



Making Adaptation a Private Sector Business

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Inter-American Development Bank
National Development Banks
& Financing Adaptation Investments
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Climate Policy Initiative

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.



Climate finance focus

Tracking

Effectiveness

Innovation

Climate Finance
Landscapes

Case studies





Several barriers can impede the private sector's incentive and ability to invest in climate resilience

Policy Gaps

- Non-existent or deficient regulatory frameworks can inhibit the incentives for investment

Knowledge gaps

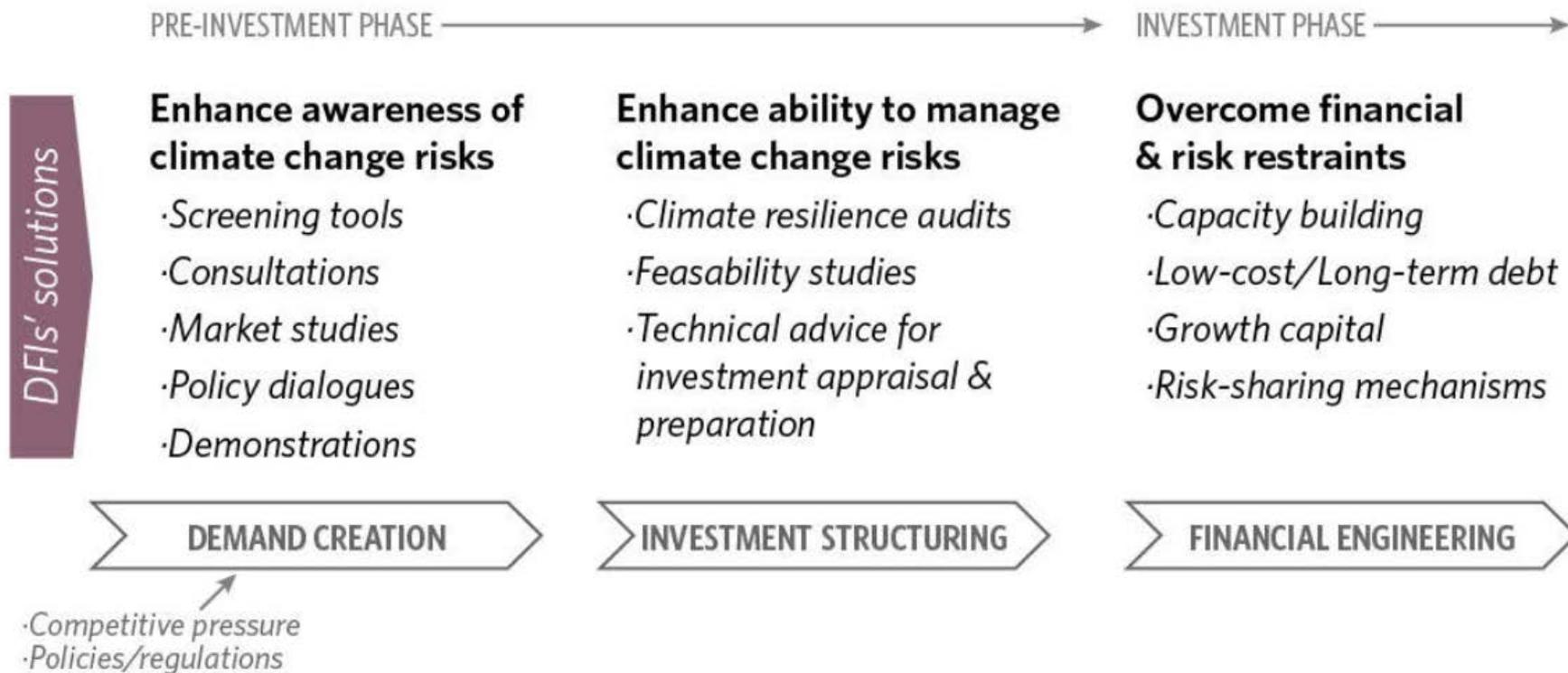
- Inability to evaluate and incorporate climate change risks into investment or financing decision making

