

Private financing: challenges and opportunities

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Climate Markets
& Investment
Association

Building the business case for adaptation



Private sector

The private sector is an untapped source of finance, expertise and capacity to innovate.



Climate finance

It could play a key role in unlocking private investments in adaptation, which are sustainable and enable a fair transition towards a new economic model.

Investments in adaptation are urgent

Today we face:
Adaptation finance gap:
3X → ~\$70 bn / year
Today's adaptation share:
total 50% → ~\$30

Today:
25 mn people displaced

If we don't act now:
4 bn people vulnerable

Evolving Finance Architecture

► 2010-2020 international climate flows

Review of MCFs portfolio:

- **GCF-** Green Climate Fund (Research visit)
- **PPPCR-** Climate Investments Funds (CIF)
- **Adaptation fund**

MDB's role in climate finance

Public-Private cooperation schemes

Innovative financing instruments



LEVERAGING PRIVATE SECTOR INVESTMENTS IN ADAPTATION

The evolving role of
climate finance in enabling
a paradigm shift



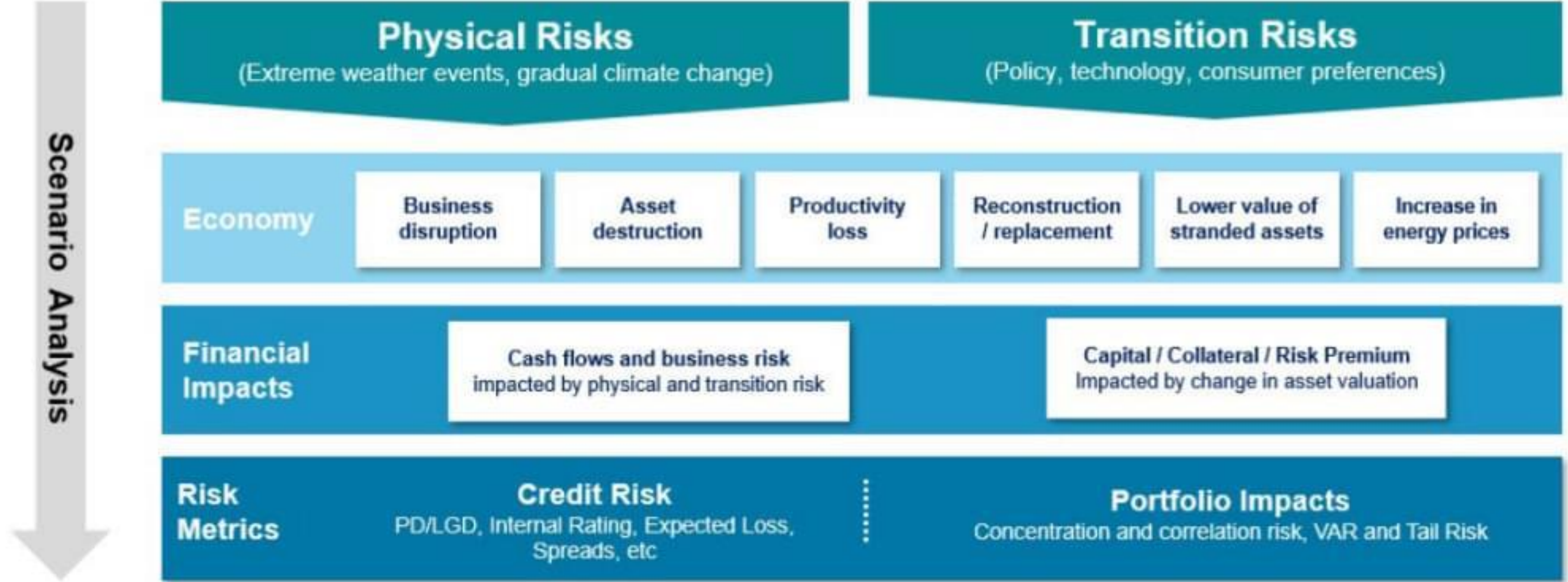


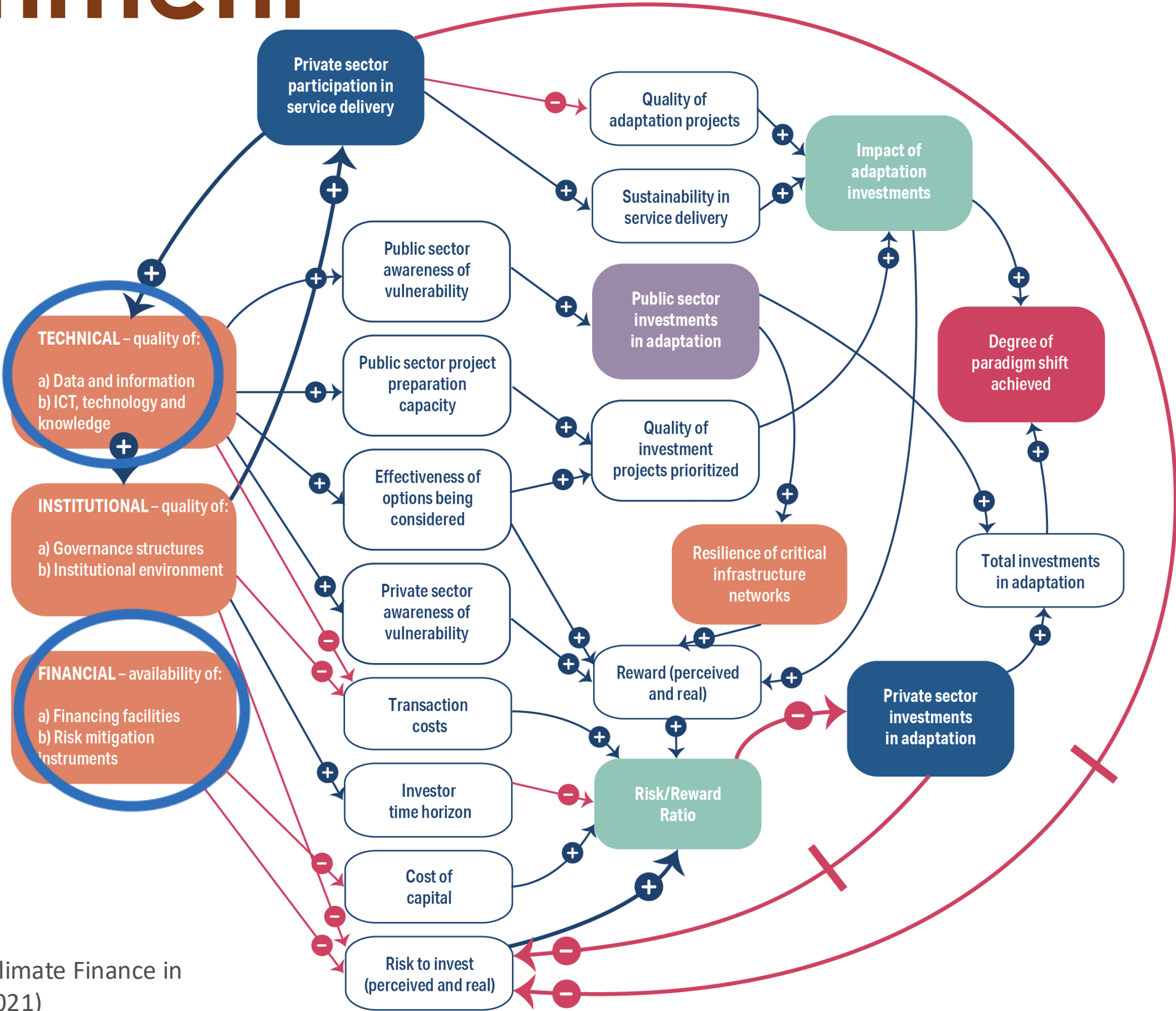
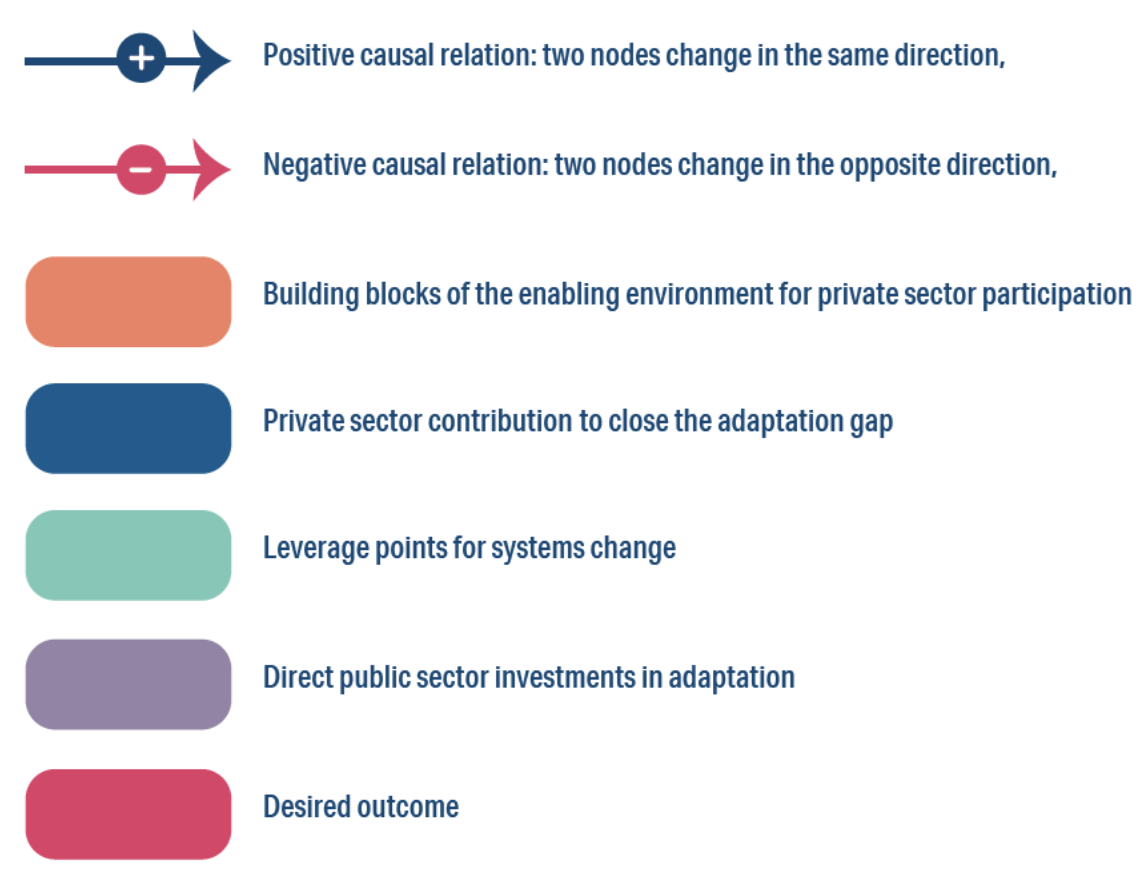
Figure 1: From Climate Risks to Financial Metrics

