# Financial architecture should give thrust on climate change financing

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CHINA EMERGED as the biggest emitter of carbon dioxide (CO2) in 2014 with 9.7 billion tonnes, or 27 per cent of the world's total emissions. The United States was the second biggest emitter releasing 5.6 billion tonnees (15 per cent of the world's total emissions) and the EU was the third biggest emitter with 3.4 billion tonnes contributing 10 per cent. India was the fourth biggest emitter with 2.6 billion tonnes (7.2 per cent of the world's emissions).

The climate change has resulted in temperature increases and other physical effects would translate into significant market impacts, with output losses through effects on climate-sensitive sectors such as agriculture, forestry, coastal real estate and tourism. Most vulnerable to negative effects are sub-Saharan Africa, South East Asia and Middle East and North Africa (Mena), while risks for the United States, Europe, and China are generally more moderate. Sea level rise and agriculture are the main channels of impact for South East Asia; water scarcity for Mena, labour productivity and health for sub-Saharan Africa.

The COP 21 reaffirmed the goal of limiting global temperature increase well below two degrees Celsius. The outcome was also to extend the current goal of mobilising $100 billion a year in support by 2020 through 2025. Funding enables countries to be more ambitious for climate action, allowing them to take bolder steps to lower their greenhouse gas emissions and make their economies and societies more resilient in a changing climate. After COP 21 there is a need to find ways of engaging financial institutions to help address the climate financing gap. This financing could be done by Multilateral Development Banks (MDBs), developed countries or through PPP models or national development banks or private sector banks. MDB finance is usually combined with substantial funds from other public and private sources of financing.

In 2014, along with funding from the MDBs, $46 billion in public and $18.3 billion in private financing supported client projects with climate co-benefits. There is a vital need for an expanded role of multilateral development banks and more effective deployment of risk mitigation instruments. Presence of MDBs reduces risks, brings relevant instruments and encourages participation of other financial institutions. There is also a role for national development banks.

Financial sector regulators and central banks can help identify climate change risks for the financial sector. For example, the Financial Stability Board (FSB) is considering the implications of climate change for the financial sector and financial stability. Issues such as how to incorporate climate change stress-testing in corporate and financial sector risk management practices and potential roles for supervisors and financial authorities in such market-wide tests to assess systemic level risk. Financial regulation should remain on building resilience to shocks, with a systemic approach accounting for all material risks to the financial system, including from climate events and ensure adequate capitalisation, risk management, and disclosure.

The FSB Task Force on Climate-related Financial Disclosure (TCFD) will consider the physical, liability and transition risks associated with climate change and what constitutes effective corporate financial disclosures. France has introduced carbon reporting obligations for financial institutions such as pension funds, insurance companies and institutional investors. They now have to disclose how they are managing climate risk. China Banking Regulatory Commission had issued Green Credit Guidelines in 2012, Bangladesh Bank had issued Green Banking Framework in 2011 and Indonesian Financial Services Authority had issued Roadmap for Sustainable Finance in Indonesia in 2014. Similarly in the GCC financial services regulation should explore the possibility of enabling green financial instruments. This could be done through establishing green finance guidelines and frameworks to integrate environmental and social considerations into bank lending decisions. The financial architecture in various countries have begun to encourage climate change financing however more thrust is required in this direction.

*The writer is the group CEO of Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.*

**French President Francois Hollande, right, French Foreign Minister and president of the COP21 Laurent Fabius, second right, United Nations climate chief Christiana Figueres and United Nations Secretary-General Ban Ki-moon applaud after the final conference at the COP21 in Le Bourget, north of Paris. —*AP file photo***