Technical Brief

ADAPTATION FINANCE

Unlocking Adaptation Finance from African Banks: Early Insights

Authors:
GCA Climate Adaptation Finance

Technical review :
GCA Infrastructure and Nature-Based Solutions

Editing and Layout:
GCA Communications

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Author:
Margret Azuma, Program Officer Climate Adaptation Finance

Technical Review:
Florentina Daniela Gheorghe, Senior Specialist Climate Adaptation Finance
Thu Minh Ta, Specialist Climate Adaptation Finance
Adele Cadario, Global Lead Adaptation Finance and Infrastructure & Nature-based Solutions
Anne-Laure Solnon, Senior Specialist Infrastructure & Nature-based Solutions

Editing and Layout:
Annabel Nyole, Junior Officer Knowledge and Learning

The Global Centre on Adaptation (GCA), through its flagship Africa Adaptation Acceleration Program (AAAP), a joint initiative with the African Development Bank (AfDB), is strengthening climate resilience by narrowing the adaptation finance gap and providing upstream support to both public and private institutions.

Under the AAAP's climate finance pillar, GCA has initiated targeted engagement with private sector financial institutions to de-risk their lending portfolios, build institutional capacity, and identify a pipeline of market-ready adaptation investment opportunities aligned with national and sectoral resilience priorities. In this context, GCA launched two key partnerships: one with AfDB and the Tanzania Agricultural Development Bank (TADB), and a second directly with CRDB Bank Plc in Tanzania. Additionally, in 2025, GCA started collaborations with other domestic banks in Africa, including the National Bank of Commerce Limited (NBC) in Tanzania, and Fidelity Bank Ghana. Across these collaborations, GCA is working with the banks and gaining insights on how to support mainstreaming adaptation finance and de-risking their lending portfolios against climate change.

This brief presents a series of early insights from these collaborations and technical assistance projects, enriched by market knowledge, highlighting the enabling factors that must be in place for adaptation to be embedded within a bank’s strategic direction and lending approach.

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INTRODUCTION

Global annual revenues from climate adaptation solutions and related investment opportunity (across public and private equity and debt) are projected to quadruple from current levels, reaching US$4 trillion and US$9 trillion, respectively, by 2050 (1). Africa is rich in climate adaptation opportunities, but financing isn't reaching the communities and businesses that need it most. In 2021–22, Africa received just 3.3% of global climate finance, and in 2023, only 3% of adaptation finance in Africa came from private sources (2). Both public and private financing must grow — but given Africa's MSME-driven economies, scaling private capital is especially critical. Done right, private capital further unlocks investment opportunities and prevents severe financial, social, and developmental losses that would inevitably affect banks and their clients.

Some regulators are moving in the right direction. For example, in 2025, the Bank of Tanzania issued guidelines on climate-related financial risk management and disclosure. But regulation alone isn't enough — financial institutions need to go beyond assessing climate risk (physical climate risk and transition risk) and **start actively investing in adaptation and resilience solutions**. Making that shift requires not just a granular understanding of client and portfolio-level climate risks but also institutional alignment to follow the opportunities of adapting to climate change. Indeed, the first step is a Climate Risk Assessment (CRA) that identify hazards, exposure and vulnerabilities and guide appropriate adaptation solutions. However, those solutions then need to be embedded into credit appraisal processes and linked with de-risking mechanisms when needed.

Two persistent gaps remain: the lack of quality data systems that enable sound decision-making – particularly for MSME markets – and the lack of adaptation-relevant financial products that respond to the adaptation needs of bank clients.

This brief presents early insights from the technical assistances offered by GCA to African banks in 2025, highlighting four enabling factors that must be in place to embed climate adaptation within a bank's lending strategy: **A.** Strategic alignment at institutional level **B.** Shared solutions taxonomy **C.** Client-centered product development **D.** Intentionality to address data gaps.

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In 2021–22, Africa received just 3.3% of global climate finance, and in 2023, only 3% of adaptation finance in Africa came from private sources. Both public and private financing must grow — but given Africa's MSME-driven economies, scaling private capital is especially critical.

