European Commission

EU MISSIONS

ADAPTATION TO CLIMATE CHANGE

Funding and Financing Guide

To support Regional Climate Adaptation

February 2024

ACKNOWLEDGEMENTS

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Manuscript completed in February, 2024

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1. INTRODUCTION

This guide addresses the pressing concern of insufficient climate finance for local and regional authorities eager to undertake climate adaptation actions. Through consultations, stakeholders have highlighted the challenges in securing support for funding and financing processes. It serves as your resource, offering a roadmap from project preparation to successful application, ensuring a seamless transition to effective climate adaptation.

To aid your understanding, the guide introduces diverse funding and financing options, such as grants, PPPs, crowdfunding, and philanthropic funds, each explained with benefits for informed decision-making. It reveals paths to financial resources and imparts insights on enhancing preparedness before seeking funding or financing.

Distinguishing between funding and financing, the guide clarifies **funding** as non-repayable money for project development, while **financing** involves repayment obligations, often with interest. Financial institutions typically provide financing through loans, with careful consideration of terms.

While not listing specific funding sources, the guide acts as a gateway, directing stakeholders to sources for identifying suitable opportunities in the dynamic climate finance landscape. By fostering thorough preparation and proactive engagement, the guide empowers you to navigate funding and financing processes efficiently, contributing to the success of climate adaptation initiatives.

Key messages

Every project begins with an idea. The likelihood of securing funding or financing and successfully executing the project is much greater if you have carefully and effectively laid the **groundwork**.

Proactively **seeking support before applying** for funding or financing significantly enhances the prospects of successful project implementation. Support offers are available via technical assistance programmes, granting authorities, financial institutions, and European and national initiatives and projects.

Establishing **partnerships** within your regional or local authority and with external stakeholders proves instrumental in project preparation and execution, including the application for funding and financing.

Funding and financing options for adaptation are accessible across **all stages** of the climate adaptation cycle. The following guidance can help you pinpoint the most suitable sources for your needs.

Please note that some funding and financing sources mentioned in this guide may not be available or allowed in the public sector in all EU Member States/Member States associated with Horizon Europe.

2. GENERAL PRINCIPLES OF FINANCING AND FUNDING

Preliminary questions you should ask yourself.

Financing and funding climate adaptation can seem challenging when confronted with many different options and complex schemes, especially when wondering, "*How much budget is available for climate adaptation in my region?*". Climate financing options will become more apparent as the preparation process progresses. Being prepared is key to obtaining higher success rates when applying for funding or financing. Ask yourself, "*What is needed to implement my project/activity/strategy?".*

We recommend developing your idea into a project by building a strong case and a solid strategy for a specific action. Then, plan the implementation before identifying financial resources to drive creativity and help combine different sources. It ensures you have a portfolio of climate adaptation measures ready to benefit from any opportunity. For example, a well-developed portfolio of measures can allow you to quickly identify and exploit unused resources (financial, staff material, etc.) from other departments at the end of the financial year.

Guide to successfully finance climate adaptation actions.

1. *Figure 1 Preparation for a successful implementation of a climate adaptation project*

Figure 1 shows three recommended steps towards a successful application for funding/financing to implement a climate adaptation project. Funding and financing options are available for all steps of the adaptation cycle, alongside different technical assistance programmes and cascade funding[1] opportunities.

These steps can overlap and run simultaneously, but we recommend not focusing solely on funding and financing initially. The Regional Adaptation Support Tool (RAST) published on the Adaptation Mission Portal guides you through the adaptation process. The description below is linked to the six steps of the RAST cycle, which you can access for more information.

Apply for Support.
Technical assistance is offered via MIP4Adapt or Cohesion for Transition to help develop a prioritised portfolio of climate adaptation measures, identify no-regret demonstration projects and make the case to identify and secure suitable funding and financing options for your climate adaptation projects.

Additionally, Horizon Europe projects like CLIMAAX or Pathways2Resilience offer technical and financial support to regions to support their progress in different steps of the RAST cycle.

