

Masterclass on Climate Adaptation Finance

Session 5: Financing Adaptation Solutions



GLOBAL
CENTER ON
ADAPTATION



BANK OF TANZANIA ACADEMY

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Frankfurt School
of Finance & Management
German Excellence. Global Relevance.

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Agenda



- Understanding Adaptation Finance
- Identifying Adaptation Finance Opportunities
- Developing Adaptation Finance Products
- Client engagement: Step-by-step approach

Context for the Masterclass

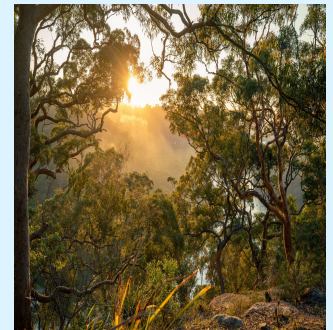
Commercial financial institutions play a critical role in mobilizing adaptation finance to meet diverse resilience needs, distinct from mitigation finance.

Effective adaptation requires both adapting existing products and new collaborations between public and private capital, supported by tools such as concessional finance, risk-sharing, and public-private partnerships.

Practical examples and instruments show how solutions can be tailored for households, farmers, SMEs, corporates, and infrastructure providers.

Learning outcomes

- Build understanding of how FIs can align borrowers' adaptation financing needs with suitable financial solutions.
- Link adaptation financing to key FI borrower profiles.
- Explore financial products and how they can be adapted or innovated for adaptation (e.g., adaptation-linked loans, bonds, insurance, concessional tools).
- Examine the role of blended finance, including concessional layering and risk-sharing models, in supporting adaptation.



**Module 4: Where to Invest –
Adaptation Needs, Finance
Solutions & Tools**

The Masterclass on Climate Adaptation Finance



Purpose: Global Center on Adaptation (GCA) and European Bank for Reconstruction and Development (EBRD) in partnership with Frankfurt School of Finance & Management, RebelGroup, and Haskoning develop the Masterclass to engage the private sector in climate adaptation finance, unlocking market growth, protecting portfolios, and creating long-term value through innovative tools. The Masterclass positions adaptation as both a strategic opportunity and a risk management priority.

The Masterclass is built on a 6-module Body of Knowledge (BoK) to equip financial institutions (FIs) to understand physical climate risks and design bankable adaptation investments that build resilience, align with national priorities, and benefit millions of people.

M1: Rationale for Investing in Adaptation

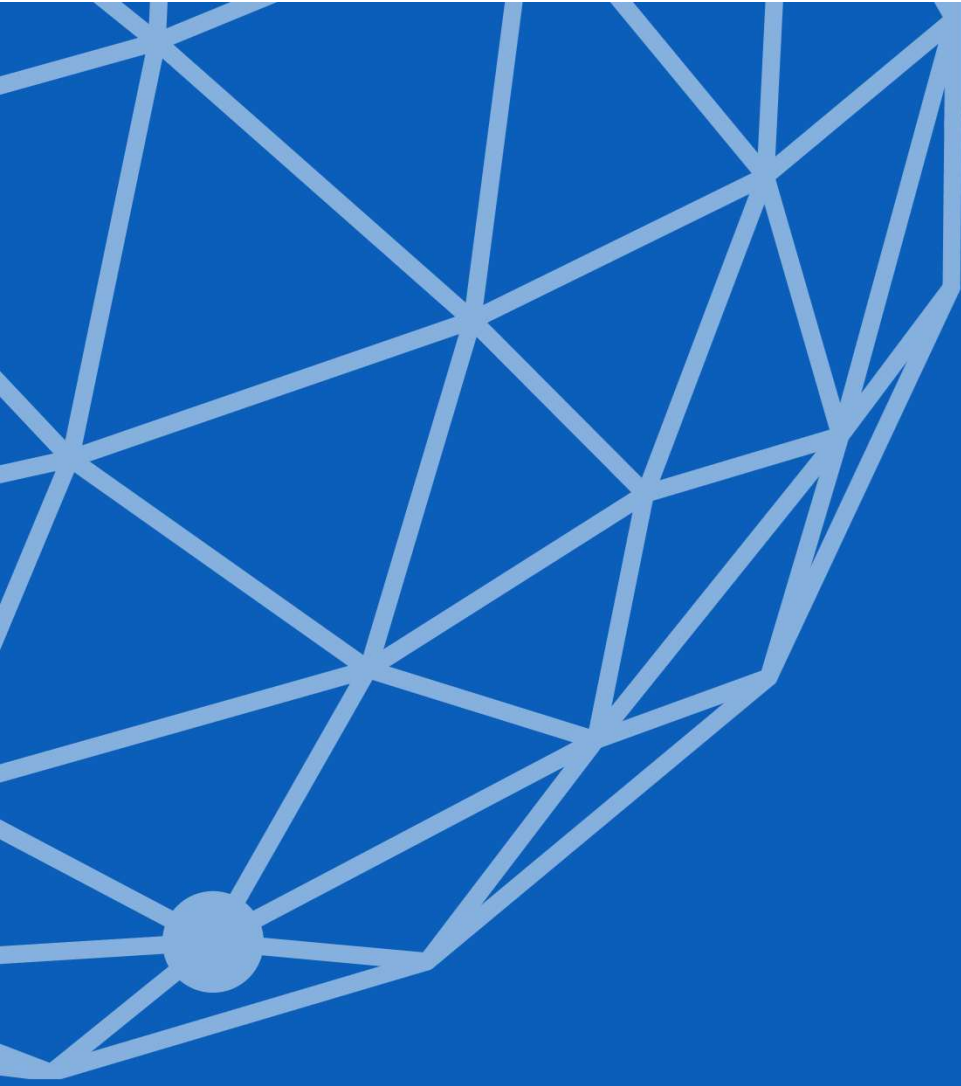
M2: Understanding Climate Change Science: what FIs* must know

M3: Climate Risk Modeling for FIs

M4: Adaptation Needs, Finance Solutions & Tools

M5: Climate Adaptation Product and Pipeline Development in FIs

M6: Stakeholder Engagement and Policy Support for Scalable Climate Finance



Session 5

Understanding Adaptation Finance

Identifying Adaptation Finance Opportunities

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Client engagement: Step-by-step approach

Recap: Funding and financing climate adaptation

What is the difference between financing and funding? And why does it matter?

