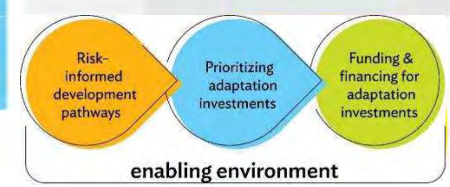
#CAIP2024

CLIMATE ADAPTATION INVESTMENT PLANNING FORUM 2024

17-18 SEPTEMBER 2024

Time	17 September 2024 (Tuesday)
09:00–10:15	High-level Opening Session
10:15–10:45	Coffee Break
10:45–11:45	**Plenary 1:** Understanding climate change risk to inform development pathways
11:45–12:30	**Spotlight 1:** Foresight thinking for transformational adaptation investments
12:30–14:00	Lunch
14:00–15:00	**Plenary 2:** Making adaptation investments a priority across governments and public and private sectors
15:00–15:30	Coffee Break
15:30–16:15	**Spotlight 2:** Making the economic and financial case for adaptation investment
16:15–17:30	Deep-dive discussions: Prioritizing adaptation investments across sectors
18:00–19:30	Reception

Time	18 September 2024 (Wednesday)
09:00–10:00	**Plenary 3:** Funding and financing adaptation
10:00–10:30	**Lightning Talk:** Resilience bonds to leverage private finance
10:30–11:00	Coffee Break
11:00–11:45	**Partner Marketplace:** Adaptation funds, financing instruments and programs
11:45–12:30	**Clinic:** Finance matchmaking for adaptation investment plans
12:30–14:00	Lunch
14:00–15:15	**Policy Roundtable Discussion:** Priority actions for enabling adaptation investment planning
15:15–15:45	Coffee Break
15:45–16:30	Closing Session



ADB adpc Climate Bonds CIF ICIMOD IISD NAP Global Network OECD

PLENARY 3

Funding and financing adaptation

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SETTING THE SCENE – WHAT ARE THE STAKES?

1. **Countries in Asia and the Pacific are at the frontline of climate change**. Critical mountain and coastal ecosystems face the impact of irreversible change like glacial retreat and sea level rise. Extreme weather events like heatwaves, floods, droughts and storms and variable precipitation patterns impact communities and economic growth.

2. As a result of slow mitigation and adaptation, **climate-related losses and damages are increasing**.

3. The updated costs of adaptation for developing countries are estimated to be in a plausible central range of **US$215 billion to US$387 billion per year** this decade. Adaptation finance needs are **10-18 times as great as international public finance flows** – over 50 per cent higher than the previous estimated range.

4. **Investing in adaptation now will minimize climate costs in the future.**
    1. **For every billion invested in adaptation against coastal flooding leads to a USD 14 billion reduction in economic damages.**
    2. **USD 16 billion per year invested in agriculture would prevent approximately 78 million people from starving or chronic hunger** because of climate impacts.

5. However, **progress on climate adaptation is slowing** on all fronts when it should be accelerating to catch up with rising climate change impacts.

Climate Resilient Fiscal Planning Can Enable Central Finance & Planning Agencies to Scale-up & Align Finance with Adaptation

