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

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Sources</th>
<th>Enhanced by</th>
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<tbody>
<tr>
<td><strong>Market, Commercial Risks</strong></td>
<td>- Valuation of input and output</td>
<td>- High upfront costs</td>
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<td></td>
<td>- Cost and availability of financial resources</td>
<td>- Long investment horizon and payback periods</td>
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<td></td>
<td></td>
<td>- Financiers’ unfamiliarity with green investments</td>
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<td>- Complexity of infrastructure investments</td>
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<td><strong>Political, Policy, Social Risks</strong></td>
<td>- Actions of governments and citizens</td>
<td>- Reliance on public financial and institutional support</td>
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<td></td>
<td></td>
<td>- Investment horizon longer than policy cycle</td>
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<td>- Environmental impact of some technologies creating social resistance</td>
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<td><strong>Technical, Physical Risks</strong></td>
<td>- Technology characteristics</td>
<td>- Not yet proven green technologies</td>
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<td>- Environmental/sites impacts</td>
<td>- Lack of accurate technology performance data</td>
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<td>- Uncertainty over measurements of the natural resources availability</td>
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<td><strong>Outcome Risks</strong></td>
<td>- Commitment of limited public resources</td>
<td>- Uncertainty of delivering public interest goals’ objectives</td>
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<td></td>
<td>- Amount of public support required</td>
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<td>- Current budget constraints</td>
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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
• 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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