How to attract private finance for climate adaptation

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Early reticence around climate adaptation, stemming from fear of lowering ambition on mitigation, has left the world scrambling to address the effects of climate change on nature, physical assets and livelihoods—especially for women. The United Nations Environment Programme estimates that by 2050, the annual global cost of adaptation will reach US$280–500 billion. To meet this target, we need to drastically increase private sector funding (see figure below).

For large sums to flow to adaptation, investors need better information about adaptation needs, which may be very localized. Governments can help by better articulating their adaptation plans and creating investible platforms (at the regional, country or sub-national level) that channel grant money or concessional loans to enable private investors to make reasonable returns. For example, the Global Fund for Coral Reefs supports reef maintenance to catalyze private sector investment in revenue generating activities such as eco-tourism and sustainable fisheries.

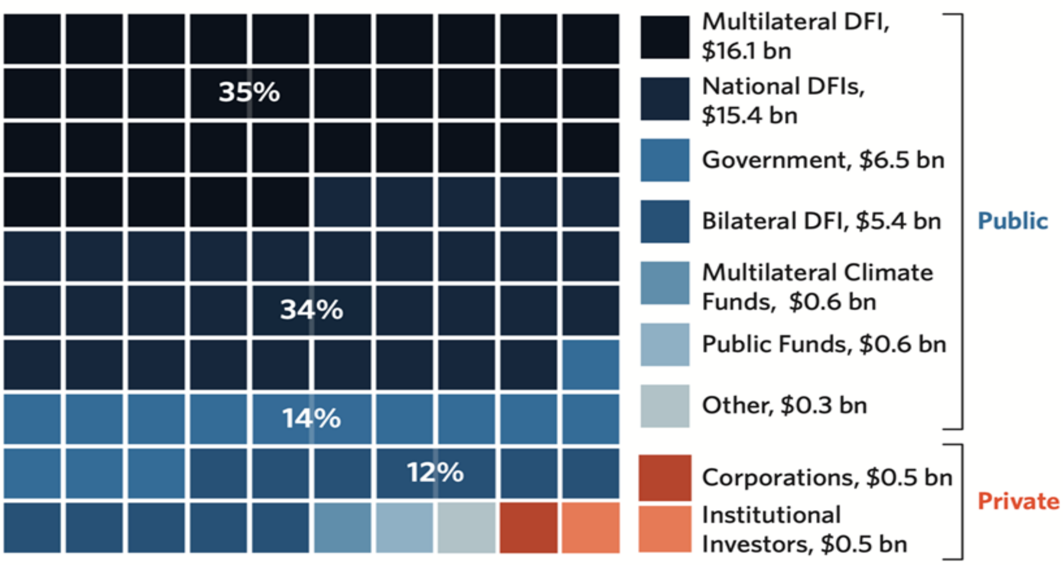
If country adaptation plans can be linked to developing country Nationally Determined Contributions (NDCs), the Paris Alignment of adaptation spending becomes clearer, a key consideration for signatories to the Glasgow Financial Alliance for Net Zero (who collectively have US$130 trillion under management).

However, this will not make all adaptation requirements "investable." Early warning systems for diseases and coastal barriers may be urgently needed, but where is the financial return? Some areas of adaptation finance are more commercially viable than others—for example, climate smart agriculture, where "help" from development funders might not be required to incentivize private investment. For the rest, there is no magic solution, but there are a few glimmers of hope.

Many development financial institutions (DFIs) and agencies have committed to increasing their own adaptation spending, which could facilitate private sector partnerships through first-loss provisions to de-risk investment. The private sector is also becoming more attuned to climate imperatives and the effect of climate change on portfolio assets (buildings, supply chains, and even people), which may make it more ready to invest in protection (though this could require a change in the way asset risk and value are calculated, a current focus of the Coalition for Climate Resilient Investment).

Finally, as the impact of climate becomes more apparent, private sector companies concerned about their brand and social licence are more likely to invest in adaptation, even in the face of lower returns. The road ahead is challenging but there is innovation in the air and, following COP26, a renewed focus on mobilizing private capital to help build climate resilience.

Sources of adaptation finance in US dollars



Source: Climate Policy Initiative, p.26