

Unlocking Investment

De-Risking Strategies for Climate Adaptation Finance

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Hosted at: United Nations University - Institute for Environment and Human Security (UNU-EHS)

08.10.2024

Adaptation Finance Gap

- The current adaptation finance gap is now estimated at USD 194-366 billion per year
- Cost of adaptation estimated at USD 215 billion and USD 387 billion needed to implement domestic priorities, per year this decade
- Adaptation finance reached an all-time high of USD 63 billion in 2021/2022
BUT remains dominated by public actors (98%), with fragmented flows from the private sector
- Businesses should be interested in adaptation:
 - Up to \$1 trillion at risk over the next five years for the world's 215 biggest firms due to climate impacts
 - Growing ESG expectations

Reasons the private sector is hesitant to invest

- **Perception that there is no money to be made**
 - Adaptation projects may be perceived as riskier due to the uncertainty and complexity of climate impacts
 - Might result in public benefits rather than direct financial returns
- **Information asymmetries and knowledge gaps**
 - Uncertain financial value of many adaptation measures
 - Lack of systematic measuring of impacts or calculation and monetization of potential environmental and social benefits
 - Challenges to reliably calculate returns on investment and make informed investment decisions
- **Investment horizon and size of adaptation projects**
 - Long-term nature of 10-20 years of implementation
 - Potentially large upfront costs against relatively long payback time
 - Often small ticket size

Some risks to be considered

- Sovereign risk
- Political risk
- Business or project risk
 - Climate and disaster risk
 - New technologies
 - (Lack of) financial records
 - Commercial business model
 - ...
- Foreign exchange rates
- + A financial cushion against unexpected losses

→ Often results in a high risk-premium for adaptation projects

How to address these risks?

- Perceived vs. actual risk
 - Access to expertise and prior experiences in investing in certain contexts can reduce perceived risk
- Risk management
 - Risk must be mitigated, transferred, or borne
 - Important to analyze which specific risk is holding back private investments and design a targeted intervention for each program/project

De-risking options

- Blended finance
 - Guarantees, co-financing, risk-tolerant capital (e.g. first loss equity or risk-absorbing junior debt layer) aimed to unlock further private investment
 - Catalytic funding (often public) enables the development of innovation, pilots, and proof of concepts. This also absorbs the initial risk or first loss.
 - Private sector funding instills the appropriate governance and assurance to shift the mindset from experimentation to commercial deployment.
 - An innovative example: Global Fund for Coral Reefs
- Insurance/reinsurance
 - Allocate the risk to the parties best placed to manage it - risk transfer to insurers.
- Public Private Partnerships (PPPs)
- Technical Assistance
 - Climate Risk Assessments
 - Feasibility Studies
 - Capacity Building and Training
 - Pipeline development
 - ...
- Policies, regulations and fiscal incentives

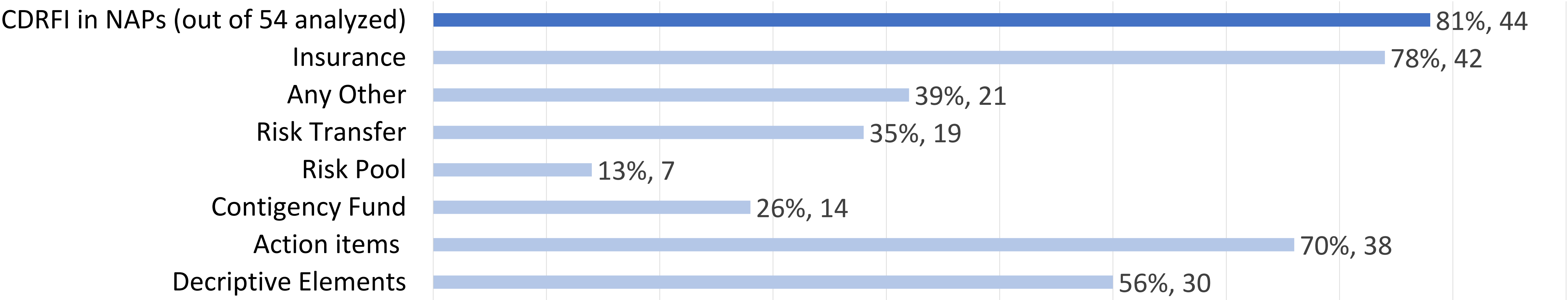
Climate and Disaster Risk Finance and Insurance (CDRFI)

