

ClimaProof Western Balkans

Funding mechanisms for climate proofing of investments

A red sign with the words "ROAD CLOSED" in white, partially submerged in water. The sign is tilted and its reflection is visible in the water. The background is a golden sunset over water.

ROAD
CLOSED

Outline

1. Financing need for climate-proof road infrastructure
2. Overview of current funders and their practices
3. The potential of private finance as funding source
4. Setting up a separate financing mechanism
5. Conclusions and reflections





1.

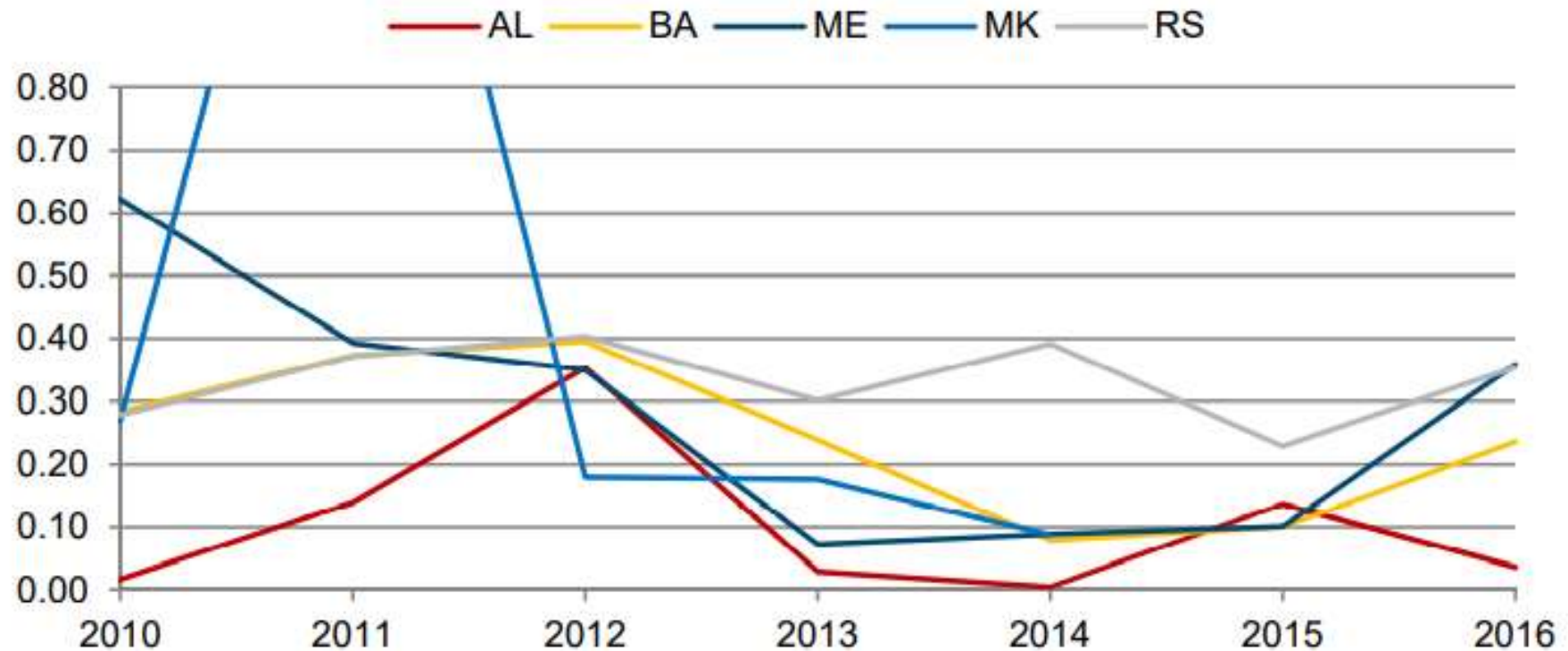
Financing need for climate-proof road infrastructure



