Estimating mobilized private climate finance for adaptation

A joint project under the Research Collaborative Tracking Private Climate Finance

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Note: this presentation provides an overview of the full study and results available in the report "Estimating mobilized private finance for adaptation: exploring data and methods" (2015), available at: http://climatepolicyinitiative.org/our-work/publications

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Overview

- Objective and motivation
- Definitions of private finance mobilization
- Phase 1: Exploring existing data and methodologies for measuring mobilized private adaptation finance
- Phase 2: Developing new methodological approaches for measuring mobilized adaptation finance
- Phase 3: Testing the methodological approaches
- Key takeaways

Objective: Explore data and assess methods to measure mobilized private adaptation finance

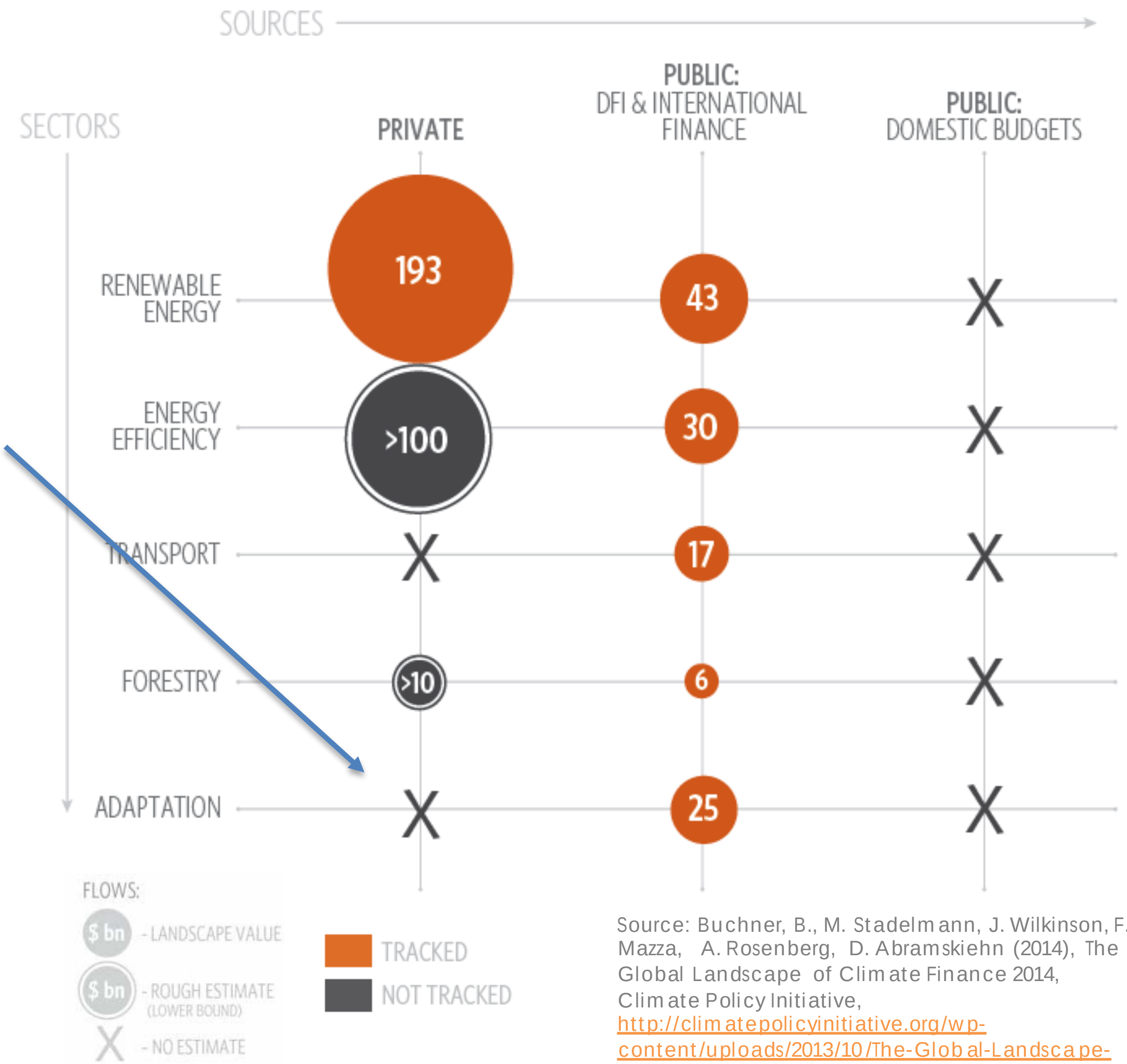
- This report aims to develop more comprehensive methodologies for estimating private finance flows mobilized by developed countries' public interventions for climate adaptation in developing countries.

- Analysis has so far primarily focused on mitigation while only partly dealing with adaptation.
  - It has been hindered by data constraints and methodological challenges.

- The present study aims to:
  1. Take stock of data availability and existing methodologies.
  2. Develop and evaluate a range of methodological approaches.
  3. Conduct case study-based pilot measurements of mobilized private finance by testing methodological approaches on bilateral public adaptation finance initiatives.

