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Strategies to Promote Finance for Adaptation and Disaster Displacement

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Challenges in Accessing Effective Financing Internationally

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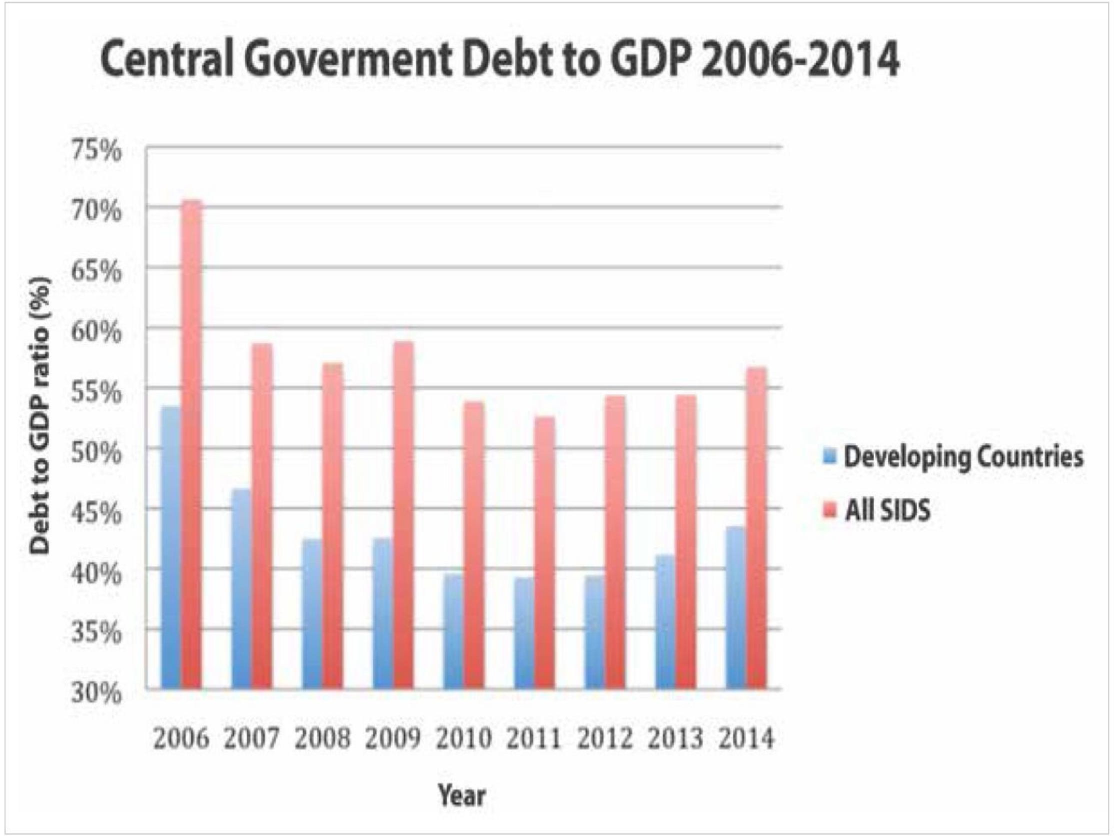
- Institutional and policy challenges
- Reliance on a limited number of donors and fragmentation of financing
- The cycle of limited capacities and low use of country systems
- Resilience funding tends to follow large disasters and is likely to fall short of needs
- **Complex requirements and processes for accessing and managing resources from global climate funds**

Access the funds bilaterally or multilaterally may cause a fiscal burden to the governments.



Source: IMF, World Economic Outlook 2015

Challenges in Accessing Effective Financing Domestically

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- Vulnerable groups are among the first to face the direct consequences of climate change, owing to their close relationship with the environment and its resources, political and economic marginalization, human rights violations, discrimination and unemployment.

Vulnerable groups often overlap economically poor groups.

