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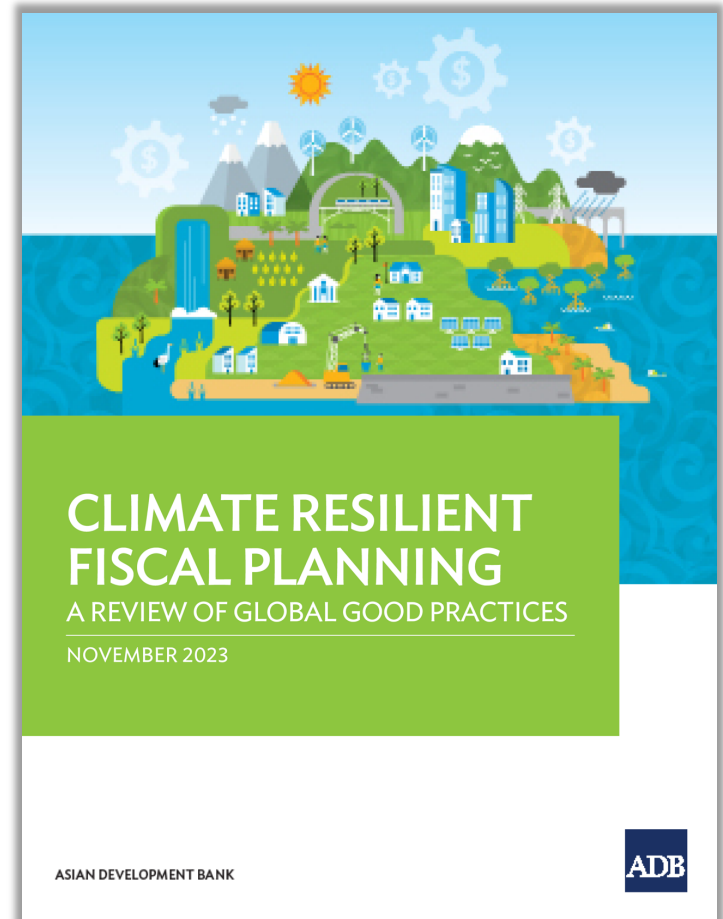
Climate Resilient Fiscal Planning

5 December 2023 (Tuesday)

1:00–2:30 p.m. (GMT+4)

ADB Pavilion, Zone B6, Building 73

Expo City Dubai, United Arab Emirates





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Presentation **Climate Resilient** **Fiscal Planning**



Nanki Kaur

Senior Climate Change Specialist
(Climate Change Adaptation)
Asian Development Bank

