The Coalition of Finance Ministers for Climate Action

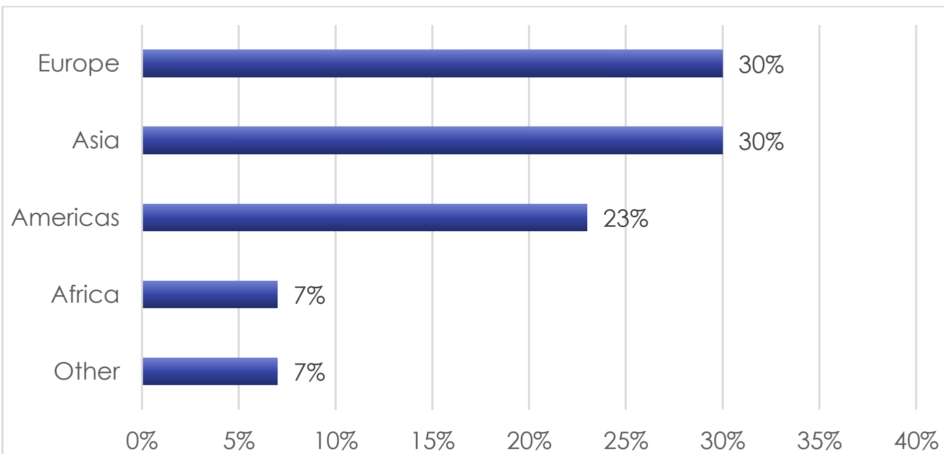
Summary write-up: The Role of Finance Ministries in Catalyzing Private Finance for Adaptation

Thursday, August 17, 2023, 8:30AM-10AM EDT

Introduction and Polling Kayenat Kabir, Adaptation Coordinator Coalition of Finance Ministers for Climate Action.

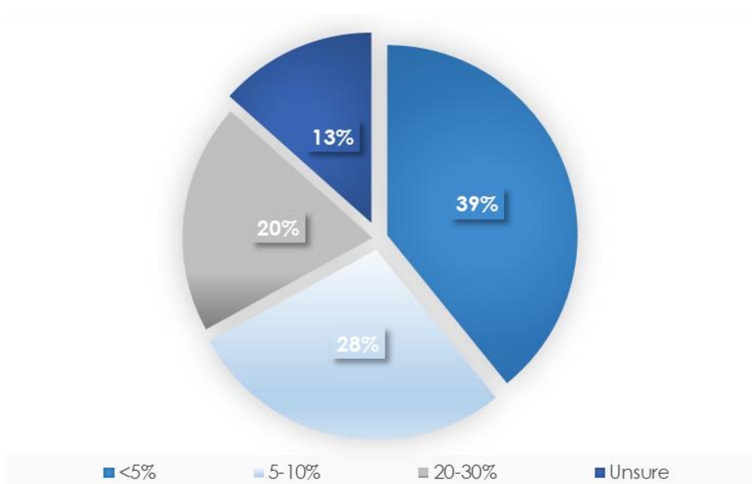
This webinar focuses on adaptation and private finance, a critical area needing scaled-up efforts. Despite increasing attention, there remains a significant gap in the amount of private finance directed towards adaptation. Amongst the audience polled, 30% were from Europe, 30% from Asia, 23% from Americas, 7% from Africa, and 7% were from other regions.

Figure 1: Geographic location of members attendance (member poll)



Audience members were also asked how much they thought the private sector contributes to global adaptation flows. The majority of participants were correct, notwithstanding methodological subjectivities, the private sector contributes less than 5% to total global adaptation flows.

Figure 2: How much do you think the private sector contributes to the global adaptation finance flows? (member poll)



Opening remarks, Ms. Ralien Bekkers Co-chair Sherpa of the Coalition of Finance Ministers for Climate Action (CFMCA) for the Netherlands

The coalition of Finance Ministers is central in addressing climate adaptation challenges. They aim to bridge the gap between adaptation needs, as defined in nationally determined contributions (NDCs) and national adaptation plans (NAPs), and the available climate adaptation finance. Current data suggests that while climate finance is increasing, adaptation finance lags significantly behind. Moreover, there's a deficiency in data about private sector contributions to adaptation, complicating tracking efforts.