Funding, viability & risk coverage gaps

- Inadequate access to finance or uncertainties about the returns of investments and risk aversion

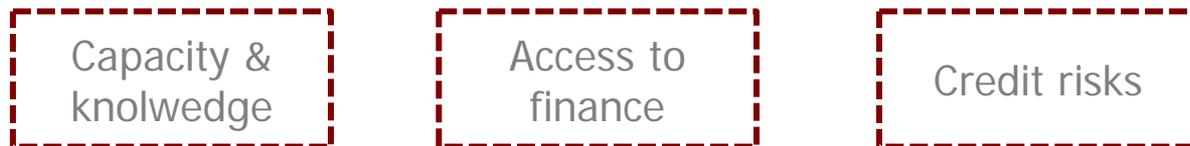
➤ *Barriers vary by type of business actor & level of climate exposure*

DFIs' tools can bridge these gaps associated with both the pre-investment and investment phases

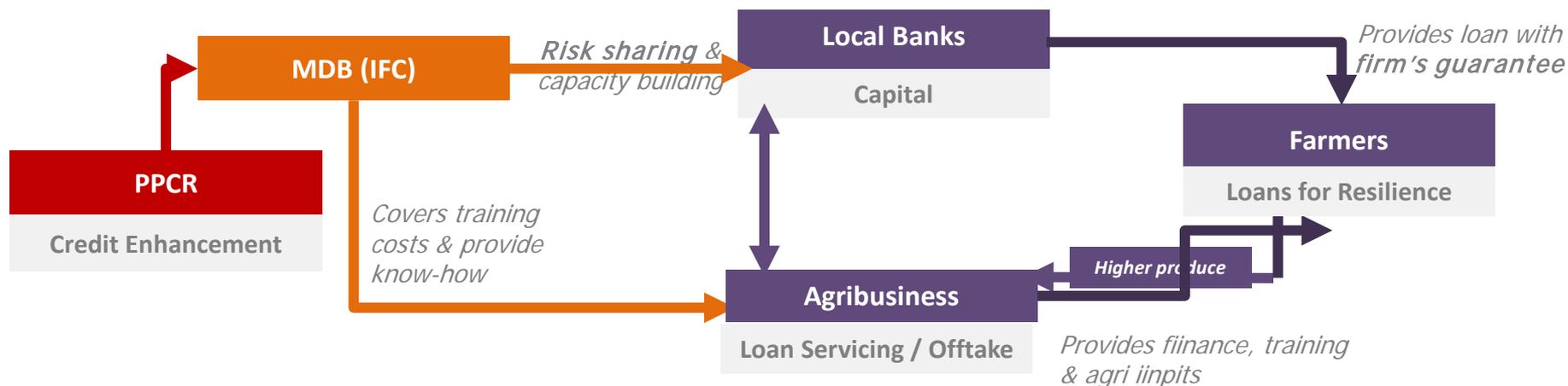


Targeting knowledge, funding and risk gaps to build a market-driven model for building climate resilience

Problem



Strategy





Concluding remarks – scaling up action

NDBs are in a privileged position to help **originate, structure and implement climate resilience investments**

- **Engage with clients** or local commercial banks to identify, evaluate and manage climate risks (or opportunities)
- **Equip** businesses with the information and tools they need to see the business case for investment
- **Demonstrate to create the evidence base** needed to encourage private sector interest in climate resilience
- **Engage in policy dialogue** to prompt reforms and to facilitate dialogue btw governments and businesses

Thank you!