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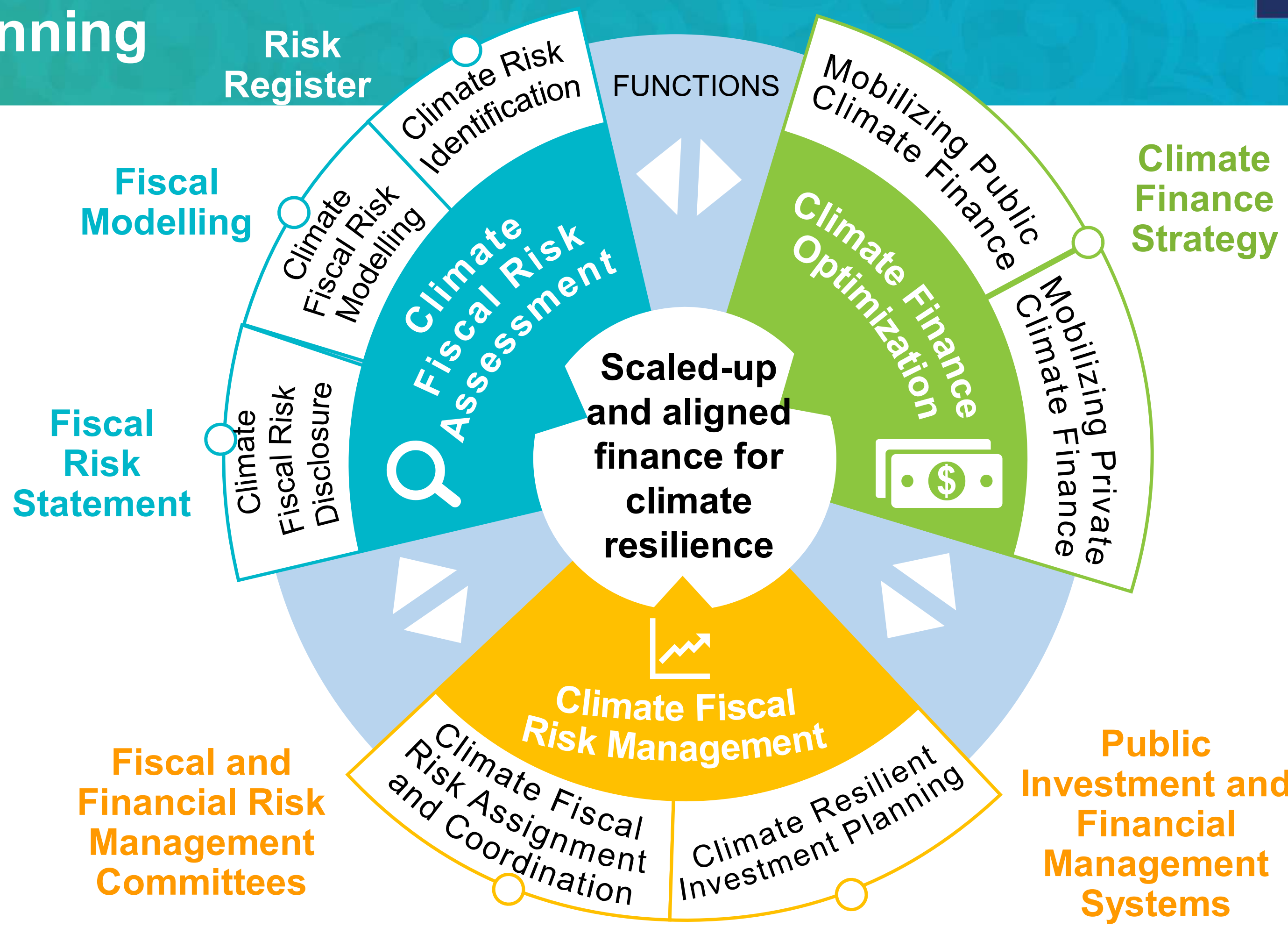
1. Effective investment in adaptation is critical to build resilience to the increasing impacts of climate change.

2. This will require **scaled-up** and **better programmed finance** to sustain economy-wide investment in adaptation as opposed to the current fragmented and incremental investments.

3. Climate resilient fiscal planning can enable CFAs to **mobilize** and **align** public and private finance for investment in adaptation.

Framework for Climate Resilient Fiscal Planning

The Framework identifies 3 functions to enable central finance and planning agencies to scale-up and align finance with adaptation and resilience.



TOOLS

Climate Fiscal Risk Assessment

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Understanding climate-related risks and their transmission channel can help in formulating evidence-based fiscal strategy in response to climate change

Key actions for climate fiscal risk assessment

- Climate risk identification
  - » Identification of risks
  - » Quantification of risk metric
- Climate fiscal risk modelling
  - » Integration into macroeconomic modelling (e.g., I-O model, CGE model) to identify primary and secondary impacts of climate risk on key economic variables and support consistent view of climate risk across ministries
  - » Sensitivity and stress testing to address climate change uncertainties and assess resilience of public finance
  - » Forward looking implications of how risks to public finance may evolve with climate change
- Climate fiscal risk disclosure
  - » Fiscal risk statement

