Climate Change and Public Private Partnership

Effective Pathways for Public Private Partnership for Adaptation Projects in the Developing Countries

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PPP & Finance - Adaptation

- Public Finance $$ - Private Finance??
  - SIDS, LDCs – Vulnerable Areas (Urgency) – Priority Public Finance
  - Private Finance – successful adaptation projects?
  - Developing countries – funding gap for adaptation – SGDs too
  - Private sector finance – weak for poorest countries than middle-income
  - Global climate finance flow $331 billion – Private finance $193 billion: 75%

- Tracking Climate Finance Flows for Adaptation
  - Lack of common definitions, activity boundaries (adaptation), methodological differences – reporting? – standardized methods?
    - $25 billion public finance for adaptation – "no reliable data source for project-level private finance for adaptation interventions" ~ CPI
  - Without robust system – how – equitable allocation? Leverage? Attribution?

Collaboration in Cities

- Collaborative Planning of Public and Private actors
  - Private sector accounts for 85% of all investments worldwide, 90% of people in developing countries depend on private sector generated income
  - Innovative models, partnerships and institutional linkages – best cases?
  - Public finance support to reduce risk – Private sector get secure returns
  - Majority of new investment financing – attracted from private sources

- PPP Projects in Cities (Urban Resilience & Adaptation)
  - Better potential to collaborate in cities than in poor regions - climate resilient
  - Case for business interests, lower transaction cost, financial instruments
  - Better return on investment and presents the win-win strategy – private sector too suffer climate impacts and bear immense losses

Small & Medium Enterprise

- Small and Medium Enterprise and MNCs - Different & Significant role
  - Smaller enterprise – difficulty – quantifying risks, resilient planning - to mitigate losses
  - Small & Medium enterprise sector – highest number of employment – vulnerable and poor communities better than MNCs
    - Small & Medium enterprise can be linked to develop new goods and services to facilitate sector specific adaptation – Policy & Regulatory Issue
    - Eg. Waterlife produces clean, affordable drinking water for households in India that have problems with water contamination from flooding
  - MNCs have already providing support to their supply chains to become more climate-resilient
    - Physical Risk, Reputational Risk, Regulatory Risk and Legal Risk
    - Eg. Trainings to coffee farmers, rain-harvesting techniques to cotton farmers, training to adapt to current and future climate conditions etc.

Financial Instruments

- Climate Finance Instruments and Best Practices
  - Limited best practices – Infrastructure, Agriculture, Water, Health etc.
  - Insurance – risk transfer - pre-event and post-event financing instruments
  - Parametric Insurance - lack of examples and data
    - Insurance triggered by an event of a pre-defined intensity, instead of losses
  - Instruments used/proposed – early stage of development (eg. Adaptation market mechanism) – extremely difficult quantifying/valuation
    - “market mechanisms will be used for meeting the costs of adaptation in the most vulnerable developing countries” – Maldives in ADP.
    - Problems– the impact of future climate change is uncertain
    - Quantifying benefits, Valuing different adaptation measures

Financial Instruments

- Climate Finance Instruments
  - **Direct Instrument**: use public funds to incentivize private sector investment – successful cases? – loan provided by DFIs, guarantees to private sector projects
    - grants, debt, equity, quasi-equity, and de-risking - incentivize private sector
  - **Indirect instruments –** use public funds to create mechanisms designed to either raise additional adaptation finance or increase private investments
    - To reduce vulnerability - indirect instruments
    - e.g. internalizing adaptation costs or encouraging tech transfer & development
    - Market mechanism, green and catastrophe bonds – large public resources.
    - Bonds (stream of revenue), Sovereign bonds (reputational risk)

Lessons Learned

- Public Private Infrastructure Advisory Facility (PPIAF)
  - Regulatory and legal environment, which fosters private sector involvement and innovation
  - Create opportunities to leverage public funds to provide commercially attractive and secure returns to private investors
  - Assist government officials in planning and prioritizing projects, incorporate specific climate change responses into project designs, regulate project implementation after contract closure, and find subsidy funding to pay for costs

- Greater Private Sector Involvement
  - Stimulation of autonomous climate proofing by private sector entities
  - Co-financing of infrastructure development
  - Development of adaptation products and services

Lessons Learned

- Leverage Private finance – The World Bank's Climate Investment Funds (CIFs)
  - CIFs – Innovative approach in targeting private sector, greater potential for private sector participation in the financing and delivery of projects.
  - Pilot Program for Climate Resilience (PPCR) – designed to promote the integration of climate risk and resilience into core development planning and implementation
  - About 9% of all PPCR financing involved private sectors actors
    - Including projects to promote the use of climate-resilient seeds, building materials and weather index-linked insurance

Lessons Learned

- Agriculture Supply Chain Adaptation Facility
  - Catalyze private investments to improve the climate resilience of agricultural value chains
  - Partnership: Inter-American Development Bank (IDB) in partnership with Calvert Investments
  - Private Finance Target: Intermediate – Agribusiness corporations; Ultimate: Small- to medium-sized producers and/or processors in agribusiness corporations’ value chains

More than Risk Transfer - Insurance

- Caribbean Catastrophe Risk Insurance Facility (CCRIF) is Multi-Country Risk Pool Supported by Swiss Re
    - Provides 16 Caribbean govts with rapid access to financing – hurricanes & earthquakes
    - CCRIF payouts are estimated through a model in which hazard levels such as wind speeds are used to estimate losses
    - Parametric method of estimating insurance claims - payout does not depend on a claims process - payouts made within weeks
    - Government of Anguilla received US$4,282,733 following the passage of Tropical Cyclone Earl, which passed close to the island on August 30, 2010
        - The value represents almost 20 times the annual premium of US$225,000 that the Government of Anguilla pays for hurricane coverage
        - Approximate payout amount was estimated within 24 hours after the hurricane

- Munich Climate Insurance Initiative
    - Enhance existing risk management approaches to assist affected populations and enhance prevention and risk reduction

Policy & Research

- Tracking Private Finance for Adaptation - System
- Sector Specific Approach & Instruments – Transaction Costs
- Collaborative Approach Business Case with Safeguards
- Partnership for Climate Resilient Technologies and Practices
- Documenting and Sharing – Innovative Models & Successful Financial Instruments
- Climate Proofing for Small and Medium Enterprises – MNCs

Thank You