



Climate change adaptation & disaster risk reduction finance

“Once climate change becomes a defining issue for financial stability, it may already be too late”

Mark Carney, Governor, Bank of England, TCFD Summit 2019



Gap 1

CCA and DRR aspects are not fully encompassed in the current version of the EU Green Deal.

Gap 1

Recommendation 1.1

Incorporation of the CCA and DRR aspects from PA and SFDRR into the strategic documents within the EU Green Deal.

Recommendation 1.2

EU-wide or international standard or guidance on how to monetise and account intangible values from CCA and DRR measures.

How: EU-wide or international standard or guidance on evaluation and accounting of the social, economic and governance assets from CCA and DRR projects.

Who: European Commission, International Accounting Standards Board.

Gap 2

Current approach in management of climate-related risks doesn't completely encompass CCA and DRR components.

Gap 2

Recommendation 1.3

Disclosure on Climate Risk Management (short, CRM) at the intersection of DRR and CCA (e.g. multi-hazard risk with cascading effects).

How: Improvement of the EU Green Deal (update of the Directive 2014/95/EU) through requirement for large companies to disclose on information about the climate risk management the within their supply chains.

Who: Commission, national legislative authorities.

Gap 3

Lack of reliable, frequently updated loss data, and details of vulnerability to climate-related risks.

Gap 3

Recommendation 1.4

Innovative financial instruments and IT-solutions to reduce transaction costs for climate-finance and insurance products.

How: Climate Finance Accelerators in the EU-countries should be established in collaboration between private sector, financial institutions, national and EU authorities.

Who: Ministries of Finance, Ministries of Environmental Protection, European Investment Bank, European Bank for Reconstruction and Development.

Lack of CCA and DRR finance

Recommendation 2.1

EU Green Bond Standard and EU Taxonomy on green projects with CCA and DRR components

How: Incorporation of CCA and DRR indicators and metrics into the EU Green Taxonomy and EU Green Bond Standard for labelling of the green debt financial instruments.

Who: Commission and High-Level Expert Group on Sustainable Finance.

Recommendation 2.2

Self-financing and crisis financing mechanisms with application of Distributed Ledger Technologies (short, DLT).

How: National DLT-based platforms for accumulation of the savings and facilitation of climate-related crisis financing.

Who: Ministries of Finance, Ministries of Environmental Protection, International Organisations.

Recommendation 2.3

Sovereign Climate Insurance Funds (CIF) with application of IBI and DLT

How: Sovereign Climate Insurance Funds (polls) could provide protection against climate-related risks through the state guarantees and public financial resources, contributions from the local level. Additionally, such SIFs allow an access to resources of the market financial by implementing innovative financial instruments (e.g., derivatives). The CIF should be able to issue sustainability, environmental impact, catastrophe, water and/or pandemic bonds (as additional source to public funds). Application of the catastrophe swaps could give an opportunity to transfer climate-related risks to the financial market via facilities of the European Financial Stability Facility or European Investment Bank (see Recommendation 2.2).

Who: Ministries of Finance, Ministries for Environmental Protection, UNFCCC, national authorities responsible for auctioning of the emission allowances, local/regional authorities.

Recommendation 2.4

Risk Transfer and data collection through European Risk Transfer Mechanism.

How: A DLT-platform on the EU-level for national and sub-national authorities/institutions in order to transfer climate-related risks to the financial market, collect and process related data (e.g. loss data, level of risks). Such data could contribute to reduction of transaction costs and improve management of climate-related risks on the EU-level.

Who: Ministries of Finance, Ministries of Environmental Protection, European Financial Stability Facility, European Investment Bank.

UNDRR recommendations for the EU Green Deal

Europe's opportunity to manage risk and build resilience.

“The future of Europe depends on how it manages the risk of climate extremes. The Green Deal should be instrumental to reduce risk and build resilience, by giving the political and legislative momentum to disaster risk reduction and climate change adaptation needed at European level.”

Recommendation 1

- Shifting the approach from reaction to prevention

Recommendation 2

- Creating coherence in policies, financing and implementation

Recommendation 3

- Investing in resilient infrastructure

Recommendation 4

- Fostering localized disaggregated data

Recommendation 5

- Addressing the mispricing of risk



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