Motivation: data gap on private adaptation finance

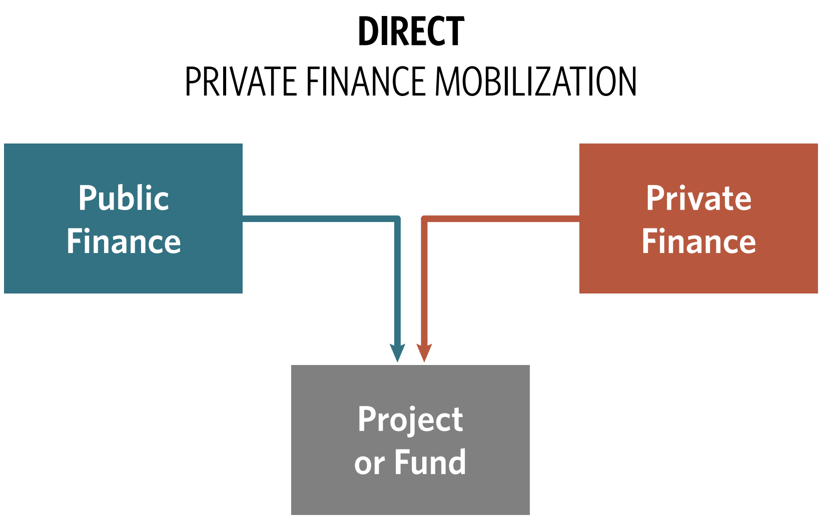
There is limited known information on private finance for adaptation in general, especially on how public interventions can mobilize private finance.



Source: Buchner, B., M. Stadelmann, J. Wilkinson, F. Mazza, A. Rosenberg, D. Abramskiehn (2014), The Global Landscape of Climate Finance 2014, Climate Policy Initiative, http://climatepolicyinitiative.org/wp-content/uploads/2013/10/The-Global-Landscape-of-Climate-Finance-2013.pdf.

Definitions of private finance mobilization

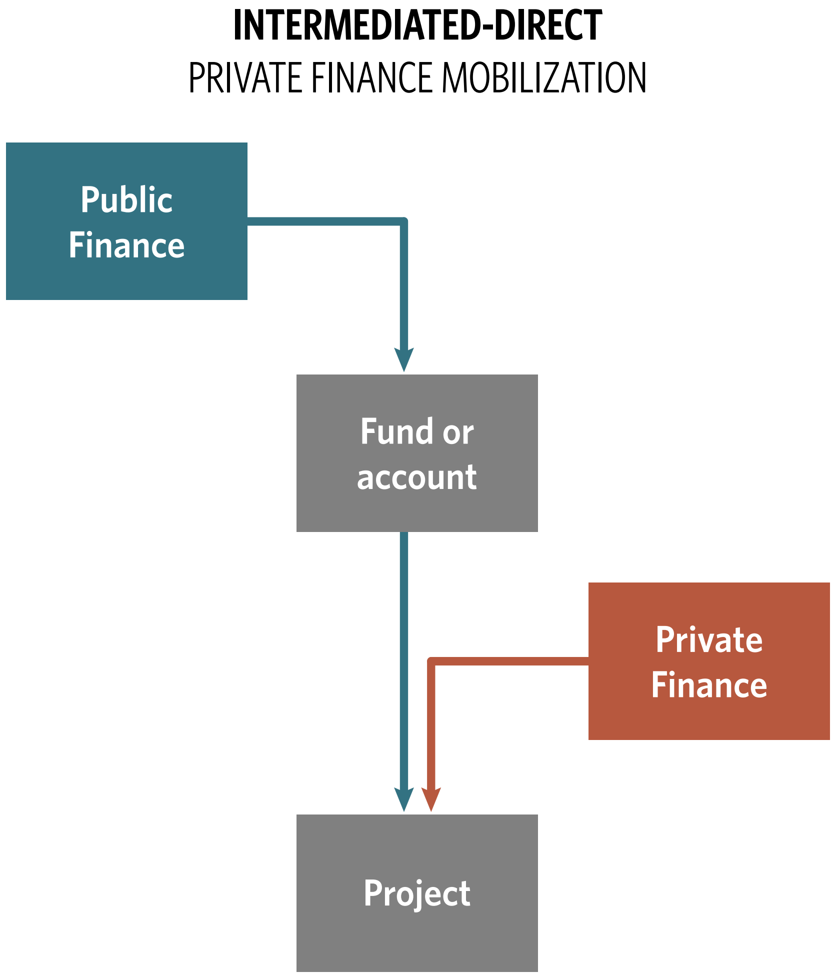
Private finance mobilization: *direct*



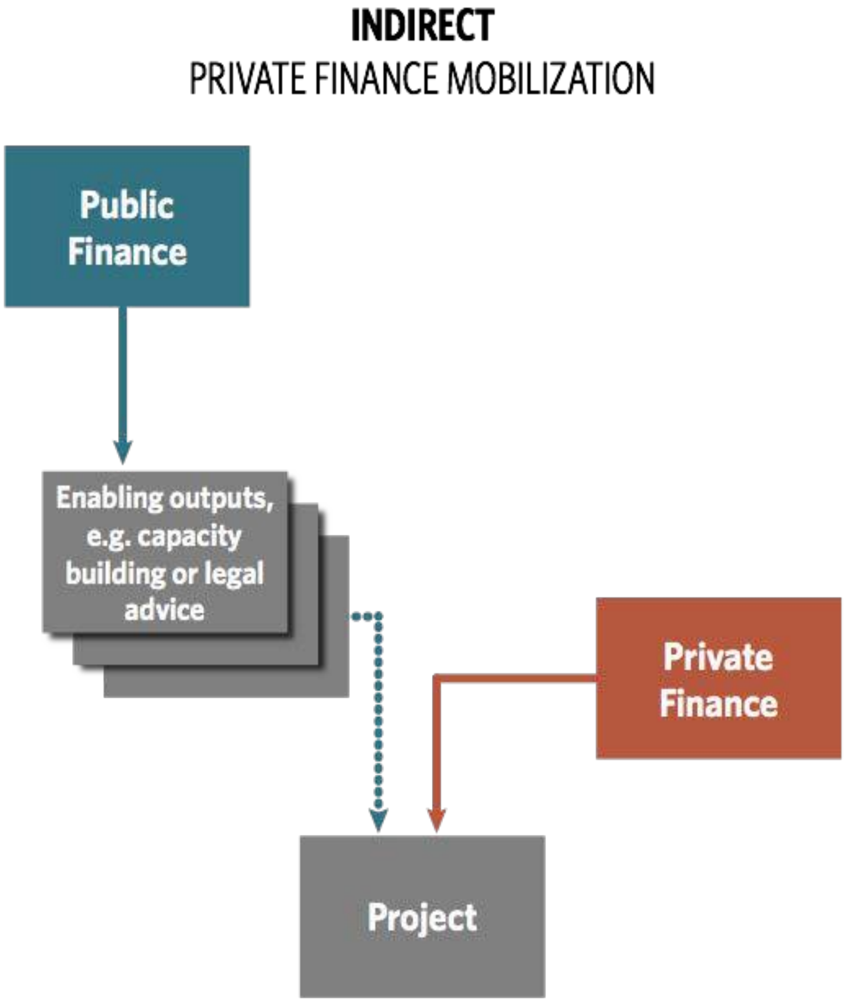
- Private finance that is co-invested into a project, program or fund
- It is invested as a direct result of the provision of public finance or guarantee to that same project, program, or fund.

