



CTI PFAN Exploratory Workshop

Financing

Adaptation Related Projects

13th – 14th June 2012

UNEP Africa HQ, Nairobi, Kenya

REPORT



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1. Introduction & Background

This report provides a summary of the proceedings and outcomes of the CTI PFAN Exploratory Workshop on Financing Adaptation Related Projects (**Exploratory Workshop / Workshop**), which was held at the United Nations Environment Programme (UNEP) facility in Nairobi on 13th – 14th June 2012. The report has been prepared by PPL International as Global Coordinator of CTI PFAN, which was tasked with the organisation and implementation of the Workshop together with the Sponsors and other Co-Organisers.

The CTI PFAN Exploratory Workshop marked one of the key milestones in the development and implementation of the new **CTI PFAN Adaptation Stream**, which was expressly designed to expand CTI PFAN's scope of activity into adaptation related projects as well as mitigation projects, which have been the main focus for CTI PFAN to date. This new activity was mandated by the United States Agency for International Development (USAID) and the Climate Technology Initiative (CTI) and is currently being funded predominantly with funds provided by the Global Climate Change Team (GCC) of USAID's Bureau for Economic Growth Education and Environment (USAID E3), complemented by funding from CTI.

While, on a global basis, mitigation activities are for the most part transitioning successfully into the mainstream, there remains a clear need to focus attention, activity and resources on adaptation and to meet the adaptation priorities of developing countries with same levels of expertise in technology and service delivery, which are already being seen in mitigation. The private sector has particular competencies which can make a unique contribution to adaptation, through innovative technology, design of resilient infrastructure, development and implementation of improved information systems and the management of major projects. Moreover given the constraints on the availability of public sector financing, it is also generally accepted that private sector financing will be required to play a role in addressing some of the challenges of adaptation, in the same way that it is already being mobilised for mitigation. While there has been some signs of private sector interest and activity, to date adaptation is still seen as more of a public sector focus.

Against this background the aim of CTI PFAN Adaptation Stream is to engage and mobilise private sector investment and financing to help identify, develop and implement commercially viable, socially responsible and sustainable projects aimed at reducing climate vulnerability and increasing the adaptive capacity of developing countries. To achieve this CTI PFAN envisages using its tried and tested bottom-up approach, to identify, develop and secure financing and investment for commercially viable and sustainable projects. The ultimate objective of the process is to establish a CTI PFAN network and project development activity, dedicated to connecting private sector investment and financing to adaptation related projects. During an initial pilot phase of the new initiative, CTI PFAN envisages leveraging up to USD 22.000.000 of private sector investment and financing for adaptation related projects in Africa. In subsequent phases the financing programme will be scaled up and rolled out globally.

CTI PFAN is already active in raising investment for mitigation projects, which seek to reduce CO₂ emissions, and has successfully raised over USD 400 million of investment for clean energy projects in developing countries in Africa, Asia and Latin America which will, when completed, contribute over 293 MW of clean generation capacity and reduce GHG emissions by 1,7 million tonnes of CO₂ e pa. A further 160 projects with a total investment volume of USD 4,9 billion are currently in CTI PFAN's development pipeline.

Work on the CTI PFAN Adaptation Stream commenced in late 2011 with the commissioning of a *Background Paper on Adaptation – an introduction to Adaptation in view of developing a private*

*financing approach for adaptation related projects using the CTI PFAN Model (the **Background Paper**)*, which helped set the framework of reference and scope of work for the Exploratory Workshop.

The Background Paper was prepared by a team of consultants, especially assembled by CTI PFAN for this task: Thaven Naidoo of Terrajoule Energy, a consultancy specialising in sustainable development and climate change, based in South Africa who led the team; Kemal Vaz of Verde Azul Lda., a Mozambican based consultancy specialising in environmental consulting, sustainable development and clean energy and Daniele Guidi of Ecosoluzione Snc, a consultancy boutique based in Italy, specialised in financing in the areas of sustainable development and environmental consulting (together the **Consultant Team**). All of the consultants have experience of working in adaptation related areas and are familiar with CTI PFAN; both Verde Azul and Ecosoluzione are PFAN members and Verde Azul is the country coordinator for Mozambique, while Daniele Guidi has worked as a coach for CTI PFAN development pipeline projects and in AFRICEF1 & 2; Thaven Naidoo has also worked with CTI PFAN as a project developer and is in the process of becoming a CTI PFAN member. For a fuller understanding of this report and of the CTI PFAN Adaptation Stream activities readers are encouraged to consult the Background Paper which is available for downloading at http://www.cti-pfan.net/events_detail.php?eventsid=39 and the Executive Summary thereof, which is attached as Annex 6 for easy reference. The members of the Consultant Team participated in the Exploratory Workshop, chairing the Expert Input Sessions and the Working Groups.

