18/12/2024

UNEP Finance Initiative

PRB Climate Adaptation
Capacity building programme

Asia Pacific region

Workshop 2#:
Practice targets and action plans

Overview of the programme

Workshop 1
4 December
Adaptation for FIs
Understanding your context and setting your baseline

Voluntary exercise

Workshop 2 (today)
18 December
Practice targets
Implementation and action plans

Follow-up workshop in 2025

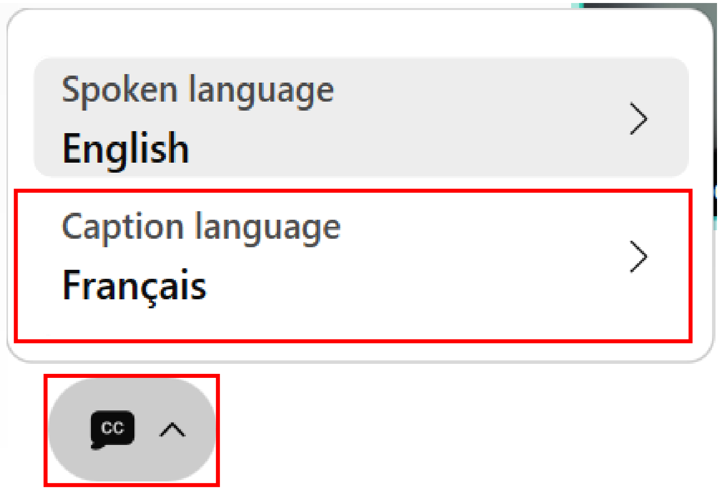
Agenda of today’s workshop

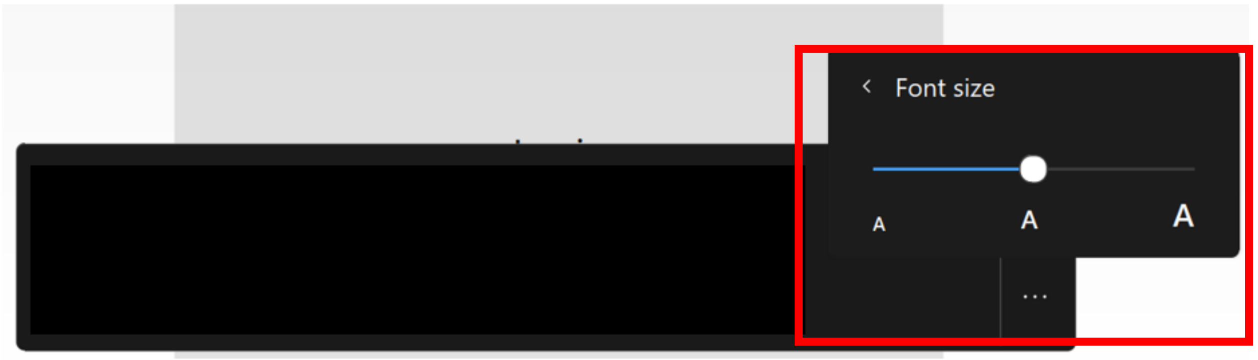
- Recap Workshop 1#
- PRB Bank peer sharing
- Deep dive on client engagement
- Business opportunities
- Step 3: Setting SMART practice targets
  - What practice targets are
  - Briefly on impact targets
- Step 4: Developing adaptation action plans
- Implementation - Summary

Housekeeping rules & other information

- Slides and the recording will be shared after the workshop
- Please mute yourself during the workshop to avoid background noise
- Question and comments highly welcome during the session! You can
    - Raise your hand in Webex if you want to speak up (anytime)
    - Post questions in Webex chat (anytime)
    - Post questions on Slido.com (voting code: **777 555**) (anytime) – Slido is anonymous, so you don't even need to mention your name

WebEx Translation





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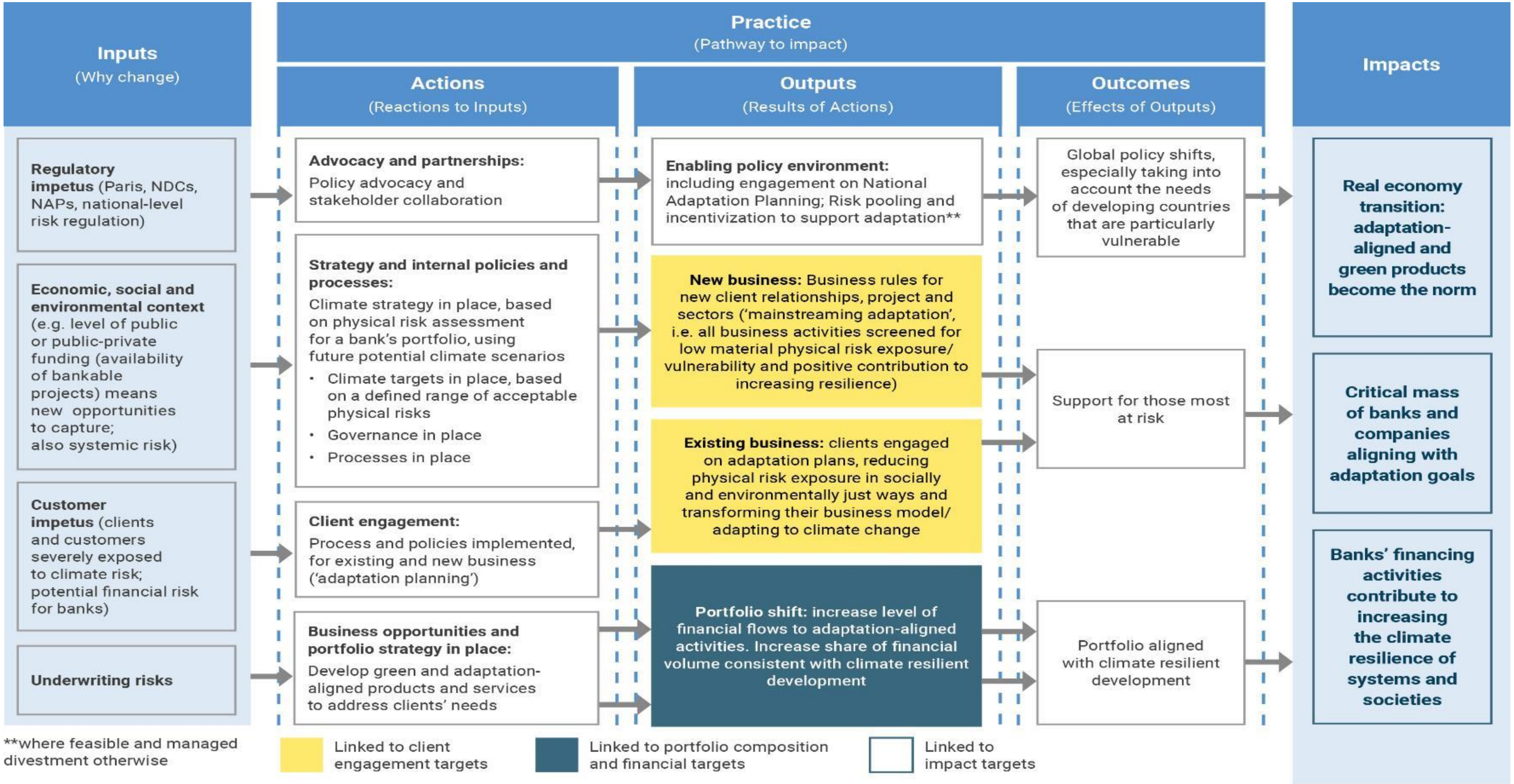
- Limit of 6 languages per meeting

Recap the PRB theory of change



Recap steps to set targets

1

Understand the context

Understand the **climate adaptation policy context**, through national and regional adaptation planning and assessment frameworks and identify the most relevant goals and frameworks to align with.
→ This step helps **banks identify priorities for climate-resilient development in their operating contexts**.

2

Set a baseline

Use climate risk assessments and scenario planning to understand climate impacts relevant to clients and own portfolios, utilising regulatory and/or supervisory approaches where these already exist.
→ The results of the assessment are used to **identify priority regions and sectors for developing adaptation measures.**

3

Set targets

Set targets that aim to align finance and investment with global goals and support national adaptation plans.
→ The example targets contained in the guidance focus on **internal strategies, policies and processes including climate risk management, client engagement and financing**.

4

Develop action plans

Develop **adaptation action plans, embed in internal processes, and set performance indicators** for tracking progress**.** Consider **interlinkages with climate mitigation, nature, and socio-economic development.**
→ The output of this step is a **roadmap and internal strategy towards achieving the targets.**

Targets and actions are suggestions. Banks may individually take these forward based on their own business and regional context.

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If you had any learnings or takeaways, could you share them briefly?

