Coping with climate: driving climate resilience in the private sector
WBG, Washington, 26/01/17

Innovative approaches for mobilizing climate finance for adaptation

Chiara Trabacchi, Sr. Analyst
Climate Policy Initiative, The Lab Secretariat
@ctrabacchi
An overview of Climate Policy Initiative

**Diagnosing climate finance flows** to identify actors, gaps and opportunities in support of investment decision-making

**Assessing the effectiveness** of climate investments to enable learning

**Engaging public & private sector actors to develop instruments & partnerships to mobilise private finance** at scale
The Global Innovation Lab for Climate Finance supports the identification, development and piloting of cutting edge climate finance instruments that can address outstanding gaps to private investment in mitigation and adaptation in developing & emerging countries.
Lab members and partners

In addition, with support of:

Bloomberg Philanthropies
The Rockefeller Foundation

Secretariat:
Lab approach:
Developing opportunities and delivering innovation

- Crowd sourced ideas
- Public-private partnership
- Innovative finance tools
An overview on the ideas submitted

33% of the eligible ideas submitted focused on climate resilience

TOP BARRIERS TARGETED

- Lack of suitable financial products
- Lack of suitable tools and/or incentives to measure & incorporate climate risk
- Shortage of technical skills

TOP INSTRUMENT TYPES PROPOSED

- Fund/Finance Facility
- Tools / Service
### Lab endorsed climate resilience-relevant instruments

<table>
<thead>
<tr>
<th>LAB INSTRUMENTS</th>
<th>TARGET SECTOR</th>
<th>TARGET PRIVATE FINANCE</th>
<th>TARGET BARRIER</th>
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<tbody>
<tr>
<td>Agricultural Supply Chain Adaptation Facility (ASCAF)</td>
<td>Land-use</td>
<td>• Agribusinesses</td>
<td>• Constrained access to medium- and long-term credit</td>
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<td></td>
<td>• SME producers and/or processors</td>
<td>• Inadequate know-how</td>
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<td>• Commercial banks</td>
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<td>• Agribusinesses</td>
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<td></td>
<td>• Farmers</td>
<td>• Lack of tools and incentives to address climate risk in smallholder lending portfolios</td>
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<td>Re/insurance data and modeling industry Other</td>
<td>• Re/insurance companies</td>
<td>• Inadequate availability of data, risk assessment tools</td>
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<td>• Data &amp; natural hazards modeling services providers</td>
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<td>• Inadequate access to finance</td>
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<td>• Domestic institutional investors</td>
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<td>• Risk of political interference</td>
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<td>• Capacity gaps</td>
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<td>Climate-Smart Lending Platform (CSLP)</td>
<td>Land-use</td>
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**Oasis Platform for Catastrophe & Climate Change Risk Assessment & Adaptation**

- UNDERSTANDING RISK is the starting point for the provision of catastrophe risk insurance
  - Inadequate insurance coverage
  - Insufficient / inadequate hazard, vulnerability and exposure data and risk models to assess and price the severity and probability of losses
  - Under-developed insurance markets

**Water Financing Facility**

- Water utilities
- Domestic institutional investors
- • Inadequate access to finance
- • Revenues uncertainty
- • Risk of political interference
- • Capacity gaps
GOAL: Catalyze private investments in measures that improve the climate resilience of agricultural value chains

DESCRIPTION
Credit enhancement and technical support mechanism working through Development Banks who would partner with agribusiness corporations to provide technical & financial capacity assistance for climate-resilient investments through the corporations’ supply chain. With backing from donors, the Facility would enhance financiers’ comfort to extend medium-to-longer term credit to these farmers for investment that could enhance their climate resilience.
**GOAL** Scale up climate-smart lending to smallholders whilst reducing climate-related default risk in lending portfolios

**DESCRIPTION**
Approach that brings together the tools, actors and finance necessary to integrate climate-smart agriculture metrics into credit scoring systems thereby helping lenders manage climate risk in their loan portfolios, while incentivizing the adoption of climate-smart farming methods by smallholders.
GOAL Enable improved climate-related risk assessment & management for increased insurance coverage and investment in resilience

DESCRIPTION
Set of open source and open access tools that together aim to offer a more transparent and comprehensive approach for analyzing and pricing risk from natural catastrophic events for an improved understanding of such risks

1. Loss Modeling Framework (LMF)
   Assesses standardized data to quantify potential economic and financial consequences from catastrophic events

2. E-market
   Links supply (of risk assessment models) with demand for these models by end users.

3. Capacity Building
   Training for model-makers and model users to develop and use catastrophe risk models using standardized approach.
GOAL  Mobilize large scale domestic private finance from the local bond market for the water sector, & strengthen utilities in countries subject to climate-related water stress

DESCRIPTION
National level pooled bond facility that would provide corporate loans to water utilities for projects and actions that help achieve climate resilience and mitigation benefits. The establishment of an international limited liability company - World Water Financing Facility – would facilitate the creation of national-level Facilities and provide financial engineering, transaction advice, and financial management support.