Adaptation is viewed as a crucial, multifaceted issue within the coalition. Helsinki Principle 5 focuses on mobilizing private finance for climate action, aiming to develop tools, share experiences, and establish international standards. Finance ministries play a vital role in this, highlighting the intertwined relationship between climate adaptation measures and overall economic development.

The Netherlands, characterized by having half of its land below sea level, boasts a robust history in climate adaptation. Prior to COP 26, the nation published its inaugural adaptation communication, pledging more than 50% of its public climate finance to adaptation endeavors. The Dutch budget underscores the importance of adaptation investments, particularly seen through initiatives like the "Delta plan." This strategic plan is designed to safeguard the Netherlands from potential threats like floods and severe weather. Importantly, funding for this initiative is sourced from a dedicated fund, established to provide consistent financial support beyond the typical four-year budgetary or electoral cycles. This ensures a steady and sustainable flow of funds, emphasizing the nation's prioritization of continuous climate adaptation.

It's essential to understand how different nations approach the private sector in adaptation strategies. Collaborative knowledge-sharing is key to effectively addressing the pressing challenges of climate change.

Part 1: Global landscape on private finance for adaptation

The Role of Finance Ministries in catalyzing private finance for adaptation, Mr. Nilesh Prakash, Special advisor to the secretariat of the V20 Group of Finance Ministers

The Climate Vulnerable Forum (CVF) was born out of a sense of urgency in 2009. It was formed as an international coalition of countries that were deeply affected by the adverse impacts of climate change. The primary intent of this partnership was to amplify the voice of these nations, thereby highlighting the pressing need for global cooperation to combat climate change.

As the CVF's ambitions and activities expanded, a realization dawned that addressing the climate crisis wasn't just an environmental challenge but also a financial one. This understanding led to the establishment of the V20 in 2015. The V20 was conceived by the finance ministers from the CVF countries to specifically focus on the monetary challenges posed by climate change. Essentially, while the CVF continued its advocacy on the political front, the V20 was tasked with translating this political agenda into financial and tangible real-world outcomes.

The V20 began with 20 members but has seen substantial growth, now comprising 68 countries. These nations collectively represent a significant chunk of the global population, with about 1.73 billion people, and their combined GDP stands at 11.2 trillion. Such growth underscores the widening realization of climate change's implications.

Shifting focus to climate finance reveals some alarming gaps. The projections for 2030 suggest that an annual climate investment of 2.8 trillion is essential. From this colossal sum, between 200 and 250 billion are specifically designated for investments to bolster climate change adaptation and resilience. However, at present, the global climate finance amounts to around 883 billion U.S. dollars annually, indicating a worrying shortfall against the commitments made by the international community in various accords.

Moreover, there's an evident imbalance in how this finance is utilized. While nearly a quarter is directed towards adaptation strategies, there's a stark contrast when it comes to specific recipients like small island developing states and the least developed countries, which allocate 48% and 45% respectively of their climate finance to adaptation. This reflects the pressing needs of these regions and their inherent vulnerabilities.

The ministries of finance in these vulnerable nations play a pivotal role. While they traditionally manage development goals and disaster response, they are increasingly being thrust into the center of climate change strategies. By amassing knowledge on various financing tools, these ministries can provide insights into how climate initiatives can be made more affordable. They have the authority to put into play fiscal policies that promote sustainable practices and attract private capital for climate endeavors. On a broader scale, they can also advocate for measures like debt restructuring to channel more resources for climate initiatives.

A notable initiative by the V20 is the Climate Prosperity Plans. Unlike generic approaches, these are tailored to fit the specific needs of each country. They're constructed based on evidence, factoring in socio-economic markers, feasibility of projects, and the types of financial instruments required. Sri Lanka and Bangladesh have taken the lead in implementing these plans, indicating their determination for a sustainable future. A key observation here is the role of the private sector. In both countries, the private sector is anticipated to play a considerable role in funding, signifying the critical nature of public-private collaborations in the fight against climate change.

Question from the audience: Is anyone working on establishing an evidence base through case studies for the financial needs related to mainstreaming adaptation, especially since such evidence is crucial for other countries considering similar initiatives?