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Principles for Responsible Banking

Deep dive on client engagement

Client engagement – mapping client context in the agriculture sector

Sub-sector

- Crop production
- Horticulture
- Forestry production
- Animal Husbandry
- Aquaculture
- Cellular agriculture

Commercial propositions

- Current Ag.-related financial product
- Adaptation informed portfolio

Value chain components

1. Planning and Management
2. Inputs
3. Production
4. Trading, storage & processing
5. Logistics
6. End markets

On-farm

Off-farm

Client segments

- Small Holder Farmers (SHF)
- MSME
- Large corporates

Engagement modalities

- Client-based engagement
- System-based Engagement

Banks must keep each of these dimensions in consideration when designing a fit-for-purpose Agriculture Adaptation strategy and implementation plan

Client engagement – value chain as a frame of reference

	On-farm			Off-farm		
Value chain stages	**1. Planning and Management**	**2. Inputs**	**3. Production**	**4. Storage & Processing**	**5. Logistics**	**6. End markets**
High-level activity, value add	Organising the activities and stakeholders (as required) involved in producing, processing, and delivering agricultural products from the farm to the end consumer	Production, sale and distribution of inputs to support Agricultural production – seed, fertiliser, pesticides feed etc.	Growth/development of commodities followed by the harvesting/value realisation of raw material outputs generated	Consolidation of outputs as an 'offtaker' and refinement of raw materials to produce consumer goods/end products	Organising and orchestrating the transfer of goods from/to storage and processing premises to reach end users	The end consumer of produced and manufactured goods
A&R considerations for actors	Identification, assessment and management of PCR across the value chain activities and stakeholders	Climate change is likely to compound agriculture's existing impacts by shrinking harvests, reducing the effectiveness of synthetic inputs like fertilizers, and accelerating the damage caused by crop pests and soil erosion, necessitating increased application of fertilizer and pesticides to maintain productivity, with knock-on effects for surrounding ecosystems[1]		Diminished Agricultural yields/outputs leading to reduced supply and lower throughput for Storage and Processing, and Logistics actors. Organisations operating in these Value Chain stages are also likelyy to and Increased likelihood of PCR events e.g. flooding or wildfire, further negatively impacting their business operations		Increased cost burden due to increased costs across the value chain and reduced product availability

1. Nature.org

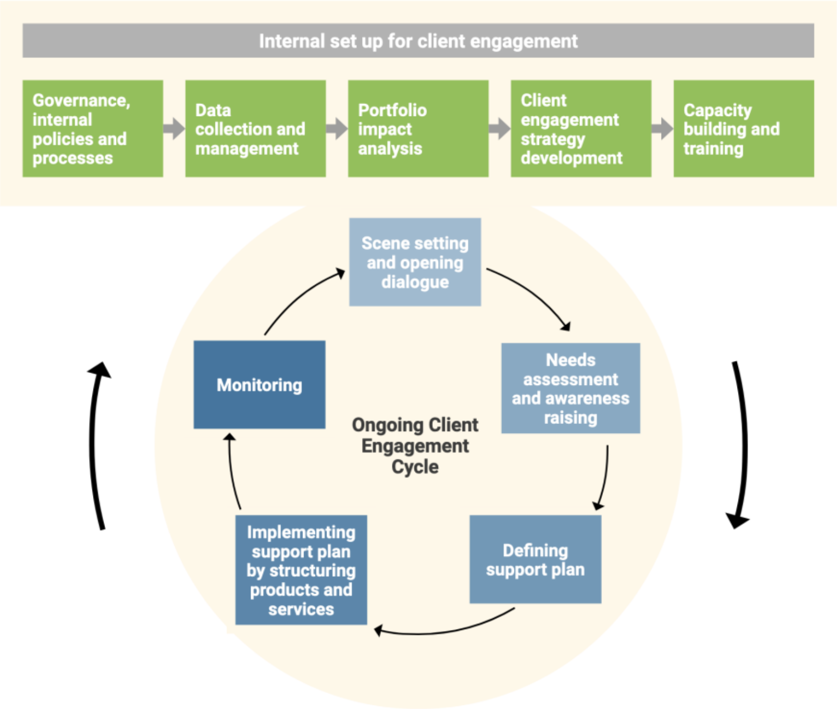
Client engagement – engagement pathways and actors

Engagement pathways and actors		Characteristics and considerations for banks engagement
Client-based engagement	SHF	Typically high-volume, diverse stakeholder group, requiring significant outreach and engagement capabilities to successfully engage. Partnership with specialist organisations may be beneficial to banks with SHF client engagement
	MSME	May carry significant upstream and downstream value-chain dependencies, increasing the imperative behind effective Exposure, Sensitivity and Vulnerability assessment in In-depth Due Diligence
	Large corporates	May operate vertically integrated value chains, owning the operating entities across the value chain, providing resiliency in some contexts but also potentially increasing concentration risk in others
System-based Engagement	Banking Industry Bodies and Expert Groups	Banking Industry Bodies and Expert Groups that engage with Government and Local Authorities, providing bank Agriculture A&R finance experiences and perspective to inform government/authority policy
	Farming Organisation and Associations	Substantial advocacy body across markets, campaigning for farms and farming welfare, and improved economic outcomes for farmers. Can be an effective working group partner for banks to understand industry challenges and needs – may intersect with Banking Industry Bodies and Expert Groups depending on market context
	Regulators or Monetary Authorities	Existing financial and operational oversight function which can be leveraged to highlight observed Agriculture sector A&R financing challenges and needs at a national governance level
	Government	National Adaptation Plans may act as a reference point to inform Agriculture A&R portfolio and product strategy, and align with national targets
	Local Authorities	Engaging with Local Authorities to validate and ensure appropriate service provision for Agriculture stakeholders across the value chain

Client engagement – implementing the PRB approach

PRB client engagement cycle

Scene setting and opening dialogue → Needs assessment and awareness raising → Defining support plan → Implementing support plan by designing products and services → Monitoring



Institutional strategy for client engagement

Individual client engagement process

Client engagement – implementing the PRB approach

EXAMPLE: Resilience-linked loan development in horticulture –
actors and activities across the engagement cycle (hypothetical) and risk assessment

PRB client engagement cycle

Scene setting and opening dialogue → Needs assessment and awareness raising → Defining support plan → Implementing support plan by designing products and services → Monitoring

Worked example approach

Cycle stage	Portfolio PCR assessment and Adaptation strategy development	Scene setting and opening dialogue	Needs assessment and awareness raising	Defining support plan	Impl. support plan by designing prod. and serv.	Monitoring
Bank adaptation Activity	*Undertaking portfolio PCR identification and assessment, followed by development of adaptation strategy to manage identified risks*	*Laying out broader vulnerability context of agri assets and cost of inaction for clients alongside regulation and disclosure expectations and requirements*	*Defining materiality with the client, and activities in scope for adaptation action*	*Adaptation action plan development in collaboration with client*	*Individually structured finance products/solutions focused on agri-resilience expectations*	*Tracking company-wide agri-risk governance and reporting against a set of KPIs across a pre-agreed timeline*
	EGU European Geosciences Union	ABC Bank; FMO Entrepreneurial Development Bank	Kenya National Adaptation Plan 2015-2030; KENAFF	Oserian Flowers; kenya flower council	NWP Netherlands Water Partnership; CGIAR	European Commission; ICMA
	Providing scientific input on physical climate risks to agricu	*Scoping potential resilience-linked loan opportunities and engaging with partners. Ensuring products are bankable/risk-tolerable*	*Defining locally relevant resilience metrics and targets for sustainability-linked loans*	*Providing input on horticulture sector needs and opportunities for resilience-linked lending*	*Providing implementation guidance for setting resilience KPIs, based on expertise and contextual piloting/research*	*Monitoring adherence to:* *- EU taxonomy and reporting standards* *- ICMA SLL principles*
	Climate Bonds Initiative					

Defining A&R criteria specific to horticulture aligned with national taxonomy

Business opportunities

Managing identified risks

Accept
Absorb climate-related losses from credit defaults or delinquencies in own balance sheet

Avoid
Withdraw from certain communities or entire regions which are highly exposed to physical climate risk, either temporarily or permanently

Adapt
Increase resilience against specific natural perils, either through community infrastructure or site-specific modifications

Transfer
Hedge potential losses from loan defaults or delinquencies to protect the own balance sheet as well as providing financial relief services to borrowers

- Avoid divestment; instead, support resilience measures, such as business planning for relocation in vulnerable regions.
- Promote financial innovation to mobilize additional capital for adaptation.
- Prioritize “no regret” activities that benefit adaptation and do not harm other sustainability objectives.
- Ensure transparency and accountability in monitoring progress against targets.

As per our previous sector examinations, banks must develop A&R informed Agriculture portfolio strategy and assess financial products to address true client needs

Current Ag.-related financial product

Term Loans
Short to long-term loans for agriculture investments

Working Capital Loans
Short-term loans for operational expenses

Warehouse Receipt Financing
Loans secured by stored agricultural commodities

Agriculture Insurance
Crop, livestock, and weather index insurance

Derivatives
Hedging instruments for managing price and weather risks

Green Loans
Financing for environmentally sustainable practices

Sustainability-Linked Loans
Interest rates tied to sustainability performance

Portfolio strategy development

Integrate climate risk assessments and scenario analysis to identify crops and regions most vulnerable to physical climate risks

Develop adaptation finance strategies to support farmers in adopting agricultural resilience opportunities

Align lending portfolios with national/regional adaptation plans and NDCs (Nationally Determined Contributions) that include agriculture as a key sector

Review and incorporate the resilience components of transition plans, including those of bank counterparties, to ensure alignment and support for their adaptation efforts across the portfolio

Set targets for climate-smart agriculture and livestock financing, balancing transition and physical risk realities

Partner with research institutions to identify and pilot innovative adaptation solutions across contexts

Illustrative Output – Crop Production

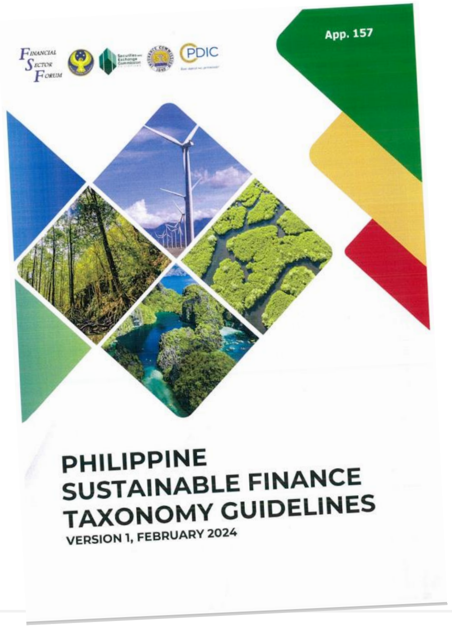
Development of credit scoring models that incorporate physical climate risk factors, such as drought frequency and water stress, to assess the creditworthiness of borrowers in water-intensive crops like sugarcane.