Existing investments in road infrastructure

Infrastructure investment in transport sector, in % of GDP, 2010-2016 (EIB, 2018)

Transportation



Overall need for financing of road infrastructure

Establishing the cost for climate proofing component of work

- ▶ Given the population size and the respective European average, **infrastructure financing gaps** can be identified in the case of motorways for all the Western Balkan countries (see for example data presented in 2018 *EIB report Infrastructure Investment in the Western Balkans*)
- ▶ Question is then - is there also a financing gap **for climate proofing of road infrastructure?**
- ▶ **Greenfield** (including major upgrades / re-investments) is not such a big challenge with accessing financing for climate proofing of road infrastructure: as it is only a couple of percentage point of total project cost and financed along with entire project
- ▶ **Brownfield** projects may be a different story, as these are relatively small and dispersed investments typically not included in large greenfield projects



2.

Overview of current funders and their practices



Overview of current funders

Impression of the usual suspects in the road infrastructure financing space*

EU/IFI public funders



KFW



Non-EU bilateral public funders



Private sector



PPP



Private finance

* non-exhaustive list

Western Balkans Investment Framework



The EU vehicle for investments in the Western Balkans

- ▶ WBIF is the main vehicle for implementation of the EU's Economic and Investment Plan for the Western Balkans (providing grants and acting as platform for access to European financing)
- ▶ One of their key priorities for the next years is **sustainable transport**
- ▶ WBIF's Expert Working Group on Green Agenda is evidence of recent prioritization of climate adaptation for WBIF - considering for example the *EC Technical Guidance on the Climate Proofing of Infrastructure*





Western Balkans Investment Framework

The EU vehicle for investments in the Western Balkans

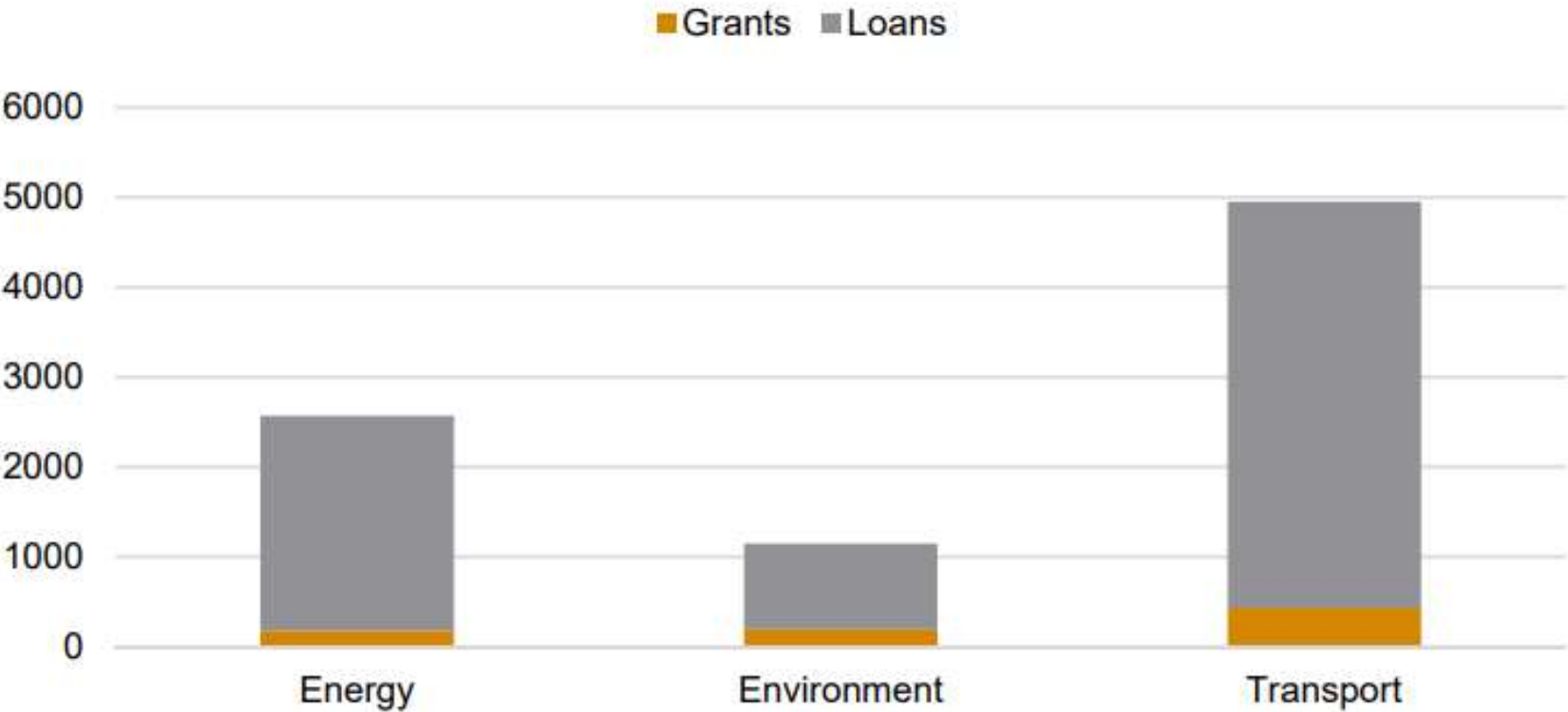
➤ Practically, this means that:

1. There is an ongoing WBIF effort to further integrate climate proofing in the way they are selecting applications for road infrastructure projects;
2. Climate-proofing of road infrastructure could thus potentially facilitate easier access to finance through the WBIF in the near future.

➤ One of the recommendations of the WBIF Expert Working Group is: *Set-up additional incentives to speed-up the green transition: prioritizing projects with higher greening impact, increasing grant shares for certain project types, additional TA to strength institutional capacity and to push policy actions*

Western Balkans Investment Framework

Sectoral breakdown of WBIF infrastructure projects 2009-2017 in EUR million (EIB, 2018)



Other funders

For example Green Climate Fund and Adaptation Fund

- ▶ EIB and EBRD are major bilateral funders and will be discussed in next sessions of this conference
- ▶ When it comes to funding climate adaptation efforts, priorities of many of other (global) funds is on countries at **direct risk** and **lower levels of development**
 - > limiting possibilities for countries in the Western Balkans accessing finance
- ▶ Still, there are possibilities to explore further:
 - ▶ Contact for example the National Designated Authority (NDA) for the Green Climate Fund in your country and explore possibilities (see information in links on developing Concept Note and Project Preparation Facility)
 - ▶ Innovation in climate-proofing concept for road infrastructure (disaster risk reduction, nature based solutions, etc.) can provide access to specific grant funding. See for example Innovation Facility of Adaptation Fund



3.

The potential of private finance as funding source



Possibilities for private sector to provide funds

Exploring options

- Overall, private sector investment in road infrastructure in the 6 non-EU Western Balkans countries has been **very limited** over last decade
- Countries such as Croatia offer potential examples with **Public-Private Partnerships** in development of road infrastructure (toll roads)
- There are additional ways to explore how the private sector can be involved in utilizing existing or designing new funding mechanisms for climate-proofing:



Through the integration of climate-proofing of road infrastructure with **real estate or wider area development** – such as national parks, touristic sights or other avenues



By **exploiting links** between climate-proofing of road infrastructure and other (private sector led) infrastructure development – ea. for small-scale energy producers



4.

