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

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PPP & Finance - Adaptation

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

• Tracking Climate Finance Flows for Adaptation
  o 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
  o Without robust system – how – equitable allocation? Leverage? Attribution?
Collaboration in Cities

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

• PPP Projects in Cities (Urban Resilience & Adaptation)
  o Better potential to collaborate in cities than in poor regions - climate resilient
  o Case for business interests, lower transaction cost, financial instruments
  o 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
  o Smaller enterprise – difficulty – quantifying risks, resilient planning - to mitigate losses
  o 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

  o 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
  o Limited best practices – Infrastructure, Agriculture, Water, Health etc.
  o Insurance – risk transfer - pre-event and post-event financing instruments
  o Parametric Insurance - lack of examples and data
    • Insurance triggered by an event of a pre-defined intensity, instead of losses
  o 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
  
  o **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
  
  o **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)
  o Regulatory and legal environment, which fosters private sector involvement and innovation
  o Create opportunities to leverage public funds to provide commercially attractive and secure returns to private investors
  o 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
  o Stimulation of autonomous climate proofing by private sector entities
  o Co-financing of infrastructure development
  o Development of adaptation products and services
Lessons Learned

• Leverage Private finance – The World Bank’s Climate Investment Funds (CIFs)
  o CIFs – Innovative approach in targeting private sector, greater potential for private sector participation in the financing and delivery of projects.
  o Pilot Program for Climate Resilience (PPCR) – designed to promote the integration of climate risk and resilience into core development planning and implementation
  o 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
  o Catalyze private investments to improve the climate resilience of agricultural value chains
  o Partnership: Inter-American Development Bank (IDB) in partnership with Calvert Investments
  o 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 govt 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