EUROPEAN UNION

EU MISSIONS

ADAPTATION TO CLIMATE CHANGE

October 2023

Online EU Mission Adaptation Community

Summary of the event: Introduction to Finance for Climate Adaptation.

Thursday 21st September 2023

1. Introduction

This report provides a summary of the discussion that took place on Thursday 21st September 2023 as part of the EU Mission Adaptation Community event – *Introduction to Finance for Climate Adaptation*. The recording of the event is available within the following link.

Out of the 297 registrations, a total of 132 participants attended the event (over 44% attendance), which included:

- 70 Charter Signatories (47% attendance compared to registration)
- 25 Friends of the Mission (40% attendance compared to registration)
- 37 others: amongst them 17 Government representatives (from Portugal, Ireland, Estonia, Romania, Spain, Italy, Belgium, Turkey, Pakistan)

In terms of Charter Signatory participants' country distribution, the majority were from Portugal (19%), followed by Spain (10%) and France (10%), Poland (9%). Other participants were from Germany (7%), Israel (3%), Italy (3%), Latvia (3%), Slovakia (3%), Slovenia (3%) and Sweden (3%). We also had 1% participation of Charter Signatories from Austria, Belgium, Cyprus, Denmark, Finland, Greece, Hungary, Ireland, and Norway.

The main objectives for this event are outlined below. The full agenda can be found in the Annex.

- Provide an introduction and capacity building on financial concepts, and an overview of the financial landscape for implementing climate change adaptation.
- Provide examples of funding/financing instruments in Europe.
- Inform about financing opportunities for climate change adaptation from different European banks; in particular the European Investment Bank (EIB) and the European Association of Co-operative Banks (EACB).

During the event, participants had the opportunity to enhance their understanding of the financial landscape and hear directly from and engage with the banks on their financial offer for climate adaptation projects.

The main findings from the event are summarised in **Error! Reference source not found.** below.

Box 1. Main findings from participants answers during the online event Introduction to Finance for Climate Adaptation

- The assessment of financial options is key throughout the RAST, particularly at Step 5 when implementing adaptation.
- A wide variety of financing and funding opportunities and instruments are available for climate change adaptation. These include structural funds, loans, and bonds from European banks such as the EIB and the EACB. Other options are EU Funds and national or EU grants.
- There is a need for clearer and more thorough explanations of the different financing and funding terminology, sources, conditions and guidance on how to apply to the different opportunities available.
- Many participants require technical assistance to assess financing and funding options.
- In order to access funding, it is key that projects identify new types of revenue streams and develop methodologies that demonstrate the economic case of adaptation action to attract investment and gain political will.
- There seems to be increasing attention on the importance of adaptation planning and action to anticipate future climate risks and their potential costs.
- Interest in learning more about the Green Climate Fund, green bonds and Cohesion funding during future events.

2. Summary of the event

The event opened with the MIP4Adapt team welcome words, highlighting the role of financial options in the different steps of the adaptation planning cycle, illustrated by the Regional Adaptation Support Tool (RAST). This was followed by a set of 4 related presentations held by the MIP4ADAPT Financial Experts on finance for Climate Change Adaptation; DG-CLIMA on the European Commission's Cohesion Funds; the European Investment Bank (EIB) on the banks' financial opportunities for climate adaptation projects; and Crédit Agricole on the European Association of Co-operative banks (EACB) and the financial opportunities for climate adaptation projects. The presentation and the recording are available on the online EU Mission Adaptation Community site.

A summary of the key points per presentation is shown below:

Key points presented by the MIP4ADAPT team:

- Distinction between financing and funding, refundable and non-refundable sources.
- Lack of clearly identifiable revenue streams of adaptation projects, which reduces their attractiveness to investors and constrains the access to financing.
- Lack of standardised methodology to assign a clear value to future benefits of adaptation action and the insufficient capacity of financial institutions to comprehend such benefits.
- Suggestions to explore new revenue streams, create processes and methodologies able to demonstrate the bankability, future cost-avoidance potential, and to quantify direct/indirect benefits of adaptation action.

