INVESTING FOR CLIMATE ADAPTATION AND RESILIENCE IN LAND USE FINANCE

Learnings from the ESKEN Webinar

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The Environmental and Social Knowledge Exchange Network (ESKEN) is a workspace for a community of practice involved in the environmental and social (E&S) aspects of financing deforestation-free commodity production, protection of natural ecosystems, forest landscape restoration, and other forms of sustainable land-use.

The ESKEN webinar 'Investing for Climate Adaptation and Resilience in Land Use Finance', held on the 13th of September 2022, discussed the financial landscape around climate adaptation in the context of land use finance, including three case studies from projects which are making this a reality (slides can be accessed here). It was delivered by:

- Stuart Beavis, Regional Lead, Dutch Fund for Climate and Development (Asia)
- Marie Andrée Liere, Adaptation Specialist, Landscape Resilience Fund
- Sophie Trémolet, Europe Freshwater Director, The Nature Conservancy

Brief context: climate adaptation projects in land use finance

The extreme heat and drought or flooding seen in many areas of the world this year is a stark reminder of the already clear consequences of climate change. Alongside rapid carbon emission reductions, governments, businesses and local communities will need to urgently adapt to this new reality.

The IPCC defines climate resilience as the "capacity of social, economic and ecosystems to cope with a hazardous event or trend or disturbance", and climate adaptation as "the process of adjustment to actual or expected climate and its effects in order to moderate harm or take advantage of beneficial opportunities" (IPCC 2022). Worldwide, adaptation activities are significantly underfinanced. New estimates of the financial needs of adaptation from developing countries increased compared to previous calculations, and the financing gap has widened since the pandemic (UNEP 2021)[1].

Adaptation actions are needed across all sectors (see *Figure 1* below). Public and private funding are both needed to finance adaptation activities, and this is recognised by ESKEN members and the wider investor network who have shown increasing interest in understanding investing for climate adaptation. However, even among investors who are aiming to tackle issues relating to climate change and biodiversity loss, there is a lack of understanding of how to generate profitable investment models that centre on climate adaptation and resilience, rather than climate mitigation strategies.

[1] After the webinar, United Nations Environment Programme (UNEP) released an updated 2022 edition of Adaptation Gap Report. The report can be accessed here.

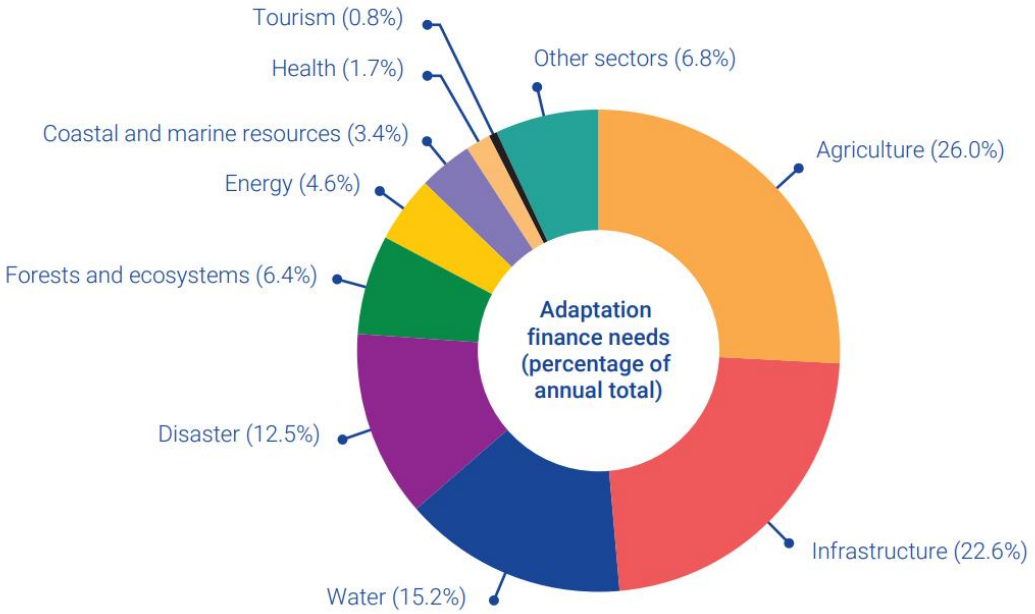

Figure 1: Adaptation finance needs by sectors based on 26 developing countries' Nationally Determined Contributions (NDCs) and National Adaptation Plan. From Adaptation Gap Report, UNEP (2021).

Webinar Summary

During this webinar, guest speakers shared experiences and lessons learned through three land use-related climate adaptation project cases.