The Exploratory Workshop accordingly represents the second phase of implementation of the Adaptation Stream work plan and was convened as one of the first multi-lateral initiatives to engage private sector and commercial financing in adaptation activities. The main objective was to build on the groundwork established by the Background Paper by forming a caucus of representatives from developing countries, from developed country donors, from civil society from project developers and from private sector consultants and investors so as to be able to discuss the findings and proposals of the Background Paper and develop and further a better understanding of the challenges, requirements and opportunities of adaptation for all relevant stakeholders involved in financing adaptation related projects. This approach and the work plan for the CTI PFAN Adaptation Stream are closely modelled on the methodology and workshop series (2004 & 2005) which led to the initial formation of CTI PFAN.

A follow-up workshop (the Follow-Up Workshop), which is covered by a separate report, was held immediately after the Exploratory Workshop to discuss and elaborate the findings of the Exploratory Workshop among a smaller core group of CTI PFAN members and partners, the Consultant Team and selected experts and resource persons from the Exploratory Workshop. The aim of the Follow-Up workshop was to distil, prioritise, refine and further develop the findings and conclusions of the Exploratory Workshop into a coherent framework against which CTI PFAN could usefully commence its project development and financing operations in the sphere of adaptation.

In the subsequent sections this report summarises the objectives, background, format, proceedings and outcomes of the Exploratory Workshop.

2. Objectives

- Based on the work plan for the CTI PFAN Adaptation Stream and following on from the Background Paper the objectives of the Exploratory Workshop were: To test and refine the assumptions and conclusions of the Background Paper, specifically whether the sectors identified as likely sources of projects are the “right sectors” or whether they need to be

augmented or reduced in any way;

- To refine and agree a working definition of Adaptation Projects, as proposed in the Background Paper, for the purposes of the CTI PFAN Adaptation Work Stream;
- To help public sector stakeholders and project developers of adaptation related projects better understand the requirements and conditions of the private sector for raising investment and financing for adaptation related projects;
- To facilitate and support the identification of opportunities for the deployment of private sector investment and financing in the implementation of adaptation related projects and thereby to help ease the pressure on scarce public resources;
- To help private sector stakeholders (investors, financiers, project developers, equipment suppliers etc) better understand the challenges and opportunities presented by adaptation for successful project development and implementation;
- To identify a number of adaptation related projects for inclusion in CTI PFAN's pilot programme of work on adaptation, for receipt of CTI PFAN support and services on project development and on raising investment / financing.
- To engender and disseminate an understanding and acceptance among all stakeholders that building adaptation related thinking and techniques into project development and development activities can lead to significant benefits, both from a developmental perspective as well as from commercial and risk resilience perspectives.

3. Findings / Outcomes & Recommendations

The following section of the report summarizes the key findings and outcomes, based on the expert input provided in Sessions 2, 3 and 4 of the Exploratory Workshop.

The Workshop facilitated a healthy exchange of positions and views between the gathered stakeholders, particularly between the public sector the private sector investors and the project developers (which came from both public and private sectors). In this it can be reckoned that the Workshop succeeded in two of its prime objectives in bringing the public sector and the investor communities closer together, helping them understand the needs and constraints under which they respectively operate and facilitating the beginnings of an ongoing dialogue which will hopefully serve to enhance the flow of financing into adaptation related projects in the medium to long term. By the same measure it became even more evident that the challenges and barriers facing the accomplishment of this goal are many and significant and will not simply disappear; it will require considerable effort from both sides to overcome them.

From the discussions it is clear that many adaptation activities will remain beyond the reach of private financing, because they simply do not generate appropriate hard revenues capable of returning capital and providing acceptable returns. This is all the more reason to ensure that those activities which are capable of generating private sector financing do so. At the same time it is clear that there are classes of investors, so called triple bottom line investors, philanthropic investors, social and / or impact investors, who are as interested in the accruing social, human and environmental benefits as they are in the pure financial benefits.