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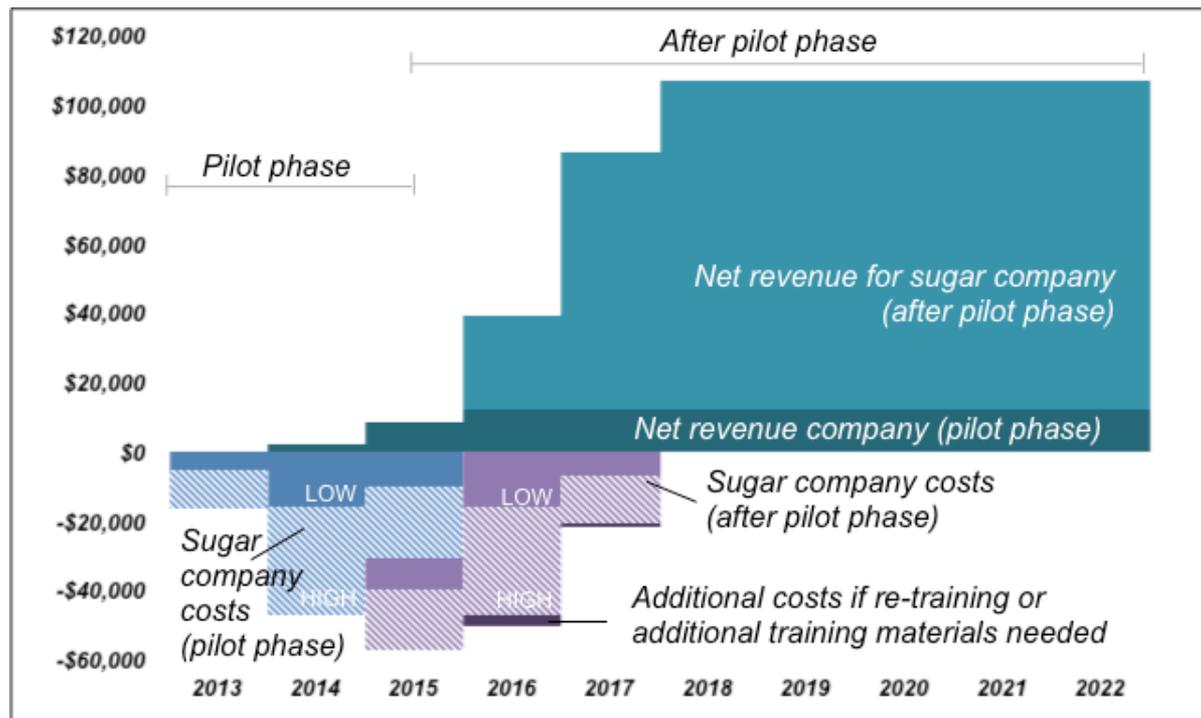
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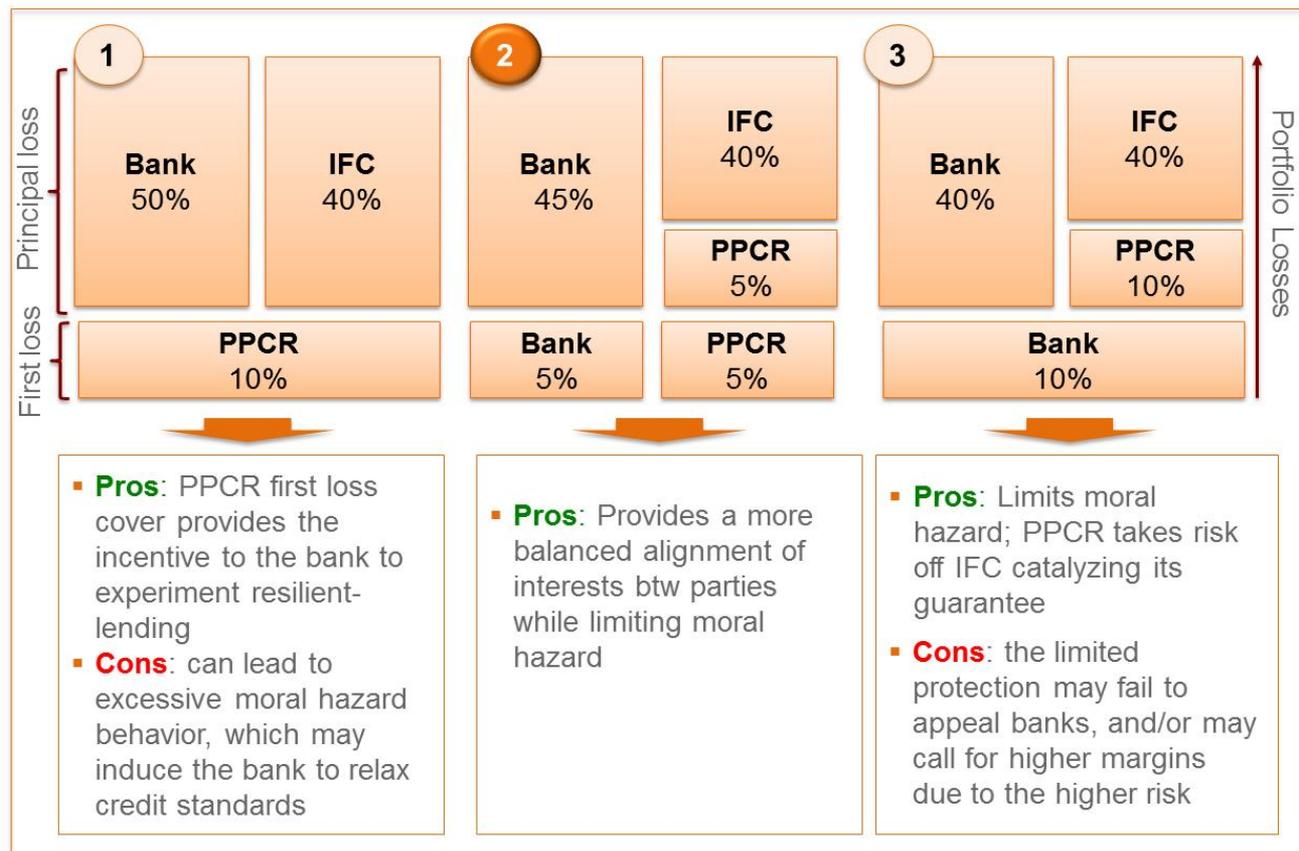
Backup

