In 2018, heat records were set in almost all regions, from Asia to North America, Africa and Northern Europe. Wildfires, droughts, intense rainfalls, typhoons and mudslides brought with them human tragedies and disruptions to economic activity.

In a world already impacted by climate change, the global community still falls short of meeting the Paris Agreement’s goal on curbing climate change under the “well-below 2°C” target.

At this stage, it requires rapid, far-reaching and unprecedented changes in all aspects of society, according to the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5°C (SR15).

This means the global community gathered at the COP24 will have to agree a roadmap on how to shift trillions of euros to transform the global economy and decouple global economic growth from greenhouse gas emissions. And turn the economy from brown to green.
Contents

Sustainable finance now tops industry’s agenda 4

Tackling climate change will require ‘transforming the whole economy’, financiers warn 6

Finance for climate action is rising, but still a long way to go 8

Climate change and development aid: The economic case for prevention 10

‘Loss and Damage’ emerges as crunch item at COP24 12
Sustainable finance now tops industry’s agenda

By Karl Ludwig Brockmann | KfW Group

The climate targets of the EU and UN have moved sustainable financing to the top of the agenda of the banking and finance industry. This means banks and investors are called upon to provide green incentives and become more involved in saving the planet, writes Karl Ludwig Brockmann.

Dr Karl Ludwig Brockmann is the group officer for sustainability at German public bank KfW. In June 2018, he was appointed by the European Commission to the newly created Technical Expert Group on Sustainable Finance.

Transitioning to a sustainable society is the key challenge of our time. The role of the finance industry in supporting the necessary transformations is being discussed at national and international level under the banner of ‘Sustainable Finance’.

Two main impulses have been driving the topic for the past three years: the ‘Sustainable Development Goals’ to eradicate poverty and protect our planet that were adopted in the UN framework in September 2015, and the Agreement on Climate Change signed in Paris in December 2015.

Both require great efforts from the whole of society and significant

Continued on Page 5
A particularly active, key driver of the theme of sustainable finance is the EU, which published a far-reaching action plan and launched several legislative packages in May 2018. KfW is also a member of the Technical Expert Group that advises the Commission on implementing the legislative proposals.

The planned EU-wide classification system for ‘sustainable economic activities’ is a core element. This system is particularly important because it establishes a unified classification system and creates a common understanding among all stakeholders of what activities can be credibly classified as ‘green’ or ‘sustainable’.

This, for its part, is the most important lever for developing scalable financial market products and thereby enabling large volumes of private funds to be incorporated in the first place.

As a bank committed to responsibility, KfW sees itself as contributing to sustainability as a responsible employer, through climate-friendly and resource-efficient bank operation, and through its promotional schemes – all accompanied by comprehensive reporting on sustainability themes.

The ‘Roadmap Sustainable Finance’ working group was created in 2017 to strengthen KfW’s involvement on the financing side. Its task is to examine, on behalf of the Executive Board and with the involvement of all business areas, how sustainability can be anchored more firmly into the bank’s strategy and management.

Themes include a new sustainability mission statement, a steering concept for sustainable financings, the management of climate and other sustainability risks, a corresponding communication strategy and any necessary modifications to bank processes.

Continued from Page 4

financial resources to be mobilised. The EU, for example, estimates that EUR 180 billion has to be made available in additional investment funds each year to achieve its energy and climate-policy goals in transport and energy by 2030 (see infographic).

For banks, it is about much more than providing financial resources for sustainable investments in energy efficiency, education or poverty eradication. It is also about determining what projects should no longer be financed (such as coal-fired power plants), in what way sustainability aspects can be integrated when investing own funds (for example in liquidity management), and what impulses can be set on the funding side (e.g. with green bond issues).

But it must also be noted that all combined efforts of the finance industry cannot create a sustainable world. What matters is providing the right political stimuli and incentives in the real economy.

Every bank must ask itself – in its own best interests alone – whether its risk management is properly configured to meet the challenges of climate change. These could be physical risks such as extreme weather events that pose additional burdens on our customers.

They can also be transitory risks as soon as it becomes evident that customers’ business models are no longer viable, for example because tightening climate policies significantly reduce the prospects for companies from the coal, oil or natural gas industry.

On the other hand, the necessary transition towards a more climate-adapted and sustainable society also opens up many opportunities for commercial banks and promotional banks to attract new customers and develop new products such as sustainable retail funds.
Tackling climate change will require ‘transforming the whole economy’, financiers warn

By Claire Stam reporting from Katowice | EURACTIV.com

The global economy has to prepare for a profound transformation in the coming decades as the impact of climate change becomes more tangible, Zurich insurance experts told EURACTIV.com.