Funding



How a project will ultimately be paid for (e.g., through user fees, carbon credits, grants)

Financing



Who provides the upfront capital, often with the expectation of a return on investment.

Adaptation vs. Mitigation Finance

Current Climate Financing Landscape¹

Mitigation Finance

- Targeted at avoiding **greenhouse gas emissions** (e.g., investments in renewables, energy efficiency, or reforestation)
- Mitigation projects often **generate direct revenue** from the sale of renewable power or revenue from carbon credits.

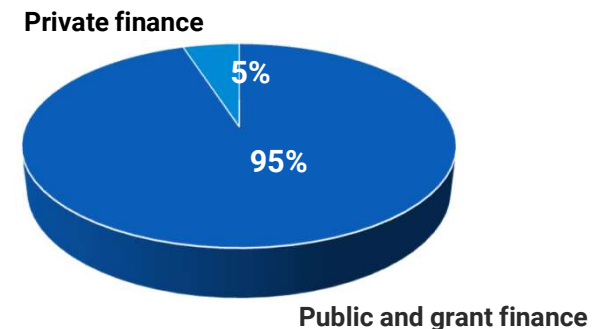
Mitigation Financing



Adaptation Finance

- Supports efforts to **reduce climate vulnerability by enhancing resilience** for finance recipients across a range of sectors.
- Adaptation efforts produce **intangible or indirect benefits** (e.g., reduced disaster damage), that are difficult to monetize, but do lead to avoided losses, improved business continuity, and improved resilience/competitiveness.

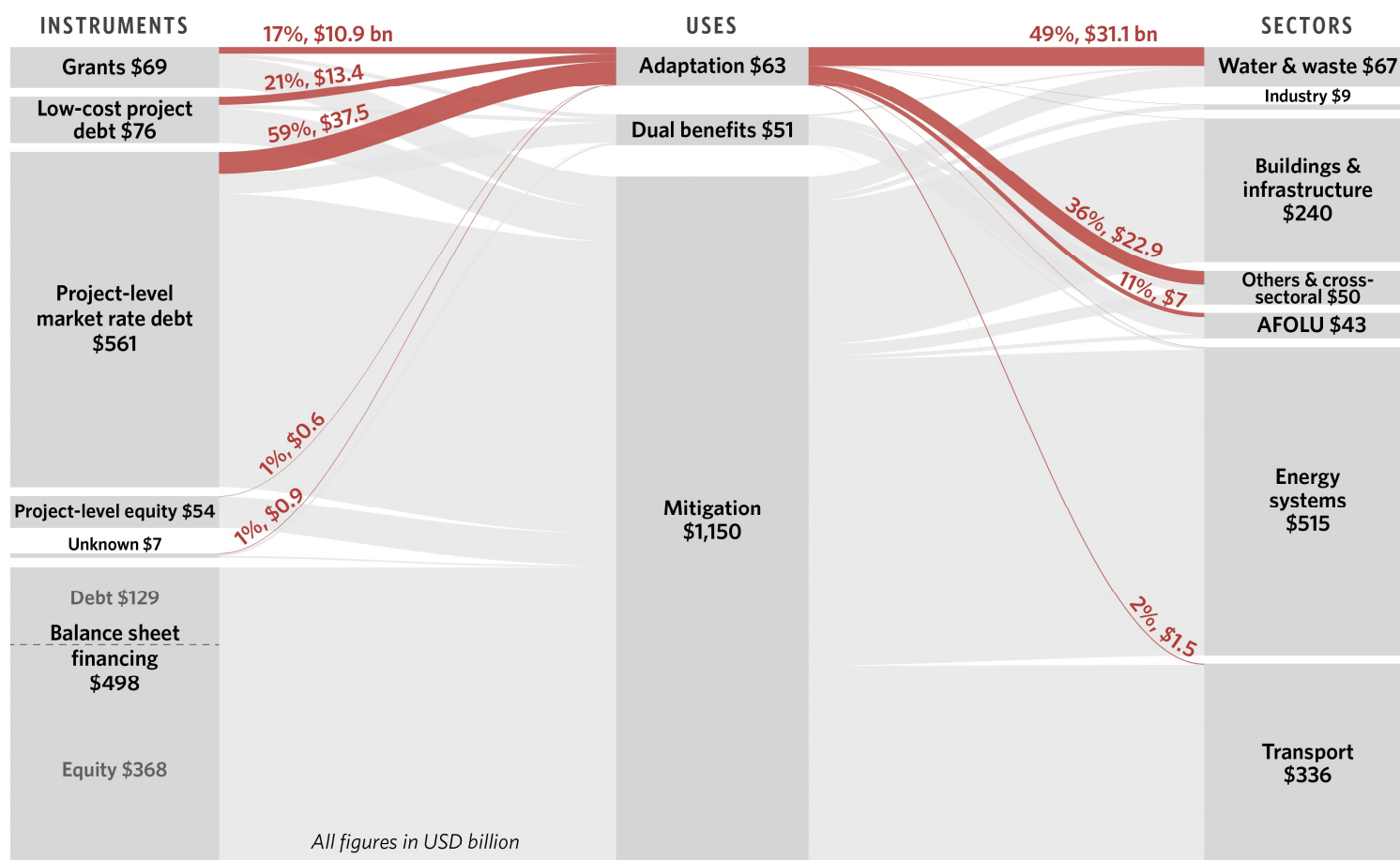
Adaptation Financing



¹ CPI. 2024. Landscape of Climate Finance in Africa 2024. <https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa-2024/>

What are the key climate mitigation and adaptation finance sectors?

Figure 13: Adaptation finance by source and instrument



Source: Climate Policy Initiative

The Adaptation Finance Ecosystem: Who are the actors on the Private Side?



Blended
Finance
Platforms



Commercial
Banks



Insurers



Corporations



Philanthropists,
Foundations, and
Non-Profits



Institutional
Investors

Commercial FIs and their Borrowers



”

**Why are FIs well positioned
to understand and respond
to their borrower's climate
adaptation needs?**

Photo Credit: Getty Images, Unsplash

Quiz Question

Which statement best explains why adaptation finance relies much more on public and grant funding than mitigation finance?