Sharing risks to unlock financing

- Agribusinesses have a strong incentive to engage in the project because farmers' climate vulnerabilities directly impact the profitability and returns of their businesses.
- Companies' investment of up to USD 95,000 each in the project is projected to be recouped around 5 years after all targeted farmers are trained



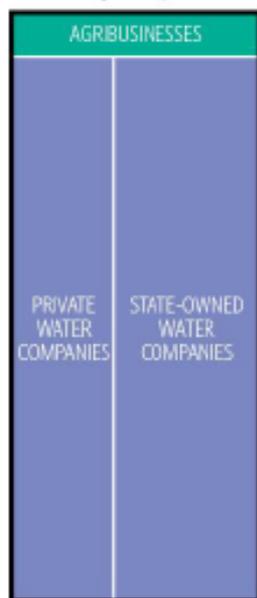
Sharing risks to unlock financing



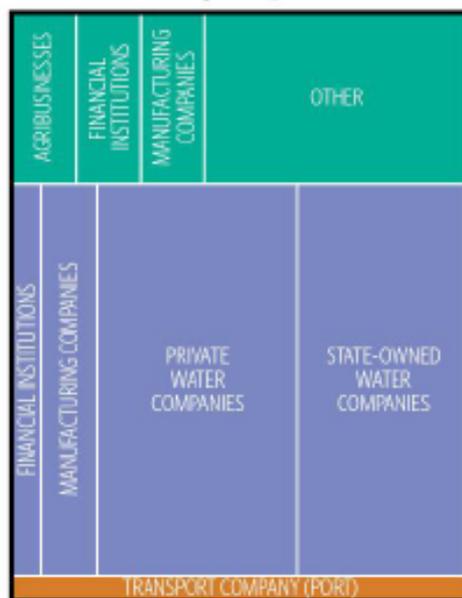
Composition of our dataset

DFIs' private sector projects in 2011-2014 by countries' level of income, sector and beneficiary business

