

APA Webinar #6: Adaptation and Resilience Finance



Accelerating adaptation finance in Africa

Findings of the State of Adaptation in Africa Report (SOAR) by the Africa Adaptation Initiative (AAI)

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Aim and Objectives

- **Overarching aim:** To cultivate a reservoir of knowledge that is authentically African and steeped in African perspectives concerning the pressing need for and character of adaptation across the continent.
- **Objectives:**
 - Articulate Africa's Goal on Adaptation
 - Build the African narrative on contentious issues
 - Highlight and propose ways of addressing gaps in climate information systems
 - Highlight how the private sector can accelerate adaptation action
 - Fill gaps on adaptation information and knowledge in Africa
 - Align with the GST and provide inputs to the GST

SOAR 2023 Outline

- Climate Risks in Africa
- Climate Change Impacts on Economies and Livelihoods in Africa
- Climate Change Impacts, Risks and Vulnerabilities in Africa's Critical Sectors
 - Agriculture & Food Systems; Water Resources; Health and Public Health Systems; and Biodiversity & Ecosystems.
- Cities, Settlements and Key Infrastructure
- Adaptation Strategy: 3 Actions Pillars:
 - Agriculture and Food Security; Health; and Biodiversity and Ecosystems.
- Climate Information Services
- **Finance and Investment for Adaptation in Africa**
- Future Outlook



Finance and Investment for Adaptation in Africa : Costs Vs Inactions

Agricultural Losses: Without adaptation, climate change is expected to cause agricultural productivity losses ranging from 5% to 30% by 2050. Critical since agriculture constitutes a large part of Africa's GDP and employs a significant portion of the population.

Table 8: Comparison of Costs Associated with Adaptation versus Inaction in Agriculture and Food Security in Africa

Public Sector Investment for agriculture and food security		
Adaptation Option	Adaptation Cost (Billion USD)	Cost of inaction (Billion USD)
Water management	6.1	90.7
Research and Extension	3.9	71.2
Land restoration	3.4	26.8
Infrastructure	2.1	12.6
Climate information Services	0.1	0.5

- **Economic impacts:** Climate change could reduce Africa's GDP by up to 15% by 2030 due to its impact on agriculture, infrastructure, and health.
- **Costs of inaction span across:** Impacts on Agriculture and Food Security, Health and Social Impacts, Infrastructure Damage, Economic Costs of Drought and Associated Loss of Productivity, Loss of Biodiversity and Ecosystem Services, Displacement and Migration, Impacts on the Energy Sector, and Increased Costs of Disaster Response.

Finance and Investment for Adaptation in Africa: Financial instruments

Aspect	Grants	Senior Loans
Usage		
Initial Funding and Capacity Building	Appropriate for feasibility studies, pilot projects, and capacity building	Finance large-scale adaptation projects such as infrastructure
Support for Vulnerable Communities	Provide financial support to vulnerable communities	Enable large investments that can support broader community development
Leverage for Additional Funding	Act as seed funding to attract more capital	Mobilize private sector participation by de-risking projects
Policy and Institutional Strengthening	Fund policy development, regulatory reforms, and institutional strengthening	Encourage greater ownership and responsibility among borrowers
Long-Term Financing	Typically provide short-term, project-specific funding	Offer substantial capital over extended periods for long-term projects
Promoting Ownership	May not always foster ownership and self-sustaining initiatives	Loans require repayment, promoting prudent project management

Limits	Grants	Senior Loans
Insufficient Scale	Often lack sufficient scale to meet extensive adaptation needs	Require significant amounts of capital, which can strain borrowers
Sustainability Concerns	May not promote financial sustainability; limited to the grant period	Debt repayments can strain financial sustainability, impacting other budget priorities
Dependency Issues	Can create dependency, reducing motivation for sustainable financing	Reliance on loans can increase debt burden and lead to financial instability
Limited Scope and Flexibility	Funds are usually earmarked for specific purposes, limiting flexibility	May come with complex conditions and requirements, restricting use of funds
Debt Sustainability	Not a concern since they do not require repayment	Can lead to high debt levels, impacting national debt sustainability
Risk of Default	No risk of default as they are grants	High risk of default, especially in volatile economic and climatic conditions
Access to Credit	Easily accessible to vulnerable and low-income communities	Access can be limited by country creditworthiness and economic conditions
Interest Costs	No interest costs as they are non-repayable	High-interest rates can increase the cost of financing and reduce project cost-effectiveness
Complexity and Conditions	Typically straightforward application and reporting requirements	Often complex to obtain and manage; may include stringent conditions like policy reforms

Recommendations to improve use case and diversify instruments for scaling up adaptation finance	
Blended Finance Approaches	Combine grants, senior loans, and other financial instruments to maximize impact
Strengthening Debt Management	Enhance debt management capabilities to mitigate risks associated with loans
Enhancing Access to Credit	Improve creditworthiness through policy reforms and better economic management
Promoting Financial Innovation	Explore innovative financial mechanisms like climate bonds and impact investing

Innovative Financing Solutions & Role of Domestic Private Sector

Blended Finance: Strategic use of public funds to leverage private sector investments, thereby reducing the financial risks for private investors while simultaneously achieving public climate objectives. Climate funds play a crucial role in mobilizing and de-risking private finance for climate-related projects. They have a greater role to play in interventions targeting local communities

Green Bonds and Climate Resilience Bonds: Specifically designed to finance projects that enhance community resilience to climate impacts. They can be used for various initiatives, including sustainable agriculture and infrastructure projects aimed at reducing vulnerability to climate change.

Debt-for-Climate Swaps: Linking debt relief to investments in climate adaptation and conservation projects. It allows countries to use the savings from reduced debt payments to fund projects that build resilience to climate change.

Insurance Solutions: Climate risk insurance provides financial protection against the losses caused by climate-related events. It helps communities and businesses recover more quickly from disasters such as floods, droughts, and storms, thereby supporting economic stability and resilience.

Carbon Pricing Mechanisms: These mechanisms, including carbon taxes and cap-and-trade systems, have the potential to generate significant revenue for climate adaptation initiatives. By putting a price on carbon emissions, they incentivize reductions in greenhouse gas emissions and create a funding stream for climate adaptation.

Crowdfunding and Community-Based Financing: These approaches enable local and community-driven financial mechanisms to support small-scale adaptation projects. They empower communities to fund initiatives that address their specific climate resilience needs, fostering local ownership and sustainable development.