Source: [Quantifying the Impact of Climate on Corporate Credit's Risk](#) (Moody's 2023)

Climate Value at Risk (Climate VaR) has emerged as a new measure to estimate the potential financial losses that a company or portfolio of assets could incur as a result of climate change.

Enabling Environment

Enabling environment for effective private sector participation in adaptation



Drought specific

- ▶ Social license to operate
- ▶ Scale of intervention versus control
- ▶ Watershed governance = TC

Still, companies going beyond the Fence

- ▶ Water Stewardship & Volumetric Water Benefit Accounting (VWBA)
- ▶ Water Resilience Coalition
- ▶ 100 Priority Basins

What are the systemic barriers to private finance access?

Prohibitive transaction costs

Transaction costs are the total costs involved in making the investment possible. This includes all project preparation costs, including the costs of organizing all private and public actors that need to be involved, gathering information, planning, deciding, changing plans, resolving disputes, feasibility studies...

Transition-related implementation risks

Effective adaptation happens at system scale and requires the adoption of innovation. Approaches like Ecosystem-based management and planning that require a coherent policy and regulation framework to become financially viable, increase performance and demand risks throughout the project. Investments are context-specific and hardly re-deployable further enhancing transition-related risks.

Emerging Opportunities

“When business and cities incorporate science-based targets to tackle both nature loss and climate change into their strategies they create immense opportunities and become more resilient” (SBTN)

Financial Regulations & Standards

- ESG & impact investing
- TCFD & [TNFD](#)
- EU Taxonomy
- Science-based Targets Network [SBTN](#)

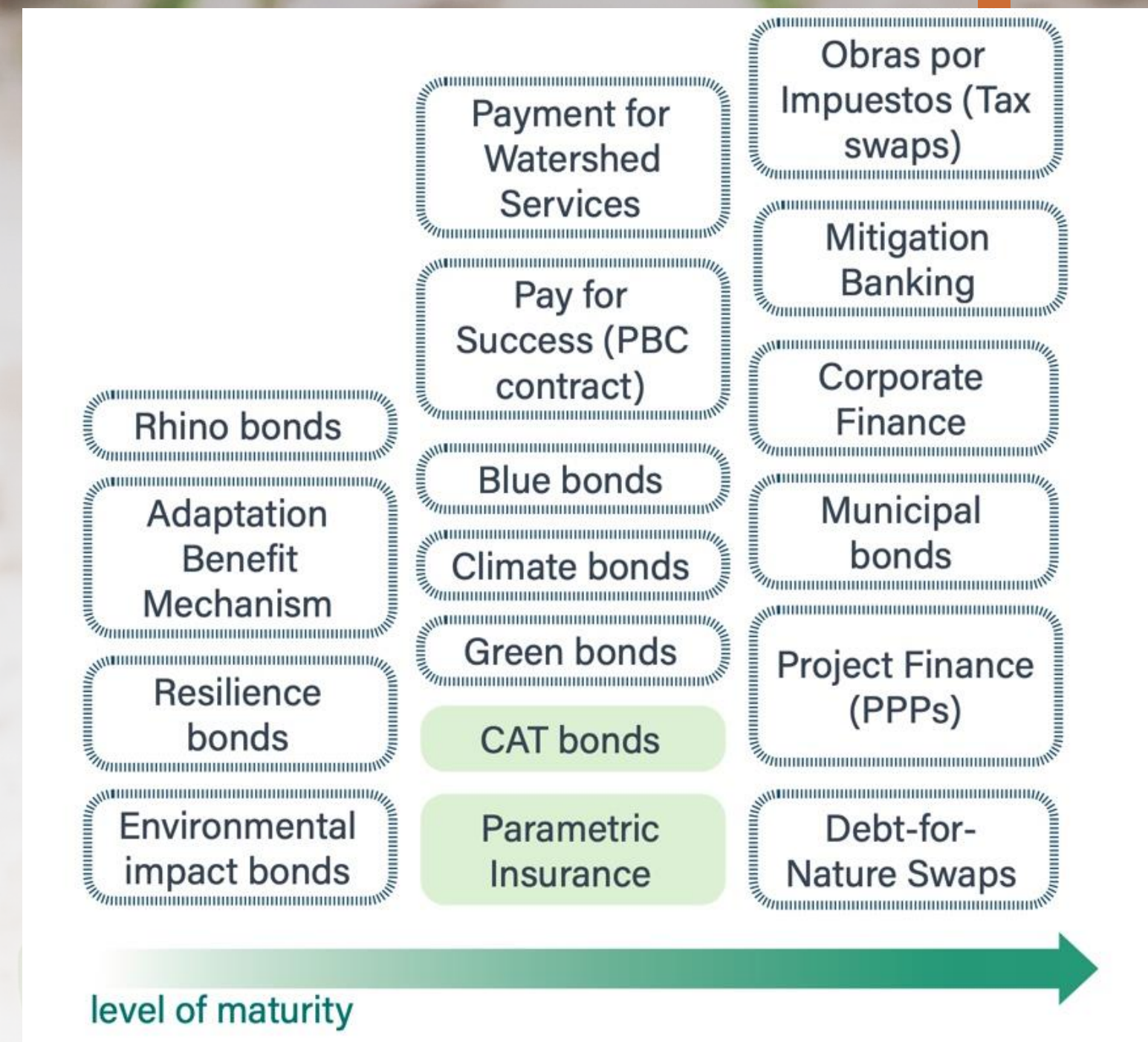
Emerging keywords:

