Accelerating private finance action on adaptation and resilience

How banks, insurers and investors are mobilizing in the face of climate impacts and the new opportunity of a nascent adaptation and resilience market.

Atlantic Council | Adrienne Arsht-Rockefeller Foundation Resilience Center

Race to Resilience

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What to expect from this report

In 2023, stakeholders face a critical juncture as they evaluate their progress on delivering on the Paris Climate Agreement by 2030. This will also be a pivotal year to evaluate the progress governments, development finance institutions, civil society organizations, and the private sector have made on developing and implementing climate adaptation solutions.

If the world continues to operate as usual, the **global economy is expected to lose 10% of its value due to extreme weather events by 2050**[1]. Furthermore, 3.6 billion people[2] across the world who are most vulnerable to climate change have played no role in contributing to this challenge. The current state of events does not give us the option of working solely on climate mitigation goals. In fact, if we do not prioritize climate adaptation and the resilience of our societies and economies, every effort on reducing our emissions will fail as the pace of the climate crisis exceeds the pace of our efforts. The projected expenses for adaptation in developing nations during this decade are anticipated to fall within a credible range of US$215 billion to US$387 billion per year[3].

Our business-as-usual approach limits the possible adaptation solutions for these populations, leading to loss and damage. We need to be in a world in which we are making decisions based on climate-resilient development, where we are not only reducing future emissions but also considering development goals based on the changing climate.

While financial institutions worldwide are already mobilizing and innovating on financial instruments and frameworks to invest into adaptation and resilience, aggregated analysis shows that the majority of climate adaptation finance comes from public sources. This indicates that public resources, like grants, low-cost project debts, technical assistance funds, and other avenues, aren't yet unlocking the emerging opportunities in the private sector and global capital markets at the scale and speed needed.

While this is a considerable undertaking, **we stand to gain $26 trillion by 2030 if we adopt and implement bold climate action**[4]. This goal cannot be achieved by the public sector alone however. It requires the collaboration and contribution from the private sector to allow the rapid scaling of innovative solutions and tools.

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[1] https://www.swissre.com/institute/research/topics-and-risk-dialogues/climate-and-natural-catastrophe-risk/expertise-publication-economics-of-climate-change.html

[2] https://www.ipcc.ch/report/ar6/wg2/resources/spm-headline-statements/

[3] https://www.unep.org/resources/adaptation-gap-report-2023

[4] https://newclimateeconomy.report//2018

A vision of a future where adaptation and resilience finance flows to where it's needed

In this envisioned future, the flow of adaptation and resilience finance represents successful collaboration between the public and private sectors, addressing the profound challenges of climate change and fostering a more equitable, sustainable, and resilient world. Financial resources are strategically allocated with a deep understanding of regional vulnerabilities, ensuring that previously vulnerable areas are no longer left behind. Climate finance mechanisms are easily accessible to businesses, projects, and communities, irrespective of location or economic status, and insurance companies offer innovative climate-adapted products to enhance financial protection against climate-related risks.

Adaptation and resilience finance is tailored to the specific needs of local communities, with suitable solutions developed in partnership with those most affected. Innovative financial instruments, like climate bonds and risk-sharing agreements, incentivize climate-resilient investments and channel funds to where they can have the greatest impact. Effective collaboration between governments, businesses, NGOs, and international organizations ensures that resources are directed to areas of greatest need, while investment in local capacity-building empowers communities to implement their own initiatives. Advanced technology, including satellite imagery, is employed to monitor project effectiveness, and sustainable infrastructure investments reduce urban vulnerability. Nature-based solutions are widely adopted, and finance is directed toward both short-term and long-term strategies, promoting enduring resilience. Developed nations support vulnerable countries through public finance, technology transfer, and knowledge sharing, recognizing climate finance as a global responsibility that yields positive adaptation and development benefits. Ultimately, this vision results in societies better prepared to face changing climate challenges, withstand extreme weather events, and adapt to a dynamic climate landscape.

How this report was created

This report summarizes a dialogue process led by the Adrienne Arsht-Rockefeller Foundation Resilience Center (Arsht-Rock) and the UN Climate Change High-Level Champions and aims to accelerate the mobilization of private finance for adaptation and resilience. Throughout the year UNEP FI, the Insurance Development Forum and the Institutional Investors Group on Climate Change convened to explore the unique potential of banks, investors, and insurance on adaptation and resilience.

