SCF - Pilot Program for Climate Resilience (PPCR)

PROJECT TITLE: BUILDING RESILIENCE POST-NATURAL DISASTERS

COUNTRY: GLOBAL

MDB: INTERNATIONAL FINANCE CORPORATION

Cover Page for Project/Program Approval Request
Pilot Program for Climate Resilience

Country/Region	Global with initial focus on Honduras, Jamaica, and up to 3 other Caribbean Islands (TBC)	**CIF Project ID#**	**Auto Generated by CCH**
Type of CIF Investment:	☐ Public ☒ Private		
Project/Program Title (same as in CCH)	Building resilience post-natural disasters		
Sector/Pillar (Please select all that apply)	☐ Agriculture and Landscape Management ☐ Agriculture and Food Security ☐ Agroforestry ☐ Capacity Building / Institutional Strengthening and Governance Reform ☒ Climate Information Systems and Disaster Risk Management ☐ Coastal Zone Management ☐ Enabling Environment ☐ Forest Monitoring / MRV ☐ Indigenous Peoples / Local Communities ☐ Infrastructure ☐ Landscape Approaches ☐ Renewable Energy ☐ Sustainable Forest Management ☐ Urban Development ☐ Water Resources Management ☒ Other (Financial Institution Clients may on-lend funds to multiple sub-sectors mentioned above)		
Technology/Area **(Please select all that apply)**	☐ Bioenergy ☐ Capacity Building ☐ Cookstoves ☐ Hydropower ☐ Irrigation systems ☒ Multiple ☐ Solar ☐ Waste to Energy ☐ Wind Aquaculture ☐ Other (____________________)		
Project Lifetime (MDB Board/Management) approval to project closure)	**From March 2024 to March 2025**. The program proposal is expected to be submitted to the PPCR Sub-Committee in March 2024. The program is expected to proceed within 6-9 months of sub-committee approval.		
Is this a private sector program composed of sub-projects?	☒ Yes ☐ No		

Financial Products, Terms and Amounts (same as CCH)		
	USD (million)	**EUR** (million)[b]
PPG (Project Preparation Grant)		
Grant		
MDB Project Implementation and Supervision Services (MPIS)[1]		

[1] MPIS - CIF Operational Modalities For New Strategic Programs here

Public sector loan – Senior loan		
First loss guarantee	$10	
Second loss guarantee		
Equity		
Senior loan		
Senior loan in local currency hedged		
Senior loan in local currency unhedged (**EXCEPTIONAL REQUEST**)		
Subordinated debt/loan/ mezzanine instrument with income participation		
Subordinated debt/loan / mezzanine instrument with income participation local currency unhedged (**EXCEPTIONAL REQUEST**)		
Subordinated debt/loan /mezzanine instrument with convertible features		
'Convertible/contingent recovery' grant/loan/guarantee (loans convertible to grants or vice versa)		
Convertible Loans (convertible to equity only)		
For loans and guarantees – is this a revolving structure? [2] ☒ Yes ☐ No		
Specify local currency type here		
Other (please specify)		
Total	$10	

Co-financing		
	Please specify as appropriate	**Amount**
MDB 1	IFC BF FLG	Up to 21,250,000
MDB 2 (if any)	IFC BF Loans	Up to 25,000,000
Government	IFC – fully commercial	Up to 225,000,000
Private Sector		
Bilateral		
Others (please specify)		
Total Co-financing		**271,250,000**
SCF Funding		**10,000,000**
Total (Co-financing + SCF funding)		**281,250,000**
Proportion of Total Financing for Adaptation		**168,750,000[3]**
Proportion of Total Financing for Mitigation[e]		**112,500,000**

[2] With a revolving structure, after the loan or guarantee matures, instead of returning the funds to the Trustee, the funds are redeployed as a new loan or guarantee.
[3] The extent of financing for adaptation vs resilience is difficult to determine at this stage.

CIF Financial Terms and Conditions Policy	Link Is this request in accordance with the CIF Financial Terms and Conditions Policy? ☒Yes ☐No (if no, please specify detailed information under the justification section)	
Implementing MDB(s) *(please enter full name, job title and email address)*		
MDB Headquarters-Focal Point:		Andrey Shlyakhtenko Tendai Madenyika
MDB Task Team Leader (TTL)		Matthew McClymont Zindzi Thompson
Brief Description of Project/Program (including objectives and expected outcomes) [c][d]		

1. Program Description

The proposed Program seeks to utilize US$10 million of PPCR concessional finance to support a 20- 30% first loss guarantee (FLG) or concessional loan benefitting clients of the IFC's Natural Disaster Liquidity Facility (NDLF or the Facility). The NDLF Facility is a global facility that will help bolster financial institutions' resilience to natural disasters in emerging economies. The innovative Facility will allow participating financial institutions (FIs) to defer the principal repayments of their IFC loan for up to 24 months upon the occurrence of an eligible natural disaster event in the country. The PPCR will help promote resilience through (i) a FLG that will help de-risk the Facility to expand its reach down-market to vulnerable clientele that otherwise could not be included; or (ii) a concessional loan that will allow FIs to defer the principal repayment and waive interest payments during an up to 24-month period.