Channels of Adaptation Finance (1/4)

- Traditional Methods - Multilateral Funds
- Disaster Risk Management Framework
- Insurance
- Incentives for Adaptation Finance
- Microfinance Solutions
- Green Bonds
- Adaptation Finance Innovation

Source: Center for International Climate Research (CICERO), Mobilizing Adaptation Finance in Developing Countries, 2017

Channels of Adaptation Finance (2/4)

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Tools	Challenges	Solutions
1. Traditional Methods - Multilateral Funds	• Low leverage factor for private capital	• Dedicated adaptation funds can help break down barriers to private investment
2. Disaster Risk Management Framework	• Uncertainty of the nature of the hazards	• Donor Support • Risk Pooling Initiatives • Catastrophe Bond and Swaps
3. Insurance	• Moral hazard • Insurance penetration is generally low in developing countries	• Technical assistance grants that promote the development of risk reducing initiatives • Capacity building programs to deepen the understanding of micro-insurance products

Source: CICERO, Mobilizing Adaptation Finance in Developing Countries, 2017

Channels of Adaptation Finance (3/4)

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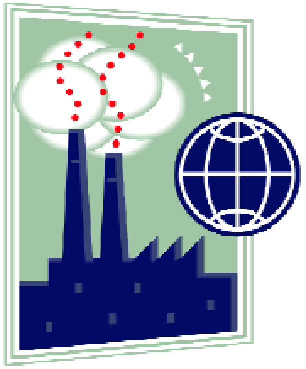
Tools	4. Incentives for Adaptation Finance
Challenges	adaptation projects are intangible
Solutions	Creating Demand through Vulnerability Reduction Credits (VRCs) proposed by Higher Ground Foundation.

Wealthy nations cap their emissions to meet climate targets, and may delegate caps to industry.



Extra reductions are calculated based on the countries' historical emissions that obliges them to pay to reduce climate vulnerabilities in developing countries or by lowering emissions.

The extra target can be met in any of four ways:

1. Reducing emissions at domestic facilities
2. Trading allowances from other capped nations or facilities
3. Purchasing credits for emission reductions in developing countries
4. Purchasing Vulnerability Reduction Credits (VRCs) generated by adaptation projects in developing countries

Allowances, emission reduction credits, and VRCs are measured:

Tonne of CO2 equivalent emission reduction, verified.

Tonne of CO2 equivalent emission reduction, verified.

Tonne of CO2 equivalent emission reduction, verified.

Accredited auditor verification of reduced climate vulnerability from baseline levels. The VRC is based on cumulative historical emissions/total cost estimate of global climate impacts; periodically reviewed.

All projects – reducing domestic emissions, reducing emissions in developing countries, and vulnerability reductions can be undertaken by any party, identifying any viable project if the baseline and emissions/ vulnerability reduction activity can be satisfactorily established, quantified, and verified.

Such a scheme may result in more efficient, innovative, and dynamic climate action that mobilizes resources from the polluters.

Source: CICERO, Mobilizing Adaptation Finance in Developing Countries, 2017

Channels of Adaptation Finance (4/4)

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Tools	Challenges	Solutions
5. Microfinance Solutions	• May not be able to incentivize pro-active adaptation due to sudden or slow onset hazards • Debt burden	• Capacity building initiatives and technical assistance grants for local NGOs which act as MFIs • Evaluating financial structures to ensure that micro-finance do not exacerbate the debt burden of local communities
6. Green Bonds	• Require sophisticated financial markets and high credit ratings for potential issuers • Few bankable projects suitable for bonds issuance	• Development of green bonds definitions and guidelines in new markets • Enhance the credit-worthiness of potential domestic markets and issuing entities (e.g., cities and municipalities)
7. Adaptation Finance Innovation	• Several of these initiatives are still being researched or are within the pilot phase of implementation	• More detailed analysis is not possible