“Tackling climate change is about transforming the whole economy,” said Zurich Insurance Group’s Chief Risk Officer Alison Martin.

“We have to change the way we live, the way we move, how we spend our money. This is a profound transformation and the majority of changes are yet to come,” she said.

Johanna Köb, the head of Responsible Investment at Zurich Insurance Group, pointed out that consumers are becoming increasingly aware of climate change issues.

“They demand that businesses act more responsibly, act on climate change, and this public opinion turning is a fundamentally important concept because that means the impact of climate change can and will translate into political acts,” she stressed, highlighting the case of the Hambach Forest in Germany, where citizen action prevented RWE from razing a forest to build a coal mine.

GLOBAL TRANSITION STILL SHORT

But while extreme weather is on the rise worldwide, global climate action still falls short of hitting the Paris Agreement target of limiting global warming to “well below 2°C”.

“Our analysis shows that the likelihood of missing the Paris Agreement goals is higher than achieving it,” Alison Martin said. “Yet, the IPCC made it clear that we only have 12 years to act, that is a handful of years,” she warned, pointing out that 2017 was the most expensive year ever in terms of damages, with an estimated $300 billion global costs.

Both Martin and Köb stressed that climate change is one of the most complex risks facing society today, as it is inter-generational, international and interdependent.

“Whilst many solutions for the highly interconnected risks from climate change will need to be sought at a multi-stakeholder level, there are specific actions businesses can take and tools they can use,” Martin said.

To the question of what specific risks businesses are confronted with, Zurich’s Chief Risk Officer identifies two: the physical risks, linked to extreme weather events, and the transition risks, which are largely technology and policy-driven, she explained.

At the most basic level, physical

Continued on Page 7
risks management involves helping customers to prepare for the worst. That protection can include, for example, measures such as flood barriers or using building materials that are easier to replace if damaged.

Transitions risks imply being able to look ahead in the future, Alison Martin explained. “That means knowing about the company’s strategy in regard to the ongoing transition. For example, what about unexpected change, such as a change of legislation that could prove very impactful for energy producers,” she said.

Therefore, companies have to adapt to the consequences of climate change and define a strategic risk analysis on the type and scale of impact climate change will have in the mid to long term, she said.

“It is crucial for businesses to develop a climate resilience adaptation strategy and act on it,” Martin stressed.

**FINANCIAL LEVERAGE**

Because of the increasing impact climate change has on their business case, insurance companies are also taking action against global warming via their investment policies.

They are for example increasing their investments in green energy schemes such as wind parks, solar farms and hydro projects. Allianz had €5.6 billion invested in renewable energy at the end of 2017, while late last year Axa increased its target for green investments from €3 billion to 12 billion by 2020.

In 2017, as the first in private sector, Zurich announced its target to build an impact investment portfolio of 55 billion that complemented the exposure with impact targets: to help avoid five million tons of CO2 equivalent emissions and to improve five million people's lives on an annual basis.

A growing number have also pulled back from insuring thermal coal companies or divested from the coal sector.

“As a responsible investor, we use capital markets to search for and fund solutions to fight climate change, but also to answer social and environmental issues,” Johanna Köb explained.

She said Zurich Insurance’s investment strategy relies on three pillars: Environmental, Social and Governance (ESG) integration, Impact investing and collaborating with industry.

“For us, this is an economic approach and climate change is a red thread that runs through the three categories,” she explained.

“We are using a holistic view of financial, environmental, social and governance risks an investment entails to finally ask the question what should the truly risk-adjusted return be,” she specified.

**IMPACT INVESTING AND GREEN BONDS**

Köb put the focus on two specific financial tools Zurich is using: impact investing and green bonds.

Impact investment focuses on measuring the effect of the investment against a pre-determined goal – rather than simple sustainable investments.

Green bonds are financial instruments where the proceeds are invested exclusively in green projects that generate climate or other environmental benefits, for example in renewable energy, energy efficiency, sustainable waste management, or sustainable land use.

According to the Climate Bond Initiative, the green bond market has seen strong growth, with the market really starting to take off in 2014 when $37 billion was issued. In 2017 issuance reached $162.5 billion, setting yet another record.

Köb explained that Zurich aims to more than double its impact investments’ scheme up to $5 billion, which would avoid five million tons of CO2 emissions per year and improve the lives and livelihoods of five million people.

The move follows on from the Swiss insurance company's announcement back in 2012 of a $2 billion commitment mainly through green bonds, which it has now completed.

“Zurich has 1.4% of its asset invested in green bonds, financing renewable energy and energy efficiency projects,” Köb pointed out.

