



# 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.

## 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.



## Investments in adaptation are urgent



## A key tool: procurement

Strategic public and private procurement can accelerate the creation of new markets:

- Examples:
- Performance-based contracts
  - Public-private partnerships
  - Forward contracts

## Building blocks of the business case for adaptation

### 1 Public-private programmatic and blended finance approach

Climate funds, DFIs and donors can:

- Strengthen local project preparation capacities
- Intensify global cooperation
- Exploit the full potential of private sector participation
- Cooperate in the design and implementation of blended finance blueprints

### 2 Development of novel governance structures

Private sector participation can be secured through governance structures that enable collective investments at watershed or landscape level. Examples are:

- Collective investment schemes, e.g. water funds
- Environmental markets, e.g. stormwater markets
- Parametric insurance schemes for ecosystems, e.g. Coral Reef Insurance Policy

### 3 Need for global and local partnerships

Sustainable investment requires the creation of innovative partnerships and investment vehicles:

- Higher diversity in the expertise and network of partners can help de-risk and reduce the transaction costs of investments.
- The Next Generation of Investment Vehicles and Partnerships require closer collaboration between investors and problem solvers.

## Climate finance can be a game changer...

...provided it is used catalytically to enable systems change and market creation.

Only through consistent global-local and public-private cooperation can a truly transformational pipeline of investments that reach the last mile be achieved.