The process identified exceptional leadership by financial institutions on mobilizing private finance for adaptation and resilience across continents, accompanied by collaborative discussions with country delegates from developed and developing countries. These financial institutions showing exceptional leadership today are innovating financial instruments, developing metrics, taxonomies, risk analytics tools and are accelerating adaptation solutions. Since COP27 there has been significant progress on the finance outcomes that have been defined under the Sharm El-Sheikh Adaptation Agenda.

These convenings were complemented by the 2023 regional dialogues at the New York Climate Week, Africa Climate Week, and the Latin-American and Caribbean Climate Week, and crystalised the following:

- Discussion of existing barriers.
- Benefits that can be created by overcoming these barriers.
- Identification of the potential of private finance on adaptation and resilience.
- Opportunities for private finance to contribute to international architecture reforms.
- Formulation of key messages for policy makers that led to the creation of a call to action.

This report will look into the above and close with recommendations and next steps.

This report looks at the existing progress within the private financial sector on adaptation and resilience and analyzes how to seize this opportunity and scale existing solutions within the public sector and within the ongoing evolution of international financial architecture reform. The report highlights the key barriers for scaling climate adaptation finance, what a thriving adaptation and resilience market would look like with effective policies and innovative tools, the critical role private finance can play in the scaling of solutions, and how they can contribute to the global financial architecture and process. These discussion points will result in a proposed way forward and mark the beginning of collective action.

This unique political window presents the opportunity for embedding adaptation and resilience within global policies in close collaboration with the private finance sector. During a decade of polycrisis, we need all hands on deck, collaborating to foster the necessary steps for thriving communities, businesses and natural ecosystems in the face of the climate crisis. The financial system is at the heart of transformation towards a more climate resilient future.

The barriers to scale the exceptional leadership on adaptation and resilience

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The barriers to scale the exceptional leadership on adaptation and resilience

It is well understood that there is a critical need to scale adaptation finance to protect lives, livelihoods, and economies, but the following barriers will need to be overcome in order to successfully achieve this goal:

- Lack of adequate policy frameworks, regulatory support and incentives for physical climate risk disclosure and integration of adaptation and resilience across portfolios.
- Lack of standardization and definitions around adaptation and resilience solutions.
- A disconnect between the public and private finance sector on how to address adaptation and resilience.
- Lack of suitable blended finance mechanisms to create sufficient incentives for adaptation and resilience investments and to create incentives to access finance for adaptation and resilience for businesses, projects and communities who need it.

For developing countries in particular there are overarching barriers to access international capital markets such as the high-cost of capital and require international architecture evolutions to provide instruments that improve access affordability and availability of finance.

Furthermore, financial inclusion and the existing protection gap are issues in developing countries that need to be taken into consideration when mobilizing the private sector in these countries.

The benefits of a thriving adaptation and resilience market

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The benefits of a thriving adaptation and resilience market

To transition economies to a net-zero future, urgent action is needed and government regulations and financial instruments have led to an increase of finance flows towards this goal. Similarly, adaptation and resilience are multi-dimensional and recent learnings show that nascent markets can be dramatically enhanced by suitable policies and collaborative approaches:

- Enabling policies, such as government support for research and development, subsidies, tax incentives or procurement policies, among others, encourages innovation and scalability of adaptation and resilience solutions. Private sector involvement, both at the local level and globally, often drives innovation, leading to the development of new technologies and approaches that can be applied on a larger scale, ultimately enhancing the resilience of communities, businesses, infrastructure and natural systems.
- Knowledge and expertise sharing between the public and private sector is a crucial component in building a mutual understanding of adaptation and resilience in both and will help bridge the 'language gap', allowing them to better understand the urgency, resources, and processes required to implement and scale solutions.
- Development of new financial instruments to unlock the vast resources of capital markets towards adaptation and resilience with nature as an integral part of the solution.
- Improved tracking will increase transparency in markets for adaptation, and the ability for local governments and investors to hold companies to account for their action on adaptation and to incentivise greater and better action.

The immense potential of private finance for adaptation and resilience

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The immense potential of private finance for adaptation and resilience

The private financial sector has the capacity to develop, implement, and scale critical solutions to address climate adaptation. Their involvement in Global Finance Policy Processes and International Financial Architecture reforms will strengthen efforts across the world and provide the space for effective collaboration across various sectors, governments, and development finance institutions. Examples of some of these solutions are provided in this section.