1. Develop an idea into a project

- **Build a strong case** for the adaptation actions. Conducting the first steps of the Regional Adaptation Support Tool (RAST) will help you in that process. In particular, *Step 2. Assessing climate change risks and vulnerabilities* is key to building strong proposals.
- **Identify allies** and establish partnerships with other economic sectors (such as tourism, housing and agriculture) to prepare the ground for adaptation. Secure support from high-level actors (like the mayor), colleagues within and outside your department, and stakeholders outside the public authority. Raise awareness of the need for adaptation and the required actions. Ensure that your adaptation activities align with other political and spatial planning priorities set by entities like your national government. This allows collaboration, enables alternative funding and financing opportunities, and supports the mainstreaming of costs. These activities are linked to Step 1 of the RAST, *Preparing the ground for adaptation*.
- **Have a clear prioritisation** of climate adaptation actions aligned with regional needs, other co-benefits, and practicalities. More information is available in Step 3, *Identifying adaptation options* and Step 4 of the RAST, *Assessing and selecting adaptation options*.

[1] Cascade Funding is a European Commission mechanism to distribute public funding to beneficiaries by allowing that some EU-funded projects may issue, in turn, open calls for further funding. This funding method aims at simplifying the administrative procedures, creating a lighter application scheme adapted to certain specific type of actions of beneficiaries with limited capacity.

- **Develop a high-level cost plan** providing a rough estimate and the associated ownership and responsibilities. This can include a feasibility study and an anticipation of the potential change of operation and maintenance costs after implementation (such as monitoring and surveillance costs, changes of insurance costs, maintenance and repair costs of infrastructure), which is linked to *S*tep 5 of the RAST, *Implementing adaptation activities*.

2. Get ready for implementation

- **Identify skilled people** to support the implementation of the project. Certain projects require specific skills or specialists. Engaging in conversations and seeking input from skilled experts within and outside your organisation before resource allocation contributes to a seamless implementation in subsequent stages.

- **Prepare for additional staff**. Explore opportunities to hire staff to implement your projects within the administration or publicly owned entities. This is important as the reporting periods and timeframes of funding and financing opportunities might differ from your yearly reporting cycles. For example, securing project funding may require the immediate availability of extra staff recruited and trained to start the work shortly after signing the contract.

- **Prepare for additional resources** before applying. Be aware of the internal regulations that must be met when utilising external money. Project-related funding requires financial reports that might not be aligned (in areas such as timing or methodology) with standard accounting cycles. Ensure your team can process additional money and implement actions quickly if an opportunity for extra money appears. An example of this could be the budget being made available at short notice just before the end of the financial year.

3. Identify and obtain resources

- **Consider mainstreaming costs and obligations** into existing or planned activities. This ensures that these are not treated as separate entities but are rather woven into the fabric of ongoing plans, facilitating a more cohesive and sustainable approach to resource allocation and management. Climate adaptation should be tackled in an integrated manner and cover different sectors and fields of action. Consider aligning actions with sectors like water and biodiversity and include parts of your climate adaptation projects in their activities that have already secured financial resources. Including climate adaptation in strategies and action plans of other departments can help implementation and raise awareness.

  For example, the adaptation action "greening the city or village" could be a stand-alone strategy, or it could be included in the strategies of other departments such as Parks and Gardens or Transport Planning and lead to incorporated adaptation approaches within their plans like a parking space reduction plan. These synergies can reduce overall costs. This is linked to step 5 of the RAST, *Implementing adaptation*.

- **Identify matching funding and financing options and tailor your case** to fit the opportunity. This guide offers tips and information on identifying funding and financing sources below. Explore the links this guide provides and read the information on the conditions provided by each funding authority or financial institute before applying. Pay close attention to the requirements, thresholds, relevance and benefits of each funding and financing source and reserve enough time to tailor the initial case to their specific conditions.

This may require segmenting the action or clustering it with other actions in other fields (like climate mitigation) and other sectors. In most cases, you can contact the funding authority/institution contact points to receive clarifications and feedback on the eligibility of your project. For EU grants, you may also contact your national contact points[2]. Ask the funding agency or financial institution what to consider when drafting your proposal or application.

- **Screen other opportunities** and alternative sources and instruments of funding and financing for your climate adaptation projects. For instance, not all actions require money, and volunteers and NGOs could carry out some parts of the project. These sources of support can contribute to making the project more visible, which can help secure financial support later.

