



CTI PFAN Exploratory and Follow-Up Workshop

Financing

Adaptation Related Projects

EXECUTIVE SUMMARY



1. Introduction & Background

This is a summary of the proceedings and outcomes of both the CTI PFAN Exploratory Workshop on Financing Adaptation Related Projects (**Exploratory Workshop / Workshop**), which was held at the United Nations Environment Programme (**UNEP**) facility in Nairobi on 13th – 14th June 2012 and the Follow up Workshop on Financing Adaptation Related Projects (**Follow Up Workshop**), which was held at the Tribe – Village Market Hotel in Nairobi on the 15th June 2012. The report has been prepared by PPL International as Global Coordinator of CTI PFAN, which was tasked with the organisation and implementation of the Workshop together with the Sponsors and other Co-Organisers.

Both Workshops marked one of the key milestones in the development and implementation of the new **CTI PFAN Adaptation Stream**, which was expressly designed to expand CTI PFAN's scope of activity into adaptation related projects as well as mitigation projects, which have been the main focus for CTI PFAN to date. This new activity was mandated by the United States Agency for International Development (**USAID**) and the Climate Technology Initiative (**CTI**) and is currently being funded predominantly with funds provided by the Global Climate Change Team (**GCC**) of USAID's Bureau for Economic Growth Education and Environment (**USAID E3**), complemented by funding from CTI.

A follow-up workshop (the Follow-Up Workshop), was held immediately after the Exploratory Workshop to discuss and elaborate the findings of the Exploratory Workshop among a smaller core group of CTI PFAN members and partners. This included the Consultant Team, selected experts and resource persons from the Exploratory Workshop. *(Please refer to Reports 1 & 2)*

While, on a global basis, mitigation activities are for the most part transitioning successfully into the mainstream, there remains a clear need to focus attention, activity and resources on adaptation and to meet the adaptation priorities of developing countries with the same levels of expertise in technology and service delivery, which are already being seen in mitigation. The private sector has particular competencies which can make a unique contribution to adaptation, through innovative technology, design of resilient infrastructure, development and implementation of improved information systems and the management of major projects. Moreover given the constraints on the availability of public sector financing, it is also generally accepted that private sector financing will be required to play a role in addressing some of the challenges of adaptation, in the same way that it is already being mobilised for mitigation. While there has been some signs of private sector interest and activity, to date adaptation is still seen as more of a public sector focus and responsibility.

Against this background the aim of CTI PFAN Adaptation Stream is to engage and mobilise private sector investment and financing to help identify, develop and implement commercially viable, socially responsible and sustainable projects aimed at reducing climate vulnerability and increasing the adaptive capacity of developing countries.

To achieve this CTI PFAN envisages using its tried and tested bottom-up approach, to identify, develop, secure financing and investment for commercially viable and sustainable projects. The ultimate objective of the process is to establish a CTI PFAN network and project development activity, dedicated to connecting private sector investment and financing to adaptation related projects. During an initial pilot phase of the new initiative, CTI PFAN envisages leveraging up to USD 22,000,000 of private sector investment and financing for adaptation related projects in Africa. In subsequent phases the financing programme will be scaled up and rolled out globally.

Both the Exploratory and Follow Up Workshops facilitated a healthy exchange of positions and views between the gathered stakeholders, particularly between the public sector the private sector investors and the project developers (which came from both public and private sectors). In this it can be reckoned that the Workshops succeeded in two of its prime objectives in bringing the public sector and the investor communities closer together, helping them understand the needs and constraints under which they respectively operate and facilitating the beginnings of an ongoing dialogue which will hopefully serve to enhance the flow of financing into adaptation related projects in the medium to long term. By the same measure it became even more evident that the challenges and barriers facing the accomplishment of this goal are many and significant and will not simply disappear; it will require considerable effort from both sides to overcome them.

From the discussions it is clear that many adaptation activities will remain beyond the reach of private financing, because they simply do not generate appropriate hard revenues capable of returning capital and providing acceptable returns.

2. Key outcomes, Findings and Recommendations

- A working definition for Adaptation projects was agreed and adopted as outlined: ‘

Adaptation related projects are those that help reduce the vulnerability of human and natural systems to the current and future impacts of climate change and climate-related risks, increasing or maintaining adaptive capacity and resilience in the targeted regions and countries through investment for project implementation.

- Through the Background Paper, the Exploratory Workshop and Follow Up Workshop some core categories of target projects were identified and endorsed to which the CTI PFAN would dedicate its marketing and promotional effort
 - Energy and access to energy
 - Water and sanitation
 - Agriculture and agribusiness
 - Tourism
 - Ecosystem, biodiversity and forestry

In addition, and as proposed in the Background Paper and supported by the Exploratory Workshop, the cross cutting areas of micro-finance, micro-insurance, urban development and adaptation products and services would be used to focus project identification and selection activities.