1. Metrics, Analytics and data

Private financial institutions, especially insurance and reinsurance companies have incredible potential to co-develop metrics and deploy their analytical capabilities for physical climate risk assessments while furthering adaptation and resilience related metrics. To address gaps in risk analytics and metrics for climate adaptation, it is essential to invest in improved data collection, modeling, and research. Many climate impacts, such as the loss of biodiversity or cultural heritage, are not easily quantifiable in monetary terms. Existing risk analytics and metrics may not fully capture these non-economic dimensions of climate risk. Collaboration between governments, international organizations, research institutions, and the private sector is critical to developing more comprehensive, accurate, and actionable risk assessments. Additionally, efforts to enhance transparency, communication, and the use of multi-disciplinary approaches can help bridge these gaps and support more effective climate adaptation strategies.

Addressing Data Gaps: In many regions, there is a lack of historical climate data–or sufficiently detailed data–making it difficult to assess the specific risks associated with climate change. This lack of data hinders the accuracy of risk assessments and predictions as institutions are unable to gauge the cost, value, and scale of climate impacts. Addressing these gaps will also strengthen climate models, allowing stakeholders to make accurate assessments.

Vulnerability Assessments: While climate risks are interconnected, so are the vulnerabilities of communities and ecosystems. Metrics for assessing vulnerability, particularly in social contexts, will support a better understanding of the solutions that can be implemented for improved adaptation planning.

Sector-Specific Metrics: Different sectors, such as agriculture, health, or infrastructure, face unique climate risks. Tailoring risk metrics to these sectors is essential to develop and implement specific solutions that can cater to sector-specific challenges.

Standardization: The absence of standardized metrics and methodologies can make it challenging to compare and aggregate climate risk data across regions and sectors. Harmonizing approaches could improve the consistency of assessments across the world and allow for more effective, scalable action.

Global Risk Modelling Alliance (GRMA)

The GRMA is a collaborative effort proposed by V20 members during the 1st Climate-Vulnerables Finance Summit in 2021. Developed in partnership with the Insurance Development Forum, the GRMA received agreement and support from the V20 Group of Ministers of Finance at COP26 in Glasgow. Its purpose is to provide a public-good service that aligns with the objectives of the Sendai Framework for Disaster Risk Reduction and the Vision 2025 of the InsuResilience Global Partnership. One of the key functions of the GRMA is to make risk models accessible to countries and cities, facilitating informed decision-making.

What sets the Global Risk Modelling Alliance apart is its focus on utilizing private sector risk analytics capabilities for the benefit of public sector programs. This allows private financial institutions to provide their expertise and services in assessing and managing climate and disaster risks. Ministries will be able to leverage these financial metrics to develop risk strategies and confidently access risk capital.

The GRMA facilitates partnerships between global partners and local decision-makers. Private financial institutions can engage in these collaborations, leveraging their global expertise and networks to provide valuable insights and support risk management efforts at the local level. This can lead to long-term, trusted relationships with governments and ministries.

https://grma.global

Global Resilience Index Initiative (GRII)

The GRII is a public private initiative that builds a common framework for climate risks. The knowledge created by GRII is open source with the mission to serve as a public good. Based upon common standards, the GRII will support and link worldwide groups working on climate resilience across the humanitarian sector, infrastructure investment, disaster risk insurance, financial regulation and disclosure.

The GRII provides a common framework and reference data on climate risks. Private financial institutions can utilize this information to assess and manage climate-related risks in their portfolios, enabling informed decision-making, effective resource allocation, and improved risk management practices. GRII will allow us to assess macro-level and systemic physical climate risks, and drill down to the asset level required for climate disclosure and risk management for the first time. Policy makers, financial markets and exposed communities will understand their climate risks to make, communicate and implement better decisions for a resilient transition.

The GRII focuses on closing the insurance protection gap by fostering a shared understanding of climate risks. Private financial institutions involved in the insurance sector can seize opportunities to develop innovative insurance products and risk transfer mechanisms. They can offer climate-related insurance coverage and support risk transfer solutions, safeguarding populations and economies from climate-related impacts.

https://www.insdevforum.org/grii-cop27
Tool: *https://global.infrastructureresilience.org*

2. Adaptation planning

Alongside enabling policies, financial institutions can give their clients guidance on designing and implementing adaptation and contingency plans. This will require building further understanding around adaptation and resilience for clients, capacity building and understanding how frameworks for adaptation plans can look like for specific sectors, including no regret measures.