Be prepared to act fast.
Climate adaptation funding is highly dynamic; new opportunities may arise with little notice. Having well-prepared cases for specific adaptation measures readily available is the best approach to seizing any emerging opportunity and being able to react quickly.

Think collaboratively to overcome barriers.
Sometimes, you will seek financial support to fill gaps in knowledge, capacity, or resources. Check if local stakeholders could support you or consider integrating adaptation measures into existing projects and practices to overcome those barriers.

3. FUNDING AND FINANCING SOURCES AND INSTRUMENTS

Money allocated to implement a project can come from various internal or external sources. Funding does not require to be paid back (non-refundable), while financing must be paid back, and interest may apply (refundable). Combinations of refundable and non-refundable sources are mentioned as mixed and alternative sources.

More information and case studies
A portfolio of information, including case studies on refundable, non-refundable, mixed, and alternative sources and instruments like catastrophe and climate bonds, pooled investment

[2] A list of relevant national contact points is provided by each EU granting authority on the page of the opportunity. For example for LIFE or Horizon Europe.

funds, risk-sharing facilities, and climate insurance, can be found online at the International Institute for Sustainable Development.

Funding: Non-refundable sources of money

The sources and instruments listed below do not require repayment and are usually referred to as funds/funding schemes. These non-refundable sources include:

Source/Instrument	Key Features
Grants and Subsidies	Financial support; no repayment; minimal costs; available at all levels; national grants focus on investments 500,000 EUR+; local funds focus on smaller amounts.
Government Budgets and Taxes	Additional funds in annual budgets earmarked for adaptation; special taxes/levies on individuals/businesses; reflect environmental impact; align with climate goals and fiscal responsibility.
Climate Funds	Dedicated resources for climate projects; used to mobilise resources, reduce emissions, or enhance resilience; funded by governments or international organisations/private sector; cover diverse initiatives; Climate Investment Funds; National Climate Funds.

Grants and Subsidies

Grants, money given by a government, organisation or person for a specific purpose, are a vital form of financial support. Governmental and non-governmental entities can provide them with the means to advance their objectives and fund specific projects. Grants can span all governance levels, from local to global, offering regional and local authorities the chance to fund projects addressing their priorities. The advantages of grant funding are significant, as it does not require repayment and usually entails no financing costs, except when co-financing is necessary to cover part of the overall cost.

The availability of EU grants varies based on specific programmes. The European Union offers funding for various projects and programmes across sectors and businesses for projects of all sizes. This facilitates the implementation of new ideas and fosters collaboration and learning among European partners, enabling local governments to build an international profile. Despite these advantages, challenges associated with EU funds include the complexity of researching opportunities and navigating the funding system, lengthy and intricate application processes, the time-limited nature of most funds, and the time-consuming application submission that may require external expertise.

At the European level, Cohesion Funding is a key source for funding regional and local climate adaptation initiatives. This funding scheme includes the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund Plus (ESF+), and the Just Transition Fund (JTF).

National grants and subsidies become particularly valuable in locations with limited market capacity and creditworthiness. However, challenges include the time-limited nature of grants, potential limited funding resulting in partial support, and the occasional misalignment with local demands that require adjustments to fit the grant requirements. National grants commonly focus on investment sizes starting from 500,000 EUR and above. Local funds address smaller amounts.

Overview of European and National Funding Opportunities
The MIP4Adapt team has developed an overview of European and national funding opportunities. The materials are available to screen and identify suitable opportunities for your project idea.

Government Budgets and Taxes

National, regional, and local governments can allocate additional funds within annual budgets. Public authorities can earmark specific funds for climate adaptation projects, integrating them into comprehensive budgetary plans. This proactive approach allows governments to foresee and allocate resources for targeted measures that address the challenges posed by climate change. These funds may support several initiatives, including infrastructure development and community resilience programmes.

In addition to budgetary allocations, governments can impose special taxes or levies on individuals and businesses to generate dedicated funds for climate adaptation. By implementing these fiscal measures, governments can ensure a sustainable and reliable source of revenue earmarked explicitly for climate-related initiatives. These taxes or levies may be designed to reflect the environmental impact of certain activities, encouraging environmentally responsible behaviour while concurrently funding crucial adaptation projects. This multifaceted approach underscores the importance of aligning financial resources with climate goals, demonstrating a commitment to fiscal responsibility and environmental sustainability.