Private finance mobilization: *intermediated-direct*

- Private finance that is mobilized one step downstream of the public finance intervention, via a fund or credit line
- Similar to co-financing, but finance goes through different funds before reaching the final investment



Private finance mobilization: *indirect*



- Private finance that is invested one or more steps downstream of the public intervention, e.g. through technical assistance and capacity building activities.
- There is typically a longer time lag between the public intervention and the private finance mobilization. This lag makes it much more difficult to measure

Phase 1: Exploring existing methods to measure private adaptation finance mobilized by public finance interventions

Existing Methodologies: current status

- Reviewed methodologies:
  - bilateral actors
  - multilateral actors

- Existing methodologies differ on four key questions:
  - Definition of adaptation
  - Boundaries of private finance involved
  - Causality between public interventions & private finance
  - Attribution of mobilized private finance

- Private co-finance is currently the best available evidence of mobilization.
  - However, co-finance does not necessarily equate to mobilization as it does not capture the indirect mobilization effect of capacity building, budgetary support and domestic policies. (OECD/CPI, 2015)

Existing Methodologies: implications

- Efforts underway to further develop and harmonize methodologies across institutions to measure private finance mobilized.

- For now, efforts focus on the measurement of direct and intermediary-direct mobilization, but do not include indirect.

- Given that private finance for adaptation may be mobilized through indirect interventions, a significant share of private adaptation finance is not likely to be captured by existing tracking efforts.

Key actors acknowledge the importance of measuring indirect mobilization, but underline practical challenges and transaction costs involved.

Phase 2: Developing methodological approaches to estimate private adaptation finance mobilized by public finance interventions

Disclaimer

- This analysis does not aim to recommend any approach for international adoption.
- Rather, it explores different approaches that can help capture ways in which different public finance interventions help mobilize private investment for adaptation both directly and indirectly.
- In doing so, this analysis also exposes both strengths and challenges associated with different methodological approaches and can provide an evidence base upon which further methodological design work and exploration can be done.
- While focused on adaptation finance, the analysis is also relevant to assessing private finance mobilized for mitigation action.

Developing New Methodological Approaches

Based on 4-stage framework by the OECD Research Collaborative:

Stage 1: Define core concepts

- Definition of climate change activities
- Definition of public and private finance
- Classification of developed and developing countries
- Geographical origin of finance

Stage 2: Identify public interventions and instruments that can be credited for mobilizing private climate finance

- Types of public interventions
- Specific instruments used for the interventions

Stage 3: Value public interventions and account for total private finance involved

- Choice/conversion of currency
- Point of measurement
- Valuation of public interventions
- Boundaries and estimation of private finance involved
- Availability of data

Stage 4: Estimate mobilized private climate finance

- Assessment of causality btw. public interventions & private finance
- Attribution of mobilized private climate finance to public interventions