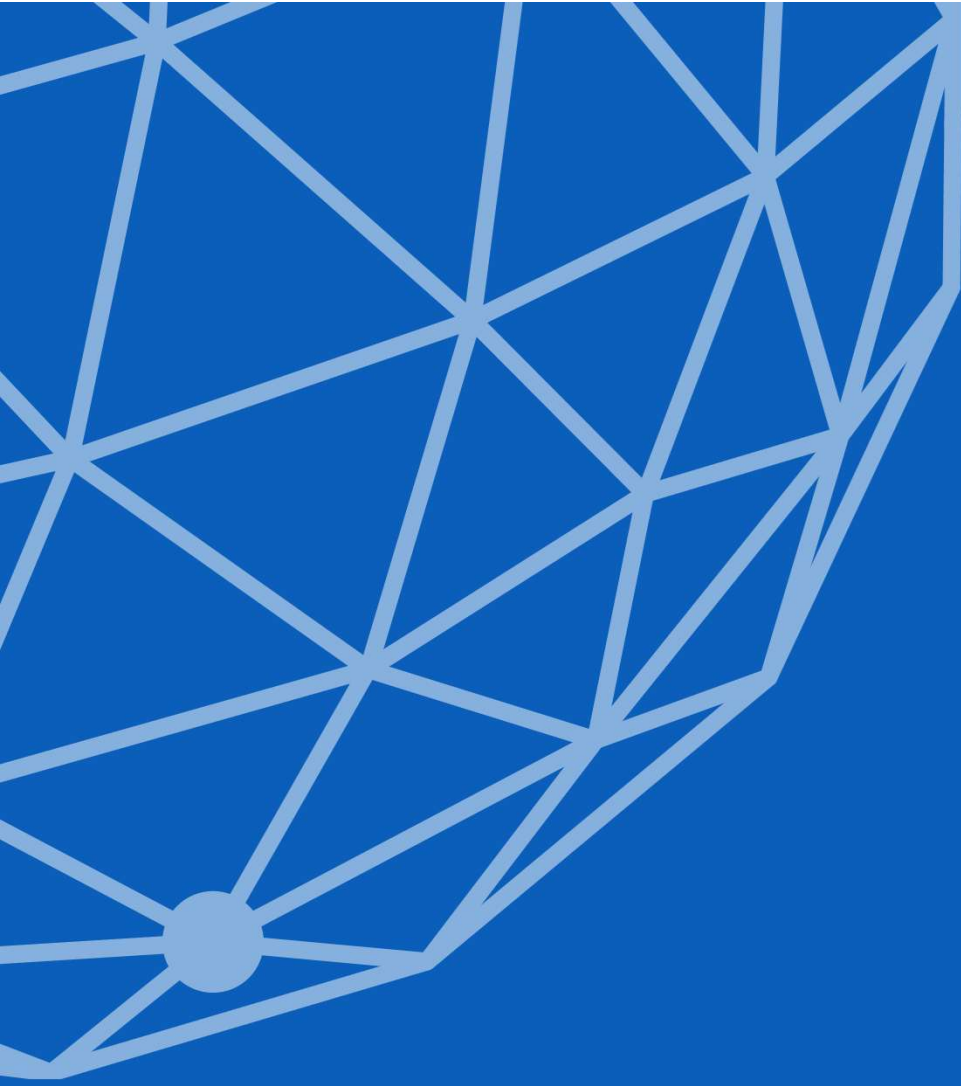
A) Adaptation projects generally face lower climate risks than mitigation projects

B) Adaptation projects often generate direct, monetizable revenues similar to renewable energy investments

C) Adaptation projects mainly deliver indirect or avoided-loss benefits that are difficult to monetize, limiting private investment

D) Adaptation finance is restricted to government-only actors by international climate agreements

Adaptation finance focuses on reducing vulnerability and enhancing resilience, often producing intangible or avoided-cost benefits (such as reduced disaster damage). These benefits are harder to convert into predictable cash flows, which explains the heavier reliance on public and grant-based funding compared to mitigation finance.



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Client engagement: Step-by-step approach

Turning climate vulnerabilities into adaptation lending opportunities



FIs can **address climate risk** by providing **climate adaptation finance** to clients, such that they become more resilient to climate change impacts, grow their businesses and properly pay their loans.

Goal: Providing repayable loans for adaptation solutions at profitable interest rates to clients to increase resilience

Challenge: Ensuring these conditions are met is complex and far from straightforward.

Which borrowers should FIs be considering?

Depending on FI mandate..



Individuals
and
Households



SMEs &
Corporates



Infrastructure
project
companies



Smallholder
Farmers



Service
Providers



Municipalities
and Utilities

Guidance for adaptation products

Identify Climate Vulnerability

- Focus on key client risks (drought, heat, flash floods) and needs
- Match with tangible measures (drip irrigation, ventilation, refrigeration).

Develop the Business Case

- Prioritize options that generate cash flows (compared to avoided costs).
- Show savings (fuel, energy, productivity).
- Highlight resilience and loss avoidance.
- Leverage insurance access or lower premiums.

Structure the Loan Product

- Define size, tenor, and rate.
- Add incentives or concessional terms.
- Ensure resale markets and alternative collateral.

Build Enabling Ecosystem

- Secure suppliers and service providers.
- Provide training and maintenance.
- Engage off-takers to stabilize income.

How to match adaptation solutions to clients' needs

Sector	Need (examples)	Borrower
Agriculture	Drought-resistant inputs, irrigation	Individuals, SMEs
	Post-harvest storage, cold chains	SMEs, Corporates
	Climate risk protection	Smallholder farmers, SMEs, Corporates
Energy	Solar irrigation, pumps, and cold storage	Individuals, SMEs, Corporates
	Backup power for health/agri facilities	SMEs, service providers
	Microgrids for rural areas	SMEs, Utilities
Water	Community water harvesting, filtration	Individuals, SMEs
	Climate-resilient urban water infrastructure	Municipalities
	Water-efficient agri-tech	SMEs, Corporates
Housing	Cooling-efficient and water-saving technologies	Households, Corporates
	Retrofits for heat and flood protection	Households, Corporates, SMEs
Manufacturing	Water reuse systems, climate-proofed plants	Corporates
	Energy resilience (e.g. solar backup)	SMEs, Corporates

Example: How can climate adaptation interventions improve resilience and cash flow at the borrower level?