Moreover, financial institutions can foster a collaborative environment by actively engaging in ongoing dialogue with clients, ensuring that adaptation plans remain dynamic, responsive to emerging risks, and aligned with the evolving landscape of climate resilience.

3. Frameworks, processes and practices for physical climate risk and adaptation and resilience-related metrics

One of the key challenges investors face when supporting climate-resilient solutions is the lack of information on what the future benefits or returns from these investments will be. Establishing standardized frameworks and practices will allow investors to increase their stakes in investments that integrate adaptation and resilience metrics, especially for infrastructure related climate risks.

Physical Climate Risk Assessment Methodology (PCRAM)

The methodology aims to properly quantify physical climate risks and the benefits of resilience so that they can be integrated into infrastructure investment decisions.

Initial work on this methodology was developed collaboratively by engineering firms, investors, data providers and credit ratings agencies. It showed that by comprehensively integrating resilience measures and physical climate risks into infrastructure project cash flow models;

- the increase in initial investment for resilience is less than anticipated

- the benefits in future cash flows are substantial

Source: *IIGCC, https://www.iigcc.org/insights/net-zero-resilient-infrastructure-net-zero-and-climate-resilient-investing-begins-in-the-physical-world*

4. Financial instruments to mobilize capital to finance adaptation and resilience

Deploying tailored financial instruments is pivotal in channeling capital toward financing adaptation and resilience initiatives. These instruments play a pivotal role in unlocking funding by providing targeted mechanisms that align with the specific needs and challenges associated with building climate resilience. This can range from designing specific credit products for adaptation and resilience, to parametric insurance and resilience bonds.

Climate Resilience and Adaptation Finance and Technology-transfer facility (CRAFT) Fund

CRAFT is the first commercial investment vehicle to focus on expanding the availability of technologies and solutions for climate adaptation and resilience.

By investing in ten to twenty companies with proven technologies and solutions for climate resilience, the Fund, together with an accompanying Technical Assistance Facility, will help these organizations expand into new sectors. These companies–like weather analytics, catastrophe risk modeling services, and drought resilient seed companies, among others –should be located in developed and developing countries, and have demonstrated market demand and revenue.

https://www.climatefinancelab.org/ideas/climate-resilience-and-adaptation-finance-technology-transfer-facility-craft-2

5. Policies to create an enabling environment

The creation of policies is not a one-way street but requires a close collaboration between the public and private sectors. Private financial institutions play a pivotal role in supporting policies geared towards accelerating the mobilization of private finance for adaptation and resilience. By actively collaborating with policy makers, financial institutions can contribute their expertise to identify specific barriers, facilitate the integration of private finance into international financial architectures, and develop policy frameworks that incentivize the measurement and mitigation of physical climate risks, as well as investments into adaptation and resilience..

National Adaptation Strategy from the Netherlands

As part of their National Adaptation Strategy announced in 2016, the government identified six main policy goals:

1. Increase awareness of the necessity of climate adaptation.
2. Encourage the implementation of climate adaptation measures.
3. Develop and exploit the knowledge base.
4. Address urgent climate risks.
5. Embed climate adaptation in policy and legislation.
6. Monitor the progress and effectiveness of the adaptation strategy.

The De Nederlandsche Bank (DNB) conducted a climate stress test on the impact of the energy transition on the financial sector in the country and its exposure to climate risks. The results of these efforts indicated that climate change and the energy transition have the potential to lead to major financial losses. In a study carried out by DNB and the Netherlands Environmental Assessment Agency in 2020 revealed that Dutch financial institutions also run high financial risks due to the loss of biodiversity. DNB facilitates a dialogue on sustainable finance between the financial sector, supervisory authorities, and government ministries.