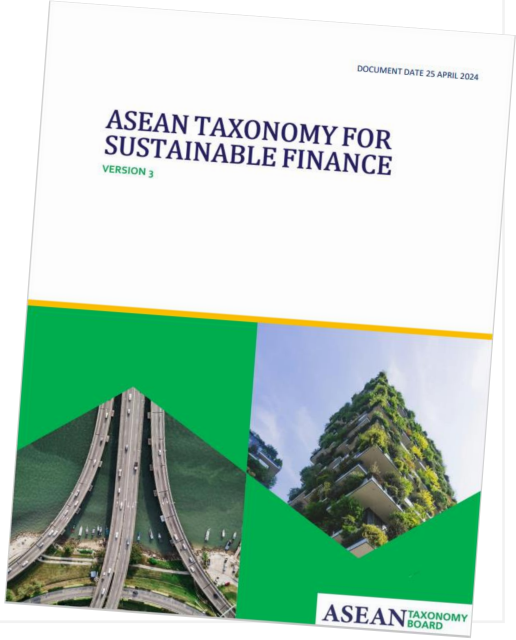
Taxonomies are key to identify opportunities and assess transactions

National taxonomies

Top-down
Duplicated from existing taxonomies and adjusted for local needs.

Bottom-up
Developed in partnership with local industry associations, public administrations, NGOs, community groups to incorporate national priorities.

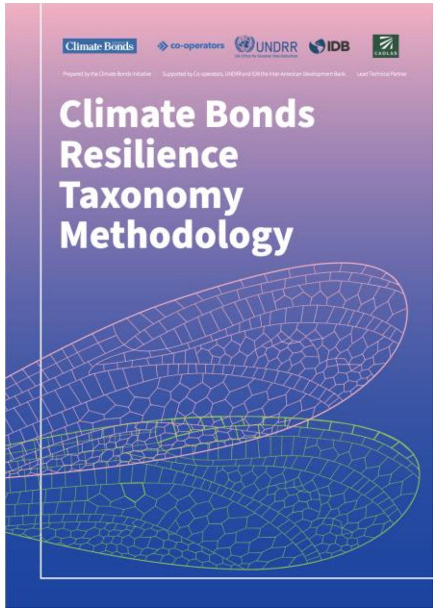


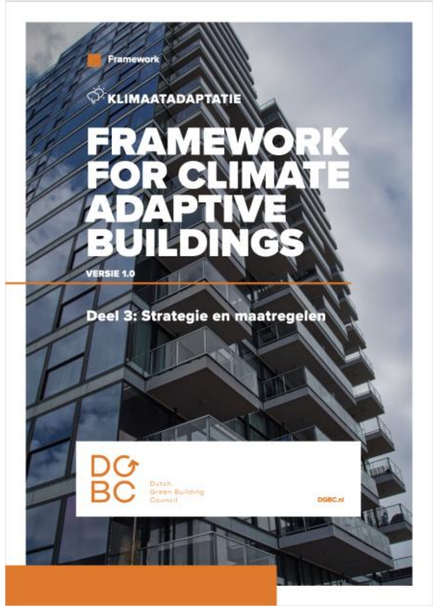


International taxonomies

Financial product-specific
Developed to meet needs of specific financial products, such as fixed income products, credit lines

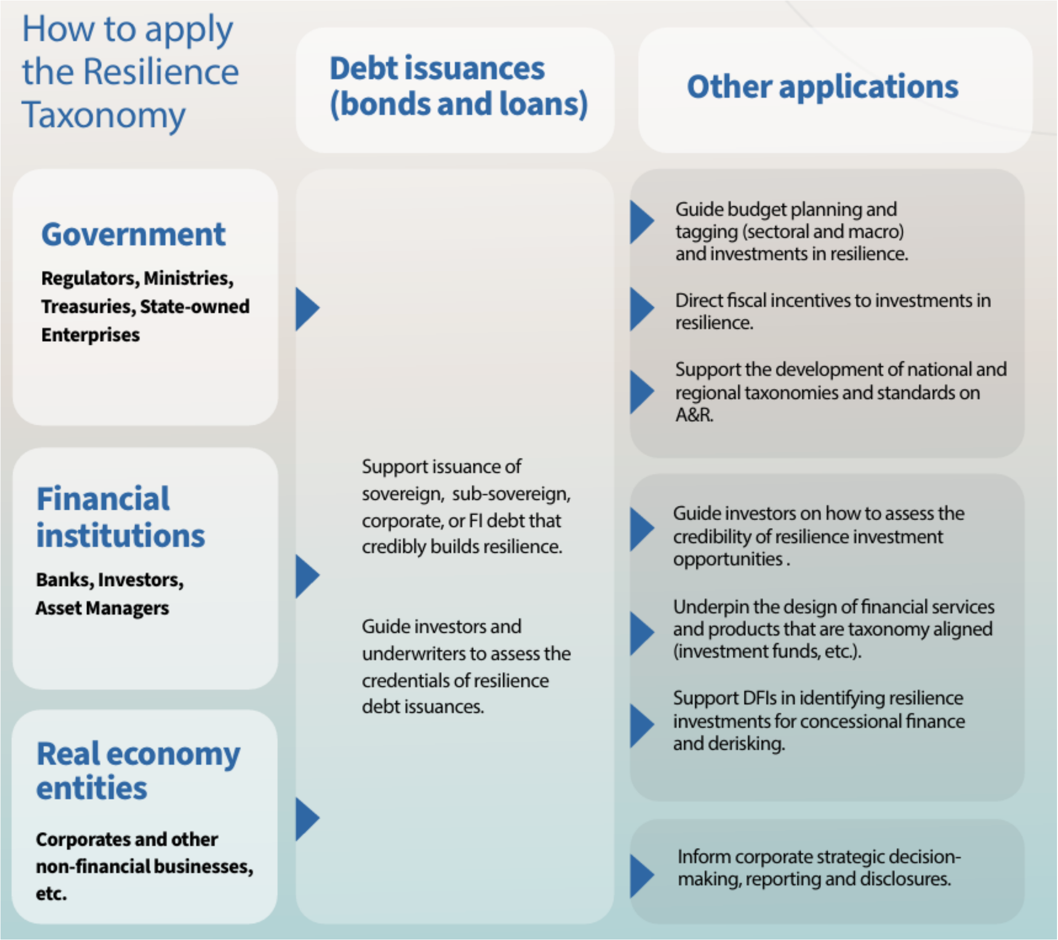
Sector specific
Often developed by industry bodies to deliver specific sectoral needs





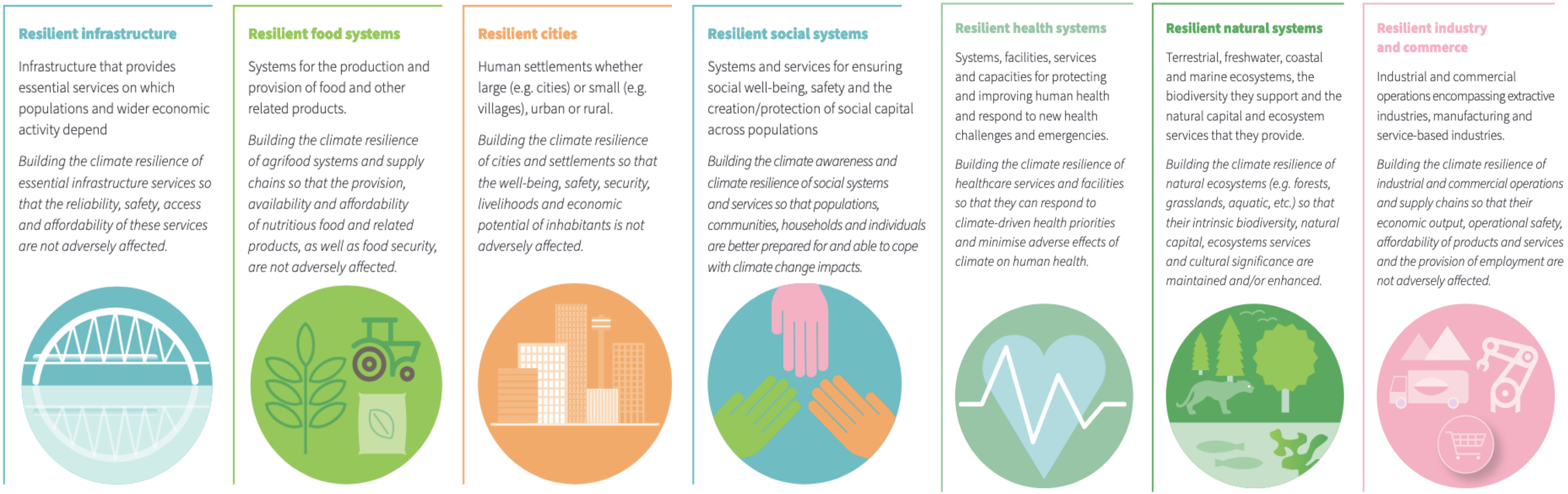
Taxonomies are key to identify opportunities and assess transactions - CBRT

- The CBRT aims to accelerate global capital flow into resilience investments by offering clear definitions, science-based criteria, and a common framework, facilitating the identification and development of impactful adaptation and resilience (A&R) projects.