Stabilizing yields and revenues

interventions such as irrigation, water harvesting, and drought-resistant seeds reduce exposure to rainfall variability and help ensure more predictable harvests and income.

Reducing post-harvest and operational losses

improved storage, cooling, and supply chain measures preserve product quality, minimize spoilage, and extend shelf life, translating into higher effective sales volumes.

Lowering input and operating costs

climate-smart farming practices such as composting, biogas capture, and soil improvement cut costs for fertilizers, energy, and water while boosting long-term productivity.

Quiz Question

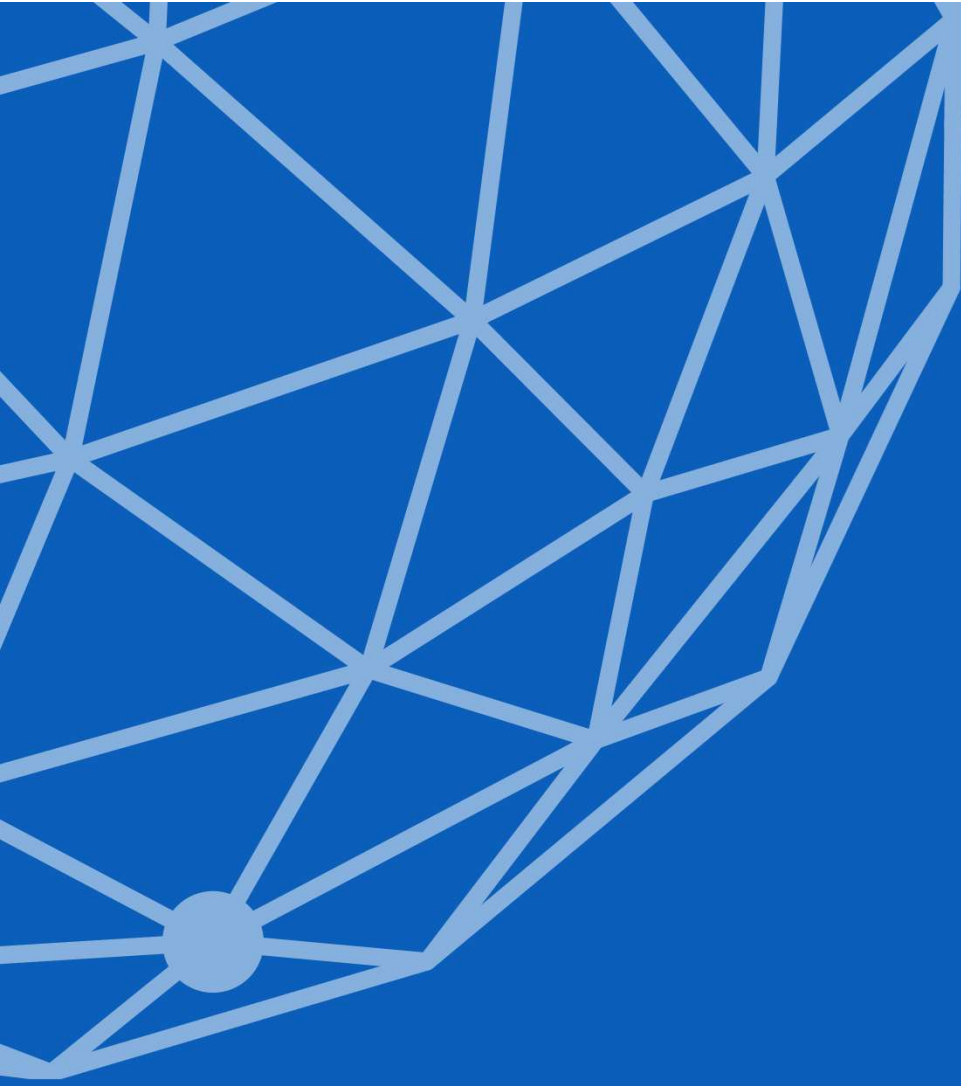


Financial institutions can support climate adaptation by offering repayable loans for adaptation solutions that strengthen client resilience while also improving borrowers' ability to grow their businesses and repay loans.

A) True

B) False

Climate adaptation finance aims to enhance resilience in ways that protect assets, stabilize incomes, and reduce climate-related disruptions, which in turn supports business growth and improves borrowers' capacity to meet their repayment obligations.



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Challenges with existing financial products

Risk and viability

Standard underwriting undervalues long-term resilience benefits.

New metrics and appraisal tools are needed to capture adaptation outcomes.

Affordability and cost of funds

Adaptation projects often require longer tenors and lower-cost capital.

Concessional pricing, blended finance, and guarantees can bridge gaps.

Risk-sharing and protection

Many MSMEs are excluded by strict collateral rules or lack of climate insurance.

Public-private de-risking partnerships, guarantee schemes, and tailored insurance can expand access.

Capacity and delivery

Loan officers need training to recognize viable adaptation investments.

Clients often need technical assistance to prepare proposals and manage new technologies.

Adaptation finance requires new product development, adjustments of existing products and enabling measures around them.

Example: SunCulture – Drip Irrigation supported by solar power

- Drip irrigation efficiency is 90% against the flood irrigation efficiency which is ca. 60%



RainMaker Kubwa

From KSh3,809.00/month



Includes

2x230W foldable solar panels

Pump controller, Pump carrier, 5m extension cable (Solar panel to controller), 7m steel braided inlet pipe, Fitting accessories: Pre-assembled foot valve, camlocks, adapters and ball valve

Features

Optimized solar irrigation solution for up to 2 acre farm.

LIPA POLE POLE

Deposit: Ksh. 4,999

Monthly: Ksh. 3,809 (24 Months)

Tackling the Irrigation Gap Head-on.