Armenia

- Climate risks & macroeconomic indicators identified; Econometric model, stress-testing & scenarios used to assess climate fiscal risks
- Under a 'volatile' scenario GDP per capita could decline by 18% relative to baseline by 2072. In the absence of fiscal policy response, this could increase public debt to 140% of GDP. *Were GoA to invest up to $1 billion in adaptation investments to 2030, equivalent to an additional 2%–4% of annual expenditure, actual debt would increase from just under 50% to about 56% of GDP by the end of the decade.*

Climate-related risks can impact fiscal health through a range of impact channels

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Both acute and chronic climate-related risks can affect public fiscal health directly and through knock-on impacts[1]

Acute risks | Chronic risks

Climate-related risk	Direct impact	Fiscal impact channels		Fiscal health	
Flooding Extreme storms Drought Heatwaves	Physical and productivity impact from acute risks	**Macroeconomic shocks**	• Sectoral shocks • Commodity price shocks • Financial sector risks	Reduced taxation **revenue** Changes in natural resource rents Currency depreciation	Increased debt-to-GDP ratio, changes to other long-term fiscal sustainability metrics and volatility metrics, e.g. gross external financing requirements (GXFR) Under a scenario with no substantive climate policy changes between 2022 and 2030, **physical climate-related risks are expected to lower the credit rating of approximately 63 sovereigns by 2030[2]**
		Implicit and explicit liabilities	• Relief costs • Reconstruction costs • State Owned Enterprises and Public Private Partnership liabilities	Increased government expenditures	
Sea-level rise Chronic temp. change Ocean acidification Desertification	Physical and productivity impact from chronic risks	**Adaptation needs**	• Infrastructure resilience • Sectoral resilience (e.g., climate-smart agriculture)	Increased government expenditures	
		Public services	• Social safety nets • Public health • Education	Increased government expenditures	

1. Indirect impacts can include short-term impacts on economic output and public services, and the longer-term impacts from increased poverty and reduced investment resources

Note: Explicit liabilities are obligations the government is required by law or contracts to settle, whereas implicit liabilities are costs that the government is likely to be responsible for due to public or political expectations or pressure (IMF, 1999). 2. Klusak, Agarwala, Burke, Kraemer, & Mohaddes, 2021

Climate Fiscal Risk Management

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Climate fiscal risk management includes **risk assignment** and **investment** in climate action to reduce, transfer and retain climate related fiscal risks.

Fiscal Risk Management

- Risk assignment to provide clarity on contingent liability, create incentives to invest in adaptation and understand overall fiscal exposure
- Risk management to align investment programs with climate action by integrating adaptation priorities into public investment planning & financial management systems & aligning fiscal instruments to incentivize adaptation

Case studies:

1. Risk assignment: South Africa's explicit contingent liability in PPP contract
2. Investment planning: Armenia's Public Investment Management uses MCA to assess climate risks & project impact on adaptation & mitigation
3. Financial management: Bangladesh, Bhutan, Nepal, Pakistan, Philippines climate budgeting

Climate responsive public investment programming: MONGOLIA

Source: Ministry of Economy & Development, Mongolia

Enhanced Environmental Criteria

Current guidelines assess the environmental impact of the project by 2 sub-criteria.

1. Whether environmentally friendly technologies and management solutions exist?
2. Whether the environmental protection responsibility system has been introduced?

Revised DRAFT guidelines assess the environmental impact of the project by 5 sub-criteria.

1. Impact on greenhouse gas emissions
2. Impact on desertification
3. Water consumption and supply
4. Energy consumption and supply
5. Amount of waste and level of waste treatment

Increased climate resilience.
Enhanced environmental stability.
Contributions to the national climate commitments.
Improved project selection.

What is the Public Investment Program (PIP)?

01 The 'Five-Year Development Guideline of Mongolia' is a mid-term planning document approved by Parliament, aligning with long-term development policies.

02 The 'Public Investment Program'(PIP) is a detailed attachment document outlining planned investment projects and actions needed to implement Mongolia's Five-Year Development Guideline.

03 The PIP details cost estimates, target indicators, and funding sources.

04 Updated and ratified by the Parliament every 5 years.

PIP Project Evaluation, Prioritization, Selection, and Monitoring Guidelines

Evaluation and Prioritization Process:

- Projects are evaluated and scored by each sub-criteria.
- Projects are prioritized based on their total score for each general criterion.
- Projects that score highly and are deemed both valuable and ready for implementation are given higher priority.
- Projects that score less than 65% of the total possible score for both general criterion are eliminated from consideration.