Source: The Netherlands' submission to the UNFCCC

Regional perspectives

Key Takeaways from Regional Climate Weeks

- The discussions highlighted the importance of exploring the role of pension funds and their use in green investments.
- Public-private partnerships are crucial to effective action, but regulation is needed to create incentives. This is particularly true for physical climate risk disclosure.
- Governments need to open markets and support the public sector with technical capacity in Africa.
- Financial institutions should establish ways to transfer risks to international capital markets.
- For now financial institutions in Africa follow their fiduciary obligations, which is to make profits, even though individuals within these institutions want to move forward on impactful profits that can benefit climate goals.
- There is a need for standardization of investment frameworks that will allow better resource allocation.
- Policy makers have to collaborate better with regulators to improve the implementation of innovative financial solutions.
- Financial institutions should adopt a structured approach to identify barriers and address them with tailored solutions.
- Today, Latin America could be exposed to losing up to 17% of its GDP due to climate catastrophes. If countries don't look at adaptation and resilience, and if key stakeholders are not incorporating climate change impacts when we know that's an impact that is worsening the social phenomena, it will lead to the deterioration of the social structure and democracy.
- The coastal areas in the Latin American region can benefit from increasing mangroves and algae forests, which will limit flooding due to the green barrier they will form.
- Stopping deforestation and working with communities to improve their use of nature to adapt to climate change will allow countries to better protect lives and livelihoods.
- Creating a series of nature-based solutions that are based on climate action, so we are capable of rethinking our cities and urban planning in an intelligent way, improving conditions for the entire population.

Opportunities for private finance to contribute to international finance architecture reforms

04

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Opportunities for private finance to contribute to international architecture reforms

Political momentum is building on the need for international financial architecture reform

- **Bridgetown Agenda 2.0**
- **World Bank Group Evolution Roadmap**
- **V20 Accra-Marrakech Agenda**
- **G7 - V20 Global Shield against Climate Risk**

Multiple stakeholders across the world are working to implement financial solutions that can build a more resilient future. Over the last few years, the international finance architecture reforms and global financial processes have escalated action, but these can be further enhanced if the private sector finds strategic points of collaboration. This section provides an overview of some of these ongoing global efforts and which relevant agenda items from these processes can be leveraged by the private sector.

Overview of some ongoing efforts and initiatives to evolve the International Financial Architecture Reform:

1. **V20 Accra-Ghana Agenda:** The V20 Group of ministers of finance from over 50 climate-threatened economies have issued a call for *fit-for-climate* finance reform, focusing on making debt work for the climate, transforming development finance, establishing a new global carbon financing deal, and revolutionizing climate risk management.
2. **Bridgetown Agenda 2.0:** The Bridgetown Agenda 2.0, initiated by Barbados's Prime Minister Mia Motley in September 2022 and co-convened by UN Secretary-General Antonio Guterres in April 2023, calls for a reformed financial architecture. It focuses on providing emergency liquidity, expanding multilateral lending to governments with an emphasis on climate resilience and the SDGs, and funding climate reconstruction while promoting private sector investment in a low-carbon transition, backed by substantial resources such as unused Special Drawing Rights (SDRs) and new financial instruments.
3. **World Bank Group Evolution Roadmap:** In April 2023, the World Bank was creating a crisis financing facility to assist low-income and vulnerable countries, including Ukraine, in preventing development setbacks, recognizing the challenges faced by those living in poverty and climate-vulnerable areas. Amidst a leadership transition in June 2023, the World Bank announced its Evolution Roadmap, which seeks to address poverty, climate change, and align with the Paris Agreement.
4. **G7 – V20 Global Shield against Climate Risk:** Launched at COP27, the Global Shield against Climate Risks, jointly initiated by the G7 and the Vulnerable 20 Group of Finance Ministers (V20), with over $210 million in financial commitments, aims to enhance protection for vulnerable populations by providing increased and more efficient pre-arranged finance against climate-related disasters through three key elements: the V20 Global Shield-Solutions Platform, V20 Joint Multi-Donor Fund, and the World Bank Global Shield Financing Facility, with a finalized architecture expected in early summer 2023.
5. **Sharm El-Sheikh Adaptation Agenda:** The Sharm el-Sheikh Adaptation Agenda is a global initiative focused on enhancing resilience and adaptation to climate change impacts. It was launched at the United Nations Climate Change Conference (COP27) in Sharm el-Sheikh, Egypt, with the goal of promoting comprehensive and cooperative strategies for climate adaptation and resilience building. three Sharm el-Sheikh Adaptation Outcomes for Finance: for public finance actors to increase the volume and share of A&R finance, for private finance actors to help mobilize the $140 billion to $300 billion needed annually by 2030, and for insurers to institutionalize a longer-term industry approach to A&R.

Relevant Agenda Items

The following agenda items are examples of solutions from current public policy processes that could be leveraged by the private sector to deliver on climate action.