This brief is intended for two main audiences: **bankers,** to understand the enabling factors – beyond the climate risk assessment exercise – needed to integrate adaptation into lending; and **technical assistance providers**, to identify entry points and guide the design of support to banks. The factors outlined are not exhaustive but provide a valuable starting point for further exploration.

1. GIC (2025), Sizing the Inevitable Investment Opportunity: Climate Adaptation. Available at: https://www.gic.com.sg/uploads/2025/05/Sizing-The-Climate-Adapta- tion-Opportunity_GIC_Final.pdf

2. Climate Policy Initiative (2024) Landscape of Climate Finance in Africa 2024. Available at: https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa-2024/

GLOBAL CENTER ON ADAPTATION

ENABLING FACTORS FOR AFRICAN BANKS TO MAINSTREAM CLIMATE ADAPTATION IN LENDING:

A. STRATEGIC ALIGNMENT AT INSTITUTIONAL LEVEL

1.1. Establish a Priority Objective for Conducting a Climate Risk Assessment

Clear institutional priorities about the objective of assessing climate risks strengthen their integration into lending planning and decision-making. Banks must first prioritise and clarify their strategic objectives for undertaking climate risk assessments: whether the aim is to meet regulatory requirements, identify portfolio vulnerabilities, develop climate adaptation-relevant financial products, or scale adaptation finance and identify the sectors they intend to prioritise. Clearly establishing the aim upfront will: a) prevent the dilution of impact by pursuing multiple objectives simultaneously, b) allow for well-defined climate-related risk appetite and investment focus, and c) enable more targeted and effective technical assistance for clients.

1.2. Strengthen Cross-Departmental and Cross-level Engagement

Enhanced cross-departmental engagement can efficiently integrate CRA processes into the core banking operations and investment decisions. This cross-team engagement is two-fold. First, CRA should not remain within the realm of the 'Sustainability team', alone, but include involvement from relevant departments such as IT, credit, operations, product and risk. This allows the integration of tools like the climate risk heatmap and the climate due diligence module into lending systems and risk workflows. Second, CRA knowledge needs to be expanded beyond headquarters, to branch-level staff, who interact directly with clients. Strategic commitment at senior levels needs to be transferred to frontline teams via specific tools, KPIs, and capacity building – frontline team need to understand climate adaptation finance to incorporate it into daily operations and decision making.
Cross-teams engagement allows banks to stay up to date with local adaptation needs of clients and communities. CRAs should be treated as strategic tools rather than isolated technical exercises. Addressing both vertical and horizontal disconnects is essential to make CRA actionable and institutionally embedded.

Recommendation

Establish a formal mechanism for cross-departmental and cross-level coordination, such as a dedicated climate risk task force, and identify climate champions at the branch level to ensure CRAs are treated as strategic tools for adaptation finance planning.

1.3. Align Incentives Across Departments

Departmental incentive alignment enhances the ability of CRAs to inform adaptation lending. While cross-departmental ownership is essential, it must be grounded in a clear understanding of the differing incentives that shape departmental responses to CRA. Compliance and risk teams, while important to CRA operationalisation, are often driven by mandates to ensure regulatory compliance and to minimise downside exposure. This orientation tends to result in performative CRA for reporting needs and promote a reduction in exposure to high-risk sectors and geographies.

Recommendation

Involve business teams with a growth and customer orientation that are incentivised to leverage innovative and unexplored market opportunities, such as product development, operations, and business development. These teams are better positioned to link climate risk insights with real market demand and to design financially viable, client-focused adaptation solutions.

B. SHARED TAXONOMY ON ADAPTATION & RESILIENCE SOLUTIONS

2.1. Establish Clear Criteria to Qualify a Loan as Climate Adaptation Finance

There is a lack of clear, shared criteria for what transaction can qualify as adaptation finance. Climate adaptation needs to be distinguished from climate mitigation and/or Environmental, Social and Governance metrics. This will avoid confusion within banks and allow the development of targeted products. The lack of a shared taxonomy of solutions hinders alignment between CRA outputs and the climate finance strategy.