Priority	Significance	Feasibility
1	More than 80%	More than 80%
2	More than 80%	65-80%
3	65-80%	More than 80%
4	65-80%	65-80%
5	More than 80%	Less than 65%
6	65-80%	Less than 65%
7	Less than 65%	More than 80%
8	Less than 65%	65-80%
9	Less than 65%	Less than 65%

Revised DRAFT guidelines outline that project prioritization for inclusion in the PIP to be assessed based on 2 general, 8 main criteria and 42 sub-criteria.

Significance criteria:

1. Consistency with development policy objectives (4)
2. Social impact (5)
3. Economic impact (9)
4. **Environmental impact (5)**

Feasibility criteria:

5. Project planning (4)
6. Project readiness (5)
7. Financial and economic benefits (5)
8. Risk level (5)

Climate planning and budgeting for climate change

	Tools	Usage	Countries	Remarks
Fiscal Framework	CPEIR CCFF	Tools used to develop PFM roadmaps and/or determine financing needs	Bangladesh, Cambodia, Nepal, Indonesia, Fiji, Pakistan, Thailand	Mostly at national level; Nepal, Pakistan also at sub-national level
Budget Preparation	Planning Guidelines, Climate Cost Benefit Analysis; Budget Circulars, MTBFs/MTEFs	Climate sensitive investment planning and budgeting	Bangladesh, Cambodia, Nepal, Indonesia, Fiji, Tonga, Thailand	Mostly at national level; Fiji, Tonga community infrastructure, CCBA pilots in Thailand, Cambodia UNCDF support through LOCAL for locally led adaptation through climate resilience grants (global project)
Budget Execution, Reporting & Accounting	Climate Budget Tagging, Climate Expenditure reports	Systematic approach to code and track climate allocation and expenditure	Bangladesh, Nepal, Indonesia Under development in Fiji, Tonga, Maldives, Sri Lanka	Mostly at National level; Indonesia extending to regional and local governments
Audit & Scrutiny	Climate Performance Audits Parliamentary Handbooks	To strengthen oversight and accountability of climate finance	Audits in Bangladesh (Nepal under development) Handbooks in Nepal, Pakistan, Bangladesh, Indonesia	Mostly at national level

Many of these tools have been replicated by countries in other parts of the world supported by many development partners – CPEIRs in 31 countries, CCFFs in 13 countries, CBT in 26 countries (UNDP Global Review of Climate Public Finance Reforms, 2022)

Climate Finance Optimization

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Ministries of Finance can scale-up public sources of finance and leverage private capital for investment in climate action.

Mobilizing public sources of finance for adaptation

Budget Allocation

- Signalling action on adaptation in a pre-budget circular
- Incorporating climate-related risk information and scenarios in long-term budgets
- Tracking adaptation expenditure

Investment prioritization

- Cost-benefit & cost-effectiveness analysis
- Multi-criteria assessments
- Adaptive pathways & scenario analysis

Public resource mobilization

- Revenue: tax, fees, royalties, borrowing, climate grants, carbon finance
- Financial intermediaries: Climate funds

Case studies:

1. **Public resource mobilization**: Tax, fees & royalties (Mongolia water tax, mining revenue); Borrowing (Resilience bonds & Seychelles debt-for-climate swaps);; Carbon finance (Bhutan)
2. **Climate Funds**: People's Survival Fund, The Philippines; RMI Resilience & Adaptation Trust Fund

Mobilizing private and international sources of finance

- Long-term **adaptation plans** complemented by financing strategy to communicate adaptation finance needs
- Leverage private sector actions in adaptation by developing specific **financing instruments** that de-risk and facilitate private investments, such as through blended finance and guarantees
- **Access to international climate finance** such as through issuance of green, resilience or blue bonds

Case studies:

1. Chile 2019 Financial Strategy on Climate Change.
2. SDG Indonesia One provides blended finance for investment in SDG linked projects.
3. Cape Town Green Bond in response to financing need stemming from 2015-2017 drought.
4. Fiji Sovereign Green Bond with more than 90% of proceeds allocated to climate resilience.
5. Mongolia & Indonesia (proposed) green loans for adaptation