Zurich has approximately $200 billion of assets under management globally.

“We currently hold over 150 green bonds in our portfolio, from 90 issuers in nine currencies, supporting green projects ranging from renewable energy generation to sustainable real estate or water management improvements,” she explained.

Köb added that investments in social and sustainability bonds, which provide financing to projects and activities aimed at social issues beyond climate change, have also grown to over $400 million.

“Overall, our impact investment portfolio grew from $1.7 billion in 2016 to 3.2 billion in 2018, including not only green, but also social and sustainability bonds, as well as commitments to four private equity funds,” she said.
According to the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5°C (SR15), an additional 1.5% in global investment is needed to limit the global average temperature rise to 1.5°C above pre-industrial levels.

Yet, if already under way, the shift from a brown to a green economy still falls short to meet the Paris Agreement’s goals.

How to further and accelerate the decoupling of economic growth from greenhouse gas emissions is what at stake at COP24.

A 13% of the world’s 100 largest public pension funds have undergone formal assessment for exposure to climate-related risk. This leaves $9.8 trillion of assets unprotected from climate risks.

90 trillion dollars will have to be invested over the next 15 years in order to lead the world toward a more climate resilient future.

The approx. value of institutions divesting $7.18 trillion 

998 Institutions divesting

58,000+ Individuals divesting about $5.2 billion

That means that in 2018, these initiatives represent 19.3% of global GHG emissions

According to the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5°C (SR15), an additional 1.5% in global investment is needed to limit the global average temperature rise to 1.5°C above pre-industrial levels.

Yet, if already under way, the shift from a brown to a green economy still falls short of what is required to meet the goals of the Paris Agreement.

How to further and accelerate the decoupling of economic growth from greenhouse gas emissions is what is at stake at COP24.
Climate change affects developing countries more heavily, with broad impacts on the environment and the economy, insurers say, highlighting the need to act before damage is done.

“No degree of global warming is safe. Even at one degree [of warming] we’re seeing consequences for people, nature and livelihoods,” said Debra Roberts, who co-chaired the landmark 1.5°C report released in October by the Intergovernmental Panel on Climate Change (IPCC).

“The risks rise significantly with each additional bit of warming,” the scientist warned.

Roberts was speaking at the 16th edition of the Development and Climate days, which took place on 8-9 December on the sidelines of the COP24 in Katowice, Poland.

The conference highlighted the disproportionately higher impact of climate change on local communities that make a living from agriculture or coastal activities like fishing. It focused on four main themes: resilience, local knowledge, accountability, and financing adaptation while managing climate risks.

Continued on Page 10
risk.

Pin Meechaiya, hydrologist and senior project coordinator in the climate resilient department of the Asian Disaster Preparedness Center, explained to EURACTIV what the additional bit of warming Debra Roberts was referring to means for her own country, Thailand.

"In my work, I try to actually see the impact climate change already has on the ground and in Thailand, you can see it with mangoes," she said, adding that this is a significant commercial crop for her country that has already suffered from the effects of climate change.

"Since 2014, the rise in temperature increases the impact of thrip, an insect that feeds on Mango flowers which renders the fruit unsuitable for marketing," Meechaiya explained.

Until 2014, Thailand exported between 50 to 60% of its mangoes, with a price set at €3 a kg. Because of the reduced quality, Thailand is now exporting between 20 to 30% with a price set at €1, she said.

The Thai government was “a little bit panicked” by the fall in revenue, Meechaiya said. “Farmers have to use pesticides to fight thrips and this costs money of course and reduces their revenues,” she continued, while underlining that the Thai mango sector never had trouble before.

"It is a new sector of our economy that is being affected by climate change," she said.

**REVERSING THE DEVELOPMENT MONEY FLOW**

Commenting on financing, Michael Szöny of Zurich Insurance, underlined the cost efficiency of investing in prevention. “Beyond humanitarian life savings, and making lives more livable, there is an economic case that is if you invest early, you need less money to provide response relief and recovery,” he told EURACTIV.

Michael Szöny leads the Zurich Flood Resilience Alliance, which is a multi-sectoral partnership focusing on providing solutions to help communities strengthen their resilience to flood risk. The first phase of the program ran from 2013-2018 and the second phase started 3 July.

“Our numbers show that if you invest $1 upfront, before the event happens, then you save $5 on average in future losses. So you have this one to five cost-benefit evidence,” he underlined.

Focusing on prevention and resilience is particularly relevant for flood-prone areas, he said. “Floods affect more people globally than many other type of natural hazard. This is only going to get worse not only with raising temperature, but also with increases in population, urbanisation, and economic development,” he pointed out, stressing that flood risks are increasingly interconnected and interdependent.