Key points presented on the European Commission's Cohesion Funds:

- Cohesion funds is a key source of EU-funding under shared management between the European Commission and the managing authorities responsible for the distribution at the Member State level.
- The European Regional Development Fund and the Cohesion Fund will provide more than €94 billion for climate action, representing a significant 20% increase from the 2014-2020 period.

Key points raised in the EIB presentation:

- Typically, the EIB can provide up to 50% financing of the project cost. In case of projects that are principally motivated by adaptation, EIB can finance a higher share of the project investment costs, up to 75%. In addition, in case of reconstruction projects as a response to natural disasters, the EIB can finance up to 100% of the project costs.
- Identifies key investment areas within adaptation, including urban regeneration, water, and stormwater management, protecting urban infrastructure, and disaster risk management.
- EIB's Climate Adaptation Investment Advisory Platform (ADAPT) offers adaptation advisory services throughout the project cycle inside the EU, including support on strategies and pipelines, preparation and implementation, capacity building and more.
- Investment loans and framework loans most common financing instruments for adaptation.
- First point of contact for projects are the EIB local offices. For advisory support requests it is recommended to contact the ADAPT platform directly at ADAPT@eib.org.

Key points raised by Crédit Agricole on the European Association of Co-operative banks (EACB) and financial opportunities for climate adaptation projects:

- EACB represents, promotes, and defends the common interests of its member institutions and the represented cooperative banks.
- EACB provides funding solutions for climate adaptation projects that mainly reduce risk occurrence or rehabilitate damaged goods, primarily through refundable financing solutions such as loans and bonds.
- Discrepancies between the nature of the adaptation projects and their funding, as most adaptation actions are challenging to present as bankable. Currently, the market is not fully prepared to respond to the financing needs for adaptation projects.
- Green funding forecasted to increase from 20% in 2023 to 50% by the end of the decade.
- Need for adaptation projects to incorporate ways to share the financial burden of the action and produce co-benefits, for example in terms of housing and social issues.
- Increasing issue of falling income for local authorities and rising costs of programmes and their funding, which reduces the access to financing for adaptation projects. Member State and EU grants are key complementary instruments to meet the financing needs.

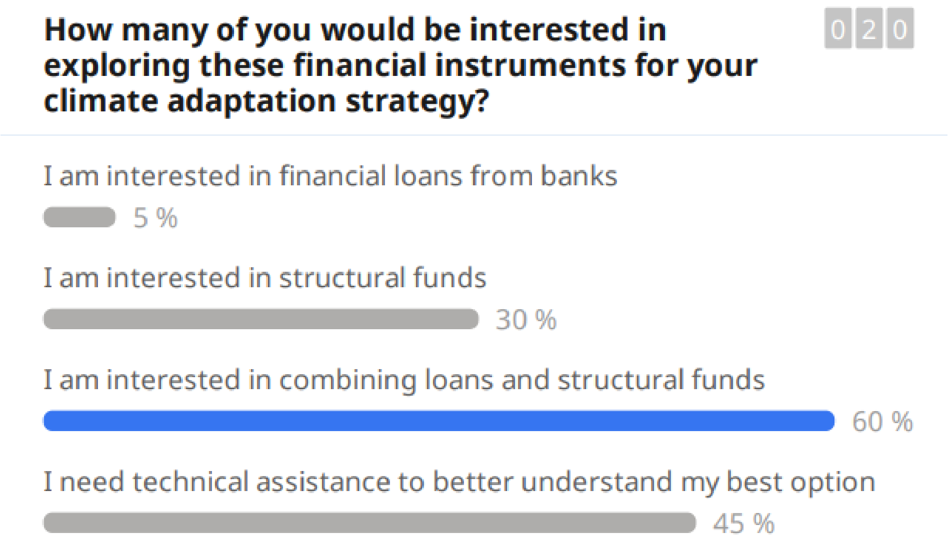
Each of the presentations were followed by a dedicated Q&A session to give participants the opportunity to ask and comment on the specific topics. A compilation of all the Q&A can be found in the Annex.

At the end of the event, a roundtable was held with the purpose of identifying the main opportunities and barriers of the participants with regards to the financing opportunities to support climate adaptation implementation in EU regions. The main outputs of this roundtable are presented in the following section.

3. Outputs

During the roundtable, the use of Slido – exemplified in Figure 1 - allowed participants to express their views on a variety of issues covered throughout the presentation.

