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Deutsches Institut für Entwicklungspolitik
German Development Institute

Private adaptation finance: developed countries' perspectives and experiences

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Content of today's presentation

Private adaptation finance:
developed countries' perspectives and experiences

1. Background
2. Aim of research and Methods
3. Results
4. Conclusion and Discussion

Adaptation and finance at UNFCCC

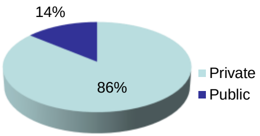
- Increasing focus on adaptation and finance in UN climate negotiations and at domestic levels
  - both are aims of the Paris Agreement (Art. 2.1)

- Climate finance pledge at UNFCCC: USD 100 bn p.a.
  - 2009: adaptation no longer just public domain: developed countries insisted on private sector as source finance
  - Literature is still very much about conceptualizing private sector adaptation and adaptation finance
    - What is adaptation
    - What is finance
    - What is private sector?

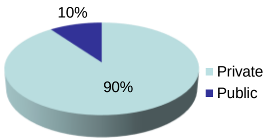
    } What is private adaptation finance?

Background: private adaptation

Overall global investments (UNFCCC, 2007)

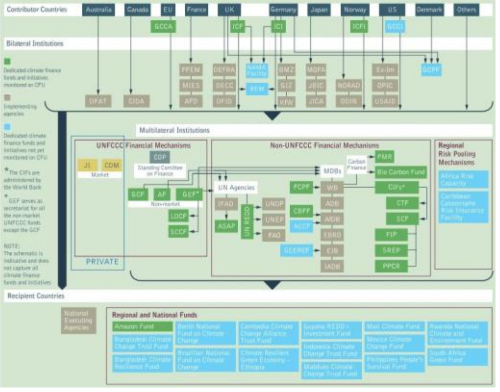


Dependent on private sector for income (SER, 2011)



- Public funding alone is insufficient to address adaptation
- '*unique expertise', 'financial leverage' 'capacity to innovate and produce new technologies'* (UNFCCC, Private Sector Initiative)
- Private sector: reasonable, relatively quick and predictable returns, at acceptable risks → adaptation and mitigation mostly side-benefits

Climate finance architecture



+civil society

+research

+private sector

+think tanks:

+Int'l orgs like OECD, IEA

Source: Climate Funds Update, 2015

Typology of fragmentation of governance architecture

Typology of fragmentation of governance architecture

	Synergistic	*Cooperative*	*Conflictive*
Institutional integration	One core institution, with other institutions being closely integrated	Core institutions with other institutions that are loosely integrated	Different, largely unrelated institutions
Norm conflicts	Core norms of institutions are integrated	Core norms are not conflicting	Core norms conflict
Actor constellations	All relevant actors support the same institutions	Some actors remain outside main institutions, but maintain cooperation	Major actors support different institutions

Source: Biermann et al., 2009.

Aim of this research

- Investigate positions of:
  - **developed countries** (biggest advocates of private adaptation finance), through submissions to the UNFCCC
  - **development banks and -agencies** (as implementers with practical experience), through interviews (N=13)
- **In the fragmented climate finance system, can they operate without norm conflicts?**
- Through identification of:
  - Definitions and motivations
  - Current experiences
  - Actors, modalities and instruments
  - Tracking of financial resources

Results (I): Motivation & Definition

- Countries: mobilising private adaptation finance important (but they do not provide definitions). Motivations:
  1. meeting USD 100 billion target
  2. Transition to low-carbon and resilient economies.
- Respondents: pressure to involve private sector. Difference: pre-existing mission of development (locally important are job creation, development of the financial sector, economic growth, ... Resilience crucial for development
- **Neither synergy nor conflict on the definition of private adaptation finance or the motivation of mobilising it**:
  - Ambiguous delegation provides development institutions with flexibility in their adaptation projects with the private sector

Results (II): Current experiences

- Countries have little experience with mobilising private adaptation finance
  - Yet US, EU, Japan don‘t do capacity building for PS
- Respondents see possibilities: co-benefits; services; large infrastructure projects (which offer revenue streams).
  - Capacity building crucial
- **Instead of financing, private sector implements**. ‘USD 100 bn aim’ hardly addressed; no conflict with ‘transition aim’.
- **Cooperative but incomplete actor constellation.** Private actors often have limited understanding of adaptation, and even lower awareness of UNFCCC discussions on private adaptation finance (cf. Pauw et al. 2015).

Results (III): Actors, modalities, instruments

- Countries: national governments should create enabling environments to mobilize PS finance
- Respondents: enabling environment important, but often part of general business environment
- **Different perspective of role PS at different levels**:
  - at local level, respondents perceived synergy with DCs on adaptation projects with private sector (economic development; capacity building; ...).
  - At level of UN negotiations: norm conflict between developed countries (advocating private finance) and developing countries (disapproving it).

Results (IV): Tracking finance

- Countries: agreement on definition, accounting and monitoring is crucial to move forward, but difficult.
  - Process in close cooperation with other <u>donors</u>
  - Precise vs. not too burdensome tracking
- Respondents mention benefits of tracking, but have limited experience. Furthermore:
  - Limited willingness of private sector (burden!)
  - How to monitor without definitions?
- **Most conflictive consequence of the fragmentation of the climate finance system: tracking**

Conclusion & Discussion

- Ambiguity around ‘private adaptation finance’, ‘mobilizing’ and ‘enabling environment’ in highly fragmented climate finance architecture.
  - Functions as long as actors' key norms can differ without conflict

<u>USD 100 billion commitment</u>
Clear definitions and cooperative actor constellation required. Will cause norm conflicts:
- *technical challenges* in quantifying mobilization through public interventions
- *international political struggles:* how to account private finance as part of USD 100 billion?

Aim of mobilising private finance

<u>Adaptation output</u>
maximise mobilisation of private investments (rather than finance) in resilience and vulnerability reduction.
- Ground truthing only postponed.

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Thank you for your attention

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