Setting-up a separate financing mechanism



Setting-up a separate Climaproof financing mechanism

Advantages and disadvantages of setting-up a separate mechanism



- ✓ Allows for specialized mechanism that centralizes **expertise** on financing aspects underlying climate-proofing of road infrastructure
- ✓ Provides a dedicated access point and **incentive** for developers (and governments) to include climate-proofing in their infrastructure project
- ✓ Can facilitate dedication of specific **TA and grant resources** to climate-proofing interventions

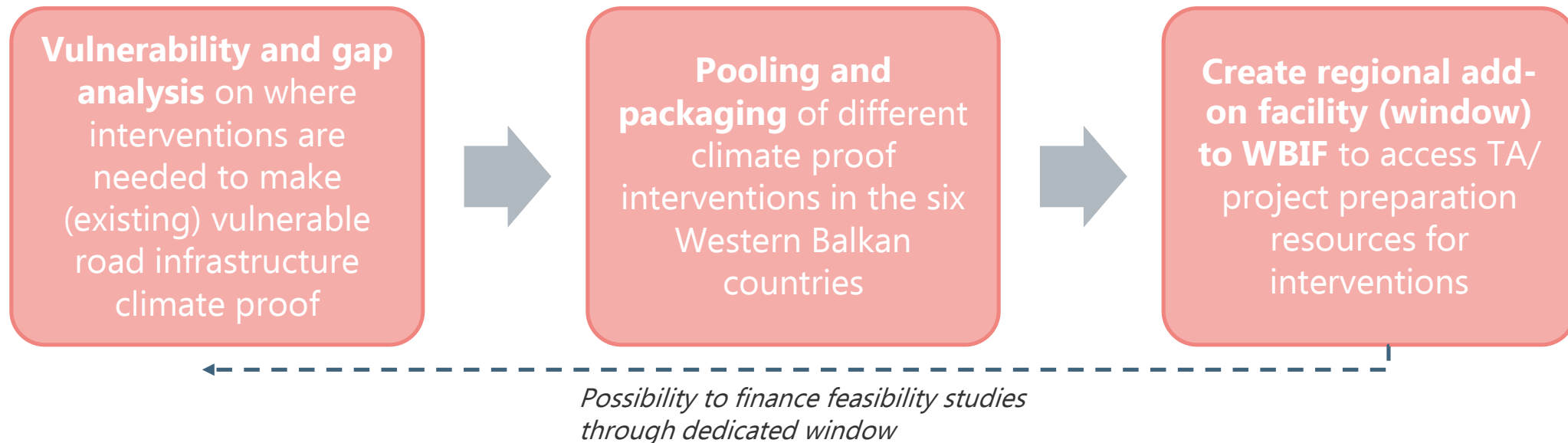


- Limited **additionality** compared to existing facilities in Western Balkans
- Requires additional **resources** and new and/or a change in **governance structure** (including obtaining political mandate)
- Limited scope in short-run for **private sector investment** in climate-proofing of road infrastructure (and thus for potential participation/contribution in separate financing mechanism)
- Limited use of **economies of scale**