Climate Funds

A climate fund is a financial mechanism or pool of resources specifically dedicated to funding projects and initiatives to address climate change, promote sustainability, and support climate adaptation and mitigation measures.

At various governmental levels, climate funds aim to mobilise resources for projects that reduce greenhouse gas emissions, enhance climate resilience, and promote sustainable development. Administered by governmental agencies, international organisations, or public-private partnerships, these funds rely on contributions from governments, international organisations, and sometimes the private sector. Funded projects cover diverse initiatives like renewable energy, reforestation, sustainable agriculture, and programs enhancing climate resilience in vulnerable communities.

The Climate Investment Funds (CIF) consist of funds like the Clean Technology Fund (CTF) and the Scaling Up Renewable Energy Program (SREP), financing climate projects in developing countries. Additionally, many countries have National Climate Funds for addressing climate challenges at the national level.

Financing – Refundable sources and instruments of money

Refundable sources of money, also known as financing, must be paid back, and interest may apply. Projects must be profitable (bankable) to rely solely on refundable sources. Refundable sources of money include:

Source/Instrument	Key Features
Loans	Provided by banks/financial institutions; initial capital; accessibility; dependent on creditworthiness; repayment with interest costs; suitable for all Capital and operational expenditures; European Investment Bank, public banks, Commercial Banks, Microfinance institutes are recommended.
Bonds	Secure funds; refundable; periodic interest; Green bonds; global investors; significant preparatory work; regulatory constraints, suitable for large-scale projects – starting from 5 million EUR.
Revolving funds	Government-established; no fiscal limits; self-sustaining; capacity-building; flexible; early cost recovery; varying fund sizes – from 1 to 5 million EUR and above.

Loans

Loans, sourced from banks or financial institutions, serve as a crucial means for acquiring initial capital for adaptation projects. One notable advantage is that it enables financing projects that local governments might struggle to fund independently. Loans can also be instrumental in facilitating significant capital equipment purchases.

However, it is crucial to acknowledge certain drawbacks associated with loans. Typically, creditworthiness is a required for loan applications. Additionally, lenders expect a return on their investment, introducing interest costs that contribute to the overall expense of the venture. This factor can sometimes transform into a greater financial burden than initially anticipated.

Notably, institutions like the European Investment Bank (EIB) are pivotal in focusing on climate mitigation and adaptation initiatives within Europe. The EIB has formulated a dedicated strategy for financing climate adaptation and has established a specialised team to facilitate the regional preparation of climate adaptation measures.

For investments ranging from 10-25 million EUR and beyond, public banks (listed at the European Association of Public Banks) or the European Investment Bank (EIB) are recommended as the preferred choice.

When dealing with investments exceeding 500,000 EUR, Commercial Banks (see, e.g. European Association of Co-operative Banks) should be the primary point of contact.

In the case of smaller loans, microfinance institutes (see also European Microfinance Network) are the optimal initial contact.

Loans are suitable for all capital expenditures (CAPEX) and operational expenditures (OPEX). See the Glossary of terms for further information.

Bonds

Bonds serve as a means to secure funds for adaptation projects. They are refundable and involve periodic interest payments to bondholders.

Green bonds, such as Climate Bonds, have several advantages, such as enhancing the issuer's reputation by showcasing a commitment to green growth and sustainable development. Governments may utilise green bonds to make political statements and demonstrate dedication to environmental objectives, such as combating climate change or fostering sustainability. Additionally, green bonds provide issuers with improved access to a specific set of global investors prioritising green and sustainable ventures. The issuance of green bonds can also create new market demand, contributing to the strengthening and, in some cases, the establishment of domestic capital markets.

However, disadvantages include the time and cost involved in necessary preparatory work such as institutional setup and verification. National regulations often determine the ability of a local government to issue bonds. Successful municipal bond market participation requires a highly detailed, structured, skilful, and diligent management process. Furthermore, (green) bonds typically fund large-scale, capital-intensive (green) infrastructure projects, such as energy efficiency projects, transit, or renewable power, which can be repaid from steady, modest, long-term cash flows.