See [Climate Bonds Resilience Programme | Climate Bonds Initiative]

Taxonomies are key to identify opportunities and assess transactions - CBRT



See Climate Bonds Resilience Programme | Climate Bonds Initiative

Climate Bonds Resilience Taxonomy: Agrifood Insight

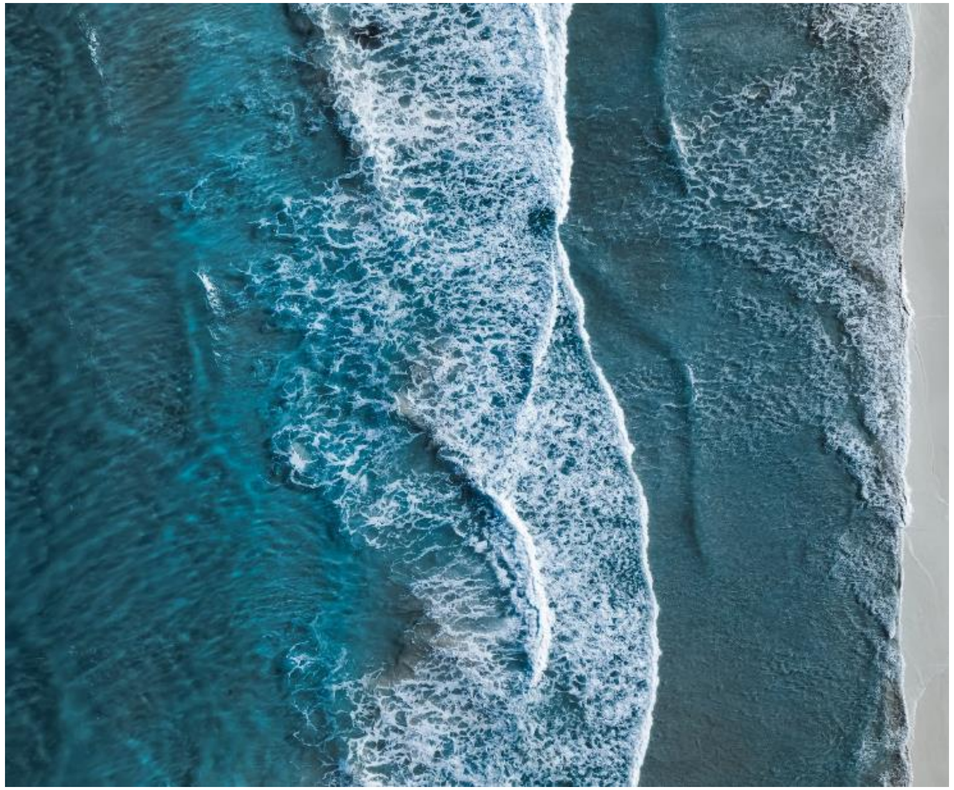
PRIMARY Climate Resilience Theme	PRIMARY Sector	PRIMARY Sub-sector	SECONDARY Sector	Investment	Investment type	Suggested screening criteria [all TBC by TWG]	Climate Hazard Consequence
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Conducting R&D for new cultivars	Adapting Measure	Total expected yield performance under [x]oC increase in temperatures against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Creation of cool farm workforce shelters and housing	Adapting Measure	Temperature reduction potential of [x]oC/m2 against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Field testing new crop cultivars	Adapting Measure	Total expected yield under [x]oC increase in temperatures against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Implementation of controlled environment agriculture with cooling/ventilation	Adapting Measure	Temperature reduction potential of [x]oC/l against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Installation of upgraded seed storage capacity	Adapting Measure	Amount of seeds stored in stable temperatures [x]kg against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Installation of HVAC and cooling systems in storage spaces	Adapting Measure	Temperature reduction efficiency of [x]oC/m2 against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Scaling up production for new cultivars	Adapting Measure	Total expected yield under [x]oC increase in temperatures against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Upgrading harvested crop storage	Adapting Measure	Heat resistance of crop storage unit materials in [x]oC/t against business as usual	Heat Stress
Resilient Agri-food Systems	Agricultural production	Crop production	Agri-food logistics, processing & retail	Constructing / expanding / operating / upgrading agricultural production assets	Adapted Activity	Integration of investment-appropriate measures for hazard resilience	Heat Stress

Addressing Negative Impacts: Maladaptation and DNSH

- Screen adaptation projects for potential social and environmental harm, considering "leave no one behind" and DNSH principles.
- Maladaptation can result in adverse impacts like increased vulnerability, enforced migration, and loss of biodiversity.
- Use scenario analysis and maladaptation checklists to assess risks and avoid negative outcomes.
- Consider impacts on vulnerable communities and ecosystems, and ensure consistency with long-term adaptation goals.
- Screen for high-regret themes like land and water misuse in adaptation measures.

Building Capacity and Embedding Safeguards

- Raise awareness of maladaptation, DNSH, and "leave no one behind" concepts in decision-making.
- Embed these concepts into transaction screening and due diligence processes.
- Conduct comprehensive environmental and social assessments to identify risks of maladaptation.
- Engage local communities in designing adaptation measures and ensure inclusion of vulnerable groups.
- Evaluate long-term sustainability and alignment with adaptation goals under different climate scenarios.



Step 3:
Set SMART practice targets

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Practice target setting

- Climate change will impact all sectors and geographies to differing extents.
- So even if climate adaptation is not your PRB key impact area, we still recommend you set practice targets to identify the risks and develop a plan to address those risks
- This should help you to work more strategically on the area.

Practice target setting - considerations

Set targets at portfolio level or prioritize segments with high physical risk impacts.

Prioritized segments should align with the bank's business model and portfolio concentrations.

Define target segments by regions, sectors, or client types.

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Practice target setting - considerations

- Three key types of practice targets:

internal policies/processes

client engagement

business opportunities/ financial flow.

- **Headline targets** should reflect outcome goals in business opportunities, financial flows, and client engagement.
- Physical risk assessment and management are crucial for banks in the early stages of adaptation.

Practice target setting – risk assessment and management

Practice target	Purpose	Guiding examples
Strategy/ Internal policies and processes— Risk assessment and management	Process for assessment and disclosure of climate impacts and resilience plans. Adaptation strategy/plans included in the banks' climate transition or sustainability policies.	**Early stage:** Physical risk assessments completed for X% of (the relevant) portfolio. Physical risk assessment integrated in risk management policies and processes. **More mature:** Proportion of portfolio (%) highly exposed to key indicators of physical risks, by geography/ sector. Adaptation/resilience incorporated in climate transition plans or sustainability strategy and approved by Senior Management. Strategy for business opportunities and product development in high-risk sectors and regions.

The examples above are illustrative; banks will individually set appropriate targets to reflect scope, portfolio context and maturity level, for against their business and regional context.

Practice target setting - considerations

- Three key types of practice targets:

internal policies/processes

client engagement

business opportunities/ financial flow.

- **Headline targets** should reflect outcome goals in business opportunities, financial flows, and client engagement.
- Physical risk assessment and management are crucial for banks in the early stages of adaptation.

Practice target setting – client engagement

Practice target	Purpose	Guiding examples
Client engagement	Gather information on risks and opportunities, and make clients aware of risk mitigation and resilience options.	**Early stage:** X engagements with clients with highly exposed assets, to incentivise climate resil-ience measures. **More mature:** % increase of clients with adaptation and resil-ience strategies in place.

The examples above are illustrative; banks will individually set appropriate targets to reflect scope, portfolio context and maturity level, for against their business and regional context.

Practice target setting - considerations

- Three key types of practice targets:

internal policies/processes

client engagement

business opportunities/ financial flow.

- **Headline targets** should reflect outcome goals in business opportunities, financial flows, and client engagement.
- Physical risk assessment and management are crucial for banks in the early stages of adaptation.

Practice target setting – business opportunities / financial flows

Practice target	Purpose	Guiding examples
Business opportunities and financial flows	Shift financial flows towards adaptation aligned activities, by mobilising finance towards climate-resilient development and mitigating high exposures to physical risk.	**Early stage:** Integration of adaptation in product development processes for high impact regions or sectors. **More mature:** USD X million/billion adaptation finance mobilised towards adaptation as identified by state-of-the-art taxonomies. Increase in % of property, infrastructure or other alternative asset portfolios with adaptation measures or insurance in areas subject to high physical climate risk.

The examples above are illustrative; banks will individually set appropriate targets to reflect scope, portfolio context and maturity level, for against their business and regional context.

Looking at our examples from another angle – “evolution” of targets

1 Risk assessment

Early stage

Physical risk assessments completed for X% of (the relevant) portfolio

More advanced

Proportion of portfolio (%) highly exposed to key indicators of physical risks, by geography/sector.

2 Client Engagement

Early stage

X engagements with clients with highly exposed assets to incentivise climate resilience measures

More advanced

% increase of clients with adaptation and resilience strategies in place

3 Business opportunities and financial flows

Early stage

Integration of adaptation in product development processes for high impact regions or sectors

More advanced

USD X million/billion adaptation finance mobilised towards adaptation as identified by state-of-the-art taxonomies

Practice target setting – what makes a target good?

They are specific, measurable, achievable, relevant, and time-bound (SMART), reflecting short to medium term actions vs. long term strategic objectives.

Specify the scope of the portfolio they apply to (e.g., sectors, regions and clients).

Align with National Adaptation Plans or other regional and international frameworks, which must be disclosed.

Track progress in managing the impacts of climate change vs. the baseline and have measurable KPIs to monitor progress.

We'll look at some indicators to support you in developing KPIs later during this workshop.

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What are the main challenges for your bank in designing internal policies for climate adaptation?

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What is the biggest challenge for your bank in engaging clients on climate adaptation?

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How could your bank support clients in building climate resilience?

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What are the key barriers for your bank in offering adaptation-related financial products?