*Terms: For Kenyan Pilot, aim is to issue USD 250m in local currency bonds over 5 years (1st issuance USD 25-40m), 15-20 year tenor.
**Terms: USD 2-10m/100% of project cost, pass-through of bond rate plus spread
Cloud Forest Blue Energy Mechanism

**GOAL** Apply project finance to restoration and conservation of cloud forests serving as watersheds of hydroelectric power plants to improve and sustain their productivity where impacted by climate change and forest loss/degradation

**DESCRIPTION** Project finance approach to raise up-front capital to cover for cloud forests restoration & conservation costs, deliver measurable water quality and quantity improvements that would be paid by hydropower companies through off-take agreements

Climate Resilience & Adaptation Finance & Transfer Facility (CRAFT)

**GOAL** Provide growth capital to climate intelligence & solution companies to help enhancing the availability of technologies and products that can help understanding & managing climate change risks

**DESCRIPTION** Commercial investment vehicle pooling blended capital and expertise to make ‘growth’ investment in companies whose technologies and products help understanding & managing climate change risks. A technology transfer mechanism would help bringing solutions to developing countries
Thank you for your attention!

Contact:
Chiara Trabacchi
chiara.trabacchi@cpicclimatefinance.org
lab@cpicclimatefinance.org
Lab process
How the Lab process works

The Lab criteria are assessed over the Lab cycle and in a phased approach:

- **Phase 2** focuses on instrument design and particularly the innovation and financial sustainability criteria.
- **Phase 3** focuses on implementation and places stronger emphasis on the actionability and catalytic criteria.

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**Call for Ideas**
- **Phase 1**
  - **LAB MEMBERS**: Screen & select ideas for instrument design.
  - **PROPONENTS**: Submit ideas for review.
  - **SECRETARIAT**: Set-up, outreach, and convene.

**Instrument Design**
- **Phase 2**
  - **LAB COLLABORATIVE WORKING GROUPS**: Instrument Design including:
    - Instrument mechanics
    - Operational context
    - Assessment of barriers & innovation
    - Strategy for financial sustainability
  - **PROPONENTS**: Participate / inform working groups.
  - **SECRETARIAT**: Convene, develop, analyze, and lead working groups.

**Implementation Design**
- **Phase 3**
  - **LAB COLLABORATIVE WORKING GROUPS**: Pilot Implementation and impact assessment including:
    - Pilot implementation pathway
    - In depth quantitative impact modelling
    - Target investor profiling & outreach support
  - **PROPONENTS / IMPLEMENTERS**: Participate / inform working groups.
  - **SECRETARIAT**: Convene, develop, analyze, and lead working groups.

**Pilot Support**
- **Ongoing**
  - **IMPLEMENTERS**: Launch pilots.
  - **LAB MEMBERS**: Provide financial, technical, and network support.
  - **SECRETARIAT**: Support implementation, monitor, and share lessons.

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**Timeline**
- **Sep – Dec 2016**
- **Jan – April 2017**
- **April – July 2017**
- **July / Dec 2017**
Innovative
The instrument demonstrates the ability to address, directly or indirectly, barriers to private climate finance that (1) have not yet been addressed or (2) that will be addressed in an improved manner compared to other instruments in the market.

Actionable
The instrument identifies (1) the type of entity(ies) that could implement it, (2) the pathway towards implementation, including the timeframe, activities and key milestones, and (3) possible challenges to setting-up the initiative and related management strategies.

Financially Sustainable
The instrument identifies a strategy to (1) phase out public financial support, thereby achieving market viability, and (2) overcome possible challenges to achieving its intended objectives.

Catalytic
The instrument demonstrates potential to (1) mobilize private climate capital within a sizeable market, (2) be scaled up or replicated in other contexts and, (3) achieve socioeconomic, development, and environmental impacts.
What happens if an idea is selected for the Lab

If your idea is selected by Lab Members, you will work with a team of analysts, key stakeholders, and experts to:

• Develop or refine the mechanics of your idea
• Survey comparable instruments to ensure impact
• Develop robust financial modeling
• Assess potential social and environmental impacts
• Map risks to roll-out and risk mitigation strategies
• Develop a detailed implementation plan
• Produce promotional content
• Present your idea to donors and investors
• Potentially receive endorsement from the Lab