- Nature positive
- Water Positive
- Regeneration

Impact investing trends:

- Resilience = business continuity
- Private sector interest on “regeneration”
- Higher scrutiny on impact (ESG)
- Science –based targets and pledges

**Mosaic projects
are the future**



Performance-based Contracts

Download
report

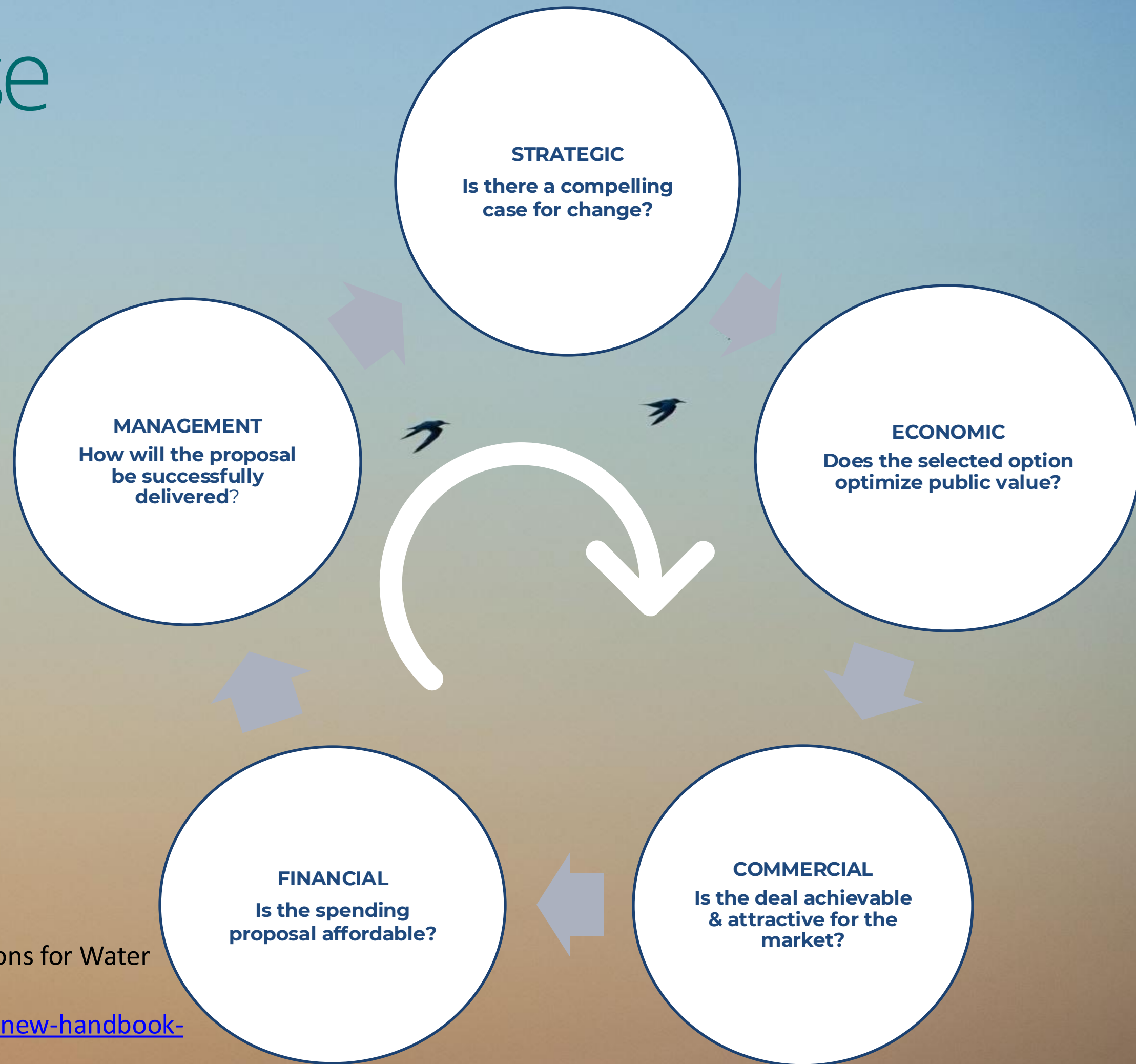


Source: [Leveraging Private Sector Investments in Adaptation: The Evolving Role of Climate Finance in Enabling a Paradigm Shift](#). Climate Markets and Investors Association (Altamirano 2021)

The Investment Case Financing Framework for Water Security (FFWS)

