

22nd session of the Committee of Experts on Public Administration

Written statement by United Nations University — Institute for the Advanced Study of Sustainability (UNU-IAS)

Agenda item 5: Institutional mechanisms for providing economic, financial, and structural support to address climate change, reduce the use of fossil fuels and protect biodiversity

These inputs are based upon UNU-IAS research findings, including the following publications:

- Mahesti Okitasari and Richa Kandpal. 2022. [Budgeting for the SDGs: Lessons from the 2021 Voluntary National Reviews](#). UNU-IAS Policy Brief No. 32, 2022.
- Mahesti Okitasari and Akio Takemoto. Public Policies and Institutions to Support Private Climate Adaptation. UNU-IAS Policy Brief (forthcoming)
- Mahesti Okitasari, Wenjie Liu, Richa Kandpal, and Kanako Morita. Closing the Gap on City Climate Finance in Developing Countries. UNU-IAS Policy Brief (forthcoming)

Challenges and Recommendations at the Global Level

The private sector has a critical role to play in protecting biodiversity, by mitigating negative impacts, financing conservation and restoration efforts, and addressing biodiversity-related risks. It is important to recognize and harness the accelerating momentum on biodiversity conservation in the business and financial sectors. Since the Global Risks Report 2019 drew attention to biodiversity loss in the business arena, actors in these sectors have been considering how to reduce the risk caused by biodiversity loss.

The Taskforce on Nature-related Financial Disclosures (TNFD) will publish its complete framework in September 2023. This has strong potential to attract sustainable finance for landscape management, conservation, and restoration projects, and foster partnerships for these initiatives. Applying a standardised framework for reporting and disclosure enhances collaboration and sharing of information, including best practices. It is crucial for biodiversity conservation to ensure that the TNFD framework works effectively for positive biodiversity outcomes. This requires biodiversity education in the financial and business sectors. In addition to building technical knowledge, this should facilitate cooperation and mutual learning between these sectors, civil society, and academia.

Challenges at the National Level

- (a) Countries with high adaptation investment needs are characterised by high vulnerability or readiness.¹ There is a need to explore more strategies and instruments to de-risk adaptation investments to attract more private finance and engage the private sector in climate adaptation.

¹ Atkins. 2021. *Study on the Involvement of the Private Sector in Financing Climate Adaptation Actions*. https://europa.eu/capacity4dev/file/123578/download?token=rQWL_RBU

- (b) Private actors are unable to fully capture the environmental and social benefits that result from their investments. The problem is low market rates of return on climate projects (especially climate adaptation), or perception thereof, which results in unfavourable risk-return profiles that stifle investment. There is an expectation that the public sector will socialise reconstruction costs after climate or weather extremes.²
- (c) Public and private actors suffer from *information asymmetries* and *knowledge gaps*, reducing the incentive and ability to invest in adaptation. This barrier concerns a lack of, or limited understanding of, climate risk and vulnerability data, as well as uncertainty on where private investment is needed most and the measures that are currently available to address climate risks.³
- (d) The COVID-19 pandemic has underlined the urgent need to integrate SDGs into budgetary systems and address trade-offs in achieving the SDGs and climate commitment. As countries refocus priorities within budget constraints, integrating the SDGs into budgetary systems can enable a prudent assessment of expenditure regarding sustainability, affordability, and impact on future generations.
- (e) Conservation and sustainable use of biodiversity requires coordinated efforts across sectors, including national and local governments, businesses and financial actors, civil society, and academia. “Place-based perspectives” are critical, as protection of biodiversity is not only about global commons, but more importantly, about local commons. Landscape approaches — frameworks for inclusive, adaptive co-management of a given area, are gaining recognition in the global biodiversity arena, but broader adoption is needed to further realise their benefits.

Recommendations for the National Level

- (a) *Develop a national adaptation investment plan with bankable projects.*
A national adaptation investment plan should be developed in coherence with the country’s Nationally Determined Contributions (NDC) and National Adaptation Plan (NAP). NDCs and NAPs offer direction and policy signals for financiers and businesses seeking investments in climate-relevant markets. With improved public–private coordination, an NDC and NAP-informed national adaptation investment plan can drive concrete company action, provide an attractive pipeline of private investment opportunities, and enable policy and regulatory environments for private sector engagement.
- (b) *Calculate the cost of NDC actions to develop NDC-aligned bankable projects.*
In investment projects that bear financial returns, costing goes along with bankability, thus helping identify attractive projects to private investors. A critical point regarding adaptation cost estimates is that adaptation cost information in the NDCs and NAPs is considered highly heterogenous and needs more transparency regarding the underlying assumptions and methodologies. Most of these plan-based estimates either need a method description or are simple aggregations of the budget of proposed adaptation actions.
- (c) *Design strategies to de-risk climate investments.*
Developing strategies to de-risk climate investments is necessary to create bankable climate mitigation and adaptation projects. Such strategies are country context and project specific.

² Stout, S. 2022. *Unlocking Private Sector Adaptation Finance*. Climate Policy Initiative Blog. 23 February 2022. <https://www.climatepolicyinitiative.org/unlocking-private-sector-adaptation-finance/>

³ Ibid 2.

Financial risk evaluation is needed before designing de-risking strategies, as lenders typically evaluate projects using risk metrics. Enacting regulations and institutions can mitigate risks relevant to potential significant public debt increases following public equity capital provision and public-private partnerships (PPP) investments (macro risks). Hard limits on the state's contingent exposure could address this risk. For example, the PPP law in Uruguay caps the state's total PPP liabilities and fiscal transfers to private operators to 7% and 0.5% of the preceding year's GDP.