Figure 1: Answers to the poll about interest in different financial instruments for climate adaptation strategies



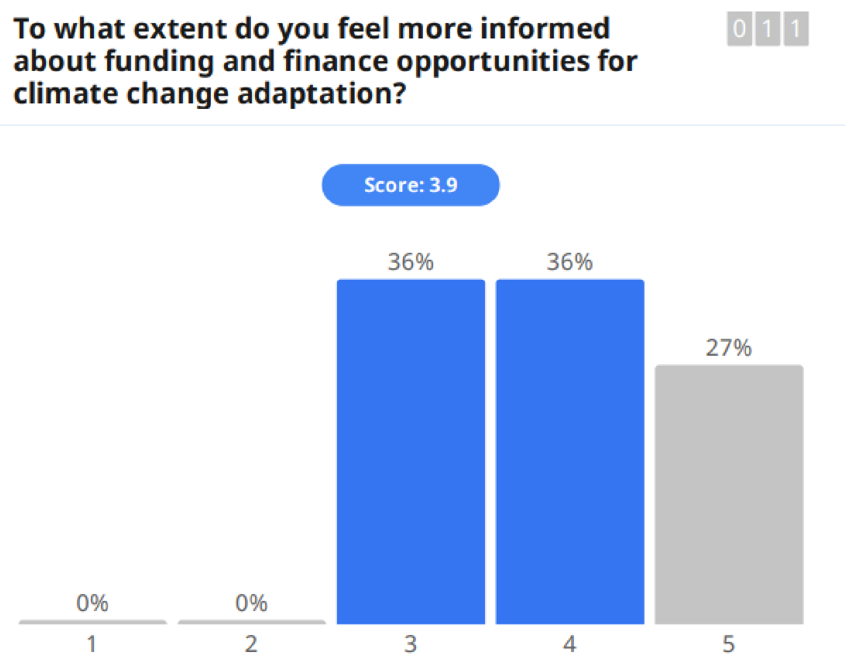
Several multiple-choice and open-ended questions allowed to gather some very interesting points for further reflection. Key outputs and takeaways from this discussion are presented below:

- Multiple participants have developed and implemented adaptation projects in the past three years, particularly in the agriculture, water, energy and forestry sectors. Others have no experience from implementing adaptation projects.
- Participants have mostly used structural funds, while a smaller percentage have used financial loans from banks. A significant proportion have not used either of them.
- Variety of entities responsible for managing the mobilisation of financial resources in the different regions, mainly including public authorities such as: Metropolitan Area and Government, regional authorities, planning commissions, Financial Municipal Department, and resources and finance office.
- While there is significant interest in exploring the combination of loans and structural funds, many participants need technical assistance to better understand their financing options, as shown in Figure 1.
- Interest in hearing more about the Green Climate Fund, green bonds and cohesion funding in future events on financial tools.
- Main barriers and challenges of participants to access finance include:
  - Lack of human resources and knowledge on financing possibilities.
  - The need to move from project-based adaptation to adaptation as a structural long-term responsibility of public administration.
  - Need to boost municipal financing.
  - Difficult to justify the future revenue streams of adaptation action to gain political support for funding, when speaking on future scenarios and the cost of not acting.
  - High interest rates on loans.

4. Feedback on the event and lessons learnt

The feedback on the event was positive, with participants considering it a great initiative, highlighting the usefulness of the information presented on finance for climate adaptation. The great majority of participants that rated the event feel more informed about funding and finance opportunities for climate change adaptation after the event (average score of 3.9/5), as shown in Figure 2.

Figure 2: Response to the question "To what extent do you feel more informed about funding and finance opportunities for climate change adaptation?"



A satisfaction survey was issued following the event. The feedback was also positive overall, with an average rating of 4.1/5. However, with only thirteen responses to the satisfaction survey, the sample size is too small to make meaningful conclusions. Further work to gather participants' views and insights will be carried out to ensure that the collection and process of gathering feedback is refined. This may include more polls during the workshops when attention is higher, or follow-up engagement to encourage further responses to similar surveys.