Bonds are well-suited for projects with an investment size starting from 5 million EUR and above, with high capital expenditures (CAPEX) and low operational expenditures (OPEX), as well as those with low CAPEX and high OPEX and high/mid-CAPEX with a focus on reducing OPEX.

Revolving Funds

Governments can establish revolving funds, agencies, or organisations without fiscal year limitations and serve as a funding mechanism for projects aligned with specific goals, such as climate adaptation. Projects supported by revolving funds are required to repay the fund to restock it and ensure the availability of money for future initiatives and projects.

Revolving funds offer several advantages. Once implemented, this funding model can become self-sustaining, utilising repayments to finance additional projects. Moreover, revolving funds contribute to building market capacity and operate without the constraints of fiscal year limitations. They can be particularly effective in locations with underdeveloped public/municipal credit markets, provided there is a credible and capable fund manager and the ability to enter multi-year contracts.

However, revolving funds come with certain challenges. Recovering operating costs early can be difficult, and repayment periods may extend over 5–8 years or even more. The fund's size may vary yearly based on the financial sources mobilised and the investment return.

Revolving funds are well-suited for an investment size ranging from 1 to 5 million EUR and above, suitable for medium to large-scale projects with high capital expenditures (CAPEX) and operational expenditures (OPEX).

Mixed and Alternative Sources and Instruments

These types of sources may require to be paid back, partly paid back or not paid back.

Source/Instrument	Key Features
Public-Private Partnerships (PPPs)	Collaborative projects between public and private sectors; shared funds/expertise; long-term contracts; private partner assumes risk; medium to large-scale projects; high costs and regulatory issues can be challenging.
Voluntary actions	Local partners; community involvement/resources; collaboration with entities; synergetic approaches; leveraging resources/labour.
Crowdfunding	Investment from citizens; small projects; rapid fundraising; unconventional ideas; community engagement; trust building, funding targets, and reputation risks are challenges.
Philanthropic and charitable funding	Private donors/foundations; societal impact; diverse causes; non-repayable funds; potent force for change; shared values/impact commitment; short-term only; potential value alignment issues.

Public-Private Partnerships (PPPs)

Public-Private Partnerships (PPPs) involve collaborative efforts between public bodies and the private sector to jointly implement projects, with contributions and benefits shared by both parties. PPP also often allows for combining public funds with private financing resources.

Funding for PPPs can be partially refundable, fully refundable, or non-refundable. Contributions and benefits may involve financial aspects and non-financial elements such as risk sharing and pooling of expertise. While there isn't a universally accepted definition, the World Bank characterises PPPs as long-term contracts where the private party assumes significant risk and management responsibility, with remuneration tied to performance. Other definitions encompass a broader range of collaborations between government entities and private parties.

PPPs offer advantages such as enabling municipalities to access financing and technical expertise while benefiting from operational efficiency, with the private sector shouldering performance and technology risks. However, PPPs come with disadvantages, including relatively high transaction costs and the potential for increased rules and regulations if one party perceives a loss of control. Challenges also arise from differing timelines among involved entities, with non-profits favouring long-term perspectives, for-profit organisations emphasising short-term goals, and government agencies influenced by election timelines.

With an investment size ranging from 1-5 million EUR and above, PPPs are well-suited for medium to large projects with high capital expenditures (CAPEX) and operational expenditures (OPEX), such as infrastructure, construction, and maintenance, as well as those involving high or mid-CAPEX with a focus on reducing OPEX, like energy efficiency measures.

Examples of PPPs

A private landowner could allow the public authority to implement flood protection measures that benefit the local community on the private land. Another example can be the cooperation between the local authorities and local businesses to share the costs for revitalising public places and streets.

Voluntary actions

Engaging local partners in climate adaptation projects fosters a sense of community involvement and brings additional resources to the implementation phase. Collaborating with local entities such as religious communities, sports clubs, schools, and other grassroots initiatives offers additional benefits. These partners can contribute financial resources, invaluable time, and human resources. For instance, local communities may actively participate in reforestation initiatives by providing labour for planting activities. In a collaborative effort, local authorities might supply seedlings or the ground, and the communities can contribute their workforce, creating a synergistic approach to project realisation.

