Kommunalkredit Public Consulting GmbH (KPC) has an in-depth array of experiences in climate finance, specifically working with innovative financing mechanisms that support climate change projects, both in mitigation and adaptation, on a global scale. KPC recognizes the important shift of focus to adaptation finance in recent years and would like to highlight potential opportunities for the European Investment Bank (EIB) within adaptation financing. Based on KPC’s experiences in blending private and public finances for climate change projects, we would like to offer the following options for catalysing private sector investment for adaptation projects. This paper is in response to the EIB’s public consultation on their approach to supporting climate action, which was open from 12th January 2015 and 16th March 2015.

Key recommendation: The EIB can position itself as leaders in adaptation finance by building up a pipeline of adaptation projects for private sector financing.

EIB’s willingness to scale up its adaptation finance both in the EU and developing countries

According to the Multilateral Development Bank (MDB) Joint Report on Climate Finance 2013, EIB adaptation finance (USD 166 million) makes up only a fraction of EIB mitigation finance (USD 5.077 million). At USD 166 million EIB’s adaptation financing accounts for only 0.4% of the global adaptation finance market. However, in line with the European Union (EU) Adaptation Strategy, adopted in June 2013 and with EIB’s External Lending Mandate, the EIB is dedicated to substantially increasing its climate finance, particularly in adaptation. Adaptation financing includes projects that reduce the vulnerability of specific sectors or countries (i.e. adaptation projects) or components of investment projects to increase climate resilience of the investment.

Private sector finance and technical assistance to scale up climate finance action

EIB is active in engaging the private sector in financing

Through the development of alternative investment vehicles such as equity and debt funds, guarantees and subordinated loans, the EIB is active in engaging the private sector in financing projects that address certain policy issues, including climate change. Own resources and joint EC/EIB financial instruments allow the EIB to take on a certain level of risk. The EIB also actively promotes Green Bonds, earmarking proceeds for climate action. However, to date, the primary focus of private sector investment has been on climate change mitigation.

Technical assistance is a crucial instrument to identify new investment opportunities and to increase project effectiveness

The Climate Change Windows within the EU’s Blending Facilities (BFs) allow the EIB to use grant resources to support project preparation, project implementation (through advisory services) or to structure more innovative financial instruments that target sources of private sector finance, including financial and social investors as well as the insurance/re-insurance market. The EIB aims to strengthen the link between blending and relevant climate policies. Private sector climate finance

flows to developing countries would potentially count towards the EU’s climate finance commitments under the UNFCCC.

Options to link EIB’s commitment to scale up adaptation finance and private sector finance

The EIB should consider the following options to meet its dual objective of increasing adaptation finance and actively catalysing private sector investment.

Option 1: Set up green bonds that focus on adaptation

Similar to the EIB’s successfully launched green bonds that earmark proceeds for energy efficiency and renewable energy projects, the EIB could consider earmarking proceeds entirely or in large part for adaptation projects. For example, World Bank/SEB Green Bonds channel funds from Scandinavian institutional investors to climate change measures, with approximately 20% of the proceeds aimed at financing adaptation measures including flood protection, food security and sustainable forest management.

Option 2: Build up a pipeline of projects with large multinational companies

Multinational Companies (MNCs) are often unaware of the extent to which climate risks will affect their bottom line. Many of these risks relate to issues of climate change adaptation. Extreme heat, unpredictable weather, and sea level rise have the potential to severely affect a company’s supply of resources. There is a need to increase aware-raising efforts, not only to make them understand the potential financial risks climate change could have on their profit but also to promote potential “responsible” capital flows to adaptation projects in developing countries. A better understanding of the issues will create an incentive for companies to carry out the necessary actions to mitigate climate risks within their business and on a more global scale. This action could lead to investment opportunities for the EIB, using the appropriate short-term financing instruments such as insurance and guarantee products that hedge the climate risks as they appear as well as long-term instruments such as corporate bonds that, with EIB investments, in the long term allow financing sustainable and climate-change resilient business models.

Regional adaptation assessments in the EU as well as National Adaptation Programmes of Action (NAPAs) in developing countries should, therefore, include an overview of private sector adaptation needs with a special focus on vulnerable sectors (e.g. food and agricultural products, hospitality and leisure, steel industry, etc.) as well as a pipeline of potential projects of interest to both the private and public sector. Technical assistance (funded by e.g. the EU BFIs) could be used to finance private sector focused adaptation assessments and identify investments and economy sectors with greatest impact for the Euro invested by EIB as part of the elaboration of NAPAs.

Option 3: Step up efforts to address SME adaptation needs through intermediated finance

It is not just MNCs that lack an understanding of climate change risks, Small and Medium Enterprises (SMEs) both inside and outside the EU are also, very often, unaware of the potential strain climate change could, and likely will, have on their business. As stated above in option 2, awareness-raising is

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an important first step in increasing private sector action, which could be financed by EIB cooperation with the European Commission and/or the European External Action Service. Once there is increased awareness there is potential to set up on-lending credit lines with financial intermediaries in developing countries, which focus on providing debt financing and thus access to finance for SMEs to mitigate climate change risks. Similar facilities have been set up in almost every developing country by international financial institutions for mitigation finance, so-called environmental lending focused on renewable energy and energy efficiency financing, i.e. EBRD Sustainable Energy Financing Facilities (SEFFs).

This type of on-lending adaptation finance scheme lends itself well to the regional EU BF’s Climate Change Windows. Blended finance would allow for a TA grant to finance awareness-raising on adaptation finance, increasing both demand (SMEs with potential long-run financial risks from CC) as well as supply (training financial intermediaries on a new product) in addition to EIB provided debt finance. Just as the EBRD has carved out a niche in energy efficiency finance there is potential for the EIB to establish itself as a leader in adaptation financing facilities for SMEs.

**Recommendation blended with any option above:** Establish climate finance tracking systems within the EIB and work with other International Financial Institutions (IFIs) on common methodologies for improved and transparent reporting of dedicated climate finance streams. The different methodologies currently used by IFIs in tracking green finance, impede insight into the impact of the investments and prevent private sector investors from comparing and choosing their preferred option.

**Conclusion**

KPC would like to present the following options to the EIB in adaptation finance with a view to increase private sector investment in climate-friendly projects: (i) set up green bonds that focus on adaptation, (ii) build up a pipeline of adaptation projects with MNCs, and (ii) set up intermediated finance facilities to address SME adaptation needs. Furthermore, the EIB should consider the need to establish climate finance tracking systems within its organization and across other IFIs, working towards harmonized methodologies and transparent reporting.