Climate Resilient Fiscal Planning: A Review of Global Good Practices



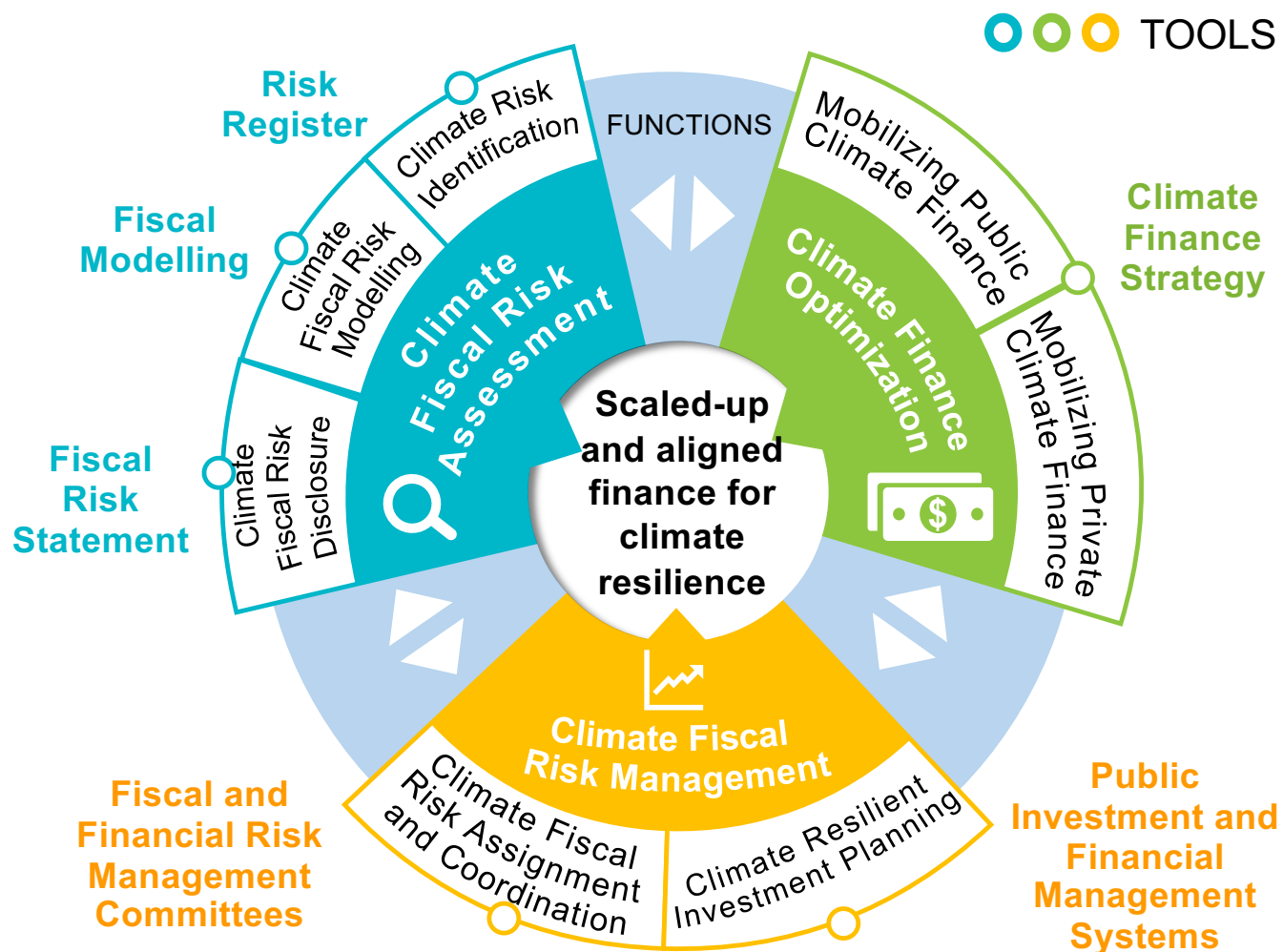
Climate Resilient Fiscal Planning Can Enable Central Finance & Planning Agencies to Scale-up & Align Finance with Adaptation



1. Effective investment in adaptation is critical to build resilience to the increasing impacts of climate change.
2. This will require **scaled-up** and **better programmed finance** to sustain economy-wide investment in adaptation as opposed to the current fragmented and incremental investments.
3. Climate resilient fiscal planning can enable CFAs to **mobilize** and **align** public and private finance for investment in adaptation.

Framework for Climate Resilient Fiscal Planning

The Framework identifies 3 functions to enable central finance and planning agencies to [scale-up](#) and [align](#) finance with adaptation and resilience.



Climate Fiscal Risk Assessment

Understanding climate-related risks and their transmission channel can help in formulating evidence-based fiscal strategy in response to climate change

Assessing direct and indirect impacts of climate risk for fiscal sustainability

- Coverage of **risks and impacts**
 - » Identification of risks - use of risk narratives
 - » Quantification of risk metric
- **Sensitivity and stress testing** to address climate change uncertainties and assess resilience of public finance
- **Forward looking implications** of how risks to public finance may evolve with climate change

Case studies:

1. Armenia's climate fiscal risk assessment
2. Simplified disaster stress testing in Micronesia to assess the resilience of debt sustainability.
3. USA climate related fiscal sustainability analysis to identify potential future impacts of key climate risks on federal spending by mid and late century.