SunCulture offers a diverse value proposition for an underserved market. Our solar irrigation pump packages include everything that is needed to get started, including a consultation, installation services, training, and ongoing customer support should you have any questions or issues. With SunCulture, you can increase your crop yields by 300% and reduce your water usage by 80% with a simple push of a button.

Yield

5x

Up to 5 times Increase
in yields

Income Growth

10x

Up to 10 times increase in income

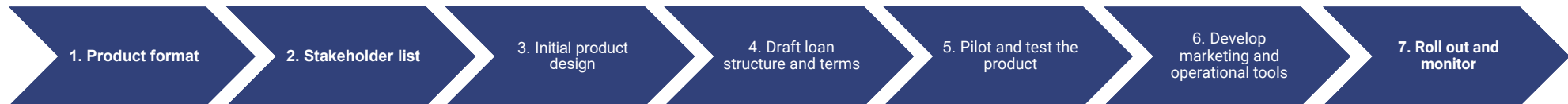
Example: SunCulture - Solar Irrigation Pumps



Key Take Aways from the SunCulture Example

- Build on your competitive strengths in established consumer and MSME market segments.
- Design an adaptation intervention that addresses urgent and widespread climate vulnerabilities.
- Develop a standardized, scalable loan product that simultaneously mitigates credit risk in the conventional loan portfolio extended to the same client segment.

Product development roadmap

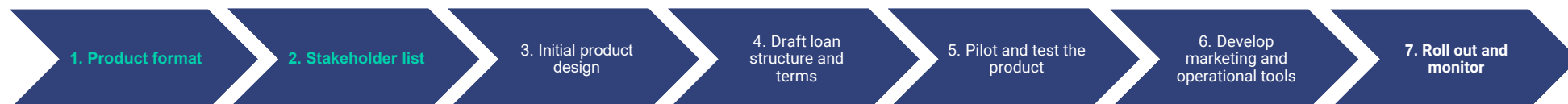


How does this process align with what you already do in product development?



Where could climate adaptation considerations add value or shift your approach?

Product development format



Product format

- ✓List of product attributes FI needs when developing a new product (e.g. scalability, simplicity)
- ✓Typical product attributes considered when developing an adaptation product.
- ✓Some attributes might be left to be defined at the stage when FI will be arranging funding sources.

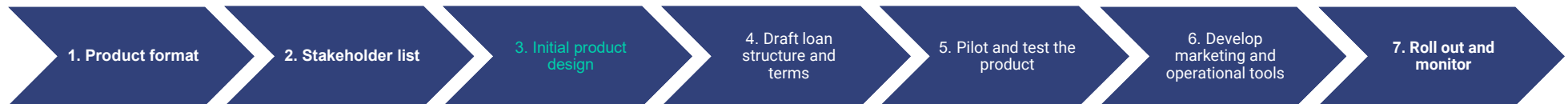
Stakeholder list

- ✓List of departments and specific people that will take part in the process. Typically:
 - ✓Product development team / Policy team
 - ✓Marketing team
 - ✓Sales team
 - ✓Oversight by senior management
- ✓List of experts or external partners involved (e.g. off-takers, chambers of commerce, industry associations, engineering consultants, etc.)

Examples of Climate Adaptation Finance Projects by Sector

Need	Product format	Borrower
Agriculture, Forestry & Land Use		
Drought-resistant inputs, irrigation	Asset finance, agri-credit	Farmers, agri-SMEs
Water-efficient agri-tech	Equipment loans	Farmers, agri-SMEs
Post-harvest storage, cold chains	Term loans, equipment leasing	Cooperatives, agri-SMEs
Built Environment (Residential, Commercial, and Tourism Real Estate)		
Water harvesting, filtration	Microloans, co-op lending	Households, co-ops
Heat-resilient and energy-efficient buildings; water harvesting and reuse	Green construction loans, equipment finance, sustainability-linked loans	Real estate developers, tourism operators, SME builders, facility managers

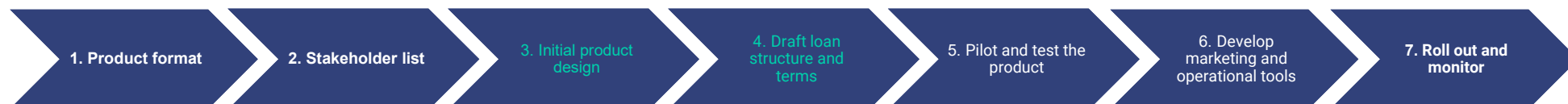
Product development format



Initial product design

- ✓ Client segment
- ✓ Operational tools
- ✓ Marketing strategy
- ✓ Questions and challenges to be defined.
- ✓ Focused meetings might be needed with the chosen FI team members
- ✓ Interviews with chosen companies

Product development format



Target Group / Eligibility	• Companies/Clients eligible: sector (e.g., agriculture, SMEs), size, climate exposure. • Loan Objective: what problem are we solving (resilience, productivity)?
Funding Purpose	• Eligible uses of funds (e.g., irrigation systems, cold storage, insulation). • Exclusions if any (e.g., fossil-fuel machinery).
Basic Loan Structure	• Finance amount, repayment period & schedule, grace period, repayment method etc.
Pricing	• Type of interest, margin price range, reference rate, External funding sources, Commissions & bank fees etc.
Product advantage (Value proposition)	• Lower costs, increased productivity, resilience to shocks (Climate resilient outcomes), insurance-linked benefits. • Access to concessional terms or subsidies.
Institutional considerations	• Financing requirements, approval committees, risk appetite, planned size of product portfolio

Food for thought

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When integrating climate adaptation into financial services, how can we decide whether to use an existing product as is, adapt it, or design an entirely new one from scratch?

Climate Adaptation Product Design - Success Factors



Supply Chain Anchoring



- Ensure availability of technologies and solutions
- Ensure availability of service providers
- Provide support to enable the availability



Bundled Technical Support



- Advisory and demonstrations
- Peer-learning forums
- Extension services / mentors

De-Risking



- Increasing client climate resilience
- Portfolio guarantees
- Hazard/weather insurance
- MDB/DFI coverage

Donor support mechanism



- Guarantees
- Long loan tenors
- Grace periods
- Competitive rates
- Upfront subsidies
- Smart incentive design
- 10–15% of investment

Local Business Eco-Systems



- Service providers & contractors
- Component importers



Photo Credit: Ahmed, Unsplash

Zooming in



Tweaks to microloan programmes

- Microloans could be offered for pre-vetted activities, such as drought-resistant agriculture, or small-scale water harvesting systems.
- Allow sign-off of financing of pre-vetted climate resilient inputs through partnerships with agricultural input providers.
- Partnership with agri-extension services to help borrowers adopt climate-smart practices.
- Adjusting grace periods or repayment terms to align with seasonal income (e.g., post-harvest).