- Based on the anecdotal evidence provided by the developing country participants there is a large requirement for financing expertise and financing capability in respect of adaptation related projects. Few developing country project developers of whatever background have the requisite experience and capability of packaging projects and presenting them to investors. This was confirmed by investors, the public sector representatives and the project developers themselves. CTI PFAN observes the same aspect in mitigation projects, but it appears even more pronounced for adaptation related projects. The situation is further complicated by the fact that the origin of many adaptation related projects lies in the public sector and they deal with assets, liabilities, infrastructure and services which are generally considered as public goods, posing myriad regulatory as well as legal issues which need to be addressed through project development and making structuring all the more challenging. In this respect the requirement and potential market for CTI PFAN's project development and financing support in respect of adaptation related projects are given.
- There is a general lack of development capacity and early stage financing mechanisms to provide seed capital, which is currently even more pronounced for adaptation projects than for mitigation projects, which means that projects will require more external support in the early development stages to get them to a stage where they become at all interesting for the private investment and financing community. This implies more targeted technical assistance and seed capital support for early stage project development to generate and nurture project pipelines of potential projects. Overall this will serve to reduce the financing leverage that CTI PFAN and its funders may expect to generate from adaptation related activities (in comparison with mitigation).
- "Adaptation Projects" are not generally recognised by investors as a discrete asset class and there is little identification with "adaptation" as a concept. From the investor perspective the distinction between adaptation and mitigation is of limited relevance; the principal driver for investment is the risk weighted return coupled with the fulfillment of other benefits and conditions which an investor wishes to target. And as mentioned above some classes of investor prioritise "other" benefits at least as highly as financial benefits. Accordingly while there is a potential investment appetite, and the market may be further developed, from the investor perspective there is little to gain (currently) from classifying potential investments as "adaptation" investments since this is as yet an "empty" term for most investors. However this might be expected to change if it can be plausibly demonstrated that adaptation holds sufficient promise and deal flow to justify creation of a new asset classification / category. For the time being, however, it appears to make more sense to describe deals in terms of climate change and the social, economic and development benefits they bring.
- Investors regard execution risk as one of the biggest challenges facing them and the developers of their targeted investments. A successful investee must be able to demonstrate the ability to move from the good idea to implementation and achieve appropriate investment scale. Scalability in this respect is a key component which investors look for and value highly. This scalability can be expressed not only in terms of capital volume and revenues (although these remain important components) but also in terms of numbers of people reached / affected, which can be a multiplier for the social, development and economic benefits of a project. Often however the time and amount of resource needed to achieve these transitions is underestimated. Hence the caliber and experience of the project developer is crucial to the investment decision. Again this is an area which will require extra support and assistance to develop and expand the execution capacity (and supporting eco-systems) in developing countries.

- Investors invest in businesses and business models rather than projects, products or technologies. Accordingly there is often a disconnect between investors and project developers who tend to see things in terms of a technology or a solution to a problem. The issue then becomes one of packaging and targeting a project proposal in such a way that it is accessible and attractive to an investor as a business model capable of reaching an appropriate scale.
- The importance of thinking creatively was emphasized by investors and project developers alike. It is likely that many adaptation related projects cannot be structured in a fully commercial way but some elements will be open to private financing.
- The participating investors, project developers and many of the public sector participants all emphasized the importance of a conducive enabling environment enabling the private sector to be able to do what it does best – assess, manage and price risk. Highlighted key elements include clear, fair and stable regulation, transparent and equitable enforcement of the same, stable legislative environment, clear property laws and protection of intellectual property, bearable tax regime coupled with selected economic incentives (tax breaks, subsidies, tariffs etc) as and where appropriate.
- Chief common barriers identified by the various project developers included: lack of land tenure; undue time needed for clarification of legal issues and to go through legal process (contracting); lack of hard collateral and guarantees; lack of early stage development and seed capital and difficulty in accessing technical assistance to support the same; the problem of having to develop “passive investment structures” which are often needed to avoid a direct shareholding in the project to satisfy public sector requirements of dealing with public goods, thereby reducing the influence and the control of the developer over the project and reducing the attractiveness to investors because of complex and opaque holding and contractual structures.

Overall participants at the workshop were, however, of the opinion that given the appropriate attention and support there is no reason why private sector financing of adaptation projects shouldn't develop into the mainstream in the same way as financing for mitigation already has.