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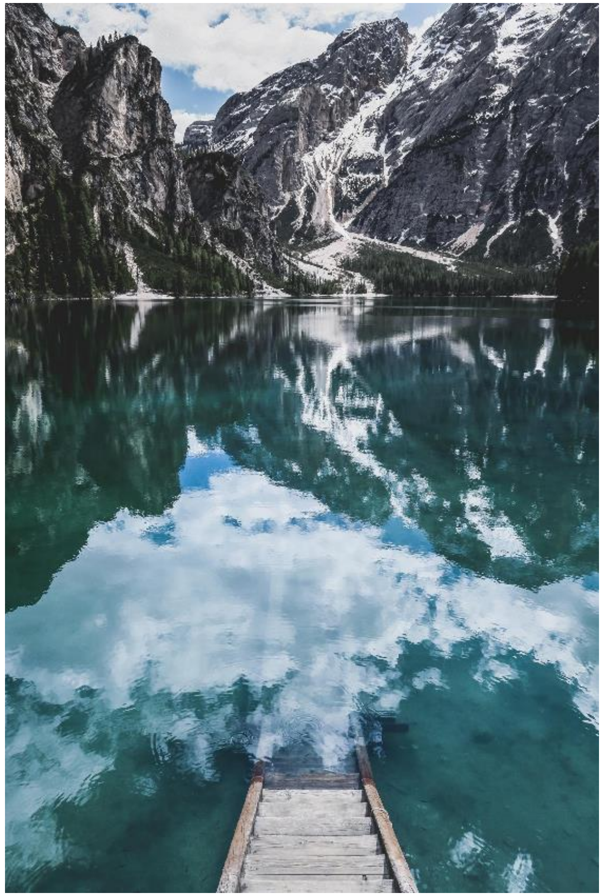
Briefly on impact targets

Impact targets

- The Guidance provides a framing for the use of **impact targets**, i.e. targets to increase positive impact and decrease negative impact, in alignment with the relevant science-based policy frameworks and international agreements.
- Such approaches have been outlined in guidance for development agencies, development banks and impact investors, which have dual impact-profit objectives.
- Banks could take this approach in a second stage in the *progressive approach* to target setting.
- Impact targets should be set using the **impact indicators** which measure the impact of the bank's portfolio (impact on climate adaptation and resilience of the bank's clients and assets).
- Impact targets should be **SMART targets** against baseline: **S**pecific, **M**easurable (qualitative or quantitative), **A**chievable, **R**elevant and **T**ime-bound
- Banks setting targets for adaptation and resilience are encouraged to take a holistic approach, considering nature and social impacts.



Portfolio level impact targets are challenging

Potential impact targets might include:

Measures of reduction in vulnerability and impacts to climate hazards for people, societies and ecosystems (e.g. cubic tons of water stored and treated in a drought prone area, number of people benefiting from resilience measures infrastructure, etc.)

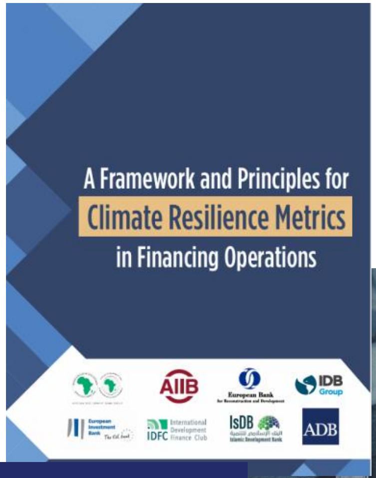
…. but identifying portfolio level impact targets is more challenging.

- Hazards have different implications on different regions and sectors
- Cross-sectoral aggregation challenges (e.g. water storage and management vs. resilient crops or technologies for early warning systems for cyclones)
- Several ongoing initiatives are working on developing standards, metrics and frameworks for on climate resilience (ARIC, CBI, GRII, GIIN, etc.)
- Adaptation and resilience impacts at systemic level

Detailed guidance on impact targets and indicators not in scope of this initial target setting guidance.

Key Considerations for Impact Targets

- Impact targets aim to increase positive impacts on climate resilience and reduce negative impacts like maladaptation and Do No Significant Harm (DNSH).
- **Positive contributions** focus on benefits beyond reducing risks for financed activities, such as community or ecosystem resilience.
- Measuring positive impact is challenging due to factors like economic development, technological change, and lack of universal indicators.
- Portfolio-level impacts rely on detailed sectoral and regional assessments.
- Development financial institution and impact investor frameworks can be useful for impact measurement.



Global Impact Investor Network IRIS+ A&R Metrics

World Bank Resilience Rating System

A Framework and Principles for Climate Resilience Metrics in Financing Operations (iadb.org)

Climate Resilience Investments in Solutions Principles (CRISP)

Positive Contribution - Key Metrics

Reduced climate vulnerability:

- Track percentage of people/assets with lower vulnerability due to adaptive measures.

Increased climate resilience:

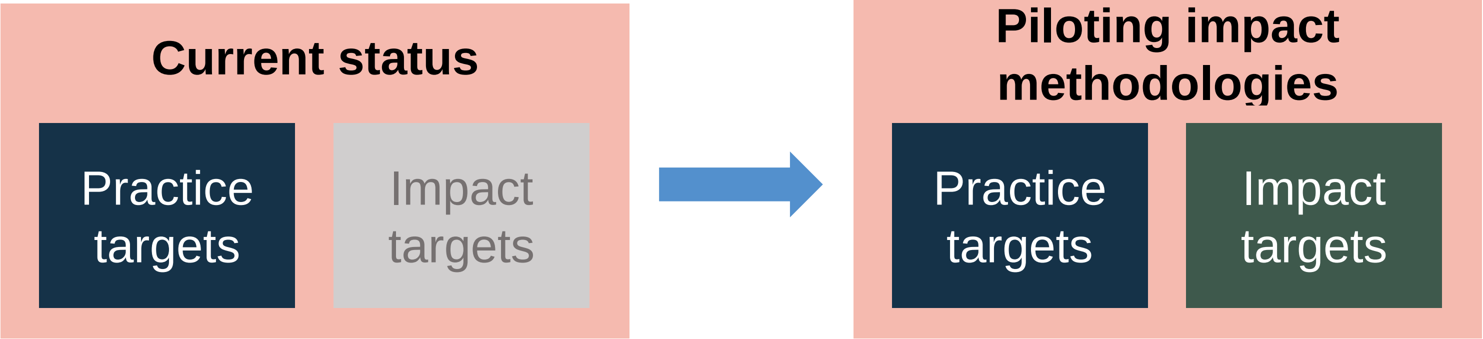
- Monitor people/assets able to withstand and recover from climate impacts via resilience measures.

Improved adaptation outcomes:

- Track progress in specific projects, e.g., flood protection, crop loss reduction, or water savings.

- Asset or sector-level tracking provides a foundation for measuring adaptation benefits.
- Consider secondary tracking of finance mobilized towards adaptation solutions.

PRB’s approach to practice and impact targets



To address challenges due to data and maturity of the impact frameworks on adaptation and resilience, banks may take the progressive approach.

- Set targets by starting with practice targets (client engagement, portfolio composition & financial targets).
- Identify adaptation & resilience actions, measures activities in alignment with taxonomies
- Action plans and KPIs can be based on practice targets.
- Explore and pilot impact measurement for eventual reporting on impact → may be necessary when co-financing with development finance institutions or impact investors.

Step 4: Develop action plans

Action plans – key considerations

- Your bank may develop dedicated adaptation plans or incorporate adaptation into the climate transition or sustainability strategies.
- Action plans provide a clear roadmap for achieving adaptation targets, while KPIs track progress and indicate needed adjustments.
- An effective action plan could include the following elements:

1. Set science-backed targets, aligned with government priorities, to enhance resilience across the business, clients, stakeholders, and economy.
2. Translate strategic goals into concrete, short-term steps with clear action and resource plans.
3. Ensure accountability through governance, defining responsibilities, and aligning culture and incentives with strategic goals.
4. Use measurable KPIs and milestones to assess progress and adjust for future implementation periods.

Cimate change Transition plans vs. Adaptation plans

	Mitigation	Adaptation
Focus	Reducing greenhouse gas emissions and limiting global warming.	Managing the risks and impacts of climate change.
Timeline	Typically focused on the long term, with a goal of achieving net zero emissions by 2050.	May have a shorter-term focus, depending on the specific risks and impacts that the organization is facing.
Scope	Typically focuses on the bank's lending to businesses and sectors that are high emitters of greenhouse gases.	May focus on a wider range of businesses and sectors. This is because the impacts of climate change are already being felt around the world, and businesses in all sectors are facing some level of risk. In developing countries, focus on sectors key to the economy, especially under-diversified economies.
Goal	Support clients in the transition and shift its lending to businesses and sectors that are supporting the transition to a low-carbon economy. Could include exclusions of certain activities, or participation in managed phase-out programmes.	Help clients to manage these risks and build resilience. Exclusions are not recommended as they will further increase existing vulnerabilities, at the detriment of developing countries.

Indicators for action plans

A set of core indicators were developed by UNEP FI which can be used by your bank in setting your own adaptation specific KPIs.

Action	Output	Outcomes	Impacts
Internal policies and processes	**AR1 Indicator: Climate Resilience Strategy, incl. client engagement guidelines, policy advocacy, target setting, internal incentives etc.**		
Internal policies and processes (continued)	*Description:* This indicator assesses whether the bank has a climate resilience strategy in place that includes client engagement guide-lines, policy advocacy, target setting, and internal incentives. **AR2 Indicator: Target(s) set for A&R (y/n)** *Description:* This indicator assesses whether the bank has set targets for its adaptation and resilience (A&R) efforts.		
Business opportu-nities and financial flows	**AR3 Indicator: Proportion and USD amount of portfolio (%) with high physical climate risks by geography/sector** *Description:* This indicator measures the percentage of the bank's portfolio that is highly exposed to key indicators of physical risks, such as flooding, drought, and sea level rise.	**AR6 Indicator: Proportion and USD amount of assets (%) exposed to physical risk aligned with climate adaptation and resilience objectives** *Description:* This indicator measures the percentage of assets exposed to physical risk that are aligned with the bank's climate adaptation and resilience objectives. **AR7 Indicator: Investment in climate adaptation (USD)** *Description:* This indicator measures the bank's investment in climate adaptation, aligned with its climate adaptation and resilience objectives.	**AR9 Indicator: change in proportion of portfolio (%) and USD amount highly exposed to key indi-cators of physical risks, by geography/sector** *Description:* This indicator measures the change in percentage of the bank's portfolio that is highly exposed to key indicators of physical risks, such as flooding, drought, and sea level rise. The indicator should be combined with AR6 and AR7 and focus on reduction via positive adaptation impacts, aligning with a just transition. **AR10 Indicator: Quantified resilience outcomes** *Description:* This is a placeholder for a range of indicators measuring the quantified impact of the bank's adaptation investments on resilience outcomes,[24] such as water savings, $ resilience benefit, or # people with increased resilience.