Financial Protection (Gap)

The financial protection gap refers to the difference between the actual financial losses incurred due to an event or risk and the amount of financial protection or insurance coverage available to mitigate those losses. In other words, it represents the shortfall or gap between the financial impact of a risk and the financial resources available to cope with or recover from that risk. In the context of climate-related risks, the financial protection gap refers to the inadequate coverage and financial resources available to individuals, communities, businesses, or governments to manage and recover from the damages and losses caused by climate-related stresses and shocks. These events can lead to property damage or loss, reducing the value of collateral securing loans. Private financial institutions may experience loan and investment losses if their borrowers or counterparties are unable to repay debts. The financial protection gap can also contribute to increased credit risk for financial institutions.

There are several initiatives that work on solutions to provide financial protection to highly vulnerable countries and communities such as inclusive insurance, consideration of financial protection gap for sovereign debt issuance and trigger-based financing mechanisms in general.

↳ Opportunities for the private financial sector

Development of Innovative Products: Private financial institutions can seize the opportunity to develop and offer innovative insurance products that specifically target the financial protection gap.

Expansion of Risk Transfer Solutions: Financial institutions can play a crucial role in expanding risk transfer solutions, such as parametric insurance. These financial instruments allow for the transfer of climate-related risks from individuals or governments to the private sector.

Climate-resilient debt pause clauses

Climate-resilient debt pause clauses are provisions or mechanisms included in debt agreements that allow countries to temporarily suspend debt repayments in the event of a climate-related crisis or natural disaster. Climate resilient debt clauses offer a pragmatic financial solution to help lower-income and climate-vulnerable countries manage their heightened disaster and climate risks amidst shrinking budgets available to them. A climate resilient debt clause is a state contingent debt instrument that suspends repayments for a pre-agreed period when a pre-defined trigger threshold is met, for example, after a violent hurricane. These built-in debt deferrals can be designed to be Net Present Value (NPV) neutral and not extend the instrument's original maturity date.

Uptake on this is limited but poised to grow as metrics and data around risks and vulnerabilities improve. Private financial institutions (commercial banks, institutional investors etc.) that hold sovereign debt of countries with climate-resilient debt pause clauses may face temporary disruptions in debt repayments during climate-related or natural disasters. This mechanism requires active management and evaluation of climate-related risks, country vulnerability and diversification of portfolios. However, both countries and creditors have begun to adopt these pauses. Three Small Island Developing States (Grenada, Barbados, and the Bahamas) and two creditors (Inter-American Development Bank and UK Export Finance) have them in place.

↳ Opportunities for the private financial sector

Developing innovative financial instruments: The private sector can create financial instruments tailored to support climate-resilient debt pause clauses. These may include green bonds, resilience bonds, catastrophe bonds, or insurance mechanisms that provide risk transfer options for climate-related events.

Investing in climate-resilient projects: Private financial institutions can direct their investments towards climate-resilient infrastructure, renewable energy projects, climate resilient agriculture to contribute to debtor countries' climate resilience.

Operationalizing the IMF Resilience and Sustainability Trust (RST)

The SDR is not a currency itself but rather a basket of currencies that includes the U.S. dollar, euro, Chinese renminbi (yuan), Japanese yen, and British pound sterling. The weights of these currencies in the SDR basket are periodically reviewed and adjusted by the IMF to reflect the relative importance of each currency in the global economy. The primary purpose of the SDR is to provide liquidity and stability to the global financial system. Member countries can use SDRs to settle international transactions, supplement their official reserves, or obtain foreign exchange from other members. However, SDRs are primarily used among central banks and international financial institutions.

The RST will be a loan-based trust, with resources mobilized on a voluntary basis. About three quarters of the IMF's membership will be eligible for longer-term affordable financing from the RST, including all low-income countries, all developing and vulnerable small states, and lower middle-income countries. Access will be based on the countries' reforms strength and debt sustainability considerations and capped at the lower of 150 percent of quota or SDR 1 billion. The loans will have a 20-year maturity and a 10.5 year grace period, with borrowers paying an interest rate with a modest margin over the three-month SDR rate, with the most concessional financing terms provided to the poorest countries. - IMF, 2022

↳ Opportunities for the private financial sector

Investment and Financing: Countries receiving support from the RST mitigate their vulnerability to climate change and are more likely for adequate preparedness and more attractive for private investments; Governments receiving RST can reinvest in businesses that contribute to the objective to increase resilience and reduce vulnerabilities; private investors can co-invest in these specific projects.