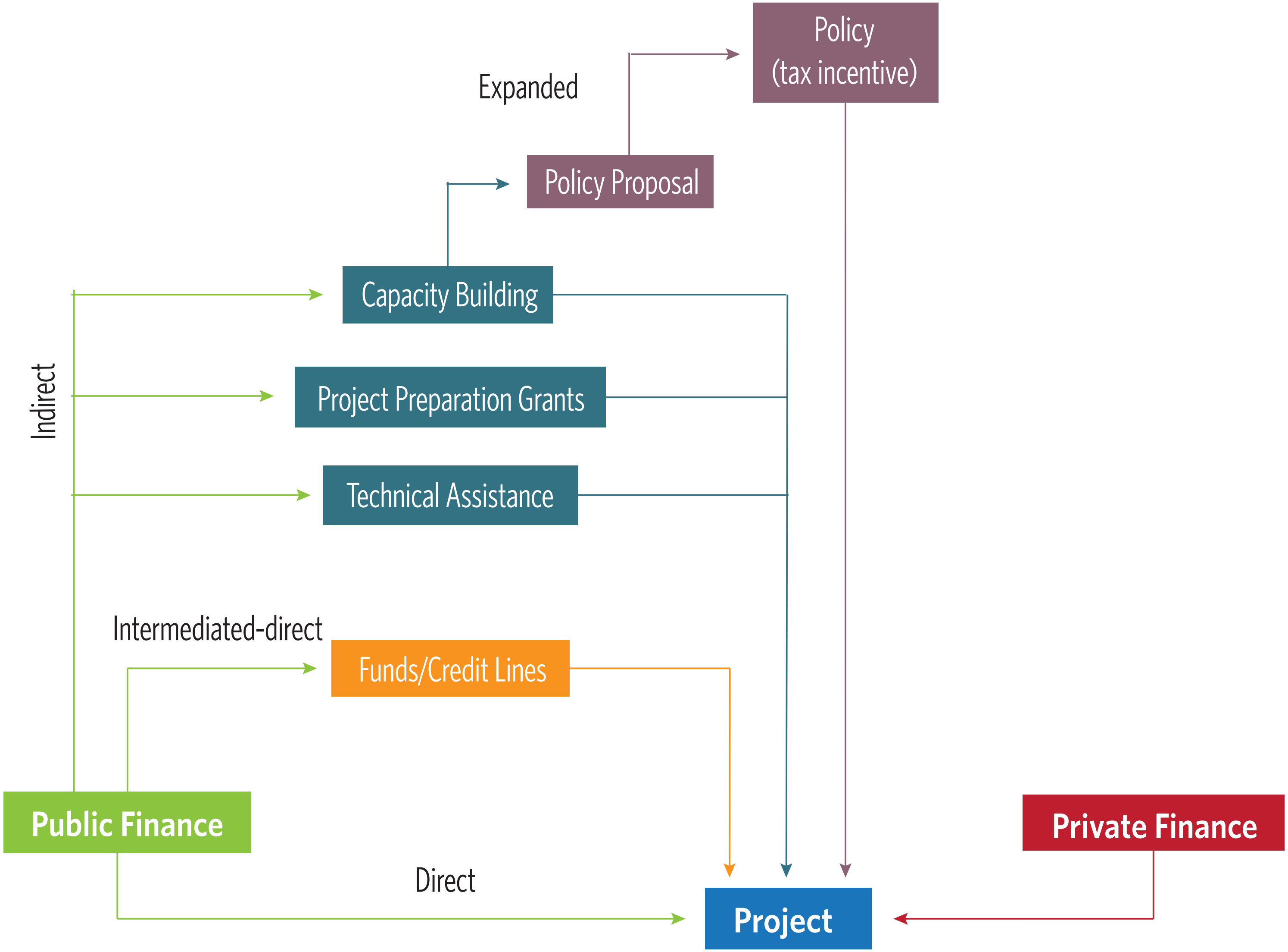
Source: Jachnik, R., R. Caruso and A. Srivastava (2015), "Estimating Mobilised Private Climate Finance: Methodological Approaches, Options and Trade-offs", OECD Environment Working Papers, No. 83, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5js4x001rqf8-en

Four methodological approaches developed

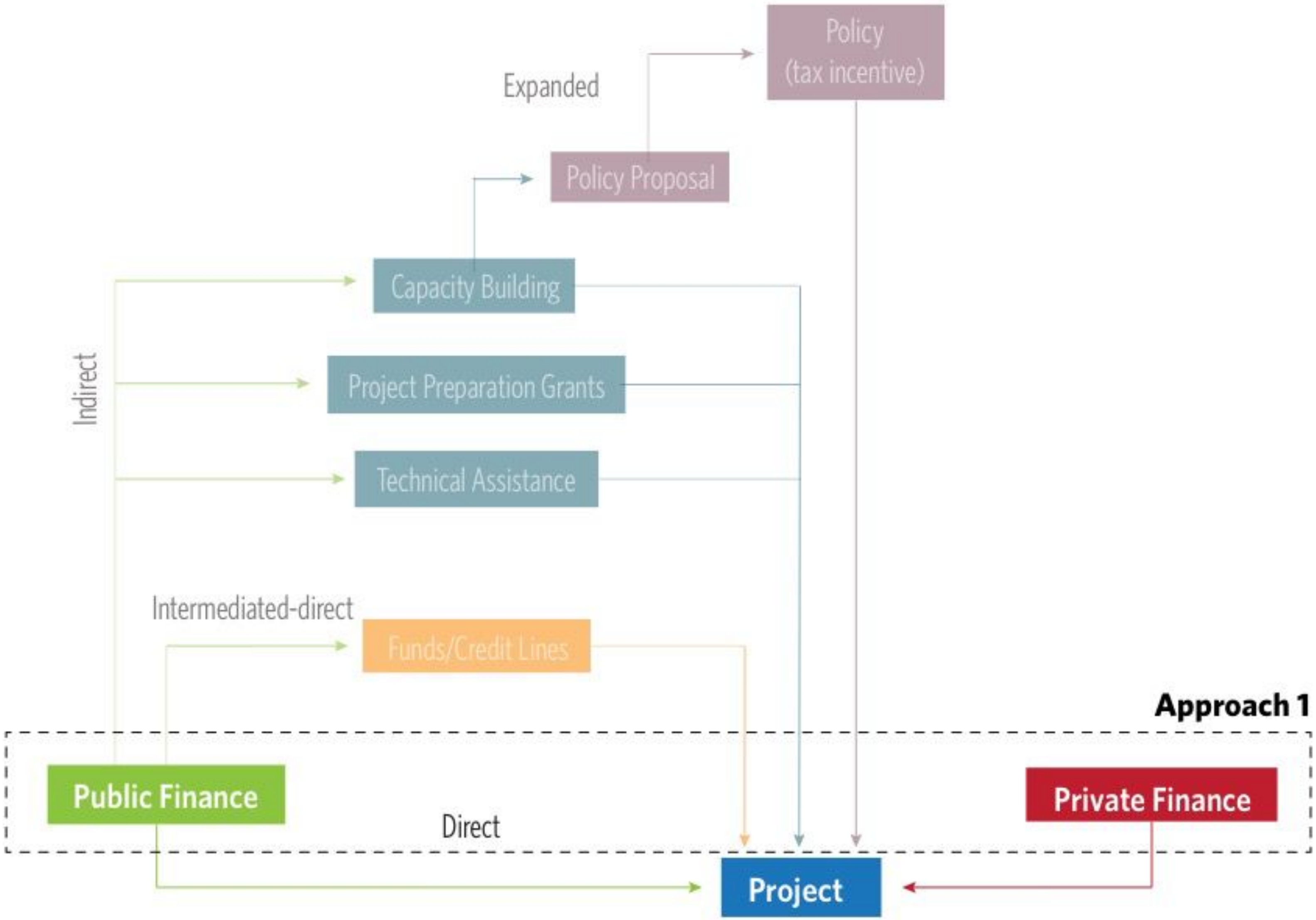
These different approaches vary across the following key decision points: *interventions*, *boundaries*, and *causality*.

