INNOVATIVE FINANCE FOR CLIMATE RESILIENCE

Managing climate risks in infrastructure, water-related and agribusiness sectors

Paris, 20 May 2015

International Chamber of Commerce, 10 Avenue Raymond Poincaré, Paris

A working breakfast organized by **Climate Policy Initiative** with the support of the
Dutch Ministry of Infrastructure and the Environment
in partnership with the **International Chamber of Commerce**

Background

On May 20th 2015, Climate Policy Initiative (CPI) with the support of the Dutch Ministry of Infrastructure and the Environment, and in partnership with the International Chamber of Commerce, held a working breakfast on Innovative Finance for Climate Resilience.

Participants in the meeting included representatives from the banking and insurance sectors, multilateral development banks, credit rating agencies, governments, and research and international organizations. Discussion focused on instruments and strategies for scaling up private and public investments in climate-resilient infrastructure, water-related and agribusiness sectors.

The meeting developed from a study carried out by CPI for the Dutch Ministry of Infrastructure and the Environment that examines existing tools and approaches currently used to drive private investment in climate resilience. CPI published the study *Emerging Solutions to Drive Private Investment in Climate Resilience* after the dialogue.

Summary

Participants engaged in a roundtable discussion on the following issues: i) business response to climate change; ii) lessons emerging from existing approaches to engaging businesses in climate resilience; iii) policy levers that could help to improve the business case for investment; iv) options for integrating of climate change risks (and opportunities) into the financial system. This summary highlights the key elements that emerged from the discussions.

- **The evidence-base on private sector progress in adapting to climate change is still limited.** Managing the possible risks and rewards created by changing climate conditions represents a potential source of increased competitiveness for businesses and, therefore, rarely disclosed.

- **Investing to prove the business case and to build capacity can help to scale up action.** Current awareness, understanding and management of risks vary according to the type of business actor and the timescale of risks. Businesses, particularly multinationals, are often aware of climate risks but there is a gap between their level of awareness and action. Their risk management often focuses more on short-term extreme weather events than investment to build climate resilience over the longer term. Small and medium-sized enterprises (SMEs), in contrast, typically lack awareness and knowledge about climate change risks, and have limited capacity to identify how to manage such risks or seize the related opportunities.

  Those companies taking steps to address climate risks are doing so because the business case for action is clear. Advantages of action include greater efficiency, reduced or avoided costs, and providing greater value to customers.

  The provision of information on climate risks and opportunities at the organization level – including through business-specific assessments – can help businesses integrate climate information into their decision making processes and catalyze investments.

  Enhanced collaboration among supply chain actors can help improve understanding of exposure and encourage climate risk management.

- **Policy, regulation and economic incentives can create environments that stimulate private actors to respond to changing climate conditions**. Policies, regulations and economic incentives tailored to context and actor-specific circumstances are one of the most effective ways to stimulate private investment in climate resilience. Participants highlighted the UK's water policies and Adaptation Reporting Power as examples of well-designed policy tools that can incentivize capital-intensive investments and that could be potentially replicable where similar market conditions exist.

  Looking at existing regulatory frameworks as well as concession arrangements to understand the extent to which they support or discourage companies' engagement in climate resilience can help to identify ways to scale up action by filling policy gaps.

- **Financial institutions can play a role in enhancing awareness and driving investment in climate resilience by encouraging enhanced disclosure on the materiality of risks and costing potential climate impacts.** In addition to Development Finance Institutions, financial regulators, insurance companies, credit rating agencies can help to integrate climate change resilience considerations into the financial system. For instance:
  - In the U.S. and Canada, the agencies responsible for regulating securities trading, issued guidance on climate change risk disclosure in the filings of publicly traded companies. For businesses operating in developing countries, however, these requirements are of limited relevance.
  - The insurance industry is involved, along with other public and private sector organizations, in the Willis "1-in-100 Initiative"[1] that seeks to stimulate and reward climate-resilient investments through incorporation and reporting of climate risk metrics in accounting standards.
  - Credit rating agencies have started to incorporate climate change considerations in ratings. Initially in terms of costs needed to comply with regulatory schemes, but more recently reflecting the impact of extreme weather events on corporate performance.

  The availability and use of climate risk screening tools for commercial banks could help them to better understand risks and engage clients to invest towards opportunities for strengthening climate resilience. Capacity building would also be needed as the ability of financiers and investors to incorporate climate change considerations in, for instance, feasibility studies for planning investment in long-term infrastructures and assets is still limited.

  Insurance and reinsurance companies could also help to further enhance private engagement in climate resilience by offering their wealth of data and analytical tools to educate and support the decision making process of both public and private actors. They could also do so by refusing to provide insurance to, for instance, assets with high exposure to climate risks thereby signaling where behavioral changes might be needed to reduce such risks.

  Credit rating agencies by incorporating potential longer-term climate impact in their rating models can also play a role in signaling that investment in climate risk management may potentially have a positive impact on corporate credit ratings.

  CPI remains committed to improving the understanding of how public finance can be used most effectively by distilling lessons from ongoing practices, and by engaging in multi-stakeholder dialogues.

[1] The core of the initiative is the "1-in-100 year stress test" which evaluates the maximum probable annual financial loss that organizations could expect once in a hundred years.

References

The following are some of the key references and initiatives mentioned during the round table discussions.

- IFC. 2013. *Enabling Environment for Private Sector Adaptation*. An Index Assessment Framework. Stenek V.; J.C. Amado, D. Greenal. Washington D.C. Available here.
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