Even when adaptation is understood or embedded in principle, translating this into lending operations can be challenging, particularly when adaptation solutions eligibility checklists remain unclear or difficult to apply. In some cases, institutions face uncertainty over which adaptation taxonomy to use, how to interpret overlapping guidance, and how to customise these frameworks to their own products, clients, and sector exposures.

Recommendation

Define clear criteria for qualifying adaptation-aligned lending, such as demonstrated reductions in climate vulnerability, improved agricultural productivity under climate stress, or diversification of income sources for climate-sensitive clients. Define a clear list of eligible adaptation and resilience solutions in key sub-sectors.

Map and classify lending through a portfolio-wide review that tags each transaction as adaptation, mitigation, or dual-benefit. Many banks already finance adaptation-aligned activities without recognising them; clear classification strengthens tracking and reporting, highlights sectors and products with proven adaptation impact, and supports the strategic scaling of these activities.

2.2. Spread Knowledge about Tested Adaptation-Aligned Financial Products

Banks need more examples of well-developed, market-tested financial products tailored to adaptation needs. While isolated pilot projects exist, they often lack clear pathways for replication or scale. Banks need case-based examples that demonstrate how to operationalise adaptation finance. Examples can showcase how to adjust loan terms, when and how to find de-risking mechanisms (like guarantees), and how to tailor technical assistance for clients to increase their resilience.

Recommendation

Technical Assistance providers should equip banks with case-based product examples that provide in-depth, context-specific guidance on operationalising adaptation finance and that can be replicated and adapted to different market contexts.

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C. CLIENT-CENTERED PRODUCT DEVELOPMENT

3.1. Profile Clients to Identify Those Most Vulnerable to Climate Risk

Banks require deeper understanding of their vulnerable client segments, in order to target adaptation finance where it's most needed and to align financial products with the specific realities of those at risk.

Recommendation

Profiling clients to identify the most vulnerable to climate risks, enables financial institutions to target support where adaptation finance is most needed. Once key segments are identified, banks can develop tailored products that are easy to implement and closely align with the client's cash flow cycles.

3.2. Bundle Adaptation Solutions with Immediate Needs

In many low-income or climate-vulnerable contexts, clients are more likely to seek financial support for short-term needs such as access to clean water, energy or healthcare services. For example, in several African countries, banks offer loans for water filtration systems or solar-powered lighting needs that resonate strongly with daily realities. Bundling finance for adaptation solutions with finance for solutions that meet clients' immediate needs can drive both uptake and long-term resilience.

Recommendation

Identify opportunities to pair solutions to urgent client needs with adaptation solutions to ensure uptake of adaptation-aligned financial products. A microloan product for home owners to make their home heat-resilient pairs the immediate need to ensure comfortable living (during extreme heat) with home adaptation solutions. For small businesses owners managing competing priorities, loans that build overall business resilience, even when not labelled as "climate adaptation", are more likely to see a strong uptake.

3.3.Bundle Loans with Parametric Insurance

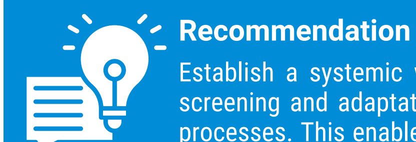
Bundling loans with insurance for vulnerable clients may boost loan uptake, but affordability challenges require risk-sharing models like cross-subsidisation. These bundled products enhance clients' confidence to borrow, knowing that risk buffers are in place. However, affordability remains a challenge. Clients often seek coverage for multiple types of risk, but comprehensive, multi-peril insurance products tend to be prohibitively expensive for low-income or vulnerable groups.

Recommendation

One potential risk-sharing solution is cross-subsidisation, for example by offering flood insurance to both high-risk clients in flood zones and lower-risk clients in order to spread costs. This risk-sharing model can reduce premiums across the board, but its success depends on transparent pricing and clear communication so customers understand how and why they participate in a shared-risk model.

3.4. Integrate Climate Risk Screening and Eligible Adaptation Solutions into Credit Appraisal

Banks will benefit from integrating climate risk considerations into credit appraisal processes. There is a need to embed CRA insights into loan origination and due dilligence processes to strengthen the link between product development and actual lending decisions.



