Issues in Financing Climate Resilience

Despite the progress made on several technical fronts at the UN's climate summit in Marrakesh (COP22) last November, a deadlock persists over climate finance which, despite several international commitments remains marginal to global capital flows.

\n\n

Urgent action is needed not only to reduce greenhouse gas emissions, but also to help countries become resilient to adverse climate change impacts.

\n\n

Fiscal constraints:

\n\n

\n
- Developed countries, however, are fiscally constrained and momentum is gathering around the need to mobilise private and institutional finance in meeting the commitment of $100 billion a year for adaptation and resilience in the developing world.
\n
- The World Bank estimates that some $158 trillion worth assets could be in jeopardy without preventable action.
\n

\n\n

What is the ground reality?

\n\n

\n
- Many actions to improve climate resilience take place within local markets such as water-efficient irrigation technologies, storm resilient building materials, water harvesting services, flood control, climate resilient crops and seeds.
\n
- However, these private transactions are rarely accounted for under labels such as "climate resilience" or "climate adaptation."
\n

- **Developing countries fail in securing viability-gap funding either from governments, or multilateral development banks.**
\n
- As much of these market activities related to climate resilience remains “hidden in plain sight”, products and solutions that help assets to adapt to climate risks, remain largely unrecognised.
\n
- Projects to adapt to climate change rarely offer a clear rate of return due to **high upfront cost, a longer gestation period capacity** constraints and **technological limitations**.
\n
- No industry has done more analysis on the issue of climate-related risks than the insurance sector, and promising models such as parametric insurance schemes are being piloted across the globe.
\n

\n\n

What is needed now?

\n\n

\n
- What is needed is a deeper understanding of the benefits offered by climate resilience to better inform business decisions regarding climate risk transfer schemes such as insurance.
\n
- But insurance against climate risks is prohibitively costly, unavailable or likely to disappear without a strong government support.
\n
- Here the **Government should intervene in facilitating privately-funded risk mitigation activities** by establishing sound regulatory framework, and market- enabling policies.
\n
- Such regulations should help ensure solvency, while facilitating licensing, product innovation and reinsurance placement and international risk pooling and diversification.
\n
- In addition, public vehicles can be efficiently designed to allow the private sector to insure a large portion of risk, while leaving only a residual risk (in very extreme circumstances) to public sector funding.
\n
- Due attention should be given for improving capacity for bankable project development, implementation and monitoring, and evolving commonly acceptable technical standards.

\n
- The financial sector globally needs to develop markets for instruments to invest in resilience main streamed projects.
\n
- Instruments such as catastrophe risk insurance, contingency fund, disaster-relief fund, restoration fund, contingent credit at preferential rate, micro-credits; climate bond, social protection-bond need to be soundly designed and rightly targeted to beneficiaries' needs.
\n
- Improve the quality of project proposals and increase the share of state budget.
\n

\n\n

Where change is needed?

\n\n

\n
- Even for the Indian State governments climate finance is evolving as an important avenue to finance their climate change action plan.
\n
- However, climate finance, in its current form, is just the cumulative costs of projects identified under this plan, whereas technically it refers to the incremental cost of 'climate proofing' of the investment that takes into account potential climate risks and, the costs of making the infrastructure more resilient to such risks.
\n
- Thus an analytical framework is necessary to combine potential climate risks with a systematic cost-benefit analysis which can help decision-makers prioritise adaptation measures.
\n
- **Favourable policy and institutional actions** are important preconditions for successful introduction or scaling up of financial instruments.
\n
- Such actions, through public-private partnership, can help tackle the underlying drivers of inadequate insurance, especially lack of risk awareness or experience with risk management products and practices; unaffordability, especially among lower-income households or small enterprises; and fundamental limits to insurability.
\n
- Policy actions need to focus on how the Government can encourage financiers and investor to 'take the long-term view' on climate financing by harnessing the public balance sheet, market incentives, blended finance,

environmental legislation, market coherence, encouraging cultural transformation and, enhanced information flows among the stakeholders.
\n
- Majority of the capital intensive items in the State climate plans are mixed actions and contribute to conventional development activities.
\n
- Examples include agricultural research and extension, irrigation, forestry conservation and urban infrastructure.
\n

\n\n

\n\n

Category: Mains | GS-III | Environment

\n\n

Source: Business Line

\n