Particularly in the Pacific region, there was initially a lack of clarity in the National Determined Contributions (NDCs) leading up to the 2015 Paris Agreement. Over the past years, finance ministries in the Pacific have worked to transform these NDC commitments into tangible project investment plans, detailing specific metrics, numbers, and the resources needed to meet the NDC targets. This work has provided the necessary evidence base, which has been instrumental in updating NDCs for 2020 and 2021.

Disclosures and insurance in scaling adaptation finance, Margherita Giuzio

Team Lead-Financial Stability, European Central Bank

There's an observable trend where climate mitigation projects have traditionally attracted more private finance than adaptation plans. One major reason is the comparative ease for investors to quantify the risks associated with not reducing emissions versus physical risks like natural disasters or climate shifts.

To steer more private financing towards adaptation, the following areas merit focused attention:

1. **Data Access:** Comprehensive data on how nations evaluate their risk and their existing financial safeguard mechanisms can eliminate market information imbalances, plugging the investor knowledge void.
2. **Governmental Transparency:** A lucid delineation of adaptation strategies by governments can lend clarity. Concrete short or medium-term targets can help demystify the investment landscape for potential financiers.
3. **Innovative Financial Tools:** While instruments like green bonds cater to transition finance, a glaring gap persists for adaptation-centric tools. Uniform, standardized instruments can engage a diverse investor community.
4. **Combination Financing:** Melding public and private finance can ensure a fair risk distribution. Collaborative efforts between public and private entities can more equitably partition the current public sector-centric risk.
5. **Risk Strategy:** Constructing strategies that focus on adaptation and the consequent catastrophe risk is of paramount importance.

Recent data casts a shadow on the current state of insurance: a mere 25% of climate-related catastrophe losses in Europe are insured. With the inexorable rise of climate impact-induced insurance costs, the gulf between covered and uncovered losses is predicted to widen, with ramifications rippling through economies, fiscal policies, and the broader financial sector.

A proposed "ladder approach" to catastrophe insurance lays out a comprehensive solution pathway. It advocates for an expansion of the private insurance umbrella, delves into alternative risk transfer avenues, calls for judicious public fund deployment, and urges national adaptation financing measures. Notably, a proposition for a cross-border insurance mechanism is floated, aiming to act as a bulwark against large-scale, sporadic disasters. This multinational solution promotes the pooling of risks, fostering an ecosystem of risk diversification.

Central banks, using the European Central Bank (ECB) as a reference, have a pivotal role to play. The ECB's current focus encompasses climate change's broader economic impacts and potential risks to the financial sector. However, adaptation finance remains conspicuously sidelined, attributed to challenges such as data deficits, unclear adaptation plans, and a nebulous investment horizon. A more concerted effort is vital to weave adaptation finance seamlessly into the central banking fabric.

In summation, the financial challenges posed by climate adaptation demand clear data, robust governmental strategies, avant-garde financial solutions, and a cohesive public-private sector alliance.

Question from Audience for Margherita: How come the public sector scale data and information for financial institutions?

Private-Public Partnerships can foster data sharing between insurance companies and the public sector. Currently, there's no centralized register in the European Union mapping individual or firm insurance coverages, known only to insurers. This data would aid the public sector, similar to how they utilize credit registers for banks. Conversely, insurers could gain from government data on adaptation strategies and forward-looking risk assessments for certain areas. Collaborative efforts between insurers and governments could refine risk evaluations. Implementing this at a national level could be a significant enhancement.

Part 2: Country experiences

Ghana: Foster Aboagye Gyamfi, Principal Economics Officer, the Economic Strategy and Research Division (NREC Unit), Ministry of Finance, Ghana

Addressing climate change requires strategic financial measures. Emphasizing this importance is the push to involve the private sector in the nation's development plans. By holding positions in both the Climate Phone number forum and the V20, opportunities to draw funding from various sources, especially the private sector, have been maximized.

The V20, on its path to becoming an independent secretariat, is leading the way with its climate prosperity plan. The intention behind this plan is to actively involve the private sector in measures concerning climate adaptation. This importance isn't merely theoretical; there have been tangible steps taken. A series of forums, with backing from organizations such as the Green Climate Fund and the sustainable development agenda, have been orchestrated to ensure private sector involvement is maximized.