Indicators for action plans

A set of core indicators were developed by UNEP FI which can be used by your bank in setting your own adaptation specific KPIs.

Action	Output	Outcomes	Impacts
Client engagement	**AR4 Indicator: Number of engagements with clients with highly exposed assets that have incentivised climate resilience measures** *Description:* This indicator measures the number of engagements that the bank has had with clients with highly exposed assets to incentivize climate resilience measures.	**AR8 Indicator: % of clients with adaptation and resilience strategies in place** *Description:* This indicator measures the percentage of the bank's clients that have climate adaptation and resilience strategies in place.	
Advocacy	**AR5 Indicator: Number of policy advocacy engagements conducted including climate adaptation and resilience as a topic** *Description:* This indicator measures the number of policy advocacy engagements that the bank has conducted on climate adaptation and resilience.		

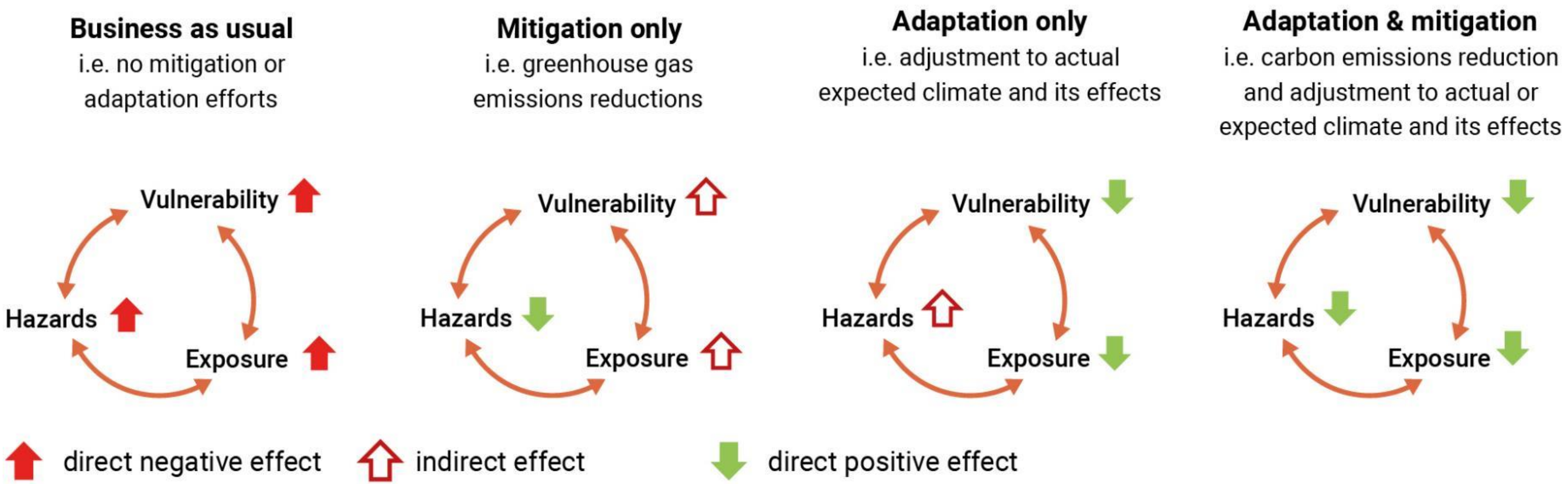
Harnessing interlinkages

- Climate resilient development reduces vulnerabilities and is linked to mitigation, nature, and socio-economic development.
- Seek adaptation solutions with co-benefits aligned with net-zero goals, biodiversity frameworks, and the SDGs.
- Consider synergies and trade-offs with mitigation, nature, and socio-economic development at both portfolio and asset levels.
- Ensure strategies avoid maladaptation and support national adaptation goals.
- Long-term, systemic impacts should be acknowledged, balancing co-benefits with trade-offs.
- Understanding and quantifying interlinkages is ongoing, but adaptation often yields positive synergies.

Interlinkages with climate change mitigation

- Climate change mitigation reduces climate change severity, making adaptation easier and more affordable.
- Adaptation measures, like seawalls, reduce the costs of climate impacts, making mitigation efforts more feasible.
- Climate-resilient development aligns with growth objectives, ensuring vulnerability reduction without altering development strategies.
- Many actions, such as energy efficiency and renewable energy, provide dual benefits for both mitigation and adaptation.
- Sectors like energy, agriculture, and urban planning offer co-benefits, such as emission reduction, climate resilience, and health improvements.
- Careful planning is essential to avoid trade-offs related to land, water, and energy use in these sectors.

Interlinkages with Climate change mitigation



Interlinkages with nature

- Protecting and restoring nature enhances resilience for both human settlements and ecosystems.
- Adaptation efforts also support biodiversity, land, forest, and water preservation.
- Banks can prioritize projects that intersect nature and adaptation, driving business development and financial innovation.
- Nature-based solutions (NBS) address climate and biodiversity crises synergistically, offering cost-effective ways to mitigate and adapt to climate change.
- NBS, such as sustainable agriculture, water management, and urban planning, can be incentivized through specific financing targets for adaptation projects.
- Long-term trade-offs, like balancing green and gray infrastructure, must be considered to maximize effectiveness and minimize negative impacts.

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Principles for Responsible Banking

Implementation Summary

Key recommended adaptation actions

Governance

Integrating climate adaptation considerations in **internal strategy, policies, and processes**, including risk assessment and management

Client engagement

Client engagement to improve assessment of physical risk impacts and identify risks and opportunities, such as new product development

Mobilising finance

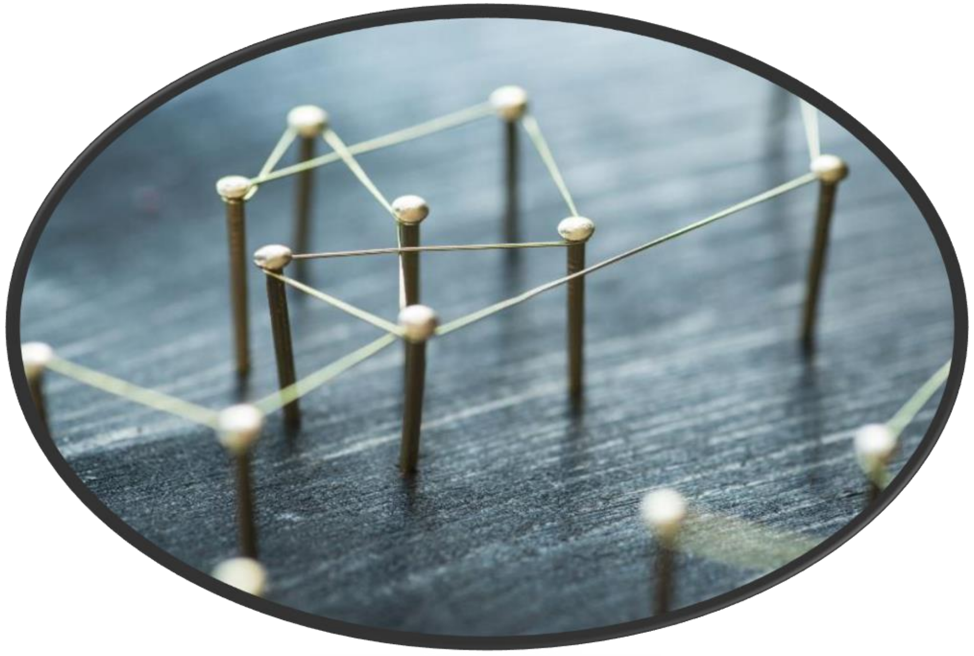
Identifying **business opportunities and financial flows** to support mobilisation of finance towards climate resilient development

Policy Advocacy

Through **advocacy**, influence policy makers and regulators efforts to create an enabling environment for financing climate resilient development

Strategy/internal policies and processes

- We recommend developing climate adaptation **strategies**, incorporating **targets**, **action plans**, and **KPIs** for progress monitoring, prioritising the most-at-risk parts of the portfolio.
- **Training** staff across all departments on physical risk and adaptation can help to bridge the gap between risk management and adaptation goals.
- **Risk management policies**, including credit risk, may conflict with adaptation objectives and need alignment.
- Banks should clearly define their **risk appetite** concerning climate change. This includes specifying what level of physical climate risk they are willing to accept and under what conditions.
- **Forward-looking risk assessments** should account for adaptation measures clients are implementing.