Source: CICERO, Mobilizing Adaptation Finance in Developing Countries, 2017

Case Study 1:
Greenhouse Gas Management Fund in Taiwan

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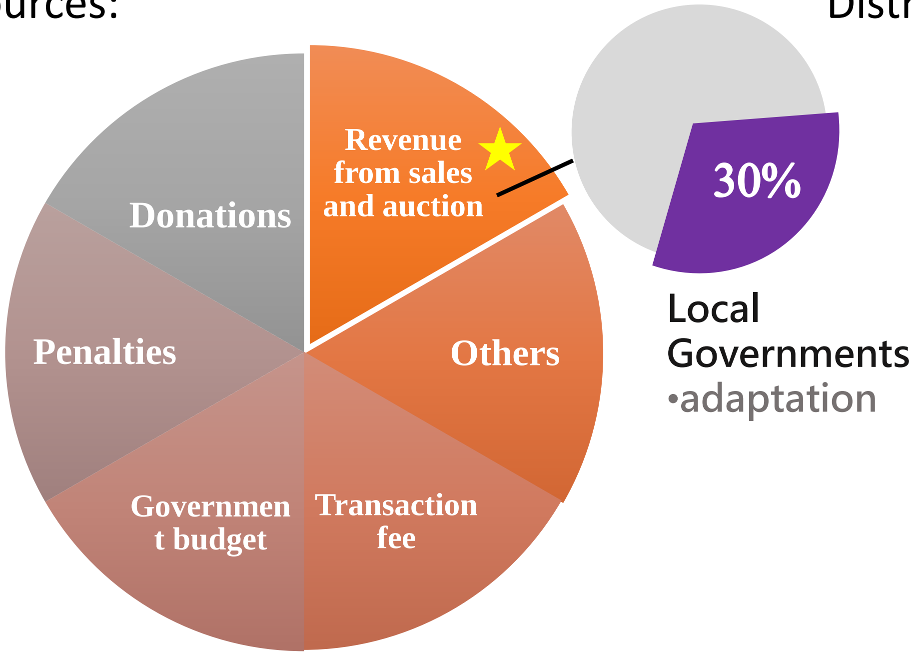
Sources:



- 32~144 millions USD (estimated)
- It is legally required that more than 30% of revenue from sales and auction of Emission Trading System (ETS) should be allocated to local governments for adaptation.

Distribution:

Mitigation
- GHG Reduction Implementation Program
- Performance Standards
- Offset Project
- Cap & Trade

Adaptation
- National Climate Change Framework
- Requires relevant government agencies to implement adaptation actions

Green Growth
- Encourage incentives and reward
- Boost the efficiency of resource and energy use
- Development of renewables

Case Study 2:
Songhe Community Relocation in Taiwan

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聯合勸募

United Way

Year	2004
Event	Two Typhoons stroke Taiwan and hugely impacted Songhe Community in Taiwan
Composition of Population	40% are indigenous people
Major Industry	Agriculture
Outcome	40 families were relocated to 40 new houses
Type of Funding	Donations form charities
Participants	central government, local governments, charities, residents

Case Study 3:
Madhesh Learns Initiative

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WDAC

Yunus Centre

台灣社會影響力研究院
Social Impact Institute of Taiwan

Year	2017
Event	Floods caused damage to the poor region , Madhesh in Nepal
Composition of Population	Dalits
Major Industry	Agriculture
Scale	300 households, 366 children
Outcome	200 students are able to go to classes run by 4 teachers from WDAC
Type of Funding	Around 11,826 USD, Donations from crowdfunding
Participants	NGOs, field partners, the public, residents

Conclusion：Time to promote bottom-up finance to complement the top-down approaches

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- **Micro and small-scale finance holds the potential to form a "base to base" climate finance stream, complementary to the "official" stream, on which most of the current climate finance discussion is focused.**
  - Public finance has advantage in the establishment of infrastructures.
  - Microfinance has advantage in tailoring supports to specific needs.

- **Think out of the box, innovative financing solutions such as crowdfunding can be an option：**
  - Crowdfunding represents a new and largely untapped source of private sector financing. Globally, over US$2.85 billion in donations were raised in 2015.
  - Mobilizing funding through crowdfunding and disbursing it through microfinance institutions (MFIs) can be a matter of days or weeks, considerably faster and lower in transaction costs than Official Development Assistance (ODA) .

Thank you

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