"As it is, if you are looking at where the money is going, only 13% of spending goes into pre-event resilience and risk reduction, meaning that 87% goes into post-event relief,” he stressed.

And the figures are even worse when looking at overseas development aid. “Only 40 cents out of a $100 of development money overall goes into risk-informed development,” he said. “So we have an economic case here, but what we see is that in reality the money is going somewhere else,” Michael Szöny noted, underlining the necessity to reverse that trend.

“You want to make sure that more money is spent upfront so you need less money spent at the end, when the event has happened,” he stressed.

But this is only one aspect of how climate change impacts on development aid, he continues. “You also have to figure out how you can mainstream development being more risk-informed and how to make your investment more clever,” he added.

Presently, development money is divided into three different flows: climate finance, development financing, and risk financing. “They should not be separate because that means you are effectively spending development money three times,” Szöny said. “So you need to mainstream these three flows and make your investment more clever,” he stressed.

Szöny said Zurich was investing about $50 million in its flood resilience programme.

“That is not enough obviously since we are talking about an annual $100 billion within the climate negotiations. But we have to find a development funding that is climate smart,” he said. “In our case, we are asking how can we leverage $1 billion that is risk-informed development,” he noted.

Continued from Page 9
‘Loss and Damage’ emerges as crunch item at COP24

By Claire Stam reporting from Katowice | EURACTIV.com

There is still no clear picture in Katowice on how to provide a readily available funding mechanism for developing countries affected by extreme weather events.

“Loss and Damage” is turning into one of the most intensively negotiated agenda items in Katowice, said Reinhard Mechler, deputy director of the Risk and Resilience (RISK) research program at the International Institute for Applied Systems Analysis (IIASA).

“Nothing is clear at this stage of the negotiations,” he told EURACTIV.

A perennial issue in global climate talks, loss and damage is an item that divides rich and poor nations the most.

The core of the question is how to provide financial support to countries whose economies are too vulnerable to cope with the impact of climate change. In other words, how to finance and compensate the losses and damages that already occur and are irreversible.

One of the different financial structures discussed around ‘Loss and Damage’ is the idea of setting up

Continued on Page 12
climate insurances, explained Colin McQuistan, climate change and disaster risk reduction senior adviser at Practical Action, a development charity based in the UK.

“The question is how vulnerable people can afford to pay premiums,” he said.

At the COP21 in 2015, developing countries successfully fought to integrate loss and damage as a stand-alone item in the Paris Agreement, in article 8 of the text.

The article addresses concrete areas of cooperation and facilitation between developing and developed countries such as early warning systems, emergency preparedness, comprehensive risk assessment and management or risk insurance facilities, climate risk pooling and “other insurance solutions”.

“Loss and damage is currently being bracketed in most of the negotiations items related to the Paris Rulebook because developed countries are pushing back on this issue,” said Saleemul Huq, from the International Institute for Environment and Development.

The parties agreed to give the item a separate Article in the Paris Agreement, thus recognising its importance and making the issue independent from talks on adaptation to climate change, Huq told EURACTIV.

In Katowice, developing countries are now trying to prevent ‘Loss and Damage’ from being merged with adaptation. “Loss and damage must be reflected separately throughout the Paris Rulebook: in finance, accounting, transparency and the global stocktake,” he said.

“At COP24, the main agenda is the rulebook for the Paris Agreement with measures, reporting and verification (or MRV) being discussed on every negotiating items,” he continued.

“What developing countries are trying to do is to include ‘Loss and Damage’ in every of these negotiating items,” Huq said.

“This is because you cannot talk transparency without loss and damage, you cannot talk finance without loss and damage, you cannot talk mitigation without loss and damage, you cannot talk adaptation without loss and damage,” he explained. “So the developing countries’ negotiators are pushing for loss and damage to become integrated into every agenda item and they are getting pushed back”.

But the US and Europe “have refused to talk about ‘Loss and Damage’ on finance, arguing that the financial support issue should be focused on mitigation and adaptation only,” Huq said.

The topic will be discussed by the ministers who arrived in Katowice on 10 December for the high-level segment of the COP24.

“This is a very bad sign,” said Marie-Lena Hutfils, a policy advisor on climate risk management at German NGO Germanwatch. “It denies the reality of vulnerable countries who are already facing the worst impacts of climate change, which go beyond their capacity to adapt,” she said.

“We already see the devastating impacts of climate change today. It will therefore be crucial that loss and damage be significantly represented in the rulebook,” she said.

“The risks of future climate-related loss and damage for particularly vulnerable people and communities are far too severe to simply use loss and damage as a negotiation chip,” she added.