The following section of the report summarises the key recommendations of the 3 working groups in response to the Guiding Questions of the Exploratory Workshop.

Working Group on Adaptation Requirements & Sectors

The group broadly supported the sectors identified in the background paper for targeting project identification and selection and suggested the following further areas for consideration:

- Ecosystem Services, Biodiversity & Forestry;
- ICT – (Information, Communication, Capacity Development);
- Health;
- Coastal Zones (coastal erosion / protection against storm surges etc);
- Marketing of high value crops / Trading Platforms;
- Education (Knowledge, information)
- Climate (Floods, drought)
- Building and Aggregation
- Forestry (Damps, water pans, water transportation etc)

To be as wide ranging and as inclusive as possible the group recommended that the target sectors shouldn't be exclusive and that projects meeting investment criteria from other sectors should be

considered for receiving CTI PFAN support, while accepting that the identified sectors were the ones most likely to return commercially viable projects.

The group also made a number of recommendations for refinement of the CTI PFAN working definition of adaptation which was noted and carried forward for consideration by the Follow-up workshop.

Working Group on Financing Sources & Approaches

The Group was of the opinion that investment in adaptation related projects would appeal to only a limited circle of investors and financiers consisting primarily of

- Multilateral Financing Institutions and Development Banks
- Foundations & Philanthropic Investment
- Impact Investors / Social Investors
- Specialist Carbon Investors (overlapping with their mitigation activities)

The group also concluded that private sector flows will need to be stimulated by patient capital and donors / grants etc. and that adaptation related projects would need to be coached differently and by coaches with different skill sets to mitigation projects and that a higher level of intermediation would be required between PFAN, donors and investors to achieve project closures.

Public private partnerships were thought to be the most likely source of deals but this would also require the establishment and further development of enabling environments in host countries. The group suggested project bundling and aggregation as a way to reach investment scale more easily and quicker and to reduce transaction costs and achieve higher risk diversification across investment portfolios. The group also proposed an investor mapping exercise to first identify investors before embarking on project identification.

The group also proposed establishment of a specialist fund for early stage project preparation which would work as a guarantee fund and return incurred costs if certain things didn't happen or agreed milestones weren't achieved.

Working Group on Project Identification & Sourcing

This group identified the following main capacity gaps in the project development value chain:

- Awareness at legislative & operational level
- Technology Development Projects
- Lack of Enabling Environment
- Lack of Packaging Capacity

The most likely sources of projects were identified as

- Donors
- Networking with other activities
- Financiers
- NAPAs (or similar)
- Government (leads to PPP approach)
- Derived from policy

The criteria identified for project selection included:

- Specificity (as opposed to programmatic)
- Sustainability
- Replicability
- Revenue generation capacity
- Fits into definition
- Generation of financial **and** social value
- Development Benefits (achievement of MDGs)
- Involvement of Public Institutions

The group also identified a number of sectors which could be considered for targeting project identification for the pilot and for the subsequent scale up activity:

- Agri-business
- Biogas
- Dams & Water Pans
- Water Transportation
- Forestry
- Watershed / River Basin Modeling.

The group also identified the need for a clear set of indicators and criteria to measure the development impacts and social benefits of the projects which CTI PFAN supports. These could be sector specific or more general.

4. Organization of Workshop

The Exploratory Workshop took place at the UNEP Africa HQ facilities in Nairobi, Kenya on the 13th and 14th June 2012. The Workshop was organized by CTI PFAN and was co-sponsored / funded by USAID, UNEP, CTI and the International Center for Environmental Technology Transfer (**ICETT**); UNEP and the Greening of Kenya Initiative (**GKI**) of the Government of Kenya were co-hosts of the Workshop. ICETT as CTI Secretariat, PPL International as CTI PFAN Global Coordinator and Africa Bio-Products Ltd (**ABP**) as CTI PFAN Country Coordinator in Kenya managed and coordinated the organisation and implementation of the Workshop.

5. Project Identification & Selection

In preparation of the workshop and in order to select sample projects for presentation at the workshop as case studies and potentially recipients of CTI PFAN development support through the pilot programme of project development and financing, CTI PFAN distributed a limited call for project proposals through its African network. Based on the suggestions and findings of the Background Paper investments in key development sectors of emerging African economies were targeted; these included agriculture and agri-business, access to energy, water and sanitation, tourism, urban development, microfinance and micro-insurance. Some 30 proposals were received with 22 being eligible for consideration and inclusion. The list of projects is provided as Annex 5.