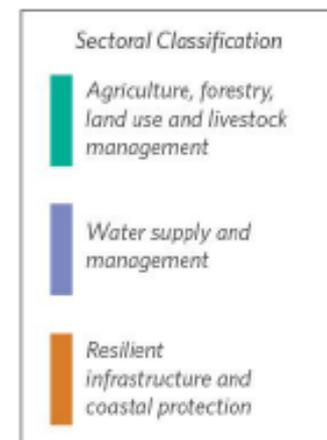
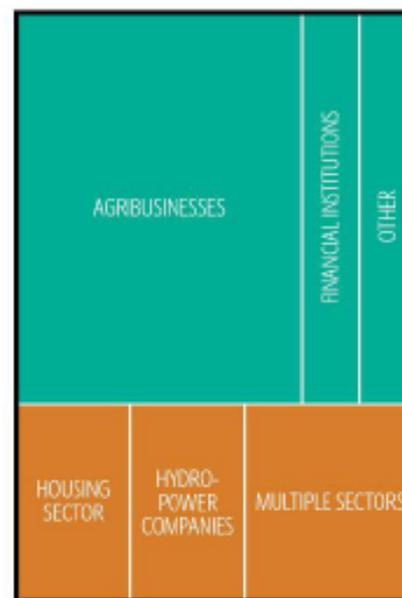
Developed countries
(n=13)



Upper middle-income countries
(n=24)

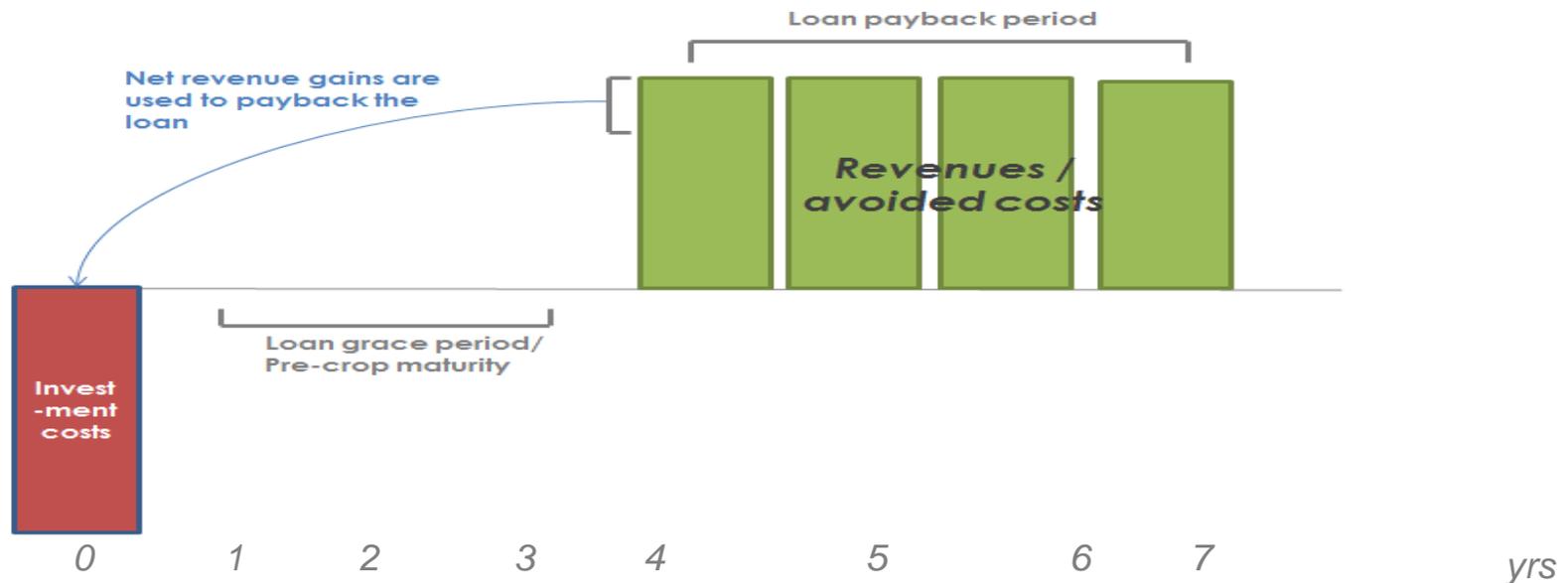


Developing countries
(n=21)