In terms of specific improvements for future events, participants suggested to:

- Include more political training and demonstration of feasibility options for financing municipal and intermunicipal projects.
- Focus less on large-scale projects primarily within the public sector and more on how to mobilise private finance and investment.
- Showcase greater alignment with nature recovery projects.
- Provide a clearer overview of the revenue streams that adaptation projects can generate to repay the refundable funding instruments.

These points have been recorded and will be taken into consideration while planning for the next finance event.

Further to the improvements presented above, the main lessons learnt from the event that we shall be working on for future events are presented in Box 2 below.

Box 2. Lessons learnt and main takeaways from the online event Introduction to Finance for Climate Adaptation

- The audience appreciated the introduction to the main financial concepts, funding, and financing opportunities available for implementing climate change adaptation.
- Need for further knowledge-sharing events on financing opportunities for adaptation projects, including a session with specific advice on applying for funding and financing.
- Need for a more detailed and practical explanation to understand the differences between refundable and non-refundable funding and financing.
- Interest in learning more about the financing conditions (i.e. interest rates, repayment schedules).
- Many questions remain as to how adaptation projects can raise money to be able to repay the refundable financing.
- It is challenging to justify the bankability of adaptation projects to politicians in order for them to support their funding.
- Need to identify expected and targeted revenue streams of adaptation projects to demonstrate the bankability, future cost-avoidance potential, and to quantify direct/indirect benefits of adaptation action.
- Participants need technical assistance to better assess their financing options.
- Importance of integrating a social approach in adaptation projects.

5. Next steps

The recording and the presentation used during the event were shared after the event via the online EU Mission Adaptation Community site through the forum discussion: Introduction to Finance for Climate Adaptation. The Q&A compilation and the summary report of the event will also be shared on the platform and made available in the Library.

The next event on financing adaptation will take place on 21st November, which will be focused on exploring the concept of bankability for climate adaptation projects. Additionally, there are several online event schedules for the remaining time of the year, including:

- *Cross-border cooperation for adaptation to climate change* which will take place on 10th October.
- *Introduction to Stakeholder and Citizen Engagement* which will take place on 17th October.
- *Synergy Workshop for Mission Projects*, which will take place on 9th November.

More information will be made available on all of the events via the calendar functionality and the forums of the online EU Mission Adaptation Community Site

For any queries from members of the Community of Practice on associated activities and events, specific concerns about your climate adaptation planning process, communications and press releases, and IT technical issues with the website, contact us via the Helpdesk form.

Annex

1. Agenda

Event Agenda
Welcoming and opening remarks
Introduction to finance for Climate Change Adaptation
Q&A Session
European Investment Bank: Financial opportunities for Climate Adaptation projects
Q&A session
European Association of Co-operative Banks: Financial opportunities for Climate Adaptation projects - the case of Crédit Agricole
Q&A session
Roundtable on the value of financing opportunities to support climate adaptation implementation in EU regions: main opportunities and barriers
Closing remarks

2. Questions asked during the workshop

Is the Cohesion Funding relevant to associated countries?
Cohesion Funding primarily pertains to the EU member states. Cohesion Policy, which includes Cohesion Funding, is a fundamental EU policy aimed at reducing economic and social disparities among regions within the EU. These funds are primarily allocated to EU member states to support projects and initiatives that promote economic and social development in less-developed regions. In particular:

- The Cohesion Fund is reserved for Member States whose gross national income (GNI) per capita is less than 90% of the EU average. During the 2021-2027 programming period, the Cohesion Fund is providing support for 15 Member States: Bulgaria, Croatia, Cyprus, Czechia, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. More information can be found on the following website: Inforegio - Cohesion Fund (europa.eu)
- The ERDF finances programmes is shared responsibility between the European Commission and national and regional authorities in Member States. The Member States' administrations choose which projects to finance and take responsibility for day-to-day management. More information can be found on the following website: Inforegio - European Regional Development Fund (europa.eu)
- Under the ESF+ shared management strand, the European Commission does not provide direct funding for projects. In agreement with the Commission, Member States may choose to have only a single national ESF+ programme, implement the ESF+ through a set of regional programmes or combine both approaches. ESF+ managing authorities will then select projects based on their relevance to national and/or regional programmes. More information can be found on the following website: Support in your country | European Social Fund Plus (europa.eu)

- The JTF supports the territories most affected by the transition towards climate neutrality to avoid regional inequalities growing, in line with EU cohesion policy's aim to reduce regional disparities and to address structural changes in the EU. The Commission has set up a Just Transition Platform to help EU countries and regions to unlock the support available through the Just Transition Mechanism. More information can be found on the following website: [Inforegio - Just Transition Fund (europa.eu)]

Is it not that ERDF and CF Funds are only for mitigation?
The Cohesion Fund and the European Regional Development Fund (ERDF) primarily focus on funding projects related to regional development and economic cohesion within the European Union (EU). They both can support a wide range of projects, including those with elements of mitigation and adaptation.