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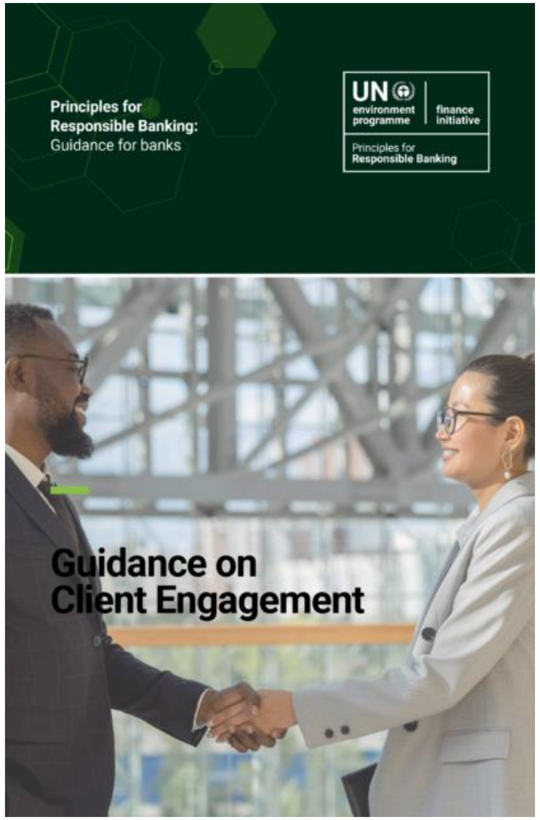
Client engagement

- **Educate clients** on climate risks and adaptation strategies by providing data, tools, and transparent risk assessments across short- and long-term horizons.
- Offer **financial incentives** like lower interest rates, longer repayment terms, or access to green finance products to encourage clients to improve their climate adaptation practices.
- **Assist in developing climate adaptation plans** by helping clients identify specific risks and **structuring financing solutions** for short, medium, and long-term adaptation needs.
- Focus on clients in **developing countries or vulnerable sectors** by providing dedicated training for client-facing teams on climate impacts and business development opportunities.
- Develop a **sector-specific engagement plan** using tools like questionnaires and collaboration with industry associations to tailor adaptation strategies for different client segments.



Recommended additional resource:
Guidance on Client Engagement

Key recommended adaptation actions

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Mobilizing Capital for Climate Adaptation

- Banks' role in adaptation finance:
  - Financing projects through green and sustainability frameworks.
  - Challenges include tracking and formal identification of adaptation-related finance → taxonomies
- Opportunities for banks:
  - Identify financial solutions to clients for resilience building.
  - Support blended finance structures through collaboration with public and private sectors.
- Facilitating climate resilience financing:
  - Offer tailored solutions to corporate, retail, and SME clients.
  - Partner with investors and public finance to develop adaptation instruments.
  - Advocacy and collaboration: Engage with regulators, policymakers, and knowledge-sharing initiatives.
- Tracking and disclosure:
  - Develop harmonized systems for identifying and labeling adaptation finance.
  - Align with frameworks such as TCFD and ISSB to boost transparency and confidence.

Product design – incentivising adaptation action

- Incentivizing resilience through loan terms:
  - Temporary interest rate reductions for activities enhancing climate resilience (e.g., green mortgages, sustainable agriculture loans).
- Credit expansion for resilience investments:
  - Grace periods or bridge loans for transitioning to resilient infrastructure (e.g., regenerative agriculture).
  - Letters of credit to fund adaptation projects and manage short-term profitability impacts.
- Sustainability-linked loans:
  - Interest rates tied to performance against environmental and social KPIs (e.g., water leakage reduction, access to clean energy).
- Pooling small clients for scale:
  - Investment funds targeting climate resilience technologies.
  - Securitization of pooled adaptation loans for risk management.

Category of instruments	Financial products already used by banks	Emerging products potentially relevant for adaptation
Debt financing	▪ Bonds: (Green, sustainability, blue, social) ▪ Sustainability and sustainability linked loans ▪ Green loans (Corporate and retail) ▪ Credit lines/facilities ▪ Project finance ▪ Transaction finance ▪ Structured products	▪ Resilience bonds (e.g., EBRD,[31] California bond issuance[32] programme) ▪ Green securitisations ▪ Debt for nature swaps
Equity financing	▪ Venture capital (e.g., Lightsmith Group adaptation fund[33])	▪ ETFs and indices aligned with climate resilient development
Risk management	▪ Letters of credit ▪ Credit guarantees ▪ Bridge loans ▪ Insurance (incl. embedded insurance)	▪ Hedging instruments (e.g., derivatives) ▪ Catastrophe bonds
Wealth management/impact investment		▪ Green or ESG funds

Key recommended adaptation actions

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Policy Advocacy

Through **advocacy**, influence policy makers and regulators efforts to create an enabling environment for financing climate resilient development

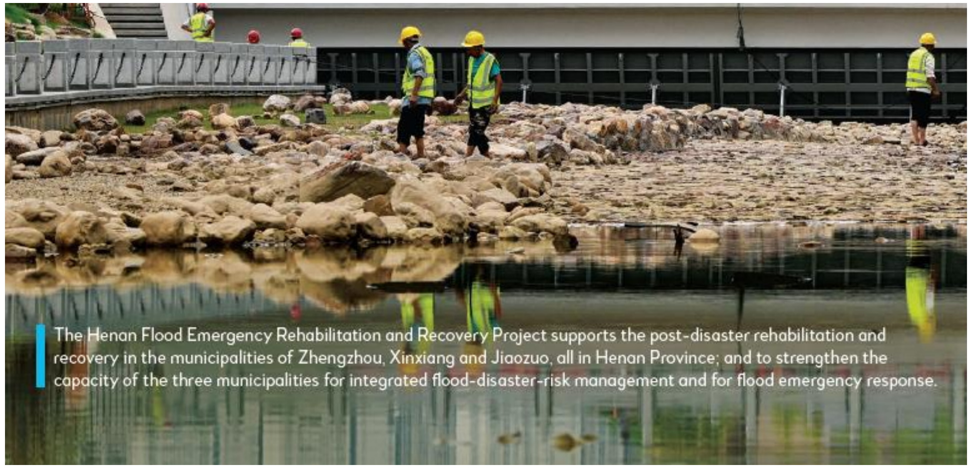
Policy advocacy – ideas & opportunities

- **Reduce adaptation costs** through tax incentives, reduced capital requirements, grants, guarantees, low-interest loans, or subsidies for climate resilience projects.
- **Increase availability of adaptation-related projects** and financial products by prioritizing investments in green infrastructure, green bonds, and ecosystem-based adaptation strategies.
- **Establish public-private partnerships** and engage the private sector in adaptation planning. Improve access to data, support knowledge sharing, and encourage industry collaboration.
- **Promote physical risk disclosures** for businesses, harmonized indicators, and resilience taxonomies.
- **Research on the potential impact of specific policies** on the banking sector or selected customer segments.
- **Partner with industry associations or interest groups** to strengthen advocacy efforts.
- **Public relations and media campaigns** to raise awareness and advocate for preferred policy solutions.
- **Policy briefs and white papers** presenting capital provider perspectives on adaptation-related policies.
- **Actively participate in public initiatives, workshops, and consultations** to contribute to policy development on adaptation.

Case studies

AIIB’s First Climate Adaptation Bond Targeting Resilient Infrastructure

- The Asian Infrastructure Investment Bank (AIIB) has successfully priced its first Climate Adaptation Bond, a thematic bond issued under the AIIB Sustainable Development Bond Framework.
- The 5-year bond raised AUD500 million, and the proceeds will be allocated to projects that have an estimated climate adaptation finance portion of 20 percent or greater of the total project financing.
- The purpose of the Climate Adaptation Bond is to raise awareness about climate-resilient and adaptive infrastructure investments. In 2015, the Paris Agreement established the global goal of adaptation and AIIB has committed to be fully aligned with the Paris Agreement by July 1, 2023.
- Climate adaptation financing is about investing now to make infrastructure assets more resilient so that as the effects of climate change intensify, infrastructure is able to protect vulnerable communities in the long-term.
- AIIB’s definition of climate adaptation is based on the harmonized principles from the multilateral development banks’ Joint Methodology for Tracking Adaptation Finance, and the Common Principles for Climate Change Adaptation Finance Tracking. Examples of adaptation projects eligible for allocation under the AIIB Climate Adaptation bond include the Punjab Municipal Services Improvement Project and the Henan Flood Emergency Rehabilitation and Recovery Project.



Source: AIIB Issues First Climate Adaptation Bond Targeting Resilient Infrastructure - News - AIIB

AIIB's First Climate Adaptation Bond Targeting Resilient Infrastructure

AIIB Climate Adaptation Themed-bond Issuance

ISIN	AU3CB0299386
Pricing Date	May 10, 2023
Issue Date	May 17, 2023
Maturity Date	May 17, 2028
Currency	AUD
Issuance Amount (million)	500
USD Equivalent Amount (million)	338.40

AIIB considers climate adaptation financing to be lending operations that entail :

(1) **Investment Enabling Adaptation:** investments in assets or activities whose primary purpose is to enable adaptation and enhance climate resilience of a broader system. Examples could include investments in the development and deployment of urban flood-warning systems, or in the installation of indoor (renewable energy powered) cooling systems to address heat stress during heatwaves.

(2) **Adapted Investment:** investments in assets aimed at integrating adaptation measures to manage physical climate risks identified in a project, to ensure that the intended objectives of the project are realized, considering the possible climate risks. Examples could include undergrounding electricity transmission lines for protection against damage from high winds or extreme heat, upgrading urban drainage systems in response to the increased frequency and intensity of flood events under a changing climate, or rehabilitating rural roads with improved resilience measures.

