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PR 10.6	**Adaptation finance for private sector**
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Introduction

Remco Fischer (UNEP FI) and Angelika Frei-Oldenburg (GIZ) introduced to the session. Angelika Frei-Oldenburg is from GIZ and head of the BMZ funded Global Programme "Private Sector Adaptation to Climate Change". Remco Fischer is responsible for UNEP-FI strategy and activities on climate change and the lead coordinator of the study "Demystifying Private Adaptation Finance", commissioned by GIZ and conducted in cooperation with Frankfurt School of Management and Finance, Acclimatise and DIE.

The overall objective of the session was to provide an overview of the role, the demand and the opportunities for private sector actors for financing adaptation in developing countries and emerging markets.

Angelika Frei-Oldenburg gave a brief overview of the topic and introduced the project which she is representing The Global Programme on Private Sector Adaptation to Climate Change (PSACC). In this project, GIZ is working on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) to assist SMEs in its partner countries in assessing climate-related risks and opportunities more effectively and in developing adaptation strategies. The project is active in four world regions, specifically Central America/Costa Rica, Bangladesh, Morocco and Rwanda. Locally, the project analyses the implications of climate change on the private sector, and provides awareness raising activities, vulnerability assessments and capacity building approaches to improve resilience towards the adverse effects of climate change. The recurrent theme for SMEs is to get access to finance for the investments in adaptation measures. The project seeks to develop recommendations for financial sector actors in order to provide bankable products for SMEs

In this context, the study "Demystifying private adaptation finance" was commissioned. Remco Fischer delineated how UNEP FI informs its stakeholders on emerging topics, including climate change, and how its mandate fits with both analysis and advisory. He sketched the importance of an informed discussion on the topic, particularly in view of nascent institutions and mechanisms, such as the Green Climate Fund.
The presentation of the preliminary study results was done by Laura Druce. She presented the structure and methodology of the study. As a starting point, the study assesses how actors are affected by climate change, and what adaptation measures the private sector typically resorts to in response to climate impacts (adaptation-related activities). This lays the basis for assessing the financing demand. The study further explores which instruments are typically used for financing, and what the barriers to the demand or supply of

finance for adaptation-related activities are. The study finally seeks to define recommendations on potential corrective policy instruments. Throughout, the experiences assessed for 28 case studies are drawn upon. The study systematically maps the different types of adaptation measures. It also illustrates different cases of market imperfection, which lead to an "unjustified" reduction of the attractiveness of adaptation investments, even if they are beneficial from the societal perspective. Reasons for this include the provision of a public good, where other actors will benefit from the investment without paying their dues; or an imperfect capital market, which does not allocate capital according to its most productive use. Further, among those reasons is asymmetric information where an actor is not aware of climate risks, or data is not available. As a preliminary conclusion, the study recommends that public money for adaptation should be used to moderate and facilitate the structural change by tackling the barriers for financing supply and demand that stem from the market imperfections.

Break-out sessions

In the break-out sessions, the immediate barriers to adaptation related activities for SMEs were discussed among the case experience of the PSACC project. In a second working group, the discussion focussed on a Columbian Microfinance case involving farmers, and in a third working group the macro-level of financing was discussed by way of a PPP in Jamaica.

In the first working group, led by Sylvia Maria von Stieglitz and Mohammed Rahoui, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Germany, barriers and solutions to adaptation finance for SMEs were identified. As a key challenge, the lack of awareness of SMEs towards climate change risks was pointed out. Also, for banks it is difficult to invest in measures that have no immediate effect on return but rather mitigate risks. In the current situation, it is difficult for SMEs to recognise and to explain to their financiers that their investments in adaptation measures are part of their risk management strategy. The business case of adaptation consists of potential to strengthen competitiveness of SMEs on the one hand and to reduce their vulnerability on the other. As a potential solution, the discussion listed the creation of a shared knowledge base between banks and SMEs in adaptation. It was underlined that for the further discussion there has to be a clear definition of what adaption measures are. A case in point is the energy efficiency (EE) field, where this shared base already exists and programmes are implemented that demonstrate that it is possible to bring both sides together. A driver for the EE field was the provision of subsidized loans by development banks. This approach could also work for adaptation, especially similarly limited measures/sectors, e.g., water. As a conclusion, the group identified the concerted use of financial instruments as important and, as a prerequisite, the opening of communication channels between the financial sector, SME, government, and adaptation experts.

Virginie Fayolle of Acclimatise hosted the discussion on the specific opportunities and challenges related to the use of PPP for investments in climate resilient infrastructure. The discussion started with the clarification of the definition of PPP "as a legally binding contract between a public entity and private company, where the partners agree to share some portions of the risks and rewards inherent in an infrastructure project". Further on the discussion focussed on the difficulty that climate change poses to the financing of PPP projects. Governments may be concerned about adding any extra costs to PPP projects to address climate resilience, as this makes them less attractive to financiers; however financial instruments are available to support adaptation and can be applied more to PPPs. Climate finance instruments for adaptation are growing in scale, funding, and flexibility. They can provide financial incentives (concessional loans, grants) and technical assistance to help deliver resilience-building measures.

Christine Gruening and Laura Druce of Frankfurt School of Finance & Management, Germany, discussed in their working group the before introduced classification of the Demystifying Study as a template for the cases. In particular, the MEbA Case in Columbia was presented and discussed which revolves around micro-enterprises/farmers.

Conclusions

In conclusion, Remco Fischer thanked all participants for their contributions and reiterated the importance of tackling the adaptation finance topic pragmatically and swiftly. The cases presented by the working group hosts but also those mentioned by discussants were illuminating the fact that experiences already exist, and need to be analysed in order to put adaptation financing streams to work.