- Mitigation Projects: Both the Cohesion Fund and ERDF can fund projects that contribute to reducing greenhouse gas emissions and mitigating the effects of climate change. This may include investments in energy efficiency, renewable energy, public transportation systems, and other initiatives aimed at reducing carbon emissions.
- Adaptation Projects: these funds can also support projects that enhance a region's resilience to the impacts of climate change. Adaptation projects could involve improving infrastructure to withstand extreme weather events, enhancing flood defenses, or developing strategies for managing water resources in the face of changing climate patterns.

More information on the types of projects these Funds can fund, can be found on each of the funding websites.

Could UN agencies access to Cohesion Funding?
United Nations (UN) agencies are international organizations, and they do not typically have direct access to Cohesion Funding because it is specifically allocated to EU member states for regional development purposes.

Could you provide some more details and criteria for practically understanding how sharing between funding to return and funding that could be not returned?
The EIB provides debt/loans; not grants or concessional terms that you may find in other MDBs. There can be a "grace period" depending on the specificity of the project (reflecting the construction period of a particular project), but all funding coming from the EIB are repayable loans.

What are the revenue streams you are anticipating/targeting from adaptation projects, that can contribute to repayable finance? Particularly for returnable finance arrangements, i.e. if there is returnable finance, this means regular repayment or end-of-project repayment, which typically requires an income stream to cover this repayment.
Often, the EIB finances adaptation as part of a larger project; where the adaptation components or adaptation share is quite large, i.e., about half of the project contributing to adaptation.
Most of the time the EIB finances adaptation projects with public sector promoters and less times with the private sector. It is with the latter where the revenue stream matter more. In those cases, the bankability of the project will depend on this feature.
For the EACB the climate adaptation part of the projects is not bankable, but what is "next" to the project can help repay the finance received; i.e. building a dike will not allow to repay for the cost of investment; however, it can help to build houses and sell them around that dike.

Where can I see what are the financing terms: Interest rates, the period given for returning the funds, and other fiscal factors? How much is the interest to pay back to the EIB for the part of the loan that should be returned? How is it estimated?
According to the EIB, this is a confidential element that depends on the specificity of the projects. The disclosed information can be found on the EIB website, What we offer (eib.org). As the Bank is a Triple A (AAA) rated financial institution they can lend with favorable terms and with long maturities (matching the economic lifetime of the financed assets) that can be difficult to find in the market from other actors such as a commercial banks.

Is there anywhere (i.e. on the website) where this information can be found or is this some information to ask the as they submit their project proposal?
When a project proposal comes into the EIB, a loan officer in the Bank will begin working with this project. This will be the contact person to ask for this information.
Whitin the website, in the What we offer (eib.org) section, more information about the types of conditions the Bank offers are presented. It is worth noting once more that these conditions, will depend on the specific project and vary from one project to another.
Additionally, on the following link is an overview of the EIB project cycle and the appraisal process:
https://www.eib.org/en/projects/cycle/index.htm

What does PICs stand for?
Project Investment Costs (the total investment cost of a project)

We need to include this social approach and maybe to progress from the emergency or cost/ loans approaches for adaptation projects?
According to the ACB, in Europe everything is driven today by investors. Investors are interested in two kinds of funding products as far as repayable tools are concerned. These are loans and bonds. Everything more specific than that would reduce dramatically the number of investors interested in the product and increase the cost of it – the interest rates that would need to be paid by the local authority. At least for the time being, in Europe, it is key to stay within the “large avenues” that are brown or green loans and bonds. In the US they have developed some niches but these are very specific to certain states and designed to a very specific market.