AIIB’s First Climate Adaptation Bond

Key Features of Adapted Investments and Investments That Enable Adaptation

	Adapted Investments	Investment Enabling Adaptation
Objective	To build climate resilience of infrastructure **component(s)** with a specific proposed project or program that are sensitive to climate conditions so that they perform as expected under a changing climate.	To strengthen the climate resilience of an economic sector (e.g., energy), a community (e.g., a coastal town), or of an ecosystem (e.g., a river basin) through such activities as the development of climate-resilient design standards, targeted research on heat-resistant building materials, or the restoration of wetlands.
Nature of interventions	Often engineering and physical in nature.	Either "hard" (e.g., building flood-protection structures, installing irrigation systems) or "soft" (e.g., policy measures, research, management).
Scope of interventions	**Within** the proposed (infrastructure) project boundary.	**Beyond** specific project boundaries, targeting economic sectors, communities, or natural systems.
Proportion of adaptation finance	**This is usually a percentage of the total cost** of the "baseline" project, estimated as the incremental cost of the project's adaptation measures (e.g., the use of more expensive tarmac to make a road surface more heat resistant in summer).	Given that the sole purpose of a project/activity is to build climate resistance, **the total cost** of the project/activity can be defined as climate adaptation finance. An example would be an irrigation project that was necessitated by the impacts of decreasing rainfall, as such an investment will enable local farmers to adapt to a changing climate. However, some "soft" enabling activities such as public awareness raising, the strengthening of social networks, or policy interventions, do not necessarily incur costs.

Climate adaptation financing may consist of stand-alone projects; multiple projects under larger programs; or project components, subprojects, or project elements.

Based on this methodology, the identification and estimation of adaptation finance is limited solely to those project activities that are clearly linked to the climate change vulnerability context, based on these criteria:

- **Climate change vulnerability context** of the project.
- **Intent of the project** to reduce climate change vulnerability.
- **Clear and direct link** between the specific project activities and the project’s objective to reduce vulnerability to climate change.

AIIB's First Climate Adaptation Bond

Project Allocation Table

Project ID	Member	Year of Approval	Project Name	Sector	Finance Type	AIIB Net Commitment (USD million)	Climate Adaptation Finance	Allocated Amount (USD million)	Project Description	Expected Results[a]
000448	India	2021	**Punjab Municipal Services Improvement Project**	Urban	Sovereign	105	35%	5.90	To strengthen urban governance and finance, improve water infrastructure and deliver sustainable water services in the cities of Amritsar and Ludhiana. The project also finances capacity building for urban service-delivery systems, reinforcement of water supply infrastructure, and for COVID-19 crisis repsonse.	• **3 million** people provided with access to safely managed water supply. • **2 water** treatment plants built and operational. • **180 storage** facilities built or rehabilitated. • Energy consumption of the water supply system reduced by **0.06 MWh/year**.
000543	China	2021	**Henan Flood Emergency Rehabilitation and Recovery Project**	Water	Sovereign	1,000	39%	390.00	To support post-disaster rehabilitation and recovery in the municipalities of Zhengzhou, Xinxiang, and Jiaozuo, all in Henan Province; and to strengthen the capacity of the three municipalities for integrated flood-disaster-risk management and for flood emergency response.	• **7.3 million** people directly benefiting from the project. • **20 million** people in the three municipalities to benefit in the long term (indirectly). • **810 km** of roads, **120 km** of dikes, **250 bridges**, **6 pumping stations**, **63 km** of sewage or stormwater pipelines, **168 km** of national/provincial highways rehabilitated or constructed.
000454	India	2022	**West Bengal Electricity Distribution Grid Modernization Project**	Energy	Sovereign	135	23%	42.16	To improve the operational efficiency and reliability of the electricity supply in selected areas of West Bengal.	• **12,100 km** of distribution lines retrofitted to reduce energy use. • **1,700 km** of distribution lines moved underground to reduce exposure to storms and damage from falling trees. • **1,900 km** of distribution lines constructed. • **200,000 consumers** provided with advanced metering infrastructure.
							TOTAL	**438.06**		

[a] Please refer to Annex I: Result Monitoring Framework of each project document. Expected results are selected ex ante outputs or outcomes indicators expected at the time of project approval. Actual project results may differ.

Examples: Standard Chartered

Category as per GBP	Sub themes	Eligible activities	Exclusions	SDG goal
Climate Change Adaptation		• Data driven climate monitoring solutions, such as early warning systems, climate observation, systems for monitoring GHG emissions • Development and/or use of information and communications technology (ICT) solutions for the exclusive purpose of collecting, transmitting, storing and using data to facilitate GHG emission reductions • Expenditures related to the design, construction, refurbishment of existing infrastructure and maintenance of eligible infrastructure that features intentional integration of climate resilient construction (design, materials) and/or soft infrastructure improvement (asset-focused resilience). Examples include:	• Given the potentially significant impact of infrastructure on the environment, the development of Climate Change Adaptation Infrastructure should be supported by vulnerability assessment and adaptation plan[31] • Livestock management projects for	15 LIFE ON LAND

Standard Chartered Bank (SCB) has specified eligibility criteria for financing climate change adaptation transactions in its green and sustainability product framework, including criteria and exclusions for both adapted (asset-focused) and enabling (systems-focused) resilient activities. Enabling adaptation criteria cover infrastructure for water stress from floods or storms, resilient buildings, resilient grids, biodiversity and nature restoration and health monitoring systems. Given potential impacts of infrastructure projects on the environment, the framework requires that the development of adaptation infrastructure is supported by vulnerability assessment and adaptation plans (aligning to the Equator Principles CCRA). SCB's work on adaptation finance will develop further with the launch of a standalone Guide for Adaptation and Resilience Finance in conjunction with KPMG and others at COP28.

Source: green-sustainable-product-framework.pdf (sc.com)

Next steps & closing

What's next?

- We hope that this capacity-building programme was useful for you!
- Written exercise: please send to gabor.gyura@un.org
- UNEP FI capacity-building programmes:
  - Designed and prepared for PRB signatories
  - Request to open the Adaptation programme to non-members.
- Regarding PRB and the Capacity Building Programme, contacts:
  - Nirnita Talukdar, APAC Regional Lead, nirnita.talukdar@un.org
  - Satrya Wibawa, APAC Regional Associate, satrya.wibawa@un.org
- We plan to organize a follow-up next year to discuss progress made and your potential new questions.
- In the meantime we recommend you to follow our adaptation related pages:

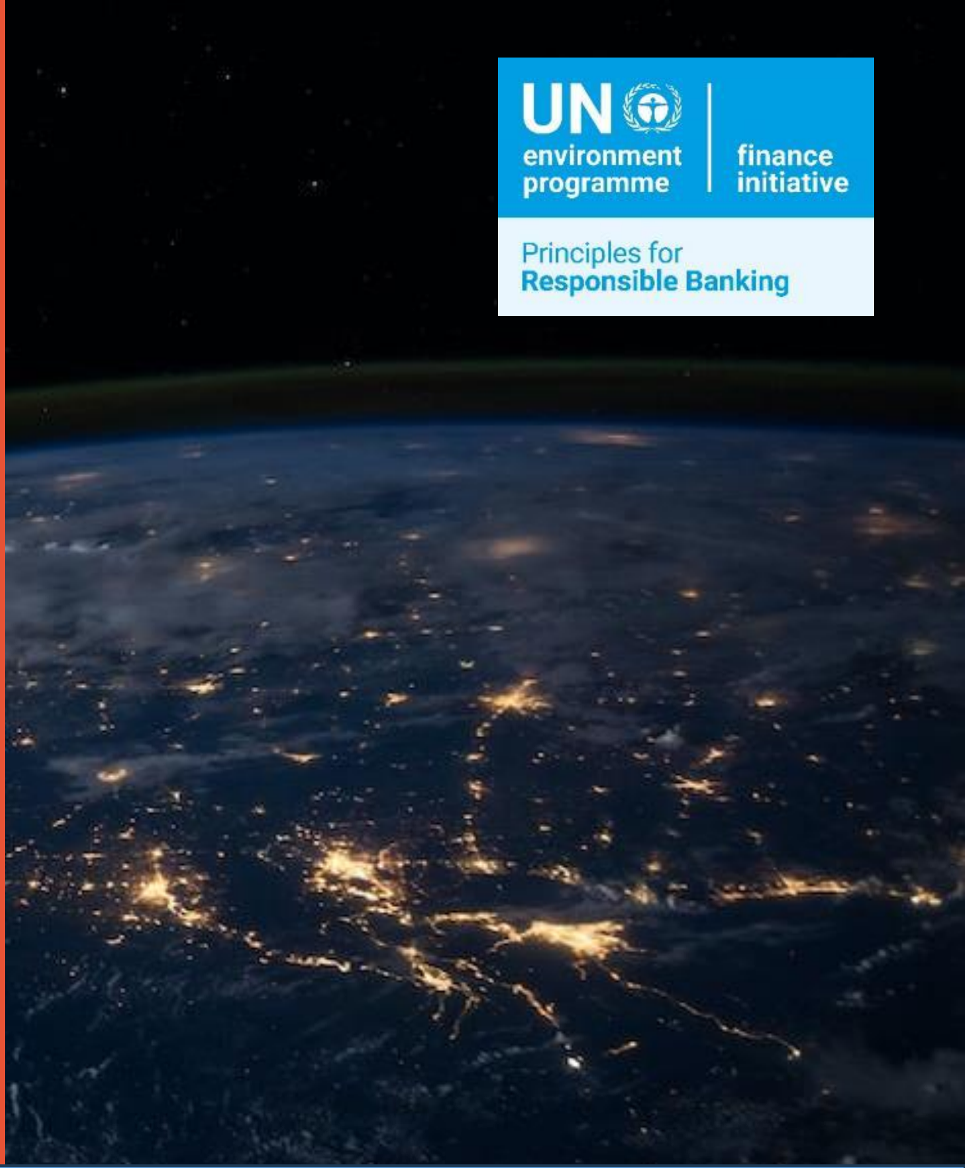
https://www.unepfi.org/climate-change/adaptation/

Thank you for your attention!

Slides will be shortly shared in email.

General UNEPFI contact: nirnita.talukdar@un.org
(APAC Regional Lead)

Specifically for the climate capacity building:
gabor.gyura@un.org
(Capacity-building Consultant)



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