Example of voluntary action

The initiative TREES FOR CITIES has relied on voluntary efforts for over 30 years. The initiative started organising fundraising and tree-planting events to make cities more liveable. According to their statistics, this initiative has managed to plant over 1.7 million trees, which shows that voluntary actions can significantly support the implementation of climate adaptation measures.

Crowdfunding

Crowdfunding is an alternative income source for local governments, operating on the principle that citizens voluntarily invest a specific amount in proposed projects. Crowdfunding platforms perform a risk assessment and due diligence on the project and act as intermediaries, connecting private investors with various projects and businesses. This approach provides access to a large community of individuals willing to contribute small to medium amounts of money, supporting the implementation of projects or the development and early testing of new technologies.

Advantages of crowdfunding include its suitability for funding small projects, a rapid fundraising process with no upfront fees, the ability to swiftly assess public reaction to project ideas, and the potential to finance unconventional ideas that may not appeal to traditional investors. Additionally, investors in crowdfunding initiatives can become loyal customers.

However, crowdfunding has its challenges. It requires substantial effort in building trust and sparking interest. There is no guarantee of reaching the required funding target, and failed projects can risk damaging the reputation of the initiative or the platform. The crowdfunding process is a collaborative funding model, emphasising community engagement and diverse stakeholder involvement.

Examples of crowdfunding

The city of Ghent developed a crowdfunding platform that allows citizens to share their ideas and raise the necessary funds to realise them. Ideas can vary and include the increase of the city's adaptation capacity. Two initiatives submitted through the crowdfunding platform can be considered contributions to the city's climate adaptation goals.

1. The first focuses on sustainable food production and enhancing green areas ("Lekker dichtbij!" establishes mini gardens on balconies of social housing).

2. The second one, "The Edible Street", set out to transform the traditional stone facades into vertical gardens to create additional green areas while stimulating local food production.

Philanthropic and charitable funding

Philanthropic funding is a collaborative effort between private donors or foundations and organisations working towards positive societal impact. They support diverse projects, from local initiatives to global causes, addressing social challenges like climate change adaptation with flexibility and adaptability.

Advantages include non-repayable funds, allowing recipients to focus on their mission without financial return pressures. Philanthropy fosters collaboration, creating networks of support and expertise among donors, non-profits, and communities. The difficulties lie in that the funding provided can be short-term and often one-off initiatives, making it difficult to rely on or even access these funds. These organisations might also have objectives and a governance model not aligned with your own. Despite these challenges, philanthropic funding, driven by shared values and commitment to impact, remains a potent force for positive societal change.

4. CONCLUSION

This guide directs regions and local authorities to sources for identifying suitable opportunities in the dynamic climate finance landscape.

It provides detail on the different financial sources under funding, financing, and mixed and alternative sources.

By fostering thorough preparation and proactive engagement, the guide empowers you to navigate funding and financing processes efficiently, contributing to the success of climate adaptation initiatives.

5. GLOSSARY OF TERMS

Financing and funding are related but distinct concepts. In the context of project management and business, a project is the main objective or initiative requiring financial and other support.

Funding

Funding refers to budgetary resources for the development or implementation of a project. Public or private bodies provide the resources free of charge to contribute to their specific goals or agreed purposes. A repayment is not required if the contractual requirements to ensure the intended use of the fund are met. Funding sources include grants, awards, donations, internal capital, taxes, etc.

Financing

Financing refers to providing capital for a project with the liability to repay later. Usually, interests apply to cover the risks taken by the lender. Financial institutes commonly offer financing in the form of loans or financing instruments.

Blending

Blending is the concept of combining multiple financing mechanisms, for example, the combination of grants and loans to implement the project, which can include refundable and non-refundable sources.

Bankability

Bankability describes if the project is profitable and can benefit from some forms of traditional financing packages from banks like loans.

CAPEX

Capital expenditures (CapEx) are funds a company uses to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment.

OPEX

An operating expense is an expense a business incurs through its normal business operations. Often abbreviated as OpEx, operating expenses include rent, equipment maintenance, inventory costs, marketing, payroll, insurance, step costs, and funds allocated for research and development.

Publications Office of the European Union

Luxembourg: Publications Office of the European Union, 2021

PDF ISBN 978-92-76-41167-3 doi:10.2777/500470 KI-01-21-194-EN-N