- Contributions to Adaptation

- **Secure Adaptation Investments**
 - Climate and disaster risk is transferred to insurers
 - Fast reconstruction and restart of activities
- **Encourage Investment**
 - Peace of mind for investors, both large and small (e.g. Farmers investing in resilient techniques)
 - Often a necessary requirement
- **Improved Data and Analytics**
 - High-quality data and models are necessary for product development
- **Collaboration Between Public and Private Sectors**
- **Incentives for Disaster Risk Reduction and Adaptation**
 - Risk Reflective Pricing
- ...

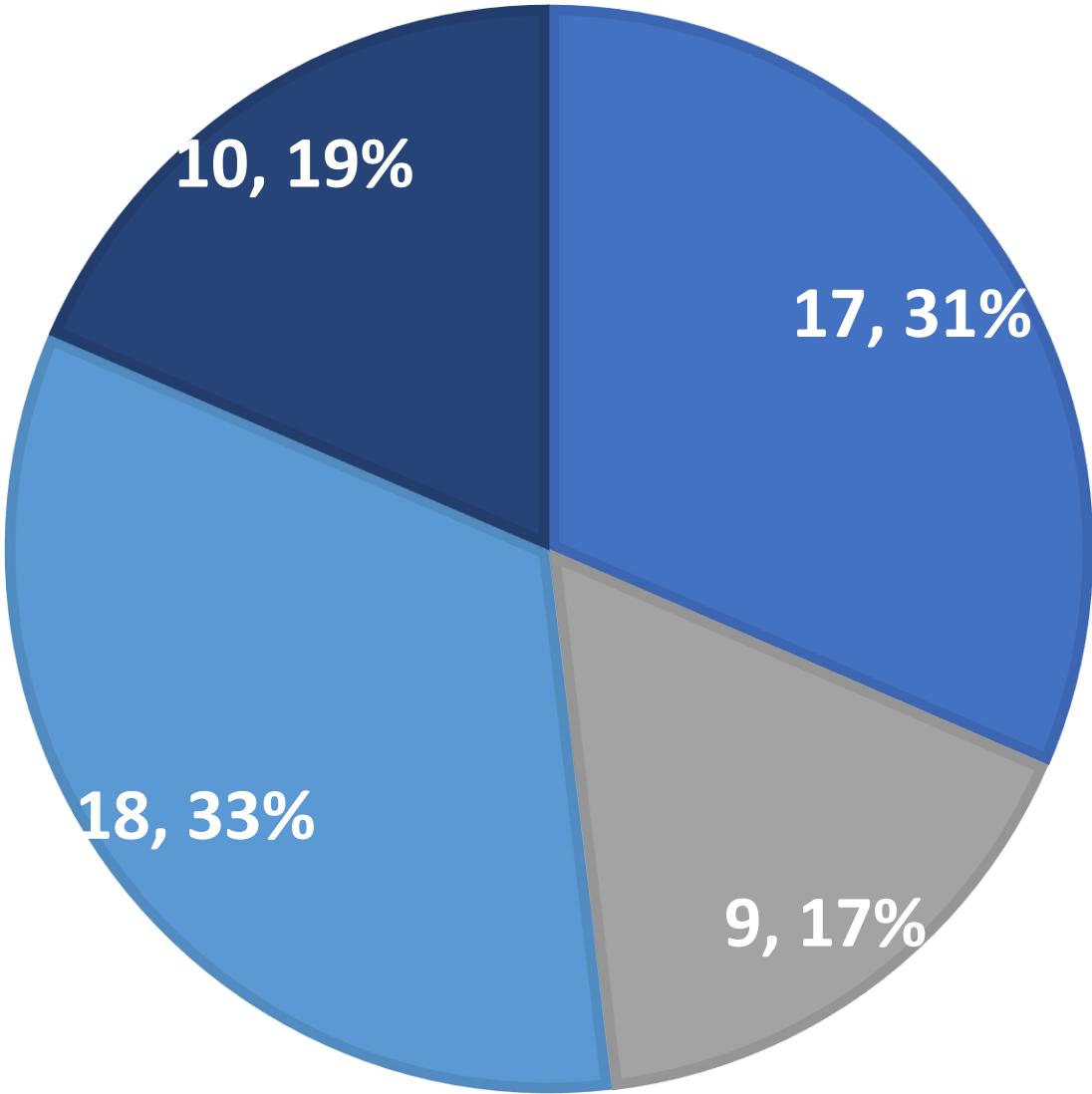


CDRFI in NAPs – Analysis (1)



