Unlocking the potential of Private Sector Finance - bringing private sector within NAP process?

Louis Perroy - Climatekos
What does private sector include?

1. Local private sector
   a. Local SMEs,
   b. Larger local entities,
   c. Local Communities, NGOs (not included today).

2. Foreign Multi-National companies (MNC)
   a. direct presence,
   b. indirect presence, value chain (commodity and input prices, supply chain and distribution network).

3. Private investors and investment funds (equities, property, agricultural land, forestry, etc.) or via equities into companies with activities in developing countries.
What drives the private sector? Basic principles

- Private company or individual investing will benefit
  - Financially, or
  - Reduce operational or financial risks, or
  - Generate other benefits e.g. marketing, image.

- It should produce the above return/benefits within acceptable time frame (5 to 10 years).

- The riskier the investment is the higher return/benefit is expected and the shorter the desired investment horizon is.
intervention points for adaptation

Three main intervention points for adaptation:

1. Protection of direct operations and workforce through risk management,
2. Sector value chains protection (or portfolio in the case of investors),
3. Development of new products and services that serve resilience goals.
Main barriers to private sector involvement

- **Local companies**
  - Lack of initial funding,
  - Lack of understanding of climate impacts,
  - Lack of knowledge of opportunities and technologies readily available,
  - Lack of expertise (incl. adaptive capacity & business expertise)
  - Poor infrastructure, policy, regulatory, legal environments, security, etc...

- **MNCs**
  - IRR too low,
  - Risks too high

This generates Gaps between the needs and entrepreneurs/investors, this can be bridged by outside financial or in-kind interventions.
Ways to bridge the gap and intervention to incentivise the private sector

Financial contributions
- Direct financial incentives e.g. grants, soft loans,...
- Financial guarantees,
- Co-investment with private sector,
- Seed capital for local SMEs e.g. WB Climate Innovation Centres (Kenya, Morocco,
- Establish PPPs with multiple stakeholders in selected key sectors,
- etc.

Contributions in kind
- Pressure on governments to implement legal framework,
- Technical expertise,
- Information on climate change risks,
- Promotion of adaptive technologies,
- Best-practice information campaigns tailored to the private sector
- Assistance in matchmaking adaptation opportunities with potential investors,
- etc.
How to progressively lift up barriers to grow private involvement or bridge the gap?

Gaps widen with vulnerability and low level of development of countries.

Tourism
Telecommunication
Mining
Industry
Energy
Forestry
Insurance
Healthcare
Agriculture - fisheries
Water
Building & Infrastructure

Session 8
Linking NAP to Access to Finance and Technology
Examples of integrating private sector within Adaptation approaches

**Local SMEs (incl. parallel economy)**

-> Assist seed and support of local SMEs
- Opportunity: help SMEs to see opportunities in climate change adaptation (often agricultural business)
- Bridging the gap: seed capital/grant/soft loan, technical assistance (business, technology). Public funding could be conditional to achieving specific adaptation target impacts
- Example: dissemination of solar panels for irrigation pumps for small farmers; agricultural Pilot Program for Climate Resilience (PPCR) in Zambia (incl. off-take agreements)
Examples of integrating private sector within Adaptation approaches

**Local SMEs (incl. parallel economy)**

-> Replicating successful adaptation initiatives
- Opportunity: rolling out successful pilot projects.
- Bridging the gap: Isolate and understand what may be replicable from pilot project and developed countries and bring country expertise, technical support and financial incentives to make replication possible.
- Example: building of sales pyramid to distribute “pay as you use” solar panel systems in India (ex. simpanetworks).
Examples of integrating private sector within Adaptation approaches

Local SMEs (parallel economy)

Provide insurance coverage
- Opportunity: insurance of climate change risks,
- Bridging the gap: Public intervention for risk mitigation via preventive measures (e.g. reduced premium level if flood protection is built) or provide capital capacity for risks which private sector is not accustomed to or deem too risky (implementation of “stop loss” protection for insurance companies) or insurance premium partially by public funding.
- Example: Tanzania + Kenya "pay as you plant" phone payment crop micro-insurance, or catastrophe insurance/reinsurance.
Examples of integrating private sector within Adaptation approaches

Local SMEs (parallel economy)

Implementation of profitable mitigation projects with adaptation benefits
- Opportunity: Such projects may receive funding from by-products and carbon mechanisms, NAMAs, carbon finance (voluntary) but contain adaptive benefits;
- Bridging the gap: assistance with mitigation finance and up front payment;
- Example: reforestation projects (adaptation incl. regeneration of soils, agro-forestry), renewable energy in rural areas replace usage of wood biomass for energy source.

Contributions from existing micro-finance organisations
- Opportunity: to design specific financial tools to finance small scale adaptation projects
- Bridging the gap: Provide subsidies or guarantees (maximum loss or co-invest to reduce risk) taken by the private micro-finance organisations in implementing this new fund lending.
- Example: use micro-finance to design specific loans to farmers to assist them in financing adaptation measures
Examples of integrating private sector within Adaptation approaches

**Large local companies – MNCs**

**Improve resilience of direct presence and value chain of local companies & MNC**

- Opportunity: especially in vulnerable developing country
- Bridging the gap: provide information about risks and risk mitigation means, potential financial help/loan.
- Example: Business specialising in resilience of tourism industry in coastal areas; or ports and other large coastal infrastructure or flooding defences, e.g., in Thailand.
Examples of integrating private sector within Adaptation approaches

Large local companies – MNCs

No regret approach projects - side adaptation benefits

- Opportunity: where adaptation is part of a wider project
- Bridging the gap: advantageous financial condition for loans conditional to their adaptation potential maximisation.
- Example: implementation of water management and irrigation plan to improve the productivity on some specific crops, saving water as a side benefit; reforestation (concession) may also be profitable enterprise while having numerous adaptation benefits (*Yangtze. Kiang* reforestation, China).
Examples of integrating private sector within Adaptation approaches