Embedding climate-related fiscal sustainability assessment into practice

- **Public disclosure** to ensure climate risks are considered within a broader suite of systemic risks and are managed alongside other priority fiscal risk
- **Integration into macroeconomic modelling** (e.g., I-O model, CGE model) to identify primary and secondary impacts of climate risk on key economic variables and support consistent view of climate risk across ministries

Case studies:

1. Philippines annual fiscal risk statement impact of disasters, investment needs and ongoing risk management initiatives.
2. Denmark uses dynamic CGE model combined with models from sectors to assess impact of climate policies on GDP, wages and investments.
3. Pakistan's macrostructural model has included economic impacts of heat stress and floods on labor and productivity and how adaptation investments and reduce risks.

Climate Fiscal Risk Management

Risk management strategy for climate-related fiscal risk includes set of policies to reduce the likelihood or impact of risk to government revenue streams, disruption to the economy, or unsustainable debt and support adaptation investment.

Fiscal Risk Management

- **Risk assignment** to provide clarity on contingent liability, create incentives to invest in adaptation and understand overall fiscal exposure
- **Risk management** through risk reduction, risk retention and risk transfer. Developing fiscal health indicators to inform risk management needs, adopting risk layering to develop cost effective risk management strategies and adopting dynamic approaches.

Case studies:

1. South Africa's explicit contingent liability in PPP contract
2. UK Treasury has issued The Green Book to provide guidance on appraising policies by assessing costs, benefits and risks of alternate ways to meet government objectives.



Climate Finance Optimization

Increasing adaptation needs require large-scale resource mobilization from both public and private sources. Ministries of Finance can play two key roles in mobilizing adaptation finance and investment:

Mobilizing efficient public adaptation investment and financing

Budget Allocation

- Signalling action on adaptation in a pre-budget circular
- Incorporating climate-related risk information and scenarios in long-term budgets
- Tracking adaptation expenditure

Investment prioritization

- Cost-benefit & cost-effectiveness analysis
- Multi-criteria assessments
- Adaptive pathways & scenario analysis

Case studies:

1. People's Survival Fund, The Philippines
2. Nepal's climate budget tagging system
3. Armenia's Climate responsive Public Investment Management

Mobilizing private and international sources of finance

- Long-term **adaptation plans** complemented by financing strategy to communicate adaptation finance needs
- Leverage private sector actions in adaptation by developing specific **financing instruments** that de-risk and facilitate private investments, such as through blended finance and guarantees
- **Access to international climate finance** such as through issuance of green, resilience or blue bonds

Case studies:

1. Chile 2019 Financial Strategy on Climate Change.
2. SDG Indonesia One provides blended finance for investment in SDG linked projects.
3. Cape Town Green Bond in response to financing need stemming from 2015-2017 drought.
4. Fiji Sovereign Green Bond with more than 90% of proceeds allocated to climate resilience.



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Concluding Remarks

Future Work Under Coalition Adaptation Workstream



Sam Mugume Koojo

Assistant Commissioner (Statistics)
Macroeconomic Policy Department
Ministry of State for Finance Planning
and Economic Development
Government of Uganda