Based on initial assessment of the project proposals in accordance with the provisional assessment template for adaptation related projects a number of projects were identified as having potential for private sector investment. The developers of the selected projects were invited to present their

projects to the Workshop with a view also to them being considered for the pilot programme of the Adaptation Stream. Five projects out of 22 were selected with four of the developers being able to attend the Workshop.

6. Participants

Overall, 100 participants attended the Exploratory Workshop with the following constituencies being represented:

NGO	20
Project Developer	25
Government	7
Investor / Financier	7
International Organisations	12
Development Finance Institution	2
Consultant	18
Technology Supplier	3
Other	6
	100

The bulk of the participants came from Kenya and the East African region but there was attendance also from West and Southern Africa and from other regions including Asia, Europe and the US. The following overview shows the geographic representation of the participants:

East Africa	73
West Africa	8
Southern Africa	6
Asia	4
EU	4
Caribbean	1
US	4
	100

Mailshots promoting the event and invitations to attend the workshop were distributed widely prior to the event, starting in April 2012, through the following channels: CTI PFAN Africa Network, REEEP network, CTI Network, UNFCCC network, UNEP network, GKI Network, IISD Reporting Services. The event was also promoted on and through various relevant web mediums including the African Sustainable Energy & Environment Platform, Alternative Energy Association of Southern Africa as well as some local press and media. These efforts led to over 160 online registrations for attendance at the Workshop. CTI PFAN sponsored the attendance (travel cost and accommodation) of all the presenters and direct contributors to the workshop; other participants were responsible for their own costs.

Dignitaries attending the event included:

- Mr. Peter Odhengo, Executive Coordinator of GKI, who gave a key note address on behalf of Dr. Mohammed Ishakia, Permanent Secretary of the Office of the Prime Minister;
- Ms. Elizabeth Mrema, Deputy Director of the Division for Environmental Policy Implementation at UNEP;
- Mr. Michael Rantil, Chair of the CTI.

A full list of the participants of the Workshop is provided in Annex 1.

7. Summary of Proceedings

The Agenda of the Workshop, which is provided in Annex 2, was organized in 4 distinct components, with each component consisting of a number of sessions.

1. Framework / Scene Setting (Welcome / Keynote Addresses & Session 1): the keynote addresses and introductory statements of Session 1 of the Workshop provided the context and framework for the rest of the workshop. In particular, in Session 1 the Background Paper was summarized by Thaven Naidoo, representing the consultant team and the *Guiding Questions* for the Workshop were introduced (see below for further detail) by Peter Storey, Global Coordinator of CTI PFAN.

2. Expert Input (Sessions 2, 3 & 4): in the subsequent Sessions, presenters from each of the three main involved constituencies – developing countries (Session 2), investors (Session 3), project developers (Session 4) – made short presentations as follows to help frame the discussion:

- **Session 2, Developing Country Perspectives** included presentations from the Adaptation Programme of the UNFCCC and from Burundi, Ghana and Kenya, which outlined adaptation objectives and activities in each of the countries, highlighting specific needs and project opportunities as well as explaining some of the challenges and barriers encountered to date.

Mr Festus Leboyera of the UNFCCC Secretariat's Adaptation Programme highlighted the Private Sector Initiative of the Nairobi Work programme and encouraged coordination with the CTI PFAN initiative; he also drew attention to the UNFCCC's online database for reference purposes. **Mr Salvator Nsabimana**, Director General of IGEBU and the UNFCCC focal point for Burundi presented that country's NAPA, highlighting project opportunities in the areas of agro – eco systems, rehabilitation and re-forestation of degraded land, buffer zones in the flood plain of Lake Tanganyika and micro hydro, while emphasizing the constraints of lack of institutional and private capacity as well as lack of financing as key barriers to development. **Mr. Stephen Kinguyu**, Coordinator of the Climate Change Action Plan at the Climate Change Secretariat in the Ministry of Environment and Mineral Resources in Kenya presented Kenya's national climate change response strategy which informs and flows into the development of the country's NAPA, highlighting the lack of financing as the biggest impediment to implementation of activities. **Dr. Emmanuel Tachie-Obeng**, Senior Programme Officer at the Environmental Protection Agency in Ghana, presented Ghana's climate change adaptation strategy which has been adopted by the Government, highlighting project opportunities in the areas of protection of water resources, access to energy and fisheries development and conservation. He also outlined 2 specific initiatives as examples of successful adaptation related projects, including the establishment of a weather insurance index for maize.