Approach	Type(s) of intervention	Boundary	Causality assessment
Approach 1: Direct	Public co-finance at the project, program, or fund level	Strict	Assume blanket causality
Approach 2: Intermediated-direct	As above and/or as fund (of fund) or credit line	One (1) intermediate step upstream	As above
Approach 3: Direct, intermediated-direct, and Indirect	As above and/or as technical assistance, capacity building support	One (1) intermediate step upstream	Partial causality based on interviews. If double counting, apply partial assessment to direct and zero for indirect (see Appendix 1)
Approach 4: Direct, intermediated-direct, indirect and indirect expanded	As above	Two (2) intermediate steps	As above

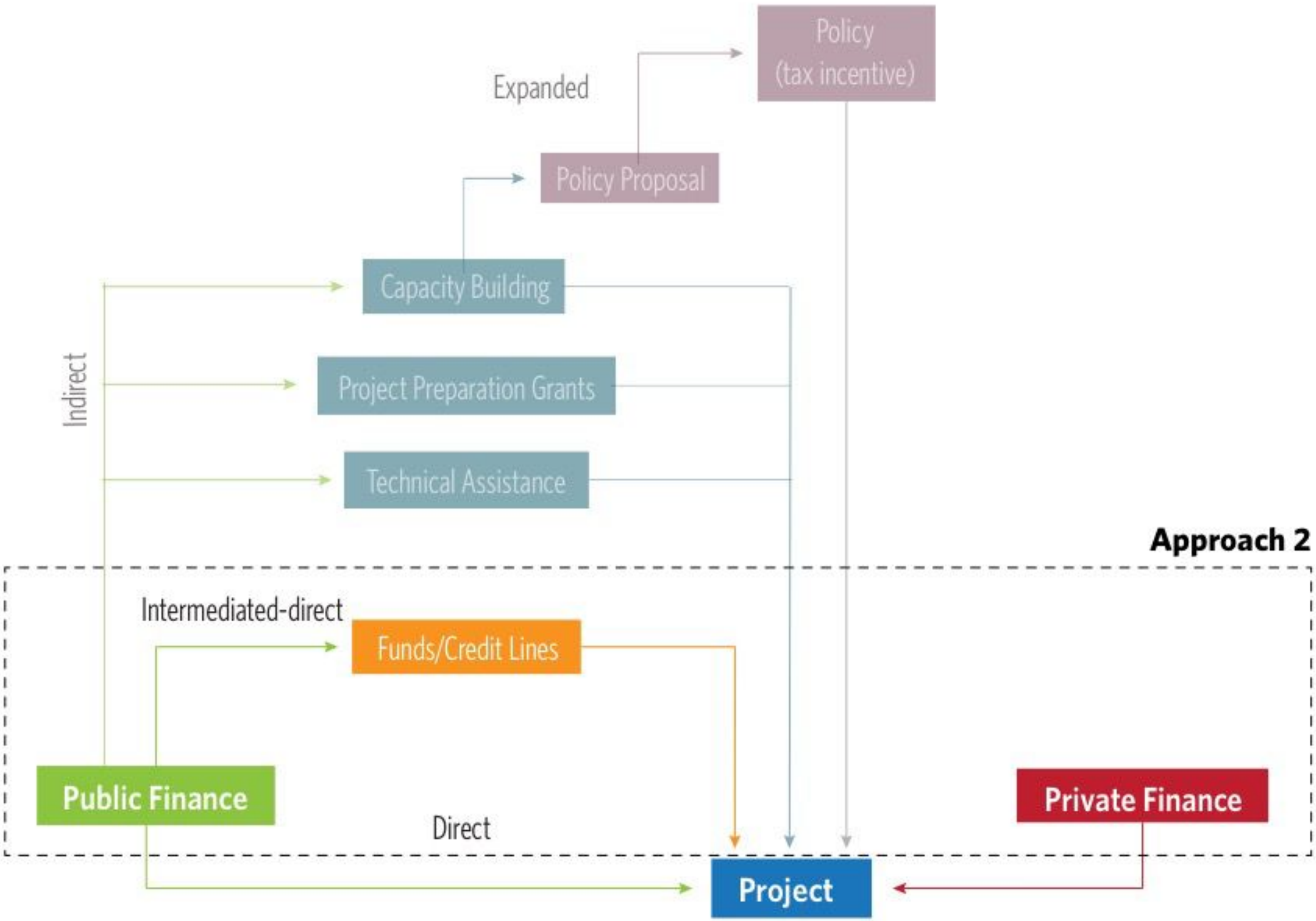
Setting up the approaches



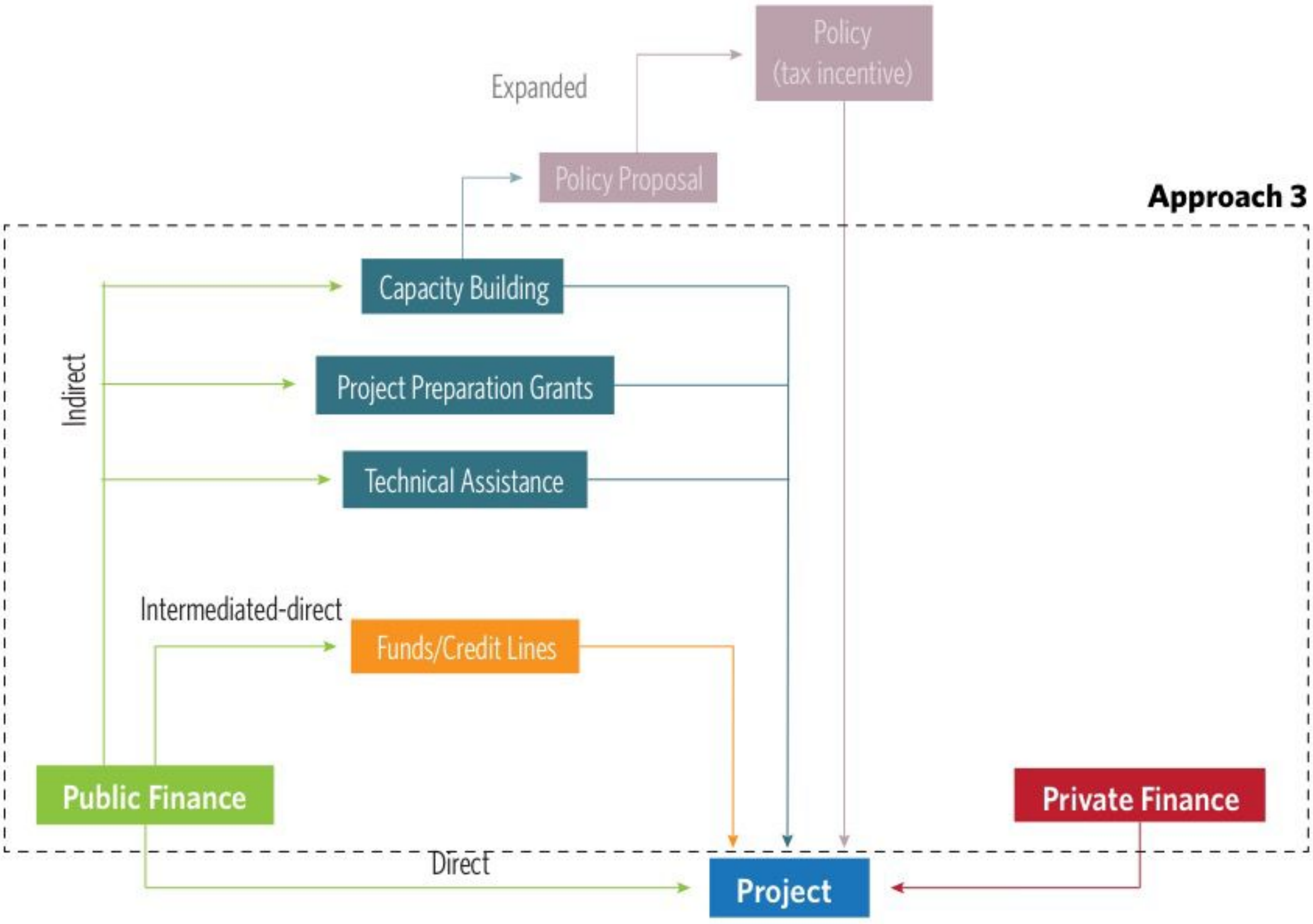
Approach 1: Direct



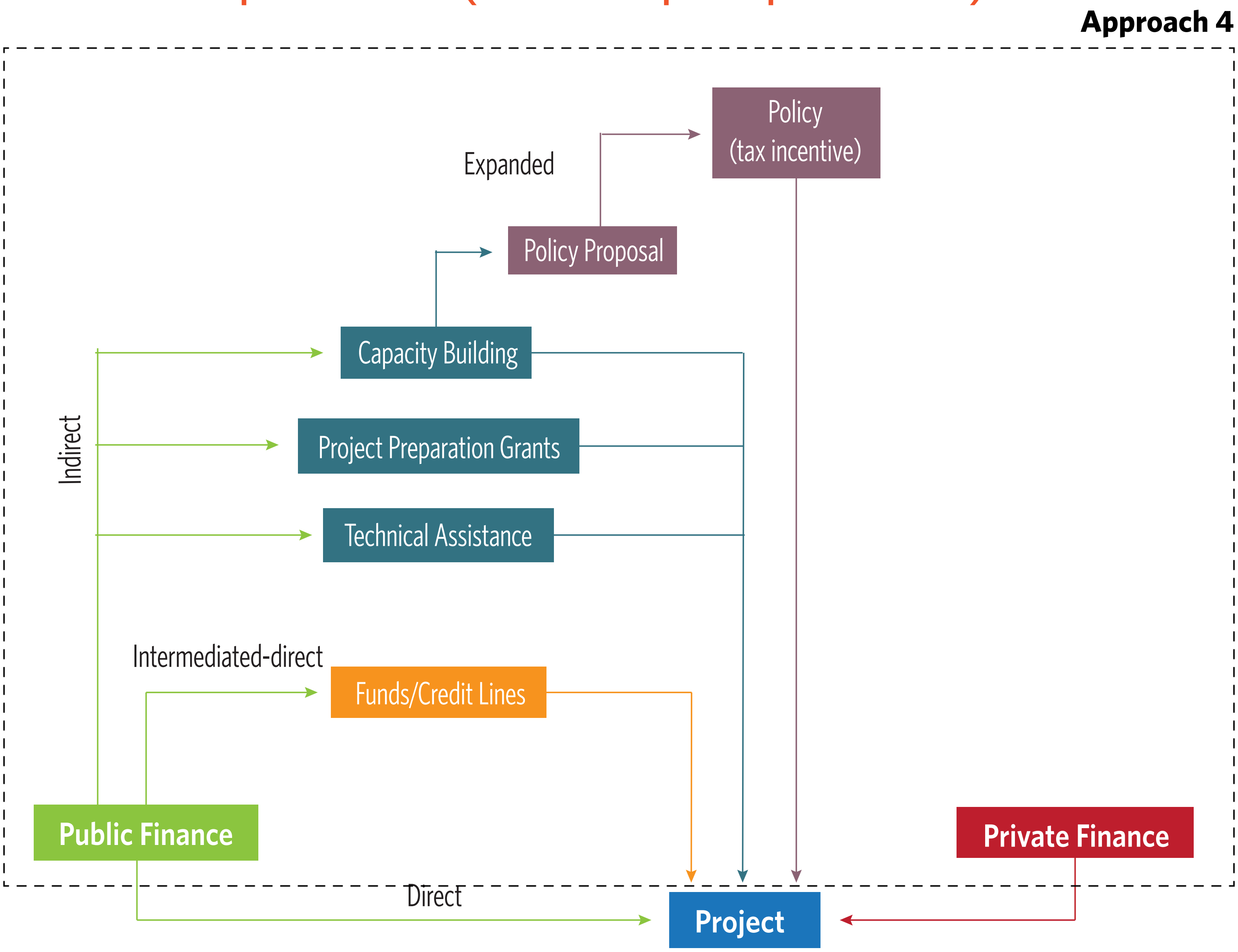
Approach 2: Direct and intermediated-direct