Zooming in

Tweaks to mortgages

- Climate-resilient mortgages including financing for structural improvements that reduce a home's vulnerability to climate risks.
- Upgrades can be bundled into the mortgage either at origination (e.g. through additional principal) or via a dedicated resilience renovation loan.
- Improvements may include:
 - Strengthening foundations.
 - Green energy upgrades.
 - Bio-climatic solutions.
 - Flood barriers.



Photo Credit: Zeke Tucker, Unsplash



Photo Credit: Annie Spratt, Unsplash

Example: Blended Credit Line - Africa Rural Climate Adaptation Finance Mechanism (ARCAFIM)



- The ARCAFIM program provides tailored finance for adapted and enabling activities among small-scale food producers in rural communities in Kenya, Rwanda, Tanzania, and Uganda.
- Equity Group commercial banks aim to on-lend to small producers and rural MSMEs involved in food systems either directly or through their wholesale finance partners.
- “We need to invest at speed and scale to ensure rural populations, including rural small-scale food producers, are able to adapt to climate impacts now,” said Alvaro Lario, President of IFAD, at ARCAFIM’s launch event at the climate change conference (COP 28).

Example: One Acre Fund – Asset-based financing and flexible repayment schedules

- Asset-based financing serves 180,000 smallholder farmers in Kenya, Rwanda, Burundi, and Tanzania.
- One Acre Fund partners with bulk agricultural input suppliers to create a pre-approved package of inputs that is proven to be profitable (fertilizer, seeds, etc).
- Overall repayment rate is over 98 percent.

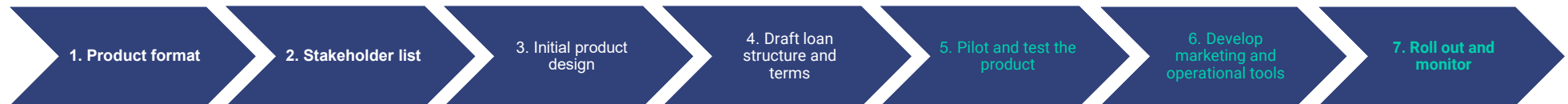


Photo Credit: One Acre Fund

Example: InvestHER Climate Resilient Bond

- The InvestHER Climate Resilient Bond is Uganda's first gender focused climate bond - an instrument aimed at strengthening sustainable agrifood systems.
- Structured as a revenue bond, resilience is enhanced by offering flexible repayment schedules that align with the income patterns of women in agriculture, such as those based on harvest and production cycles. The bond includes a structured TA programme agri-SMEs bespoke training to develop or enhance supply chains that incorporate climate smart agriculture

Product development format



Pilot and test of the product

- ✓ Stakeholders feedback on initial design
- ✓ Presentation of the initial product design and run a brainstorming session with/by the FI team members.

Final product design

- ✓ Finalisation of the product based on the feedback

Presentation

- ✓ Official presentation of the products
- ✓ Show commercial and resilience rationale!
- ✓ Discussion about the next steps and implementation arrangements.

Roll out and monitor

- ✓ Putting in place operational processes, monitoring, and evaluation
- ✓ Building the enabling ecosystem: e.g. Conduct workshops or briefings for vendors to communicate that a dedicated product exists for specific investments to highlight potential benefits, e.g., simplified approval process.
- ✓ Product trainings

Product-related internal trainings

Internal PFI staff / Headquarters (Strategy, Risk Product Teams)



- How to take first steps in adaptation finance (understanding of adaptation finance, links to the sustainability strategy, methodologies?)
- How to reach out to potential clients (product development, marketing)
- How to report on adaptation investments
- How to cooperate & communicate with the third-party stakeholders (e.g. consultants, adaptation solution providers, IFIs, regulators)

Relationship Managers & Client-Facing Teams



- How to talk with potential clients on adaptation opportunities
- What are the benefits of adaptation technologies & finance
- How to engage the adaptation solution providers

Quiz Question

Standard credit underwriting practices often underestimate the long-term resilience benefits generated by climate adaptation investments.

A) True

B) False

Traditional underwriting focuses on short-term cash flows and collateral, which can fail to capture long-term avoided losses, productivity gains, and resilience benefits that adaptation investments provide.

Quiz Question

Most adaptation finance challenges can be solved solely by lowering interest rates, without changes to risk-sharing mechanisms or institutional capacity.

A) True

B) False

Adaptation finance challenges also include risk-sharing gaps, lack of insurance, capacity constraints among loan officers and clients, and delivery challenges, not just affordability.

Quiz Question

Which combination of actions is most critical for successfully developing and scaling climate adaptation financial products?

