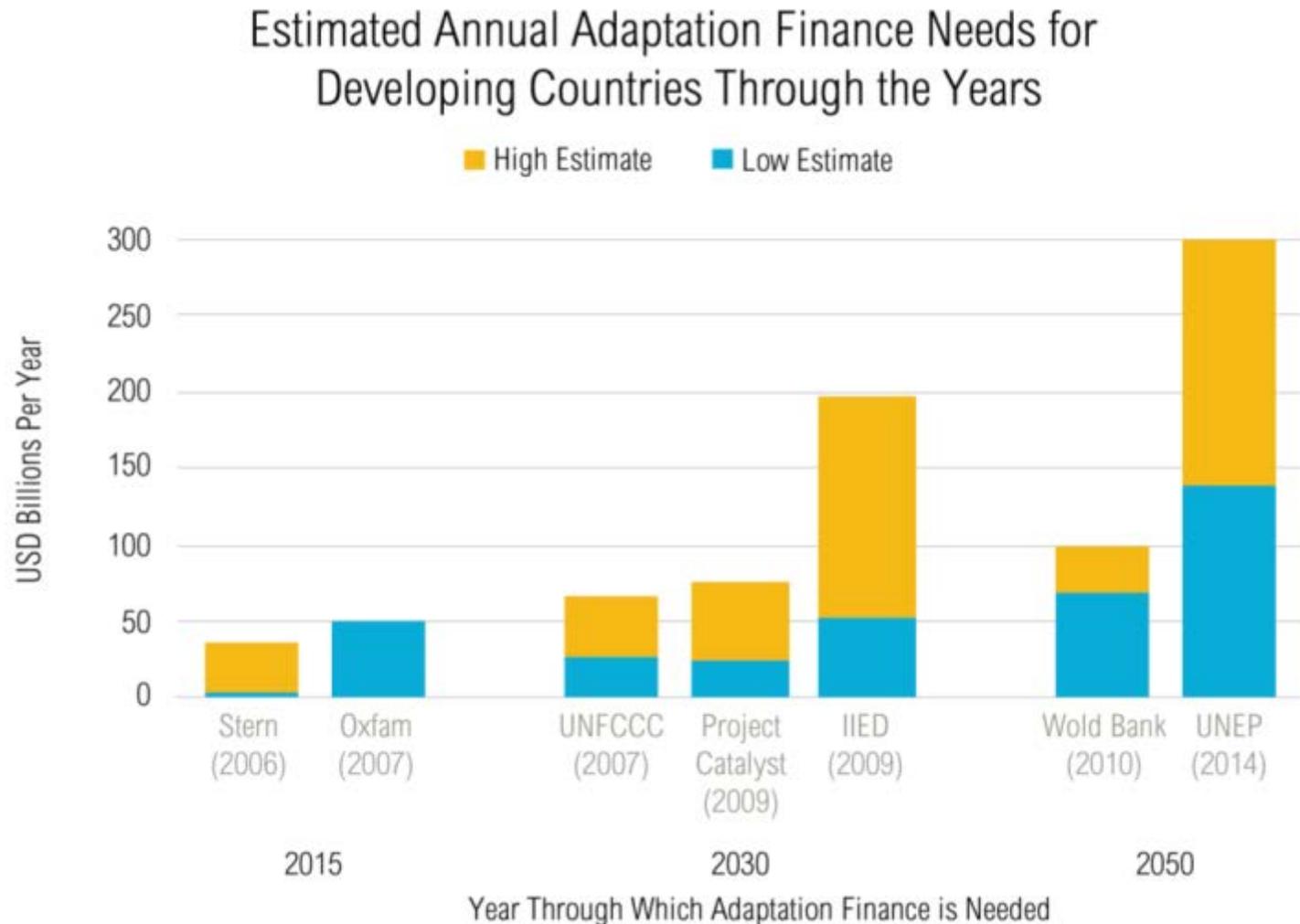
Private Sector

- \$243 Billion
 - Project developers: \$92 billion
 - Corporate Actors: \$58 billion
 - Households: \$43 billion
 - Commercial Finance: \$46 billion
 - Private equity: \$1.7 billion
 - Institutional investors: \$0.9 billion