Approach 3: Direct, intermediated-direct, and indirect (one step upstream)



Approach 4: Direct, intermediated-direct, and indirect expanded (two steps upstream)



Phase 3: Testing the methodological approaches on two bilateral public adaptation finance initiatives

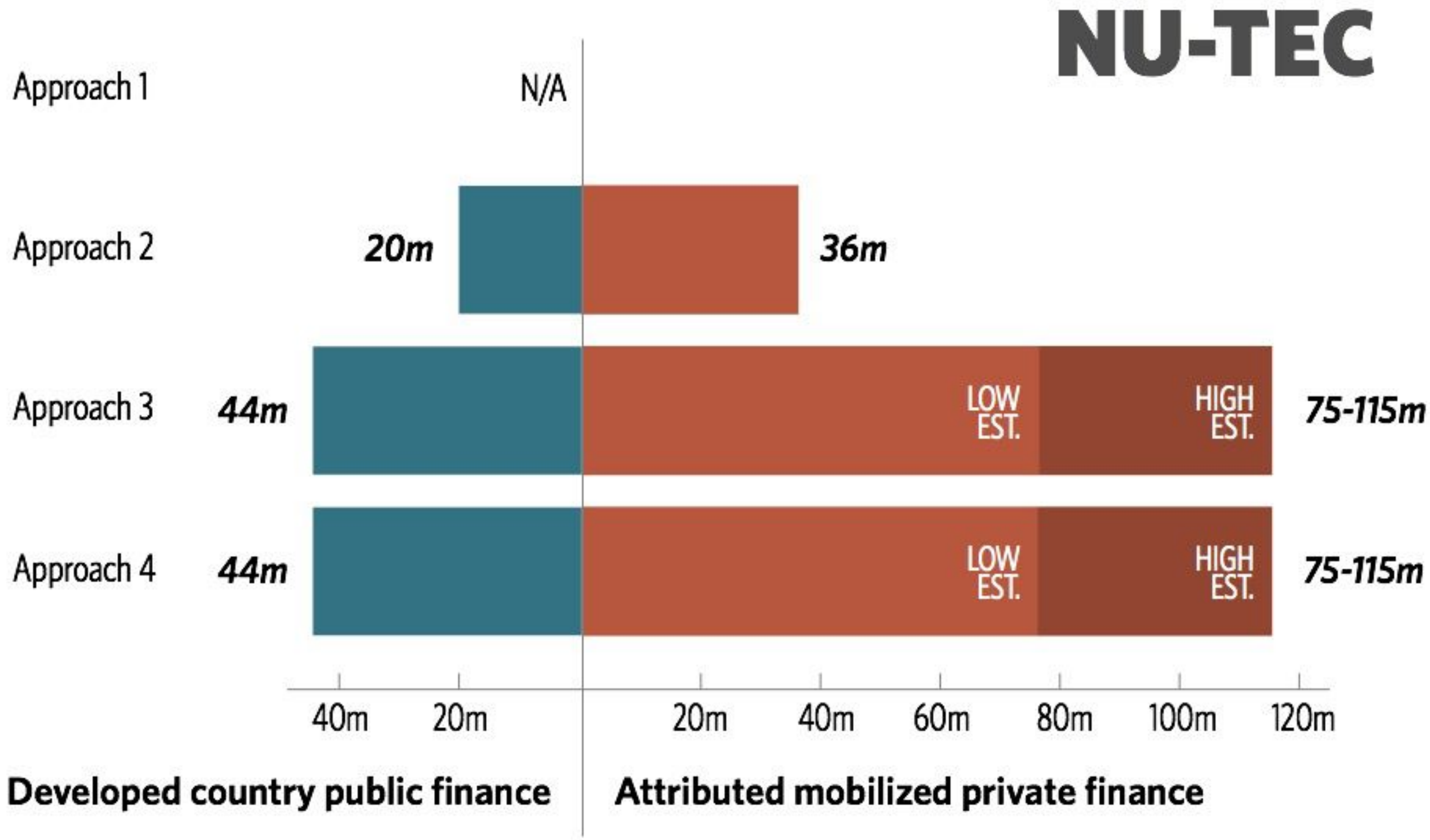
Case studies

- We applied the different methodological approaches to two case studies:
  - Northern Uganda: Transforming the Economy through Climate Smart Agribusiness (NU-TEC)
  - The Africa Risk Capacity (ARC).

- The aim is to understand how the application of different approaches can improve our understanding of:
  - The origination and scale of mobilized private adaptation finance
  - The relative impact of different public finance interventions in mobilizing these investments.