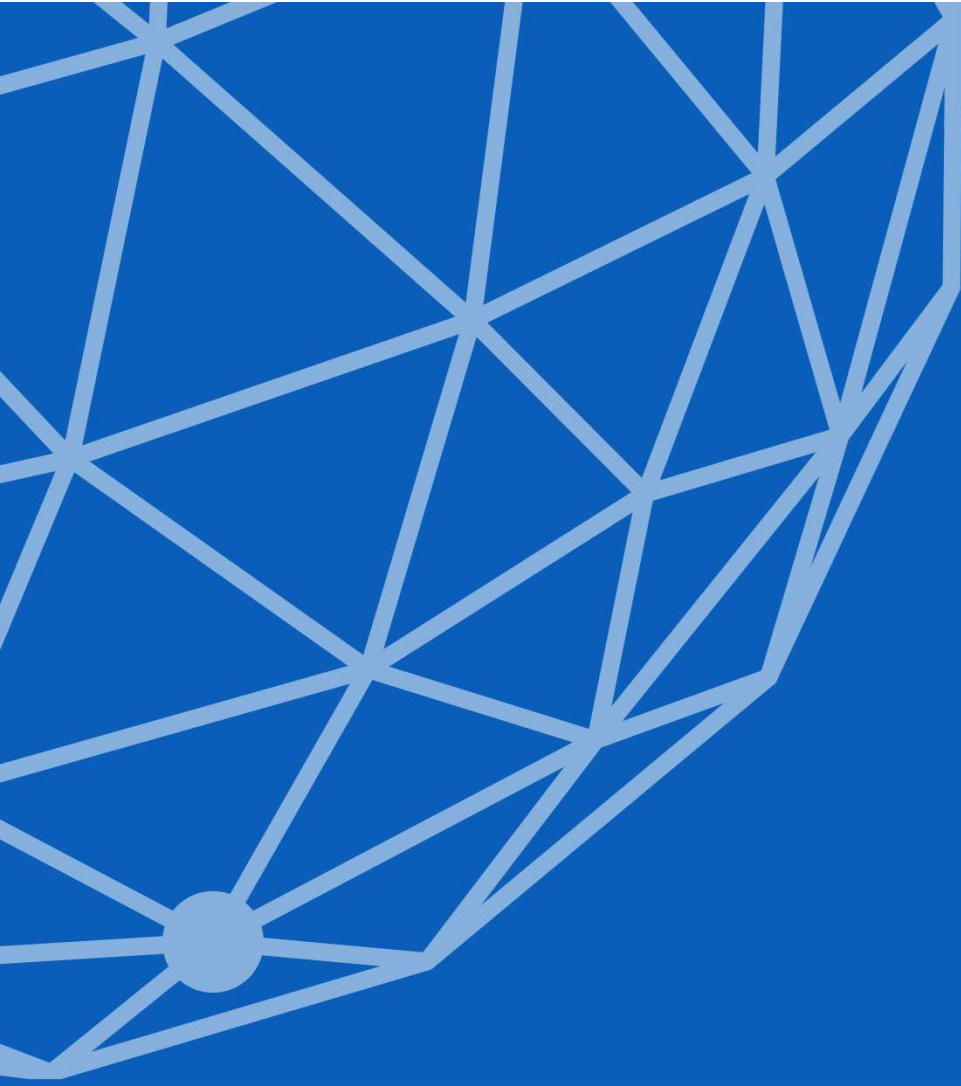
A) Short loan tenors, strict collateral requirements, and minimal stakeholder engagement

B) Exclusive reliance on grants and removal of repayment requirements

C) Delaying product rollout until climate impacts can be predicted with certainty

D) New risk metrics, bundled technical support, de-risking mechanisms, and strong local supply chains

Effective adaptation product design requires new appraisal tools, technical assistance, risk-sharing and de-risking mechanisms, and functioning local ecosystems to ensure both resilience impact and financial viability.



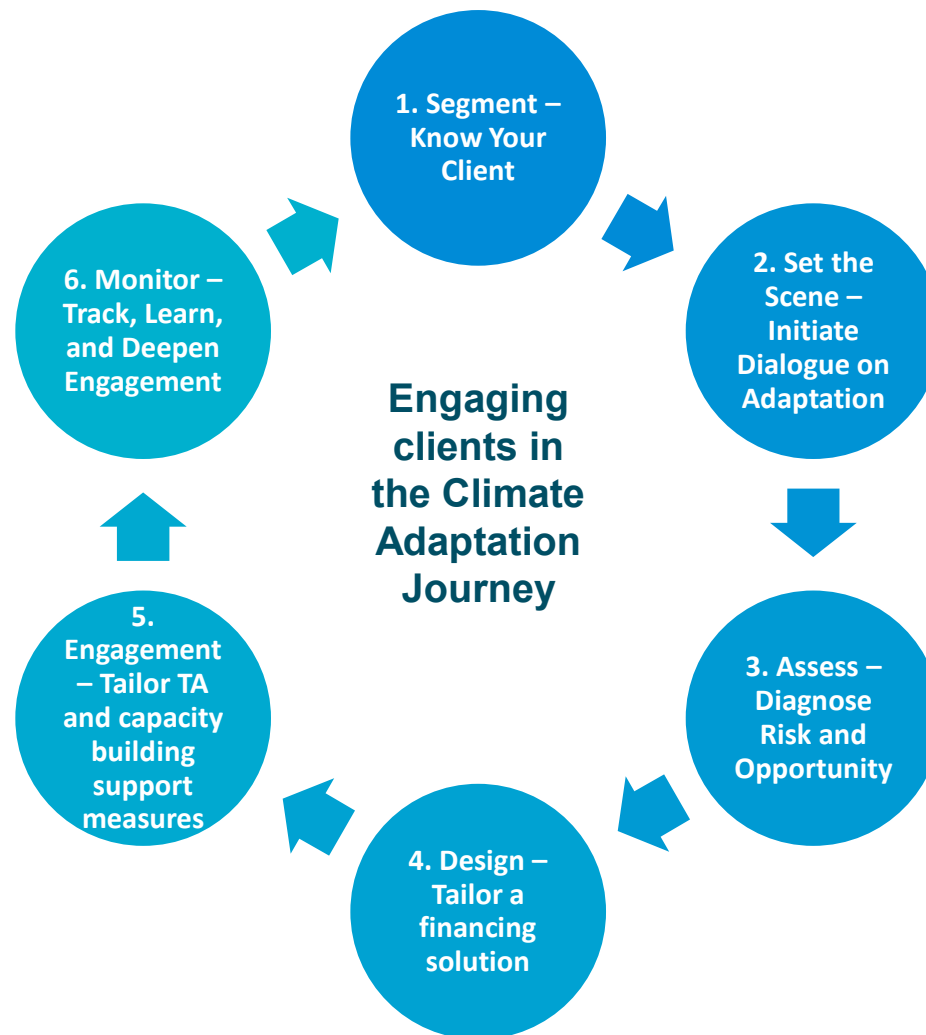
Session 5

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Client engagement: Step-by-step approach