(d) Conduct public budget and investment accounting to strengthen linkages between climate change adaptation and mitigation projects and the SDGs.

Climate-SDG accounting is another potential innovation to overcome institutional barriers to accessing climate finance. A precise accounting of outlays on public services/investments contributing to SDGs and climate mitigation and adaptation can provide information to identify the scope of financing gaps, strengthen the linkages between climate adaptation and mitigation projects, and improve alignments between climate and SDG investments. Policymakers can utilise assessments such as Public Expenditure Review (PER), Public Expenditure and Institutional Review (PIER), and Public Investment Management Assessment (PIMA) in cross-cutting areas promoting biodiversity, climate action, and gender equality to gain a better picture of the investment gaps. The results should be used to develop appropriate platforms to connect potential stakeholders and beneficiaries. Adjustments to Financial Management Information Systems (FMIS) may be needed better to link climate-SDG costing and budgeting with investment.

(e) Integrate SDG targets into programme budgets.

Following budget and investment accounting, integrating SDG targets into the budget programme can further inform policymakers on the effectiveness and efficiency of budget intervention supporting the SDGs and climate commitments. Policymakers must incorporate the SDGs into regular budgeting processes to support progress on each SDG target and SDGs-aligned budget post. For example, a strategy implemented in Colombia is utilising Development Finance Assessment (DFA) to link SDG indicators with the government's annual work plan and budget.

(f) Establish platforms to combine multiple sources of finance.

Tools and platforms to combine multiple finance sources are needed to strengthen international and regional financial cooperation, particularly for countries that rely on international financing. For example, Antigua and Barbuda has established a Sustainable Island Resources Framework Fund to channel international and domestic funding towards environmental and climate goals.

(g) Advance implementation of landscape approaches.

Landscape approaches should be incorporated into National Biodiversity Strategies and Action Plans (NBSAPs). This can also bring co-benefits for addressing climate change and reducing the use of fossil fuels. UNU-IAS is advancing national efforts by developing guidelines for incorporating landscape approaches into NBSAPs, and supporting their implementation by Parties to the Convention on Biological Diversity.

Monitoring and evaluation of NBSAPs implementation are crucial to identify areas in need of improvement. Effective monitoring requires a systemic data collection mechanism engaging various stakeholders, applying technology including Geographic Information Systems.

Challenges at the Subnational Level

- (a) Realising the significant potential and scalability of subnational climate finance depends on meeting the preconditions to mobilising financing instruments, including national policy frameworks, governance, and choices.
- (b) Many subnational governments in the global North have access to well-developed domestic, if not international, capital markets to raise and steer finance for urban investment. Whereas cities in developing countries need more functional capital markets and credit worthiness.⁴
- (c) Investments in *ex-ante* urban climate adaptation may prove less attractive to private finance than other opportunities because of their long maturities and high potential risks. The economic returns of such investments are primarily through reducing losses from climate impacts, which are difficult to measure. In any case, these investments are more attractive to development finance institutions than they are to private finance.⁵
- (d) Insurance sector engagement in climate action remains in its infancy. To date, it has not been sufficiently engaged in cities to transfer risk or incentivise adaptive action efficiently, and the private insurance industry is facing considerable risk associated with the accelerating impacts of climate change in cities.⁶

Recommendations for the Subnational Level

Any solutions to improve subnational governments' access to climate adaptation finance and develop new financing instruments should be accompanied by efforts to improve the governments' finances (including their own-source revenue, investment plans and financial management capacities). In turn, these efforts will strengthen the governments' creditworthiness and ability to develop bankable projects. Stable and transparent revenue and intergovernmental transfer can reduce investment risks and attract external finance. Subnational investment and long-term financial planning help administrators to reduce financial and project uncertainties.

- (a) *Develop subnational climate finance plans and investment strategies in alignment with national climate policy.*
Strategic long-term visions and medium-term goals can help subnational governments to prioritise investments and improve investment decision-making. Aligning these goals with national climate policy will ensure the support of national policymakers. Before preparing a climate finance plan, subnational governments should develop a climate finance taxonomy aligned with SDG finance and other global standards and build project management platforms. Such taxonomies consist of criteria to evaluate how financial assets will support given climate goals.
- (b) *De-risk urban projects through public finance and utilise financial instruments.*

⁴ IPCC. 2022. *Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change.*

<https://www.ipcc.ch/report/ar6/wg2/>

⁵ Ibid 4.

⁶ Ibid 4.

For large and medium-sized cities with sufficient revenue, de-risking urban projects through public finance and utilising financial instruments like blended finance can encourage private investment. De-risking modes for urban projects in developing countries are limited; they include co-financed PPPs. For example, implementing transport-oriented development through PPPs requires cities to establish a special purpose entity to distribute risks transparently.

(c) *Establish prudent regulations.*

Increasing subnational creditworthiness requires policymakers to improve legal and statutory rules, control and oversight, operational and financial autonomy, the rigidity of expenditures, demand for capital investment, and access to third-party funding.

(d) *Conduct accounting, financial management and information disclosure.*

In the medium to long term, publicly available audited accounts and financial plans will help improve subnational governments' creditworthiness and financial management. Unattractive and inadequate risk-return investment profiles can be adjusted by linking financing to the achievement of measurable, pre-agreed results, to strengthen accountability in project development. One strategy is to promote greenhouse gas (GHG) emissions accounting and climate-related information disclosure, in alignment with global standards such as GHG protocol and the Task Force on Climate-Related Financial Disclosures.

Improvements in accounting and information disclosure may be necessary to set up loans to finance large capital investments or issue municipal or subnational bonds. Regardless of city size, improved accounting and financial management transparency lead to a virtuous cycle of trust and further revenue generation.