Northern Uganda: Transforming the Economy through Climate Smart Agribusiness (NU-TEC)

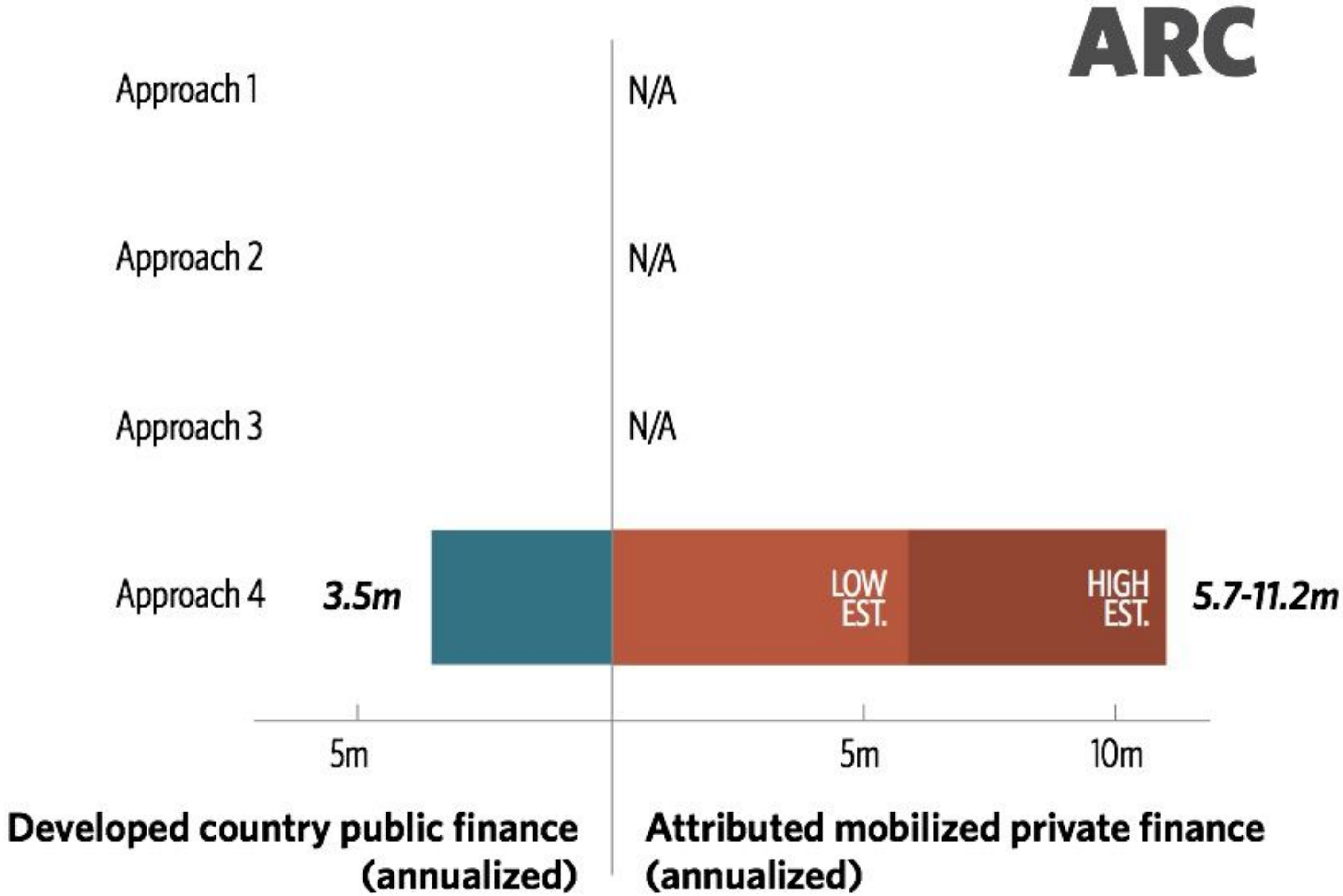
Ranges of estimates of mobilized private finance



See Section 4.1 of the report for further details.

Africa Risk Capacity Limited (ARC Ltd): Transferring disaster risks through drought insurance

Ranges of estimates of mobilized private finance



See Section 4.2 of the report for further details.

Evaluation of methodological approaches

- Accuracy: Reflects reality; avoids double counting.
- Incentives: Encourages the use of public interventions to deliver climate benefits and promotes means to scale up climate finance.
- Potential for standardization: Applies to various types of reporting entities and allows for aggregation and comparison.
- Practicality of implementation. Is feasible with available data and is time and cost efficient to report.

Approach	Accuracy	Incentives	Potential for standardization	Practicality of implementation
Approach 1: Direct	Moderate	Moderate-Weak	Moderate-Strong	Strong
Approach 2: + Intermediated-direct			Moderate	Moderate-Strong
Approach 3: + Indirect	Strong	Moderate	Weak	Weak
Approach 4: + Indirect expanded		Moderate-Strong		

Evaluating methodological approaches

- There are trade-offs between accuracy and the incentives provided on the one side, and practicality of implementation and standardization potential (including minimizing risks of double counting) on the other side.
- Methods that only capture direct and intermediated-direct mobilization are most practical but fail to account for important role finance plays in supporting softer, enabling interventions (e.g., for project demonstration, capacity building, or budgetary support).
- Methods considering indirect mobilization are more accurate, but are very resource intensive and limited by poor data availability.
- There is a risk of double-counting if different stakeholders involved in the same project use different methodological approaches for estimating mobilized private finance.

Key takeaways

Key takeaways

- Existing methodologies focus on measuring and capturing mobilized finance from direct and intermediated-direct public finance, and neglect the indirect impacts of softer, “enabling” interventions (e.g. technical assistance).

- Not quantifying indirect mobilization may disincentivize the provision of upstream support to projects, technology, and market development.

- Efforts are needed to improve publicly available data in order to parse out the climate-resilient components of mainstream business activities.

- More work needs to be done to more accurately assess and assign the strength of the causal relationship between different public finance interventions and the associated private finance and to isolate interventions from broader contextual factors.

- While particularly relevant in the context of climate resilience, these considerations are also relevant for mitigation activities.

Thank you!

Contact points for project

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