1. **Transaction** –technical and financial
2. **Level of service** over lifecycle
3. **Institutional setting** insurance role, (dis)incentives and expertise and implementation strenghts public, private, communities

Source: Handbook for the Implementation of Nature-based Solutions for Water Security (Altamirano et. Al 2021) https://research-and-innovation.ec.europa.eu/news/all-research-and-innovation-news/new-handbook-nature-based-solutions-water-security-2021-05-05_en



Closing the Implementation GAP

Needs

Strategic Planning

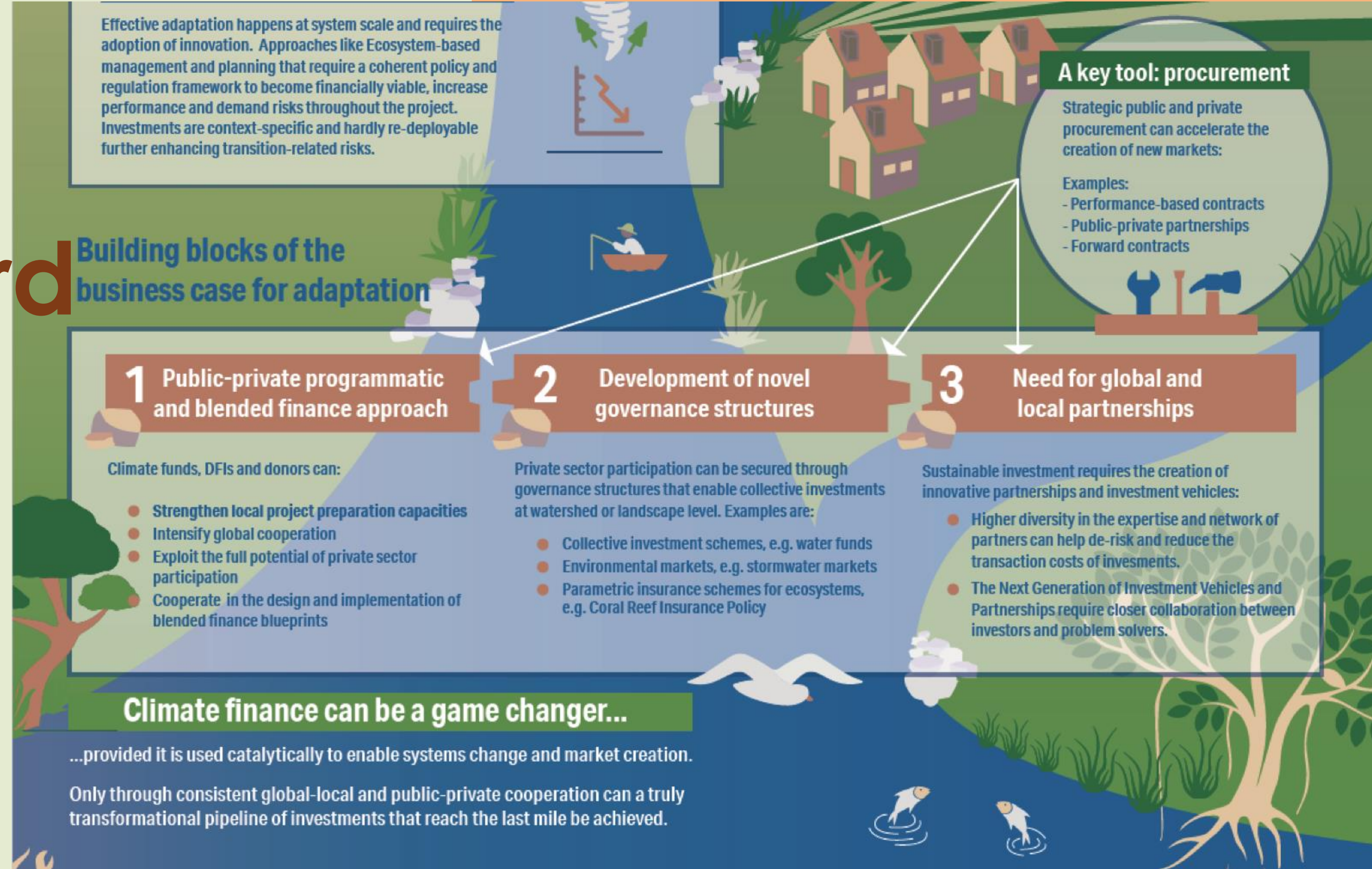
Procurement strategy
Project Preparation