As a practical step in the green direction, sustainable banking principles have been ushered in. These principles are instrumental in channeling financial resources towards environmentally conscious initiatives. The nation's goals, as outlined in its National Determined Contribution (NDC), are ambitious. They aim to mobilize an impressive sum of nearly 3 billion. But ambition alone isn't enough. To reach these financial targets, a myriad of strategies are being considered and employed. Among them are debt-to-nature swaps and carbon financing mechanisms stipulated under the Paris Agreement. Additionally, there's a significant emphasis on forming Public-Private Partnerships (PPP) to harness the strength of both sectors.

Collaboration isn't restricted to domestic boundaries or sectors. Internationally, entities like the African Union have become pivotal allies. Their role isn't passive, with initiatives such as the African risk capacity taking center stage. In the same vein, the insurance development forum offers more than just ideas. They are active partners, working hand in hand to secure financial strategies that would help mitigate the effects of climate change.

However, with ambition and collaborative initiatives come challenges. One of the most glaring hurdles is the translation of ideas. While the conceptual framework might be rich and vast, turning these ideas into actionable and funded proposals has been a consistent challenge. This problem is further exacerbated when considering the private sector's role. The sector, while crucial, often perceives financing adaptation efforts as risky. Overcoming this perception is vital. Adaptation should be viewed through a dual lens: a lucrative business opportunity and an essential step in the fight against climate change.

The challenges aren't insurmountable, though. With the Green Climate Fund, strong cases for projects have been made, arguing the importance of supporting adaptation efforts. The crux of the matter lies in cooperation. All involved parties need to come together with a unified objective: to prioritize and act on climate change. To this end, adaptation efforts should be reframed. Instead of viewing them as mere necessities, they should be seen as opportunities. This reframing is beneficial for the environment and offers a chance to foster public good in the fight against climate change.

In the grand scheme, there's a clear message. While challenges exist, they aren't bigger than the collective will to tackle them. There's an implicit understanding that global targets, especially concerning climate change, will remain unattained if consistent and focused efforts aren't directed towards adaptation, which is a primary focus for many nations, including those in Africa.

In conclusion, while the road ahead has its challenges, there's also an evident determination and collaboration across sectors and nations. The aim is clear: create a sustainable future where business aligns with environmental needs.

Mongolia: Enkhlin Davaajav, Senior ESG and Carbon Manager, Mongolian Sustainable Finance Association

The Mongolian Sustainable Finance Association, operating within the private sector, has developed a platform to discuss and suggest standards, policy interventions, and other strategic tools crucial for sustainability. Mongolia's governance structure facilitates strong collaboration between various financial authorities, reaching as high as the Presidential level, which stands as an example of public-private partnership.

While Mongolia takes pride in its vast untouched lands, it faces environmental challenges due to its heavy reliance on coal. This has led to severe air pollution issues, particularly during winters, with notable impacts on the country's socio-economic aspects. To address these concerns, goals have been set to reduce GHG emissions by almost 23% by 2030 under the Paris Agreement. However, the financial demands for these initiatives are beyond the government's solo capability.

Acknowledging this, the banking sector, which makes up about 95% of Mongolia's financial sector, believes in creating an enabling environment for the private sector to foster sustainable practices. A significant milestone in this direction is the approval of the Mongolian Sustainable Finance road map, which aims to transition Mongolia to a sustainable financial system by 2030. This roadmap sets targets such as achieving 10% of green loans in the banking sector.

Furthering their commitment to sustainability, with international collaboration, Mongolia has developed the National Green Taxonomy and introduced an SDG finance taxonomy. This broad framework covers mitigation, adaptation, and socially impactful sectors.

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The Ministry of Finance has played a pivotal role in merging these taxonomies with global standards while collaborating with other entities to handle the more detailed tasks. The emphasis is on upscaling standards and tools for the market.

Private sector actions have also been highlighted, with instances like the issuance of the country's first green bond in the international market by a major commercial bank. Other commendable private initiatives include commercial banks supporting environmental movements and setting up funds targeting climate change mitigation and adaptation.

A decade ago, the CEOs of commercial banks in Mongolia voluntarily committed to sustainable finance principles, foreseeing the opportunities and challenges ahead. The essence of these endeavors is the importance of collaborative actions and the adoption of sustainable financial practices.