Level of CDRFI integration

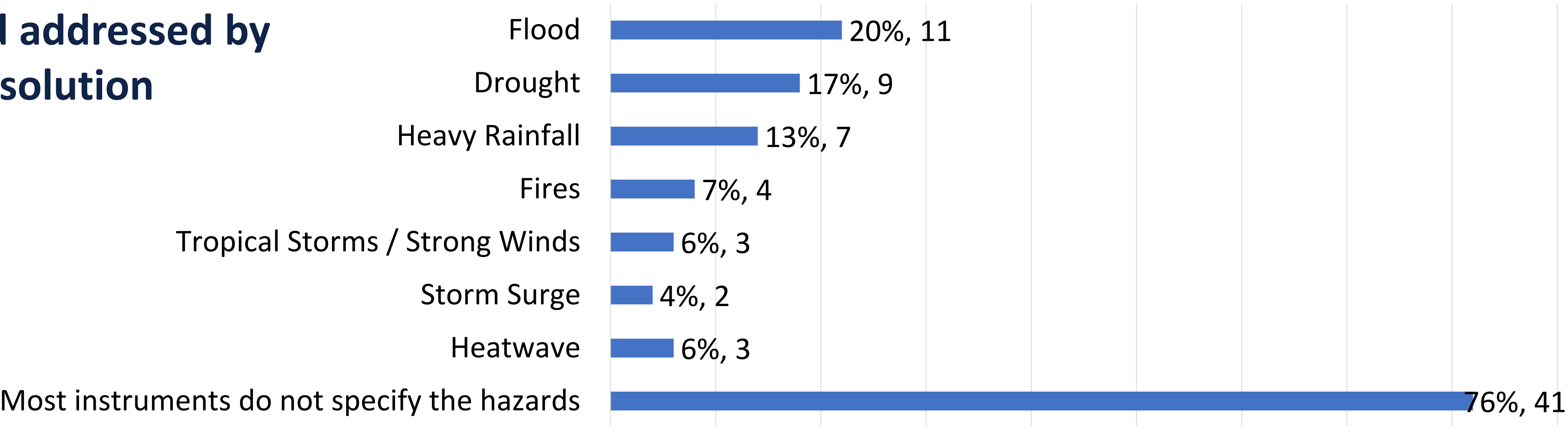
■ High ■ Medium ■ Low ■ None



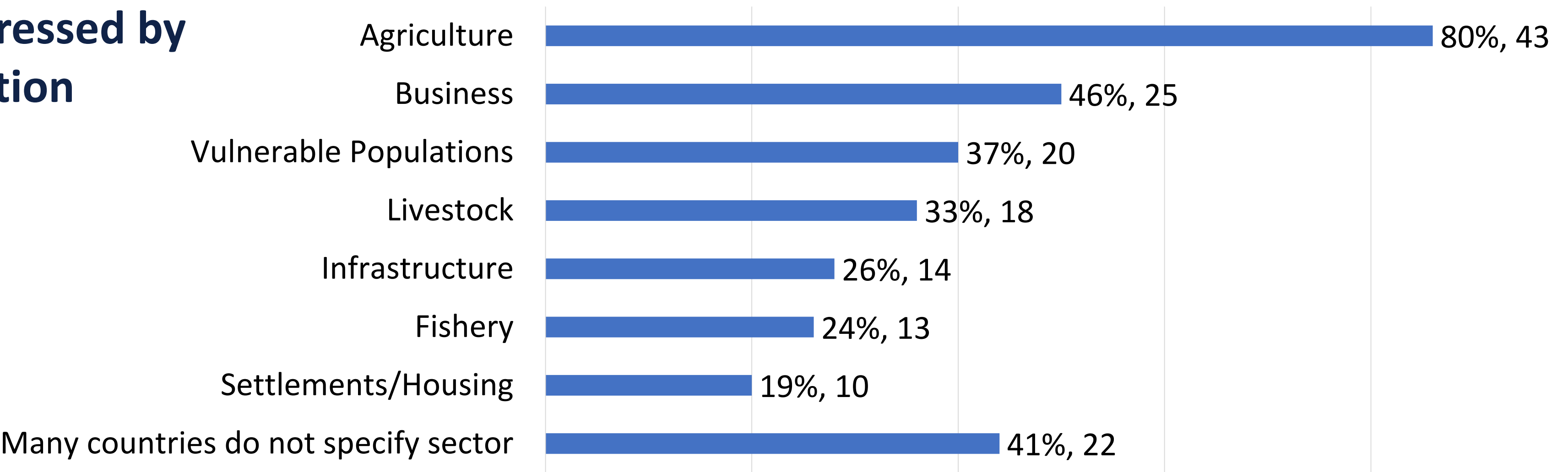
Source: UNDP (forthcoming): Climate and Disaster Risk Finance and Insurance in National Adaptation Plans and Nationally Determined Contributions. Analytical Report.

CDRFI in NAPs – Analysis (2)