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Funding and Financing
for Implementation

System level
knowledge

The Way Forward





Partnerships and incentives can help us
move deeper leverage points

Only TOGETHER can we drive a shift
towards a more regenerative and
inclusive economy



Drought
Resilience

10

High-level Meeting
on National Drought Policy

Collective commitments

Rethinking Collective Action and Investment Planning for a Water Secure World

Danone (Private sector)
[#SDGAction51992](#)

DESCRIPTION	SDGS & TARGETS	DELIVERABLES & TIMELINE	RESOURCES MOBILIZED	PROGRESS REPORTS
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Description

We aim to RETHINK our approach to water resources management and investment planning through the creation of a Collective Action Coalition. Our goal is to foster collaboration amongst public and private stakeholders to secure multi-sectorial, multipurpose investments and instigate lasting economic change towards regenerative, water-secure development models.

The coalition commits to work together intensely the following 3 years to demonstrate a model of radical collaboration to collectively REIMAGINE our economic development, governance, planning and financing frameworks to incentivize collective action and unlock collective intelligence, impact, value and investments at system scale to achieve SDG6. By the World Water Forum in Bali the coalition will have started to demonstrate this multisector public-private radical collaboration approach in selected regions of the world.

Action Network



Moving the Blended Finance Needle to Generate Financeable Water Plans

WaterEquity (Partnership)
[#SDGAction51980](#)

DESCRIPTION	SDGS & TARGETS	DELIVERABLES & TIMELINE	RESOURCES MOBILIZED	PROGRESS REPORTS
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Description

We collectively as co-convenors commit to continue an open dialogue and strengthen our cooperation while creating additional blended finance facilities for water, and further evolving existing initiatives based on shared learning from successes as well as from failures. We aim to increase from our individual strengths the synergy between our instruments and organisations to create an efficient financial and impact ecosystem for blended finance and manage effectively the commitments of concessional finance/ ODA providers such as the European Commission, the GCF, The Government of the Netherlands and others. By doing so we aim to over time achieve at least an average leverage ratio of 1 to 4, meaning that each dollar of concessional capital invested in these transactions mobilizes 4 dollars of commercial capital (including capital deployed by private, public (e.g., Multilateral Development Banks and Development Finance Institutions (DFIs) and philanthropic investors at market rates).

Action Network





Thank you!