Resilient Infrastructure Investments

Resilient infrastructure investments refer to investments made in the design, construction, and maintenance of infrastructure systems that can withstand and adapt to the impacts of climate change and other shocks and stresses. These investments aim to enhance the resilience and sustainability of infrastructure, ensuring its functionality, safety, and able to provide essential services in the face of external shocks. Infrastructure projects in general face challenges in terms of feasibility, cost overruns, delays, or underperformance, and a resilient infrastructure investment requires a thorough analysis of the asset's vulnerability and adaptive capacity.

The market for resilient infrastructure investments is still evolving, and there may be uncertainties regarding demand, pricing, and regulatory frameworks. Various initiatives work on developing financing mechanisms for resilient infrastructure and promotion of innovative solutions for resilient infrastructure such as:

- Developing water management systems that can cope with changing precipitation patterns, including improved water storage, flood management, and sustainable drainage systems.
- Nature-Based Solutions such as mangrove systems to mitigate risks for flood damages in ports.

↳ Opportunities for the private financial sector

Innovation: Private financial institutions can invest to solutions that increase infrastructure resilience.

Resilient assets: By mainstreaming adaptation solutions into infrastructure investments, assets become more resilient and stay operational for a longer time.

Innovative Financing Instruments: Resilient infrastructure investments require innovative financing instruments tailored to the unique characteristics and long-term nature of the projects.

Leveraging microfinance instruments

Microfinance Institutions operate in highly climate vulnerable contexts. Adaptation in a local context can vary, leading to a fragmentation of adaptation and resilience metrics and taxonomies. Furthermore, verifying adaptation loans can be expensive. By integrating risk metrics and analytics into their loan evaluation processes, building taxonomies and developing dedicated adaptation credits, they can tangibly increase resilience of climate vulnerable businesses, communities, and individuals. Many microfinance institutions need technical assistance accompanied with investments to operationalize adaptation and resilience work.

With its flagship project *Microfinance for Ecosystem-based Adaptation* UNEP has created evidence that Microfinance Institutions can be an effective channel to increase access to finance for adaptation for the most vulnerable to climate change. Nevertheless, microfinance institutions need access to concessional finance to offer lower interest rate adaptation credits for individual clients. Dedicated Microfinance Investment Instruments can be structured as blended finance vehicles that can effectively mobilize finance for sustainable development.

Several initiatives are working on the immensely important role of women along the microfinancial value chain, climate adaptation certification portfolios and dedicated blended finance schemes for adaptation.

Opportunities for the private financial sector

Impact: Microfinance institutions work closely with local communities and can therefore create a significant impact to climate vulnerable individuals. Depending on the region, microfinance institutions have a high percentage of female clients due to their effective financial management skills and their ability to build community resilience.

Profitability: Early evidence from initiatives mentioned above shows that climate resilient clients are more likely to repay their loans, which results in lower credit risks.

Coalition of Finance Ministers for Climate Action

The Coalition of Finance Ministers for Climate Action (CFMCA) is an international initiative that brings together finance ministers from various countries to collaborate on addressing climate change and advancing climate action. The coalition aims to leverage the role of finance ministries and fiscal policy to support the transition to a low-carbon and climate-resilient economy.

The CFMCA recognizes the importance of integrating climate considerations into economic and financial decision-making processes. By working collectively, finance ministers can promote sustainable economic growth, enhance resilience, and mobilize climate finance to support the implementation of climate-related initiatives.

Opportunities for the private financial sector

Investment: The coalition's focus on climate action creates a conducive environment for private financial institutions to invest in sustainable and low-carbon projects. As finance ministers align their policies with climate objectives and prioritize action, it opens up new avenues for private sector investment in renewable energy, energy efficiency and sustainable infrastructure due to the enabling environment for returns.

Collaboration and Partnerships: The CFMCA encourages collaboration between finance ministers and the private financial sector. By participating in the coalition's initiatives, private financial institutions can engage in partnerships with governments and contribute their expertise, financial resources, and innovative financial instruments to support climate projects and initiatives. This collaboration can lead to new business opportunities and long-term relationships.

Public-Private Sector Collaboration

Several challenges and gaps exist that need to be addressed to enhance cooperation between the public and private sector and maximize the impact of climate adaptation efforts. These sectors often have different types of information and expertise and the key to success is leveraging their strengths to create innovative solutions.

One of the most important areas of collaboration will be addressing the regulatory hurdles and conflicting policies for private sector engagement in climate adaptation. Streamlining regulations and creating a more conducive policy environment is essential for collaboration.

Government procurement practices can also deter private sector involvement in climate adaptation projects.