Total Climate Change Finance

- \$391 billion
 - 93% of total climate finance is for mitigation
 - 7% or \$28 billion for adaptation

The Estimated Costs of Adaptation Are Increasing



Source: World Resources Institute, 2015. "Estimated Annual Adaptation Finance Needs for Developing Countries Through the Years." Published under "[The Costs of Climate Adaptation, Explained in 4 Infographics](#)."

Overview of Public and Private Sector Roles in Adaptation

Public sector roles

- Create proper environment to enable private sector financing
- Set policy and priorities
 - Consider public good, long term risks, equity
 - Regulations (Financial requirements)
 - Taxes
 - Public expenditures (infrastructure, finance, research, monitoring, data)



Overview of Public and Private Sector Roles in Adaptation

Private sector roles

- Profit motive is underlying driver
 - Will require adequate returns on investment within acceptable time
 - Is incentive for protecting investments against climate risks
- Potential pathways for investing in adaptation
 - Increase resilience of private sector assets
 - Increased resilience of supply chain
 - Build public assets with increased resiliency (PPPs)
 - Insurance
 - Invest in securities targeting adaptation investments



Investment Risks and Barriers to Private Involvement

POLITICAL, POLICY, SOCIAL RISKS

Sources:

- Actions of governments and citizens

Enhanced by:

- Reliance on public financial and institutional support
- Investment horizon longer than policy cycle
- Environmental impact of some technologies creating social resistance

TECHNICAL, PHYSICAL RISKS

Sources:

- Technology characteristics
- Environmental/sites impacts

Enhanced by:

- Not yet proven green technologies
- Lack of accurate technology performance data
- Uncertainty over measurements of the natural resources availability

MARKET, COMMERCIAL RISKS

Sources:

- Valuation of input and output
- Cost and availability of financial resources

Enhanced by:

- High upfront costs
- Long investment horizon and payback periods
- Financiers' unfamiliarity with green investments
- Complexity of infrastructure investments

OUTCOME RISKS

Sources:

- Commitment of limited public resources
- Uncertainty of delivering public interest goals' objectives

Enhanced by:

- Amount of public support required
- Current budget constraints

Challenges to Private Sector Involvement in Adaptation

- Relatively little funding from public and private sectors going to adaptation
 - Appears well below estimated future need
- Role of private sector in adaptation finance has been limited to date
 - Pauw et al., 2016
- Adaptation financing needs may be underestimated
- Public sector funding may not be adequate
- Thus, role for private sector is even more critical



Challenges for the public sector for building adaptation

- Gaps in institutional and technical capacity to budget, plan, program, and manage climate finance effectively;
- Limited awareness of the various sources of climate finance, and their applicability;
- Limited understanding of fundraising, financing prerequisites and requirements, and blending of financing sources;
- Lack of systematic tracking of public and private climate finance flows;
- Weak capacity to analyze climate change spending;
- Scarcity of tested models for climate finance delivery



INCREASING PRIVATE FINANCE IN NAPS

Toward a Greater Role for the Private Sector in NAPs

- **Key to engage both private sector implementers and financiers in the NAP process – from beginning to end**
- Private sector can add value in the NAP process
 - Identifying the impacts of climate change on the private sector and current efforts to adapt
 - Providing private sector perspective on adaptation priorities (costs, technical feasibility, barriers to implementation and financing)
- Create NAP financing working groups
 - Foster dialogue on implementation and financing
 - Identify promising NAP priorities for public-private partnerships
 - Identify sources of financing
 - Identify incentives for private sector implementation