The use of proceeds will be for growing FIs' green portfolio, including for resilience and adaptation. Specifically, FIs will increase lending for green buildings, renewable energy including solar panels and distribution generation, energy efficiency, and electric and hybrid vehicles, and other green projects. The Facility is expected to on lend around 15- 20% of the proceeds in vulnerable subregions of already vulnerable countries.

What is the market gap?

Extreme weather events, often exacerbated by climate change, have a significant impact on business activity and can hamper the livelihoods of the affected population over a prolonged period. Developing countries are particularly vulnerable to climate and natural disasters such as droughts, floods, earthquakes, and cyclones due to a lack of infrastructure and risk mitigation tools to cope with the aftermath. As a result, the lack of resilience to, and inability to recover from disasters is a significant barrier to sustainable growth. Thus, financing to enable climate projects in regions vulnerable to natural disasters, and to support recovery following natural disasters, remains crucial to economic and social development.

Post disaster, relief efforts are generally focused on healthcare, safety, and restoration of basic services. The economic impact is measured over time as a better assessment of infrastructure damage is completed. Inventory, buildings, and land, which serve as main sources of collateral for small business owners, are destroyed and these small businesses often lack or have limited insurance coverage to access new financing from lenders. It takes, on average, three to six months to have new financing flow back into these regions, as many financial institutions would be dealing with liquidity constraints and unanticipated operational expenses.

Countries around the equator or small islands tend to be more at risk. For example, Latin America and the Caribbean (LAC) region is one of the most vulnerable in the world. The economic costs of climate change are estimated at between 1.5 and 5 percent of the region's GDP by 2050. According to the World Meteorological Organization, LAC is among the regions most challenged by extreme meteorological events. This is evidenced by the death and devastation following hurricane Eta and Iota in Guatemala, Honduras, Nicaragua, and Costa Rica in 2020; the strong magnitude earthquake that hit Haiti in 2021; and the recent intense drought season in Brazil, Bolivia, Paraguay, and Argentina. According to a 2021 report by insurance group AON, economic loss from natural disasters in LAC amounted to US$22 billion in 2021, with only 16 percent of these losses covered by insurance.

FIs globally see climate change as a major risk for their portfolios since natural disasters hamper the business continuity and sustainability of MSMEs. In emerging markets, FIs have limited resources to hedge against such risk, and tend to avoid lending to clients located in regions where there is little or no data available on historic losses due to climate events and any affordable insurance protection for the end borrower.

IFC seeks to address the financial impact of severe climate change related events and natural disasters (C/ND) in emerging markets and their ripple effects on FIs. Specifically, IFC aims to help the banking sector in targeted countries to absorb initial shocks to their lending portfolios following C/ND events, while providing much-needed liquidity leading to a strong trickledown effect on their overall economies.

How does the program address the gap?

Through the proposed program, IFC's overarching approach is to support FIs in target countries in mitigating losses associated with C/ND events. The NDLF will enable climate adaptation/resilience dedicated liquidity to FIs in climate disaster vulnerable countries globally with concessionally to support partner banks and their clients following a qualifying disaster. A critical feature of the NDLF is the deferral option of both principal and/or interest payments upon the occurrence of a pre-defined C/ND event. The NDLF will require that the benefit of the deferral option be passed on to affected borrowers in vulnerable regions post-natural disaster for a trickledown impact on micro, small and medium-sized enterprises (MSMEs) and other vulnerable segments. In doing so, the facility will help reduce the financial burden of vulnerable groups following a C/ND event. End-borrowers facing economic shocks following C/ND events can use concessional funds to provide temporary relief is key to helping them and banks to withstand and bounce back.

The US$10 million PPCR funds will support implementation in eligible countries through concessional loans and/or as a first loss position to IFC and potentially a global commercial reinsurer. The PPCR funds for adaptation and climate resilience will aim to support up to 20% of each IFC A loan to extend the Facility's reach to underserved subnational regions or segments that are particularly vulnerable to the effects of climate change.

The program coupled with Advisory support will provide critical support to grow the climate portfolio of FIs, increasing the access to Climate Finance in selected countries highly vulnerable to natural disasters. The Program will also benefit from 1) Upstream Seed funds, which would design the deferral option triggers for cyclone and flood for the Project, and 2) Upstream Project "The Building Resilience Index", a joint effort between IFC's FI industry group and Climate Business Department to build resilience assessment tool similar to Excellence in Design for Greater Efficiencies (EDGE) for standardized resilience assessment and measurement for buildings. Both Upstream Projects will enhance data collection on the impact of natural disasters on FIs and their borrowers which will facilitate transparency in pricing for risk coverage.

Program Context

The PPCR support is structured to tackle participation constraints that prohibit private sector investments in environments exposed to increasingly extreme weather events by improving the alignment of principal and interest payments with the cash flow shocks faced by borrowers of IFC's client banks. In doing so, blended finance enables investment in climate resilience and adaptation projects in countries vulnerable to increasingly extreme weather events, without which the development impact associated with supporting climate projects would not materialize. The principal and interest payment deferrals for the sub-loans provided under the Facility would be passed on to the end-borrowers in the immediate aftermath of qualifying climate events to help reduce the financial burden during the time of recovery (details on the deferrals and types of PPCR role in the facility are provided below). As such, this Facility is expected to directly benefit both the FIs, and the end borrowers affected by extreme events in the target countries.