Integrated Rice and Aquaculture Bankable Project in the Mekong Delta

Stuart Beavis, the regional lead of the Dutch Fund for Climate and Development (Asia), discussed the Mekong Delta Integrated Rice and Aquaculture Bankable Project, which is a collaboration between WWF-Hong Kong, WWF-Viet Nam, WWF-Netherlands and the Dutch Fund for Climate and Development (DFCD). The project combined rice and shrimp production, aiming to design a bankable model for responsible farming in the Mekong Delta, and contribute to long-term resilience. The project has increased the revenue arising from production, improved local water quality, and raised the land level in the delta providing greater resilience against future flooding and loss of land.

One of the interesting points Stuart mentioned is that the local agricultural company that joined this adaptation project has been affected by the shrinkage of the elta, as their seafood production would have to exit the region. Thus, sustainable development of the ecosystem of the delta, taking steps to adapt to climate change, is in the interests of the company, as it will secure its supply. This explains its close involvement in the project, right from the start. Stuart also highlighted the importance of the active participation of a range of other partners like local political actors, farmers and academia, through a landscape approach.

The Approach of the Landscape Resilience Fund

Marie Andrée Liere introduced the Landscape Resilience Fund (LRF), a climate adaptation and resilience-focused fund. The LRF uses a blended finance approach, combining public, philanthropic, and private funding to create scalable ways to finance sustainable adaptation solutions. They focus

on small and medium-sized enterprises (SMEs) mostly in the global south. Smallholder farmers produce 80% of the food in developing countries, and they are the most vulnerable to climate change and the loss of biodiversity. LRF provides pre-investment support and low-interest, flexible loans to SMEs. Besides SME investments, it also supports local partnership platforms. LRF expects to unlock additional commercial finance up to three times the amount it invests.

Marie highlighted that LRF takes an integrated landscape approach. One example is LRF's first investment in Ghana, which was to finance Koa Impact Ghana. Koa produces juice and juice-related products from (otherwise discarded) cocoa fruit pulp. Koa buys the otherwise wasted pulp from the farmers and in doing so increases smallholder farmers' income by 20-30% while reducing food waste. It alsouses a solar-powered processing method. LRF invested in Koa to scale its operation and plans to deliver knowledge and skills to farmers to improve their resilience to climate change.

The Wendling Beck Environment Project in Norfolk, UK

Sophie Trémolet from The Nature Conservancy (TNC) gave us an overview of the Wendling Beck Environment Project (WBEP) in Norfolk, UK. Funded through the sale of biodiversity units and other environmental credits, primarily through the UK's Biodiversity Net Gain scheme, the project is bringing together landowners, local government and non-governmental organisations to transform 784 hectares of farmland through biodiversity restoration, habitat creation and enhancement. WBEP aims to provide both climate adaptation and mitigation benefits.

Sophie stated that, as a pilot project of the UK Biodiversity Net Gain scheme, WEBP serves as a learning process. She shared several take-home lessons. For a project that brought together multiple partners, the government has a key role to play in mobilising projects and private finance. Additionally, she flagged that adequate resource is vital for the project preparation period, given the considerable time required to pull together a multi-stakeholder consortium and agreed shared aims. The project has secured a considerable portion of funding from various sources, and blended finance reduced the risk, and assured the smooth development of the project.

Key takeaways for fund managers to consider

Drawing from across these varied case studies three recurring themes are critical for fund managers to consider.

- **Extreme weather events have been and will continue to result in rising costs and risks for financial institutions.** Climate adaptation actions will be increasingly needed, and may soon surpass mitigation actions in required funding. Financial institutions should be able to examine their portfolios to identify sectors or regions that can benefit from a climate change adaptation lens when choosing appropriate risk response options, leading to the incorporation of adaptation measures as a cost-effective risk response option that would otherwise be overlooked.

- **Strong partnerships are essential for successful adaptation.** Most climate change adaptation actions, by their nature, involve multiple partners. Building climate resilience is in both the public and private interests, and requires inputs from all stakeholders impacting or being impacted by the adaptation investment. Working in partnership may bring additional complexity, but a collaborative approach is needed for maximum adaptation impact.

Effective stakeholder engagement plans, making use of landscape approaches to identify impacts and interdependencies, drawing on best-available information, and co-designing the governance, rules, and regulations of the adaptation investment are all critical elements for success.

- **There are many adaptation innovations that can be replicated, adapted, and scaled up elsewhere.** Most of the adaptation projects featured here are still in the early stages, but already are demonstrating innovation: the financing structure of the Integrated Rice and Aquaculture Bankable Project; the focus of LRF in SME and climate change adaption; and the partnership across multiple sectors and types of stakeholders the Wendling Beck Environment Project. Innovative ideas and financing models are necessary to scale up funding for adaptation action. Learning from and building on existing innovations can support urgent scaling up of adaptation action and associated finance.

References

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