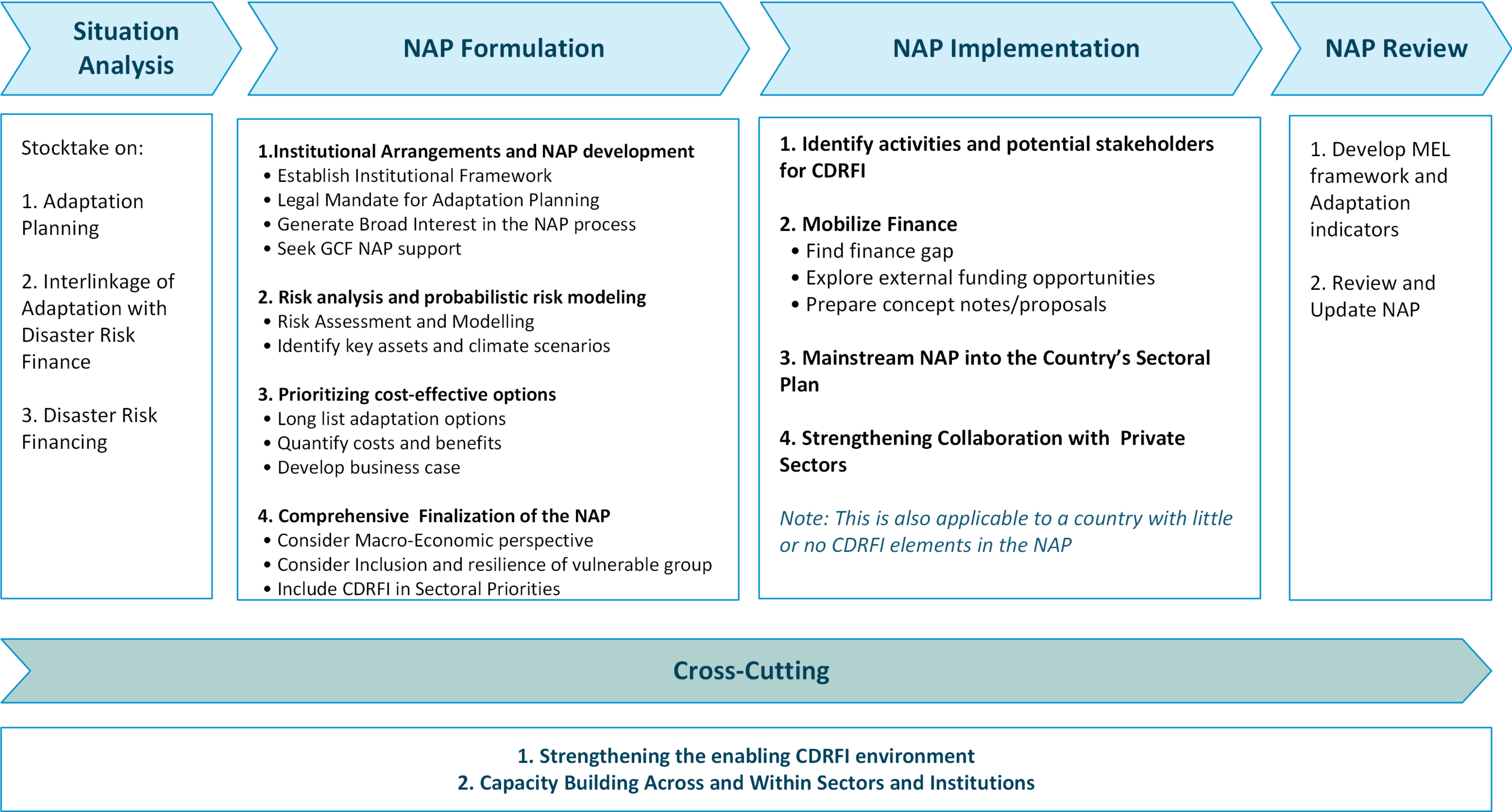
Hazard addressed by CDRFI solution



Sector addressed by CDRFI solution



Roadmap to Integrate DRF into NAPs



Challenges for CDRFI in NAPs and beyond

- Data availability and quality
- Product development costs
- Regulatory and legal framework
- Cost and affordability
- Expertise and knowledge
- Market awareness and consumer education
- Understanding and trust
- Scalability
- Novel problems and products
- Lack of CDRFI products
- ...

Example: Increasing insurance protection in climate-exposed countries

Challenges: Regulatory environment, data availability, expertise and knowledge, scalability ...

- The **Tripartite Programme**, financed by BMZ, brings together UNDP and 20 of the largest global insurance companies under the framework of the Insurance Development Forum (IDF).
- The aim is to develop risk finance solutions in 20 countries.
- UNDP implements a comprehensive **technical assistance** program in each country:
 - to ensure the risk finance solution is integrated into governance and long-term development planning.
 - to integrate climate risk analysis and modeling into key development processes, such as national development plans, regional plans, NDCs, and NAPs.
- UNDP offers project management support and leverages its country offices as active partners with governments to support these efforts.

Example: Climate Risk Adaptation and Insurance in the Caribbean (CRAIC)

Challenges: Product development costs, regulatory environment, expertise and knowledge, market awareness and consumer education ...

- MCII and CCRIF SPC are implementing a Climate Risk Adaptation and Insurance project in five Caribbean countries (Jamaica, Saint Lucia, Grenada, Trinidad and Tobago, and Belize).
- The project helps a private insurance company (Guardian Insurance) to provide an affordable insurance product for low-income and vulnerable communities.
- The micro-insurance product is a parametric policy called the Livelihood Protection Policy (LPP), which covers risks from high winds and heavy rainfall.
- Product development is complete and the insurance company is now securing approvals from insurance regulators (from each pilot country) to market the LPP in five pilot countries.

Thank you!

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