- It was agreed that the CTI PFAN project selection process will be as inclusive and wide ranging as possible. The consultancy team and the participants at the Exploratory Workshop explicitly warned against a blue-print approach which may lead to unnecessary exclusions and alienation of project developers. Accordingly viable projects will not be excluded from eligibility for reasons of their coming from non-priority sectors. However business development and marketing will be focussed on the priority sectors.
- Criteria of project acceptance into the pipeline was diagnosed, discussed and agreed. The criteria was structured and broad enough to capture major elements key in the selection process allowing for as much flexibility as possible in project selection. Of key importance were the following elements among others:

- Commercial and technical viability
 - Quality, experience and skills level of the project team
 - Risk analysis and mitigation
 - Environmental and social benefits
 - Project maturity and innovation
 - Sustainability
 - Fulfilment of adaptation criteria and compliance with adaptation stream definition
- Five (5) pilot projects would be considered for the pilot. These five (5) projects needed to be identified and recommended for selection. The choice of these projects would be ratified by CTI PFAN Executive Committee before the pilot phase would commence.
 - Further project identification and development would be carried out continuously by the CTI PFAN. This would focus on a cross sectoral approach allowing for the mixing of adaptation and mitigation project components. The purpose of this approach is to allow for creative thinking from both the project developers and investors perspectives, cognizant of the fact that many adaptation related projects cannot be structured in a fully commercial way.
 - Appropriate consultants to coach and support the project development process during the pilot phase were to be identified by the Global Coordinator. These consultants would then be recruited into the CTI PFAN network.
 - An Evaluation Workshop would be hosted after the completion of the pilot phase. At the end of this Evaluation Workshop a Recommendation Paper would be written.

3. Key Learning Points

- There is a large requirement for financing expertise and financing capability in respect of adaptation related projects. Few developing country project developers of whatever background have the requisite experience and capability of packaging projects and presenting them to investors. CTI PFAN observes the same aspect in mitigation projects, but it appears even more pronounced for adaptation related projects. The situation is further complicated by the fact that the origin of many adaptation related projects lies in the public sector and they deal with assets, liabilities, infrastructure and services which are generally considered as public goods, posing myriad regulatory as well as legal issues which need to be addressed through project development and making structuring all the more challenging.
- Leading on from the above identification of adaptation related projects remains a challenge. It is accordingly expected that more time and effort will need to be invested in project identification and scoping methodologies (in comparison with mitigation projects) to ensure a steady and reliable deal flow of good viable projects;
- The importance of thinking and packaging projects creatively was emphasized by investors and project developers alike. It is likely that many adaptation related projects cannot be structured in a fully commercial way. The issue then becomes one of packaging and targeting a project proposal in such a way that it is accessible and attractive to an investor as a business model capable of reaching an appropriate scale, using blended financing and PPP techniques to mobilise and leverage public / donor financing streams.

- There is a general lack of development capacity and early stage financing mechanisms to provide seed capital, which is currently even more pronounced for adaptation projects than for mitigation projects. This implies more targeted technical assistance and seed capital support for early stage project development to generate and nurture project pipelines of potential projects. Overall this will serve to reduce the financing leverage that CTI PFAN and its funders may expect to generate from adaptation related activities (in comparison with mitigation).
- “Adaptation Projects” are not generally recognised by investors as a discrete asset class and there is little identification with “adaptation” as a concept. From the investor perspective the distinction between adaptation and mitigation is of limited relevance; the principal driver for investment is the risk weighted return coupled with the fulfillment of other benefits and conditions which an investor wishes to target. Adaptation projects should be promoted and marketed as climate change projects rather than adaptation projects.
- There is, however, a group of investors emerging, so called impact or mission investors, which target and value development and social returns in the same way as they target financial returns. Such investors can be expected to have appetite for adaptation related projects, albeit they should be marketed otherwise.
- Execution risk is seen as one of the biggest challenges facing project developers and investors. Hence the caliber and experience of the project developer is crucial to the investment decision. Again this is an area which will require extra support and assistance to develop and expand the execution capacity (and supporting eco-systems) in developing countries.
- Chief common barriers identified by the various project developers included: lack of land tenure; undue time needed for clarification of legal issues and to go through legal process (contracting); lack of hard collateral and guarantees; lack of early stage development and seed capital and difficulty in accessing technical assistance to support the same; the problem of having to develop “passive investment structures” which are often needed to avoid a direct shareholding in the project to satisfy public sector requirements of dealing with public goods, thereby reducing the influence and the control of the developer over the project and reducing the attractiveness to investors because of complex and opaque holding and contractual structures.

The above learning points are explained in more detail in section 3 of the report on the Exploratory Workshop.

4. Conclusion

All the participants in both Workshops engaged in lively discussions during the debates and discussions and contributed tremendously to the small but growing body of knowledge and expertise related to the financing of adaptation related projects. With the conclusion of the Workshops the launch phase of the CTI PFAN Adaptation Stream effectively comes to an end and the Pilot Project Development Phase begins. This sees us move from the theoretical to the practical as we get to grips with the reality and challenges of real life project development and financing. The Workshops laid important ground for this transition, and the learning points and information gathered are proving invaluable in the design and implementation of the pilot phase. What is more, the participants of the Workshops have served to form a vital core of the emerging and evolving CTI PFAN Adaptation Network. CTI PFAN is indebted to all the participants and thanks them sincerely for their enthusiasm, engagement, insight and expertise in helping map out the framework for the further development and implementation of the CTI PFAN Adaptation Stream.