↳ Opportunities for the private financial sector

Technology Transfer: The private sector can play a critical role in technology transfer for adaptation, but there may be challenges in transferring and adopting new technologies in some regions due to the lack of capacity, training resources, and affordability among other reasons.

Capacity Building: Building the capacity of the public sector on solutions being implemented and developed by the private sector stakeholders will help improve the understanding, planning, and implementation of climate adaptation strategies.

Nature

Using nature as a shield against climate impacts is critical to ensuring the long-term resilience of ecosystems and the well-being of both humans and wildlife. Many stakeholders, including governments, businesses, and the public, may not fully understand the value and benefits of investing in nature-based solutions to build a more resilient future and economy. Raising awareness and providing education on the co-benefits of these strategies is essential. Very often, short-term financial considerations overshadow the long-term benefits of nature-based solutions. Encouraging investors to adopt a longer time horizon and consider the long-term returns on investment is vital.

↳ Opportunities for the private financial sector

Financial Support: The financial sector can provide funding and financial incentives for biodiversity conservation and adaptation efforts to encourage increased investments in these areas.

Financial Mechanisms: Developing and implementing innovative financial instruments that support nature-based solutions is essential to increase the protection of biodiversity for building resilience over a longer term. A strengthened biodiversity can create healthy communities, stronger economies, and a resilient world.

Investments for scaling up: While many successful pilot projects exist, scaling up nature-based solutions to address larger-scale climate adaptation needs can be challenging due to the lack of relevant metrics and data.

Gender Equality

Women in developing countries are most vulnerable to climate change but lack access to finance and the means to adapt even as they often hold crucial knowledge about natural systems, climate solutions, arts and cultural norms that can build community action for climate resilience. Gender equality is an economic booster, an important element to scale adaptation and resilience finance, and enhance decision making in policy processes due to their knowledge and skills in these areas.

Gender-smart finance processes have recently been part of impact measurement. *Gender-smart climate finance addresses a missed opportunity to grow green businesses, build resilient communities, and launch transformational climate technologies by empowering women as entrepreneurs, community leaders, heads of households, and consumers* - CPI, 2022. Going forward, data and metrics tracking these processes will serve as an effective tool to understand investment allocations.

Opportunities for the private financial sector

Investing in women: Evidence indicates that women borrowing from a microfinance institution are better at repaying their loans across sectors and societal positions, leading to sustained financial flows within communities. While many women don't have access to finance, closing the financial inclusion gap is an important step to increase economic growth due to their effective use of funds for small businesses, management of investments, and maintaining the liquidity of financial flows for improved credit access.

Innovation for financial products: There is great potential to innovate dedicated financial products for women and their specific business needs. Development finance institutions or second-tier banks are increasingly co-investing into projects and technical assistance that support women's climate resilience.

Capacity Building: Most of the time, women are agents of change for their communities and families. Education on climate-related risks and financial inclusion are important drivers to build resilience.

Health

One of the primary challenges is the insufficient funding for healthcare infrastructure, particularly in vulnerable and low-income regions. Healthcare investments often prioritize short-term gains over long-term resilience, resulting in healthcare systems being ill-prepared to handle the increasing health impacts of climate change.

Opportunities for the private financial sector

Innovative Insurance Products: Insurance companies in the private sector can create innovative insurance products that provide coverage to healthcare facilities and professionals during climate-related events. These products can help mitigate financial risks associated with climate impacts.

Data and Analytics: Private data analytics and technology companies can work with healthcare providers and organizations to develop data-driven tools and models that assess climate-related health risks and help in resource allocation and planning.

Innovative Financing Models: Private sector entities, including impact investors and healthcare finance companies, can develop innovative financing models to support healthcare adaptation initiatives.

The Way Forward

The Way Forward

Call for Collaboration: Enhancing the enabling environment to accelerate the mobilisation of private finance for adaptation and resilience

The financial system has the potential to drive transformational change towards climate-resilient countries, communities, businesses, and natural ecosystems. A growing number of insurers, banks, and investors worldwide increasingly recognize the risks of inaction and the emerging opportunities related to adaptation and resilience. Private financial institutions today are investing in adaptation and resilience and implementing the necessary financial instruments, frameworks, and metrics. Yet action is incremental and requires the development of further enabling conditions for the nascent adaptation and resilience market.

This call for collaboration is also an offer from private financial institutions to policymakers to actively support the creation of the enabling environment to accelerate the growing efforts and further mobilise private finance for adaptation and resilience to where it is needed most.

Call for Collaboration