Climate Finance Optimization

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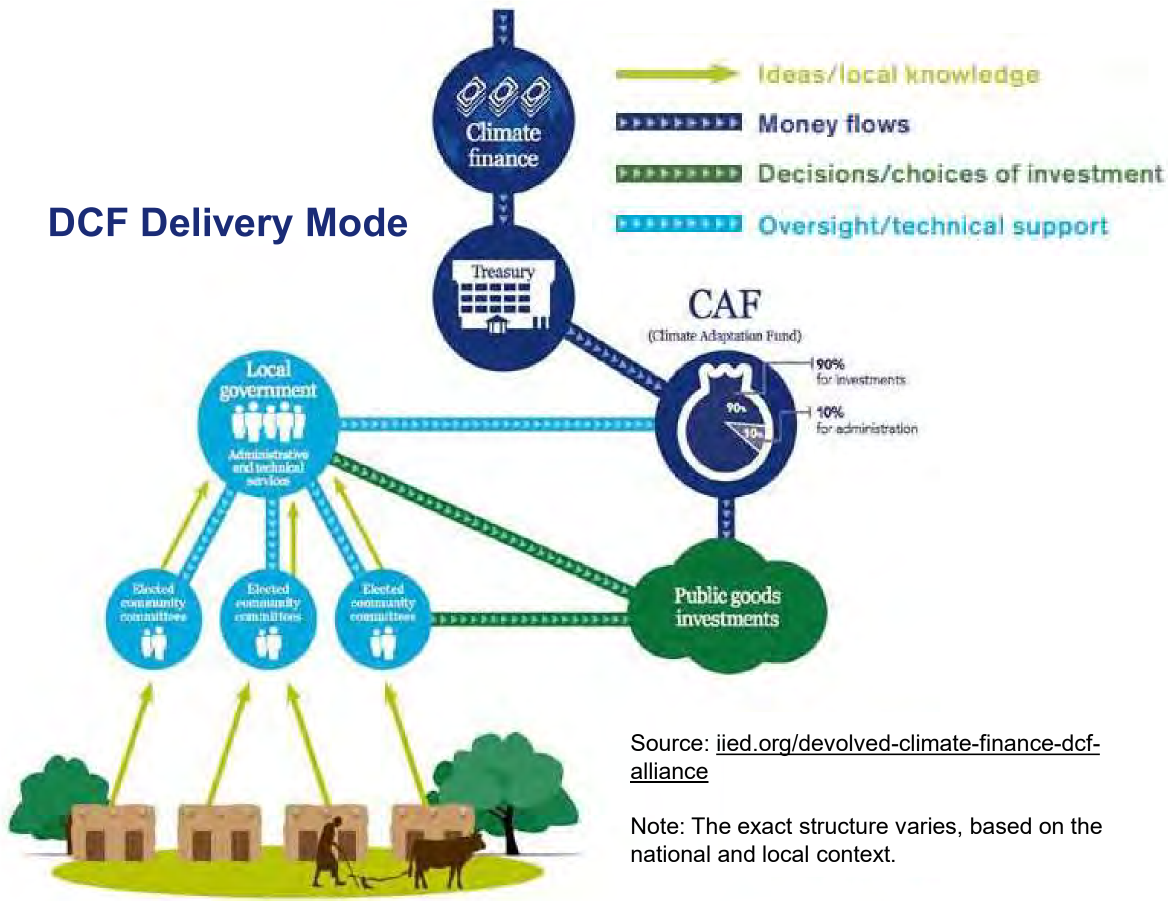
FINANCIAL INSTRUMENTS

GRANTS	GUARANTEES
Performance based climate resilience grants	Coffee Initiative's Risk Sharing Facility
RISK FINANCE	**LOANS**
Weather Based Crop Insurance	Islamic Climate Finance
DEBT	**EQUITY**
Climate resilient bonds	Climate Investor Two

CLIMATE FUNDS

DCF Delivery Mode



Source: iied.org/devolved-climate-finance-dcf-alliance

Note: The exact structure varies, based on the national and local context.


Thank you

Panel 1: Public finance resources

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Moderator

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Senior Expert on Public Debt and Contingent Liability
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Panel 2: Private finance resources

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PLENARY 3

Thank you!

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