In developing countries, DFIs are targeting knowledge, viability and risk gaps, mostly in the agricultural sector

- **Safeguarding crop supplies** is an important driver for agribusinesses to work with the farmers in their supply chains
- **Business outreach, feasibility studies, capacity building and finance aligned with investments' pay-back profiles** are key ingredients to enable climate resilience
- **Intermediated financing vehicles and dedicated facilities** can enhance access to finance at the local level, reaching numerous MSMEs



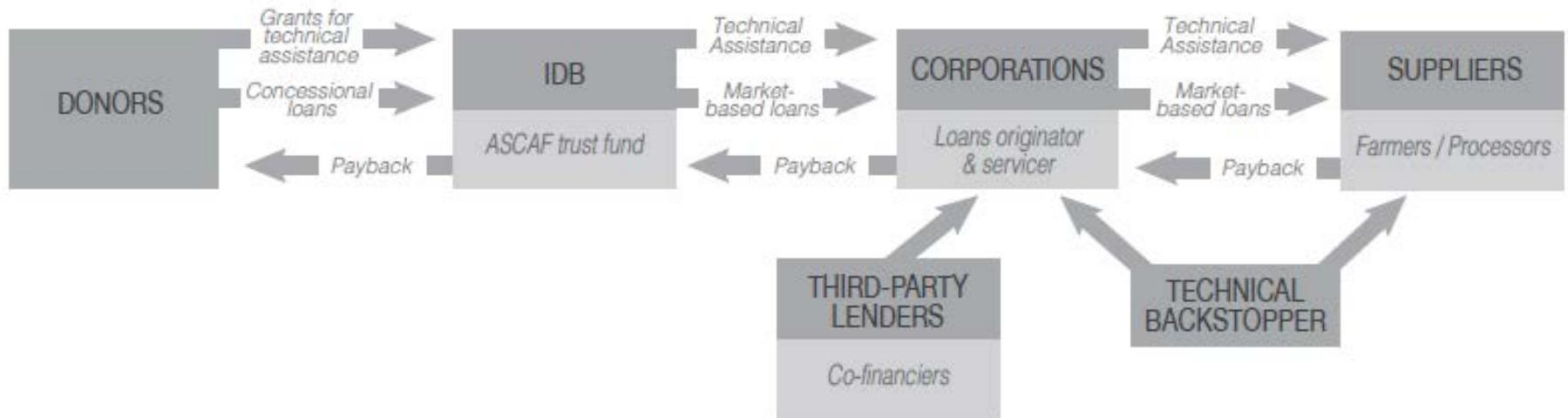
In the EU, EIB enabled capital-intensive investment of water utilities by providing access to long-term finance

- **Regulations** and the **renewal of ageing assets** offered opportunities to invest in climate resilience measures
- **Capital intensive** investment, but commercial loans too short
- **Adaptation** can be a relatively **small, but critical component**



Source: EIB 2013a

The Agricultural Supply Chain Adaptation Facility



Sources: Trabacchi et al. (2015) at <http://climatefinancelab.org/idea/agricultural-supply-chain-adaptation-facility/>.

Agricultural Supply Chain Adaptation Facility benefits

- Farmers receive training on sustainable agriculture practices and business skills and are integrated into a large supply chain.
- Farmers gain access to long-term lower cost loans
- Farmers' household income is increased or more stable
- Corporations receive capacity building to deal with credit risk and loan management
- MDBs and lenders credit risks are covered by donor first-loss, risks they would otherwise be unable to absorb

Allocation of credit default losses