Setting-up a separate Climaproof financing mechanism

Alternatives to separate fund / financing mechanism

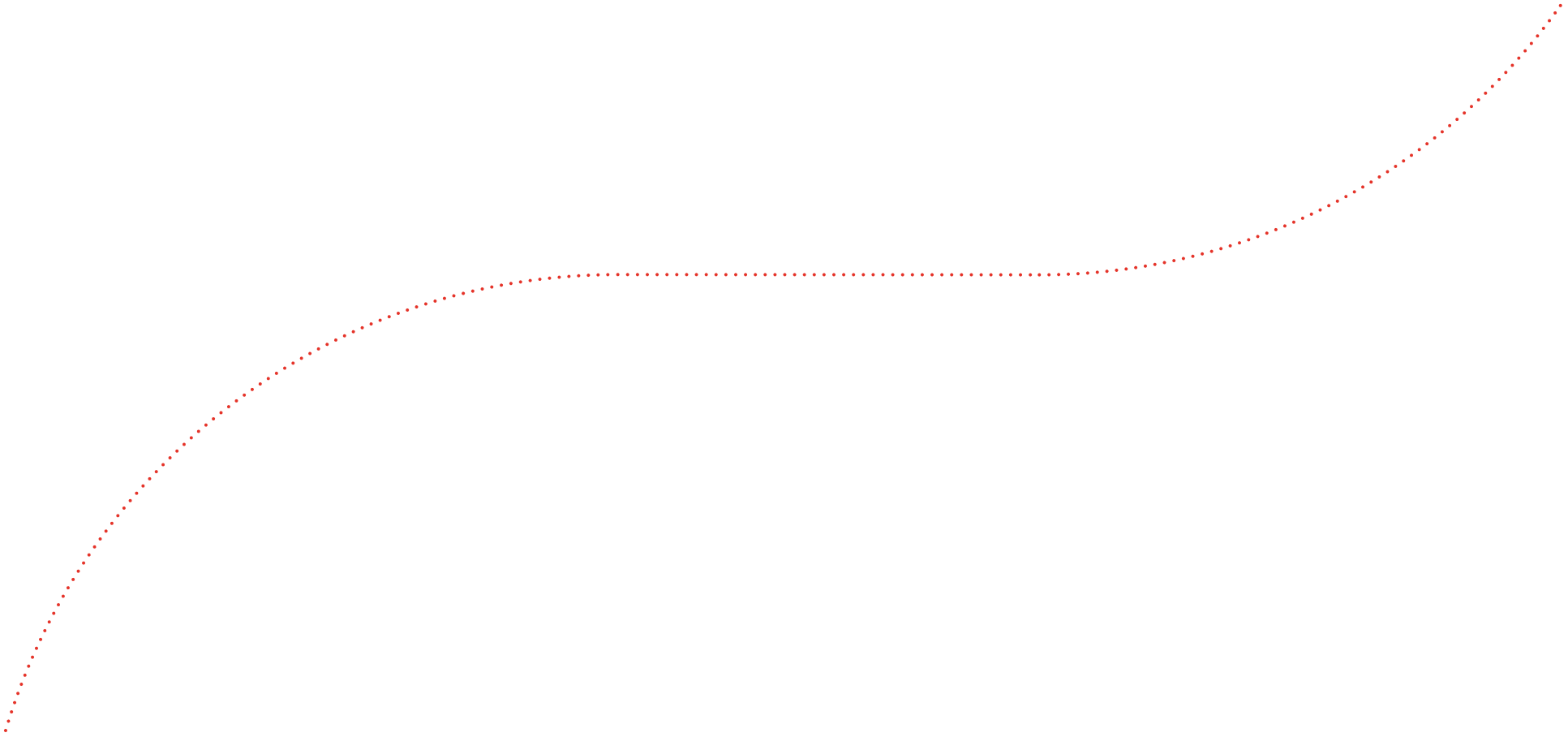
- What could be an **alternative** to separate fund / financing mechanism?
- Climate proof components of **greenfield projects** will probably be covered by existing project and climate resilience requirements of WBIF/EBRD/EIB
- Challenge is those interventions for **existing brownfield infrastructure** that are needed outside of standard (green field) investment projects.





5.

Conclusions and reflections



Conclusions and reflections

Conclusions

Main question – does climate proofing of road infrastructure in project development **increase the likelihood of accessing (concessional) financing?**

- ▶ The absolute majority of available funding sources in the region for road infrastructure still originates in EU initiatives such as the WBIF and financing from EBRD and EIB.
- ▶ This also means that:
 1. These funding sources will have to comply with increasing ambitions of the EU Green Agenda (also in terms of climate proofing infrastructure)
 2. As such, including climate proofing component in projects increases the likelihood of accessing finance and technical assistance

Conclusions and reflections

Recommendations and next steps

1. Ensure that road infrastructure is climate proof, aligned with the funding criteria that are outlined in the Sustainability Guidelines of the WBIF (and EIB and EBRD requirements in this field) → makes funding request **more competitive – or even necessary** to be considered!
2. Further explore feasibility of creating a climate proofing financing access point (**Financing Desk/Window**) within WBIF to enable specific access to current financing and grant / TA for road infrastructure.
3. Consider creation of an **add-on facility** within the WBIF for climate proofing of existing road infrastructure – which would provide access to finance and TA for package of projects in Western Balkan region

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