- **Session 3, Investor Expectations and Requirements** included presentations from **Ms. Menka Shah**, Senior Associate at Acumen Fund, on Investor Perspectives, from **Mr. Samuel Ssenyimba**, Investment Manager at LGT Venture Philanthropy on credit appraisal and due diligence processes and **Mr. Alex Bashian**, Investment Manager at Invested Development on investor expectations and requirements. These presentations provided valuable insight into the way investors target and select their investments, the sort of investments they are

looking for and the investment decision process. In addition Alan Miller, Principal Project Officer of the Climate Business Group of the IFC joined the workshop by video link from Washington to outline IFC's experience with adaptation projects and present the results of their work on analyzing climate risks. Unfortunately the quality of the video link was poor and the presentation could not be completed but a hard copy of the presentation was distributed for consideration by the workshop participants.

- **Session 4, Challenges Facing Project Developers.** Four project developers introduced their project development activities, explaining the project objective and rationale, the key challenges and highlighting what they would require of a CTI PFAN project development and financing activity to enhance and support their efforts. The 4 projects presented were as follows:

- Mabira Forest Foundation, Uganda presented by **Mr. Bill Farmer** of the Uganda Carbon Bureau. The project involves regulated licencing of a sensitive forestry tract to facilitate long-term management of the forest by a consortium of local and international partners with funding specifically dedicated to the reserve's sustainable development.
- Community Based Transitional Ranching in the DRC, presented by **Mr. Floribert Nyamwoga** MD of Carbon Assets LLC, DRC. This project promotes the integration of climate-friendly technology and adaptive practice in traditional agriculture to achieve product diversification and strengthen the agricultural value chain through improved farming techniques, access to efficient storage (dry / cool storage and drying technology) and linkage to markets.
- Rainwater Harvesting & Upgraded Waste Water Treatment & Recycling at the Coconut Bay, St Lucia, presented by **Mr. Carlos Fuller** Deputy Director of the Caribbean Community Climate Centre. This was project was presented as an example of a done deal to demonstrate that financing of adaptation related projects is possible. The investment is classed as one of the most profitable investments in the hotel development group's portfolio.
- Promotion of Adaptation measures through Energy Access in rural Mozambique presented by **Mr. Edson Uamusse** of FUNAE, Mozambique. This project is targeted at strengthening adaptive capacities of rural off-grid communities by the introduction of solar powered RE kits for household and productive use.

In addition to the above project presentations, **Ms. Merlyn van Voore** of UNEP provided an overview of UNEP's programme activity to advance adaptation through enhanced climate information. While there is a plethora of climate information available, little is in a form which is useful to financial institutions. Accordingly opportunity identification and risk assessment is very difficult at the institutional level, meaning that financial institutions have to rely on bottom up project by project assessment which is time consuming and costly. To counteract this UNEP is working with financial institutions to create a climate information product to enhance identification of business opportunities and risk assessment. Also **Mr. Kemal Vaz** of Verde Azul, and a member of the consultant team for the Background Paper, provided an overview of the challenges facing adaptation projects and highlighted some of the key capacity gaps in the market based on his experience working with project developers of adaptation related projects in Mozambique.

The input component of the workshop lasted for most of the first day of the workshop. Each of the Sessions was chaired by a member of the Consultant Team who had been involved with drafting of the relevant sections of the Background Paper. Time for clarification and open discussion around the themes raised during the presentations was allowed at the end of each session with questions and answers being moderated by the session chair in each case. All the presentations from Sessions 2, 3 & 4 of the expert input component are provided in Annex 3 of this report.

3. Discussion in Work Groups (Sessions 5, 6 & 7). The third major component of the Workshop was a structured discussion in 3 break-out groups which were organized according to the Guiding Questions of the Workshop. Each working group was tasked with responding to one aspect of the Guiding Questions which had been organized into three areas: Adaptation Requirements & Sectors; Financing Sources & Approaches; Project Identification & Sources.