Overcoming barriers in client engagement

Barrier	How to Overcome
Lack of Awareness and Knowledge	Education and Awareness Campaigns: FIs can run workshops, webinars, or community outreach programs to educate clients about climate risks and adaptation solutions.
Inadequate Financial Literacy	Training and Capacity Building: Offer financial literacy training sessions to clients to improve their understanding of financial products and how they can benefit from adaptation finance.
Unclear or Complex Product Offerings	Simplified Products and Communication: Develop easy-to-understand product brochures and financial advisory services to help clients navigate available solutions.
Perceived High Costs	Flexible Financial Solutions: Offer low-interest loans, microfinance products, or grants to lower the perceived cost. Use blended finance or concessional terms to reduce the upfront burden.
Perceived Low Return on Investment (ROI)	Highlight Co-benefits and Long-Term Value: Focus on co-benefits, such as increased productivity, reduced risks, and improved business continuity, to demonstrate the value beyond just financial returns.
Short-Term Focus	Link to Immediate Benefits: Emphasize how climate resilience improves immediate business operations (e.g., through improved yields, energy savings, or reduced downtime due to climate events).
Limited Access to Data and Climate Risk Information	Data Partnerships and Local Expertise: Collaborate with meteorological agencies, research institutions, or NGOs to provide clients with accurate, localized climate risk data and analysis.
Collateral Requirements	Alternative Collateral Models: Offer innovative collateral models like using future crop yields, insurance policies, or group guarantees to mitigate the lack of tangible assets.

Client engagement: Step-by-step approach



Example: Training & Client Engagement Across the Engagement Cycle

Step	Purpose	Training / Client Engagement Focus
1. Segment – Know Your Client	Understand clients' operating context, priorities, and constraints.	Conduct participatory profiling of client segments (e.g., SMEs, municipalities, or institutions); map financial behaviors, cash flows, and access to digital and financial services.
2. Set the Scene – Initiate Dialogue on Adaptation	Build awareness of climate risks, impacts, and potential responses.	Facilitate introductory sessions on sector-relevant climate challenges, adaptation opportunities, and the value of climate-informed finance.
3. Assess – Diagnose Risk and Opportunity	Identify key vulnerabilities, capacity gaps, and investment opportunities.	Work with clients and partners to assess exposure to climate risks, evaluate financial readiness, and identify areas where adaptation finance could generate value or resilience.
4. Design – Tailor a Financing Solution	Develop customized financing or partnership models that address identified needs.	Co-design lending, insurance, or investment products aligned with clients' financial capacity and climate objectives; consider blended finance or guarantee mechanisms.
5. Engage – Provide Technical Assistance and Capacity Support	Strengthen institutional, technical, and financial capacities for implementation.	Deliver training or advisory support on project management, climate risk assessment, data use, and governance for climate-aligned operations.
6. Monitor – Track, Learn, and Deepen Engagement	Ensure ongoing learning, accountability, and continuous improvement.	Implement participatory monitoring and evaluation systems; capture lessons and client feedback to refine products, partnerships, and engagement models over time.

Example: Raising Awareness through Client Engagement

CRDB Bank's Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP), supported by **US\$100 million from the GCF** and **equal co-financing from CRDB** is scaling climate-resilient agriculture through financing, Weather Index Insurance, and targeted technical assistance.

Proactive client engagement and training including regional awareness campaigns, farmer training, and information-sharing events have strengthened:

- understanding of **climate-smart agriculture and adaptation finance**
- increased uptake of financial products
- deepened collaboration

Region/Group	Awareness Activity	Outcome/Impact
Central Zones	Dissemination of climate-resilient technologies (drought-resistant seeds, irrigation, water management)	 Improved farming stability and productivity
National & Zonal	Training workshops for farmers, extension officers, and bank staff	 Enhanced institutional understanding of climate finance.
Highlands Zone	Physical awareness sessions in 10 out of 23 branches	 1,000+ community members reached; 437 loan applications; 15 new groups benefited from GCF support.

Client fact-sheet: Examples for Individuals and Households

Tips for engagement:

Simplify Messaging:

Emphasize productivity, input efficiency, and future-proofing their yields.

Promote adaptation finance as a business opportunity (e.g. strengthen the income base) and increase resilience

etc.

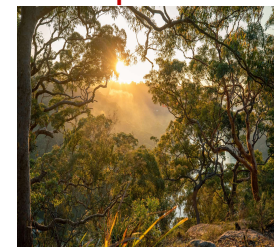
Engagement activities:

Bundle input packages: Offer "kits" combining certified seeds, fertilizer, pest control, finance, and insurance

CSA Loyalty Programs: Reward farmers with cheaper inputs if they adopt conservation tillage, tree planting, or mulching

etc.

Excerpt from:



Module 5 -
Engaging clients in
the Climate
Adaptation Journey

Channel:

On-the-ground: Extension agents, cooperatives, agri-dealers, demo plots, village-based promoters

etc

Factsheet for:

- Individuals and Households
- Smallholder Farmers
- SMEs and Cooperatives
- Corporates (Mid to Large)
- Infrastructure project companies
- Municipalities / Utilities

Recap

1

Commercial FIs are very well-placed to understand client's adaptation needs

2

Small tweaks can make existing products adaptation-aligned

3

Standardized, simple loan products enable scale and replication for MSMEs

4

Success depends on ecosystems: supply chains, support, and de-risking.

5

Leverage partnerships for impact through co-funding, technical support, or policy dialogue.

6

New products can leverage concessional capital earmarked for adaptation

Quiz Question

A financial institution wants to address clients' perception of low return on investment (ROI) for climate adaptation investments while also maintaining long-term engagement. Which action best aligns with the client engagement framework and barrier-mitigation strategies presented in the slides?

A) Emphasize co-benefits such as productivity gains and risk reduction during the “Set the Scene – Initiate Dialogue on Adaptation” step.

B) Provide concessional pricing during the loan approval stage to immediately reduce borrowing costs.

C) Introduce alternative collateral models during the “Design – Tailor a Financing Solution” step.

D) Implement participatory monitoring systems during the “Monitor – Track, Learn, and Deepen Engagement” step.

Perceived low ROI is best addressed by clearly communicating co-benefits and immediate value early in the engagement process, helping clients understand how adaptation improves performance and reduces risk beyond financial returns.



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