Recommendation

Establish a systemic way to embed CRA insights into credit appraisal processes: integrate climate risk screening and adaptation solutions eligibility checklists into loan origination workflows and due diligence processes. This enables banks to flag high-risk exposures early and adjust terms, such as lending tenors or pricing, accordingly. Climate risk indicators at the asset or client level can support a bottom-up portfolio-level climate risk monitoring, helping banks track exposure to climate hazards over time and guide strategic decisions.

However, systems alone are insufficient: to be effective banks need to commit resources and follow through with targeted outreach, value-chain-specific marketing, and sector-aligned product design.

D. INTENTIONALITY TO ADDRESS DATA GAPS

4.1. Establish the Climate Data Infrastructure and a Clear Definition of Adaptation Investment

To move from portfolio-level climate risk assessments to actionable transaction-level risk analysis, banks face two key challenges: inconsistent sub-sector classification and a lack of granular, reliable data on the geographical location of clients' revenue-generating activities. Many banks record branch locations as proxies to estimate client location. For MSMEs, relationship managers often assume that business operations and collateral are located near the bank branch. For corporates, key assets may be spread across multiple locations known to relationship managers but not digitaly recorded. This makes it difficult to conduct precise asset-level physical climate risk analysis. Collateral location is more readily captured, while the critical information on where revenue-generating activities occur is often missing.

On sector and subsector classification, many banks rely on high-level International Standard Industrial Classification (ISIC) codes (Levels 1–3), which are too broad to match loans to specific activities or risk profiles. Compounding this, classification practices are often inconsistent, with unclear definitions and ambiguous rules for mapping loans to sectors. This limits the bank's ability to identify adaptation-relevant activities, assess vulnerability at a meaningful level of granularity, and align with emerging taxonomies and regulatory expectations.

Recommendation

Data and processes can be improved at multiple levels. At a basic level, banks can start by tagging adaptation lending using imperfect but functional data. However, meaningful stress testing, forward-looking analysis, and regulatory reporting require a structured and centralized data system. Such a system should include:

- ***Accurate GPS coordinates for both collateral and cash-flow–generating facilities***, not only branch office locations, since precise locational data to significantly improve hazard modelling and risk analytics.
- ***More detailed sector classifications***, such as ISIC levels 4–6, can enhance the targeting of adaptation solutions, but only when applied consistently and supported by clean, well-structured data systems.
- ***Digitised "use of proceeds" data for each loan***, enabling the bank to distinguish between adaptation-relevant activities and general lending.
- ***Standardised client-level information***, including physical asset locations, exposure profiles, and operational characteristics, should be stored centrally within the core banking system, to ensure accessibility and consistency across credit, risk, and reporting teams.

Skipping these foundational data and process improvements weakens banks' capacity for data-driven decision-making. Efforts to improve data systems and processes prepare banks for the long-run as disclosure and compliance demands tighten.

CONCLUSION

Unlocking the opportunity side of climate adaptation finance requires going beyond Climate Risk Assessments to build an enabling internal environment: one that combines a strategic alignment, strong governance, clear eligible adaptation solutions, client-focused product design and robust data systems. Regulators, technical assistance providers, and banks must collaborate to channel insights from CRAs into concrete adaptation finance for real impact on ground.

Further, financial institutions in the same country operate under the same regulations, yet each conducts climate risk assessments using different methodologies, duplicating effort across the sector. Regulators can address this by providing a centralised platform available for all institutions: shared datasets, standardised methodologies, common scenarios and analytical toolkits. This reduces fragmentation, improves data quality, and lightens the burden on individual banks.

Freed from redundant groundwork, banks can focus on what only they can do — identifying vulnerabilities specific to their portfolios and developing tailored climate resilience solutions for economies, businesses, and communities across Africa.

Photo by: Confidence Nzewi

Dual Headquarters- Rotterdam
Global Center on Adaptation
Antoine Platekade 1006 3072 ME
Rotterdam, The Netherlands

Dual Headquarters - Nairobi
Global Center on Adaptation
P.O. Box 23030-00604, Kenya
School of Government,
Nairobi, Kenya

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