The initiative will provide resilience and adaptation financing packages to the private sector in countries more susceptible to C/ND events. Therefore, the facility will not only be groundbreaking in providing funding of this nature, but also act as a model for future funding facilities in the target markets. Through the pilots, IFC will help the banking sector in targeted countries absorb the initial shocks to lending portfolios by enabling access much-needed liquidity to support recovery from these extreme weather events.

The pioneering nature of the facility's approach is directly in line with the PPCR objective of building an enabling environment for transformational change by providing concessional and grant funding to pilot innovative climate resilience solutions.

Development Impact

Innovative Product: IFC's first program in Emerging Markets to address climate resilience in the private sector through an innovative deferral mechanism upon the occurrence of an eligible C/ND event. In addition, IFC will require that the deferral benefit is passed on to end-borrowers.

Knowledge, innovation, and capacity building: IFC will support FIs in its climate finance initiative through an advisory project aimed at helping design and implement its green financing strategy. IFC financing will also help raise more awareness about the need for resilience and adaptation finance and increase private investors interests/contribution to this area. **Project Objective** The objective of the proposed program is to: i. address the financial impact of severe climate change related events and natural disasters (C/ND) and their ripple effects on FIs; ii. help the banking sector absorb initial shocks to their lending portfolios following C/ND events, while providing much-needed liquidity; and iii. support FIs on-lending to MSMEs, housing, agribusiness, energy efficiency, and renewable energy for adaptation and resilience in countries vulnerable to natural disasters.
Consistency with investment criteria (please refer to design document)[4][c][d]
Private sector financing is crucial. Without the support of concessional finance, the rapid temporary relief to communities impacted by natural disasters will not be achievable due to the lack of financing available for borrowers facing cash flow shocks, particularly in disaster-prone markets. The program is part of an open access platform set up by IFC with the objective to support on-lending to MSMEs and other green segments for adaptation and resilience in countries vulnerable to natural disasters and allows eligible market players accessing IFC financing to be supported in a similar manner with concessional funding. The program will also be the first of its kind providing a demonstration effect for other FIs to follow in addition to demonstrating how climate finance can be structured in the context of an island state. This will create an opportunity for replication globally.
Social Inclusion and Stakeholder Engagement [c][d]
Relevant local and national authorities and other stakeholders to be confirmed during the pilot inception phase.
Gender Considerations[c][d]

[4] Link to PPCR Design Document here

Gender Analysis	Women are disproportionately affected by climate events. According to Brookings Institute, women and girls who account for over half of the 200 million people affected annually by natural disasters, are typically at greater risk from natural hazards than men – particularly in low-income countries and among the poor. Natural disasters and climate change often exacerbate existing inequalities and discrimination, including those that are gender-based, and can lead to new forms of discrimination. In most crisis situations, women and children account for the majority of those affected (e.g., more than 75 percent of those displaced by natural disasters, and typically 70 to 80 percent of those needing assistance in emergency situations). After natural disasters strike, pre-existing vulnerabilities and patterns of discrimination are usually worsened and women face protection risks including unequal access to assistance, discrimination in aid provision, loss of documentation, and inequitable access to property restitution.[5]
Gender Activities	FIs will target loans to women led businesses.
Gender Indicators	Number of loans provided by FIs to businesses in vulnerable areas (Number of loans provided to women-led businesses)
Expected Results (M&R)	
Project/Program Timeline	
Expected MDB Board Approval date	March 2025
Expected project closure date	N/A (program close cannot be determined at the time of submission)
Core Indicators	**Project-Defined Indicators/Targets**
PPCR Core 3: Quality and extent to which climate-responsive instruments/investment models are developed and tested (Proxy = Number of climate-responsive instruments/investment models supported)	Number of climate responsive loans provided. (Loans will be disaggregated by country)
PPCR Core 4: Extent to which vulnerable households, communities, businesses, and public services use improved PPCR-supported tools, instruments, strategies, and activities to respond to climate variability or climate change (# of households, communities, businesses, public services)	Number of loans provided by FIs to businesses in vulnerable areas (Number of loans provided to women-led businesses)
Businesses	5-10 loans (the banks would on-lend to other businesses which provide direct financing to communities and households)
TOTAL	5-10 loans
PPCR Core 5: Number of people supported to cope with the effects of climate change (disaggregated by male/female)	Disaggregated Gender information will be determined during loan appraisal.

[5] https://www.brookings.edu/articles/disaster-risk-management-a-gender-sensitive-approach-is-a-smart-approach-chapter-4-of-the-year-of.

Expected Date of MDB Approval	

Version: February 2024

Link to Documents Management – here

CCH – here

CIF Website – here

CIF Pipeline Management and Cancellation Policy - here

CIF Financial Terms and Conditions Policy updated for FY24 - here

CIF Operational Modalities For New Strategic Programs - here

PPCR Design Document here