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Concluding Remarks

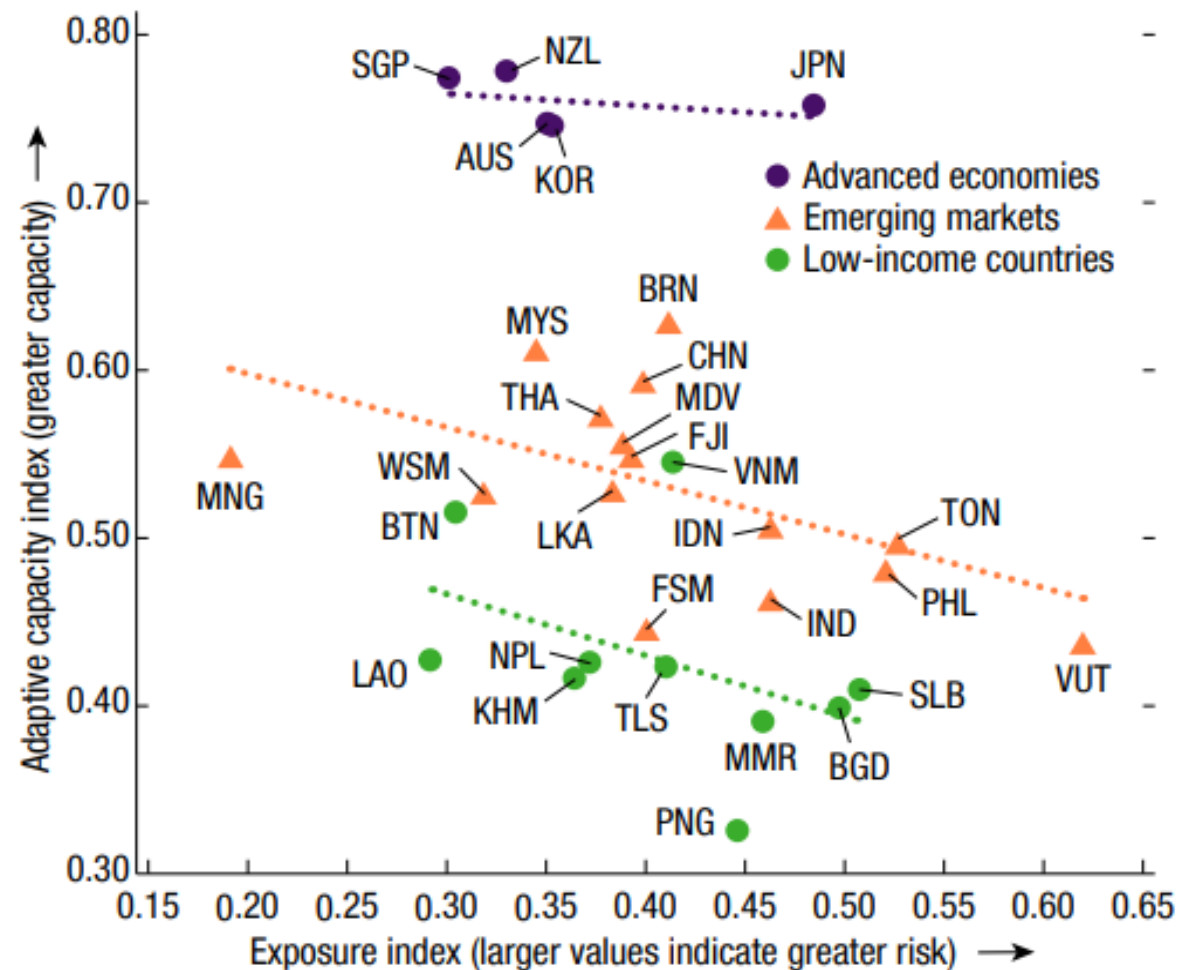
**Future of ADB Support
to Developing Member
Countries in Asia and
Pacific for Climate
Resilient Fiscal Planning**



Tariq Niazi

Senior Director
Public Sector Management
and Governance Sector Office
Asian Development Bank

Challenges Being Faced by Countries in Asia and the Pacific



Key Areas of Reform to Improve the Adaptive Capacity of ADB Member Countries

ADB

Climate
Fiscal Risks

Climate
Fiscal Rules

Climate
Budgeting
Tagging

Green
Procurement

Green Public
Investment
Management

Carbon
Pricing

Modalities for ADB to Support Fiscal Policy Reforms

- Policy Based Loans
 - Climate Policy Based Loans
 - Contingent Disaster Financing
 - Countercyclical Support Facility
- Sector Development Program
- Technical Assistance

