Collaborating to accelerate investment in climate adaptation and resilience

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While there is an urgent need to step up action on climate adaptation, the action is not in step with the need. This is especially true of the required financing, particularly from the private sector. To overcome the various barriers to private sector investment in climate adaptation and resilience, international DFIs in 2020 set up a Collaborative group and put forward ambitious commitments to the G7 in May 2021. Its overarching goal is to accelerate and scale up private investment in climate adaptation and resilience in developing countries.

There is an urgent need to step up action on climate adaptation. Increasing the climate resilience of communities, business activities, and physical and natural assets against the adverse effects of climate change is an urgent priority. The devastating flooding in Pakistan and South Africa, the record-shattering heatwave that engulfed most of India, and the longest in 40-years drought in the Horn of Africa are **the latest in a series of extreme events calling for urgent action.**

Action, however, is not taking place at the scale and pace required. Investments in adaptation continue to fall short of documented needs. Global adaptation finance reached USD 46 billion in 2019/2020 according to the Climate Policy Institute's latest estimates, **which is well short of the estimated costs for 2020-2030 – ranging between USD 155 and USD 330 billion annually in developing economies** according to UNEP's analysis. Over the same period, the Nationally Determined Contributions (NDCs) of just 50 developing countries identified more than US$50 billion per year in adaptation needs.

Higher and accelerated levels of investments are required to meet these needs, especially from the private sector. Institutional, policy and market failures, financial impediments, knowledge and capacity barriers have hindered **private investors' ability or incentive to invest in climate adaptation and resilience**.

Radical collaboration is essential to unlock and accelerate investment

Collaboration is essential to deliver the systemic change needed to overcome these barriers and failures and close the adaptation finance gap. The **Adaptation & Resilience Investors Collaborative** (the "Collaborative") was set up with this aim. The Collaborative is an international partnership of development finance organisations working together to accelerate and scale up private investment in climate adaptation and resilience in developing and emerging countries.

Formed in late 2020 at the occasion of the Finance in Common Summits (FICS), the Collaborative has rapidly grown in membership and ambitions. It is currently composed of **18 development finance organisations working together** to deliver on the set of ambitious commitments put forward to the G7 in May 2021. These commitments, which have been operationalized through dedicated work streams, are aimed at enabling progress on critical areas needed to build and demonstrate the business case for investing in climate adaptation and resilience.

These are:

- **Investor-relevant climate adaptation and resilience metrics**, to increase clarity about what qualifies as adaptation, and to adopt standardised approaches for measuring the contribution of investments towards adaptation and resilience-impact objectives;
- **The integration of physical climate-risk assessment** in capital allocation decision-making, to systematically identify opportunities for building climate resilience throughout the investment;
- **Investment vehicles and approaches**, to increase awareness about business models, financing structures and avenues for shaping markets and generating pipelines of bankable adaptation and resilient investments.

Progress has been made, but more work lies ahead

The Collaborative has made progress towards its goals and has planned further activities in the months ahead to advance across each of the commitment areas. The following paragraphs highlight the progress made; the report released in June for the G7 outlines this progress and previews its future activities in greater detail.

- **Investor-relevant metrics**

The Collaborative's members have agreed to adopt common principles for tracking finance for climate adaptation and resilience, in line with best practices for a stepwise process-based approach, granularity, and conservativeness. Their agreement followed **an assessment of the factors common to members' existing approaches and those implemented in other institutions and**

jurisdictions.

They have also taken steps toward developing clear, consistent, and comparable climate adaptation and resilience impact metrics. The work performed to date, which has encompassed case studies and exchanges with private investors and other relevant initiatives, has underscored the need to work with and build the capabilities of intermediaries – fund managers and financial institutions – and counter-parties on climate finance investing, measurement, and reporting.

This is seen as critical to expanding the reach, scale and quality of adaptation and resilience investing and financing. It is also critical **to ensuring usability by private investors and financiers in developing and emerging markets**. As key next steps, members will advance the analytical work needed to develop and adopt a common methodological approach in collaboration with other stakeholders.

- ### Investment vehicles and approaches

The need for and thereby the opportunity for investments in climate adaptation solutions exist across all sectors and geographies. **This is because climate change will affect all sectors of an economy, and all sectors must adapt to its impacts.** This calls for harnessing all the possible avenues – direct and indirect – and products to identify, finance and invest in climate adaptation and resilience solutions. It also implies collaborating with others across the investment value chain to leverage the varying degrees of risk appetite and tolerance of public vis-à-vis private investors.

Against this background, **members have collaborated to identify and learn about possible investment strategies and are exploring avenues to develop pipelines and foster opportunities for co-investment**. The core output of this working stream to date is a draft report outlining potential strategies for fostering investment in climate adaptation and resilience through various investment and financing approaches.

Building partnerships with other actors across the investment value chain has emerged **as a key strategy to ensure that the right capital and support are available at critical stages of project development or business and technology maturity**. For example, partnering with accelerators, early-stage venture capital investors, and later-stage ones is critical to supporting innovative ventures offering climate adaptation and resilience solutions to become investment-ready, reach scale and grow. Similarly, partnerships with 'upstream' stakeholders are essential to enhance the enabling environment required to unlock private capital and ensure that priority investments happen.

Members have also worked individually on various initiatives focused on building a bankable pipeline of adaptation and resilience investments and on advancing support for public-private collaboration.

These include:

- AFD Group's AdaptAction programme, Phase 2, with a 15-million euros budget targeted at supporting climate-vulnerable African countries in implementing their adaptation strategies;
- British International Investment's GBP 200 million Climate Innovation Facility, a new fund supported by its shareholder FCDO, to seed pioneering climate solutions;
- The increased funding by the Global Center on Adaptation (GCA) of its Africa Adaptation Acceleration Program (AAAP), in partnership with the African Development Bank.

More recently, some members have also started to contribute to efforts focused on assisting developing countries **to identify and articulate the priorities outlined in their NDCs and National Adaptation Plans and strategies for private sector investment opportunities**.

- **Physical climate risk assessment**

The Collaborative has committed to improving members' collective ability to identify, assess, and manage physical climate risks in investments. To date, **members have worked together to outline an initial sector-agnostic, step-by-step framework for providing guidance in systematic and consistent physical climate-risk identification, assessment, and management**. This guidance, which includes a bespoke approach for the agricultural sector, is meant to enable a standardized categorization of transactions based on the relative degree of physical climate risk, with a view to informing decision-making throughout the investment cycle. As key next steps, the Collaborative plans to advance this initial phase of the work to ensure it is fit for purpose and to develop common tools for engaging with counterparties.

What's next: the collaborative calls for greater joint action

Collaborative members vary in their mandates, degree of maturity on climate adaptation, geographies they serve, and financing avenues available, among other factors. The market for adaptation and resilience investment will grow as areas of alignment among this diverse group emerge, leveraging their respective roles in the investment value chain and varying degrees of risk appetite and tolerance.

Even as the Collaborative remains committed to achieving its ambitious goals, governments must create effective policy and wider enabling environments. The Collaborative calls on the global community to join in accelerating and scaling private investment in the adaptation and resilience of socioeconomic and natural systems.