NAP Financing Strategies – Public Sector Role

- Public sector support for private sector
 - Improve enabling environment to support adaptation
 - Long term planning with clear priorities
 - Dedicated budget
 - Investment incentives
 - Clear regulations
 - Raise awareness and educate private sector on adaptation options
 - Create project preparation facilities and advising services



NAP Financing Strategies – Public Private Joint Roles

- Provide information on domestic public financing, international funds, and financial intermediaries
 - Description, contact information, process and documents for accessing financing and selection/approval criteria
 - Financing terms and conditions, including co-financing
- Conduct analyses to map sources of financing and credit enhancements to different types of projects and project implementers



NAP Financing Strategies – Public Private Joint Roles (con't)

- Compile information on implemented public and private sector investments for different jurisdictions and sectors
- Prepare a Financing Strategy
 - Identify most promising opportunities for private finance
 - Identify Public and Private sources of funding and strategies
 - Supplement to NAP
 - Fully integrated into NAP implementation strategy





ENCOURAGING PRIVATE SECTOR INVOLVEMENT IN ADAPTATION

Overcoming Private Sector Challenges to Implement Adaptation

- Increase awareness of climate change costs and benefits, including co-benefits
- Strengthen private sector capacity to conduct climate risk planning and management
- Develop bankable adaptation project pipelines
- Develop guidelines and standards for incorporating climate risks in projects
- Reduce transaction costs to incorporate climate change risks
- Improve the quality and/or tailor projects to meet the investment criteria of private investors related to rates of return and project risk
- Facilitate access to affordable financing

Mechanisms for Public Private Partnership

- Finance of adaptation projects
 - Private sector (commercial finance, equity, own resources)
 - Public sector
 - Municipal and green bonds
 - Loan guarantees
 - Shared financing



Examples of Public Sector in Private Sector Projects



- Provide weather-indexed insurance to encourage investments
- Improve climate information and services to support business decisions
- Capacity development for small businesses
- Reduce import duties on innovative technologies and improved inputs (drought-resistant seeds, irrigation equipment)
- Trust funds to co-finance private sector investments

Public-private partnerships

- Build-own-operate-transfer (BOOT)
- Build-operate-transfer (BOT)
- Design-build-operate (DBO)
- Concessions

Public-Private Partnerships in Adaptation

- Most PPPs are for infrastructure investments (e.g., roads, ports, water supply or treatment)
- Multi-national firms are main “private” partner in PPPs
- Examples:
 - Punjab grain silos – IFC concession to increase grain storage capacity turned over to private sector
 - Increase resilience to climate variability
 - Chiansi Irrigation Project (Zambia)
 - Improves capacity to cope with drought
 - Atotonilco Wastewater Treatment Plant (Mexico) – 49% public financing for private facility
 - Improves human health and capacity to adapt to changing water borne diseases



Overcoming Public Sector Challenges in Facilitating PPPs

- Generate project ideas for PPPs for small infrastructure
 - Small water systems and rainwater harvesting
 - Agricultural infrastructure
- Cultivate domestic private sector partners
 - Focus on key growth sectors vulnerable to climate disruptions (e.g., tourism or agriculture)
- Develop co-financing strategy and designate resources for public component of PPPs



Photo credit: C.Rieck (2011)

Conclusions

- Level of private sector financing in adaptation must be significantly scaled up
- A strategic approach to adaptation is critical
 - Systematically involve the private sector in priority setting and implementation
 - e.g., in NAPs
 - Include financing strategy or plans when setting priorities
 - Address private financing in NAPs (and other plans and strategies)
 - Set up cooperative mechanisms e.g.,
 - Planning
 - PPPs



About CEADIR

CEADIR supports countries to assess and scale up low-carbon, climate resilient development.

Learn more at climatelinks.org/projects/ceadir



CEADIR hosts [*Navigating the Climate Economy*](#), a monthly discussion series on measuring economic impacts and unlocking financing for clean energy, sustainable landscapes, and adaptation.

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