| Round Tables | | |
|---|---|---|
| **RT 2. Adaptation Finance** | | |
| **Moderator** | Nanno Kleiterp, FMO Dutch Development Bank, the Netherlands | |
| **Presentation** | • | Pieter Pauw, Deutsches Institut für Entwicklungspolitik, Germany |
| **Panel members** | • | Patrick van Dijk, Royal HaskoningDHV, the Netherlands |
| | • | Arthur Gleijm, Rebel Group, the Netherlands |
| | • | Stéphane Hallegatte, The World Bank, USA |
| | • | Marieke Lely, Boskalis, the Netherlands |
| | • | Andreas Prystav, Swiss RE, Switzerland |
| | • | Willem Stitselaar, Macquarie Capital, the Netherlands |
| | • | Willemijn Verdegaal, Ministry of Foreign Affairs, UNFCC standing Committee on Climate Finance, the Netherlands |

**Introduction**

The roundtable was introduced by Pieter Pauw. The IPCC defines adaptation as '*The process of adjustment to actual or expected climate and its effects'.* Global costs of adaptation are estimated to be at least tens of millions US Dollars per year, much of which is needed in developing countries. Ban Ki-moon's High-level Advisory Group on Climate Change Finance concluded that international private sector flows are essential for the transition towards a climate-resilient future. Yet private and public perspectives on adaptation are dissonant. The public sector has a 'cost narrative': adaptation is a secondary response to climate change (after mitigation) with public good characteristics. The private sector, however, has a revenue narrative. They want relatively quick and predictable returns on investment, at acceptable risks. Here, adaptation is not an end in itself, but a means to an end: either to deal with climate risks, or to capitalise on new business opportunities.

Several barriers for private engagement in adaptation were presented. First, the public good characteristics of adaptation mean that private financing of adaptation might have public benefits that cannot be monetized. Second, adaptation has a high (perceived) risk profile, caused by the uncertainty of climate change impacts, foreign exchange, legal and policy frameworks, untested technology, etc. Third, the benefits of adaptation are often delayed, but the investments are mostly capital intensive and up-front. Good examples of this are the large-scale flood protection projects and programmes, such as 'MOSE' in Venice, the 'Delta Programme 2015' in the Netherlands, and the NCICD coastal development programme in Jakarta. Finally, such adaptation projects are unique and tailor-made. This causes high transaction costs: the projects require actor constellations, knowledge, financing constructions and adaption plans that cannot just be copied elsewhere.

Some factors enable more private engagement in adaptation. First and foremost, credible public partners are required. For example, investors want stable policies, transparency, risk-sharing mechanisms, and sound funding agreements. Second, the transaction costs of adaptation engagement should be minimized, for example through standardization and harmonization of products and procedures (e.g. water quality demands, building codes). Third, next to such robust prerequisites, flexibility is required when it comes to frameworks and deployment of financial instruments for project development and implementation. Carving these in stone would reduce the ability to be innovative. Finally, in order to move beyond Corporate Social Responsibility to work towards private financing of adaptation that is relatively independent from public support, innovative public-private arrangements need to be created that allow for cash flow generation.

**Panel discussion**

For a more focused discussion, a hypothetical case study was presented to the panel members and the audience, in which a predominantly urban area was impacted sea level rise, land subsidence and salinisation.

The panel members concluded that it is complex but possible to engage the private sector in financing of adaptation. As Arthur Gleijn stated, the private sector only pre-finances projects, and want to earn their investment back. Yet the lack of revenue generation from adaptation projects hinders attraction of private sector investors or investors in general, as reiterated by Andreas Prystav. However, he also pointed out that this dilemma can be overcome by monetising the future cost savings due to climate adaptation infrastructure. In this scenario, the state or the beneficiaries of the infrastructure compensate private investors for financing of the infrastructure. A win-win situation in case future cost savings exceeds total investment costs.

Stéphane Hallegatte repeatedly referred to infrastructure financing. According to him, the challenges of infrastructure and adaptation financing are similar, as both face large needs which the public sector is unable to provide. Hallegate stated that the World Bank invests a lot in infrastructure, and that well-designed investments also have adaptation benefits. Other panellists mentioned some examples. For instance, Marieke Lely mentioned how newly created real-estate islands help to reduce flood risks. Patrick van Dijk added an example where revenues are generated through toll roads or recreation at hydropower dams that help to reduce flood risks.

According to Willemijn Verdegaal, public budgets are negligible compared to the financial requirements for adaptation. Willem Stitselaar stated that there is a lot of private money looking for good projects, and there is potential for private financing of adaptation. The panellists mentioned a number of points on how to unlock more private financing of adaptation:

- Standardization of products and procedures
- Public provision of better information on climate change impacts
- Development of a project pipeline. Governments and development banks can step in here
- Target risks: governments and development banks can take the most risky parts of investments which pension funds or institutional investors are not willing to take, for example through export credits or green bonds
- Micromanagement from politicians should be prevented. Innovative institutional frameworks could be really useful, but should not increase red tape

To conclude: the panellists seemed to agree that adaptation works best as an add-on to existing ambitions. The challenge is to find financial resources for this additional bit, which seems particularly difficult in developing countries.

What panellists disagreed about is the size and inclusiveness adaptation projects should have. Some pointed at the option to integrate adaptation in large, long-term integrated programmes. Others stated that it is difficult to put such integrated programmes on the market, and made a case for small and concrete projects instead – at least for a start.