Uganda: Aaron Werikhe, Senior Climate Finance Officer, Climate Finance Unit, Ministry of Finance, Planning, and Economic Development, Uganda

When considering unlocking private finance for adaptation, it's imperative to highlight the nation's climate financing needs. Uganda requires approximately $28.1 billion to meet its goals by 2030. Adaptation finance forms the largest portion, amounting to about 68%, or $15 billion, which will be sourced from both domestic and international venues.

The National Determined Contribution (NDC) acts as a guiding compass in securing funds for climate adaptation. Although currently, private sector involvement is relatively low, analysis reveals significant untapped potential. To harness this potential, enhancements to existing policy and fiscal frameworks are essential. For example, the National Public Procurement Policy, updated in 2019, now includes sections on sustainable public procurement. Such public procurement accounts for around 30% of the national budget. Therefore, promoting green enterprises could stimulate the market in a positive direction.

Further fiscal reforms have been introduced. Tax exemptions on items that foster adaptive capacity, such as irrigation pumps, fertilizers, and agricultural insurance, are examples of this. These measures aim to establish a conducive environment for the private sector to contribute to climate finance. Additionally, leveraging national development banks, like the government bank that hosts Climate Finance Facility – Uganda Development Bank Limited, provides entrepreneurs with financial products at rates more favorable than conventional commercial rates.

Other initiatives include the integration of climate change into public-private partnership frameworks and the creation of a green taxonomy. This taxonomy serves to clarify what constitutes a climate adaptation investment and prevent greenwashing. This step was essential due to concerns raised about unfair competition in the sector. Efforts are also being made to launch a green bonds framework and unlock carbon finance. Another essential approach involves offering support to the private sector in drafting viable project proposals and ensuring that all financing mechanisms are in line with climate change considerations.

However, challenges persist. One such challenge is the information asymmetry between finance providers and seekers. There's also the challenge of integrating climate risk into private sector financial analyses, and striking a balance between this and ensuring social inclusiveness. Some regions, being more susceptible to climate-related risks, have higher insurance premiums, making it unaffordable for the vulnerable population.

In conclusion, Uganda has made significant progress in engaging the private sector in climate financing and adaptation. However, some challenges, especially systemic ones, need to be addressed. Establishing relevant policy frameworks and regulations is crucial to overcome barriers that inhibit private sector involvement in climate adaptation finance.

Closing remarks: Alejandro Camacho Bahena, Director of Sustainable Finance, Ministry of Finance and Public Credit, Mexico

A balance between mitigation and adaptation policies is essential, given the diverse needs of different countries. While advanced economies have distinct needs compared to middle-income and low-income countries, this variation significantly impacts how these policies should be applied. Finance ministers hold a pivotal role in the global climate landscape, as they can mobilize private financing for adaptation and oversee the broader financial system's governance.

The current state of public investments in adaptation reveals a concerning gap, which necessitates a stronger involvement of the private sector. As nations grapple with the challenges of climate change, mechanisms like national long-term strategies and adaptation plans can guide the way. These strategies not only provide a roadmap to bridge the financial gap but also stimulate necessary investments.

Governments' roles in this area are multifaceted. They are instrumental in both generating vital climate information and ensuring its widespread dissemination, which forms the bedrock of effective adaptation planning. At the same time, the contribution of bilateral and multilateral development partners is invaluable, especially in countries where the private sector, capital markets, and banking services are still maturing.

Green taxonomies are gaining attention globally. A notable instance is Mexico's recent introduction of a sustainable taxonomy. In countries with diverse socio-economic challenges, the focus extends beyond environmental considerations. There's a pressing need to address social issues, including gender equality, which are intertwined with the broader climate agenda.

Financial mechanisms, such as the Green Climate Fund, are evolving to support the adaptation planning process and increasingly emphasize private sector involvement. As the world grows more interconnected, comprehensive disaster risk management structures and programs become indispensable. These programs incorporate a myriad of facets, from financing strategies to insurance solutions.

In conclusion, while there's a noticeable uptick in climate adaptation finance flows, the world remains at a crossroads. The impending economic and human impacts of climate change require swift, decisive action. The emphasis isn't solely on economic outcomes but extends to social welfare. The call to boost investments in climate adaptation and resilience is both urgent and undeniable.