The groups were self-selecting with each participant being able to choose the work group of his / her particular interest / expertise and each group was chaired by one of the CTI PFAN consultants involved in the preparation of the Background Paper and co-chaired by a participant nominated by the group. The group work commenced in Session 5 towards the end of day 1 and continued during the whole morning of day 2 through sessions 6 & 7. The work of the groups was further guided by the Global Coordinator and the CTI PFAN Manager, who each spent time with all 3 of the groups on a revolving basis, sitting in on a number of the respective discussions and providing input, advice and guidance to the discussions as required.

The Guiding Questions for the Workshop had been formulated in advance by the Global Coordinator together with the Consultant team responsible for the Background Paper in consultation with the CTI PFAN Manager and were based largely on the work of the Background Paper. The aim of the questions was to provide a structured framework for discussion and to focus participants' attention on the key objectives of the Workshop, while allowing ample room for broad ranging discussion and creativity, in order to channel discussion in a constructive way and ensure, as far as possible, a focused and workable outcome. The questions were organized in 3 overarching categories, reflecting the structure and content of the Workshop - one for each work group – as follows:

i. Adaptation Requirements & Sectors (Group 1)

- Which are the most likely sectors for private sector financing approaches?
- Are the sectors identified in the Background Paper the *right* ones?
- Do they need to be changed?
- Is the proposed definition workable? How can it be refined?

ii. Financing Sources & Approaches (Group 2)

- What are the most likely sources of financing & investment?
- How can they be accessed / mobilised?
- What are investors / financiers looking for?
- What adjustments (if any) need to be made to the CTI PFAN Methodology?

iii. Project Identification & Sourcing (Group 3)

- What are the Capacity Gaps in the Project Development Value Chain?
- How can they be addressed?
- What are the most likely sources of Adaptation related Projects?
- How can these be identified & accessed? What are the selection criteria?
- What projects could be suitable for the Pilot Programme?

Despite the self-selection process the groups turned out to be evenly numbered. Discussion was lively, good natured and highly productive.

- 4. Output / Report (Sessions 8 & 9):** in the penultimate session of the Workshop each of the groups reported back to the full plenary of the Workshop on their discussions and agreed responses to the Guiding Questions. In each case the report was made by the co-chair of the group and was also supported by a power point presentation, which has accordingly become part of the workshop output documentation. There was also opportunity for discussion and clarification in plenary on the conclusions and recommendations of each group. This information was collated and summarized in the final Session of the Workshop, so as to be carried forward for consideration and action by the Follow-Up Workshop. The working group report presentations are provided in Annex 4 of this report. The summary of the main suggestions of the working group is provided in the Outcomes section.

8. Next Steps

1. Two (2) to five (5) pilot projects would be selected from the many projects that had been submitted for the adaptation stream by the Consulting team who would also draw up the terms of reference for these pilot projects. The choice of the consulting team would be ratified by CTI PFAN Executive Committee. The chosen projects would get the necessary technical assistance (TA) through the CTI PFAN coaching procedure and would be supported through the project development process and financial closure. These two – five (2-5) projects would be made public at a later date by the CTI PFAN. These pilot projects would aid the process of testing the environment and assisting the CTI PFAN to re-adjust and innovate in making sure the adaptation stream remains relevant with the CTI PFAN network and project development pipeline.
2. Further project identification and development would be carried out continuously by the CTI PFAN. This would focus on a cross sectoral approach allowing for the mixing of adaptation and mitigation project components. The purpose of this approach is to allow for creative thinking from both the project developers and investors perspectives cognizant of the fact that many adaptation related projects cannot be structured in a fully commercial way. As such highlighting the business opportunity therein reduces reliance on public and donor funds and opens elements within the project to private financing.
3. Project developers pledged to package their project proposals better so as to increase investor appetite since the investors' chief interest was in the business model reaching an appropriate scale with measurable economic and social returns commensurate with its investment criteria. This is a move to bring the adaptation stream closer to the main stream investment criteria, an area that private investors are conversant and comfortable in.
4. A follow up workshop would be hosted in nine (9) months' time (early 2013) by the CTI PFAN at a venue to be determined. This follow up workshop's objective would be to share the outcomes of the pilot phase and to refine the project development pipeline further.

8. Closing Remarks

In closing CTI PFAN and PPL wish to thank all those who attended the Exploratory Workshop and contributed their time, expertise and brain power, making it an extremely worthwhile event which has greatly influenced the ongoing design and implementation of the CTI PFAN Adaptation Stream.