

INTRODUCTION

Taking urgent action to mitigate and adapt to climate change is critical if sustainable development, economic growth, and poverty reduction in Asia and the Pacific is to be achieved. Developing member countries (DMCs) of the Asian Development Bank (ADB) are particularly exposed to the increasingly severe consequences of climate change, such as rising sea levels, large-scale flooding, intense storms, drought and heat waves, and other extreme weather events. The costs of mitigating and adapting to climate change will significantly increase the region’s financing needs. The use of financial risk management products can play a critical role in helping ADB’s DMCs to scale up climate investment, mitigate the impact of climate change, and meet their commitments under the Paris Agreement.

To support the scale-up of climate investment, ADB established the Asia–Pacific Climate Finance Fund (ACiIFF) with financial support from the Government of Germany’s Federal Ministry for Economic Cooperation and Development (BMZ). ACiIFF funds the development and implementation of innovative, scalable, and commercially viable financial risk management products aimed at achieving at least one of the following objectives:

- scaling up the adoption of climate technologies,
- mobilizing new sources of private sector climate financing,
- supporting investment in climate-sensitive sectors, and
- addressing extreme weather events.



HIGHLIGHTS OF ACiIFF OPERATIONS

As of 30 June 2023, ACiIFF had approved financial support amounting to \$14.4 million. Approved applications comprise support for nine ADB projects and two third-party projects, through a combination of technical assistance, investment grants, and direct charges.

- Supported projects cover Asia and the Pacific, including India, Kazakhstan, Maldives, the Philippines, and Uzbekistan.
- ACiIFF is supporting the implementation of two third-party projects amounting to \$1.1 million under the V20 Sustainable Insurance Facility, where climate risk insurance is being developed for micro, small, and medium-sized enterprises (MSMEs).

\$3.395 million Private sector operations **\$10.971 million** Sovereign operations

Approved Allocations, by Region, as of 30 June 2023 (\$ '000)



500	Central and West Asia
1,173	Pacific
2,809	Southeast Asia
5,565	South Asia
4,320	Regional

Approved Allocations, by Category of Financial Risk Management Product, as of 30 June 2023 (\$ '000)



5	Climate technology scale-up
7	Private finance mobilization
4	Climate-sensitive sectors
6	Extreme weather events

Note: A number of approved allocations support more than one product category.

ACiIFF is seeking financial support to boost the fund and scale up its impact.

ACiFF supports financial risk management products that work toward achieving at least one of the following objectives:



SUPPORTING CLIMATE TECHNOLOGIES

Accelerating the uptake and financing of climate technologies through products that transfer initial technology and performance-related risks



SCALING UP PRIVATE SECTOR CLIMATE FINANCING

Managing the risks associated with the initial deployment of new and innovative financing models

Supporting innovation and replication

ACiFF's flexible design allows it to fund new and innovative financial risk management products and business models, as well as support the replication and scale-up of proven approaches in new contexts. ACiFF and its supported products engage and use the capacity of established constituents in the insurance, reinsurance, and financial industries, across sovereign and nonsovereign operations, while indirectly seeking to promote market development and innovation in these sectors.



PROMOTING CLIMATE-SENSITIVE SECTOR INVESTMENT

Responding to the need for accelerated investment in climate change adaptation and strengthened resilience to slow-onset climate-related risks

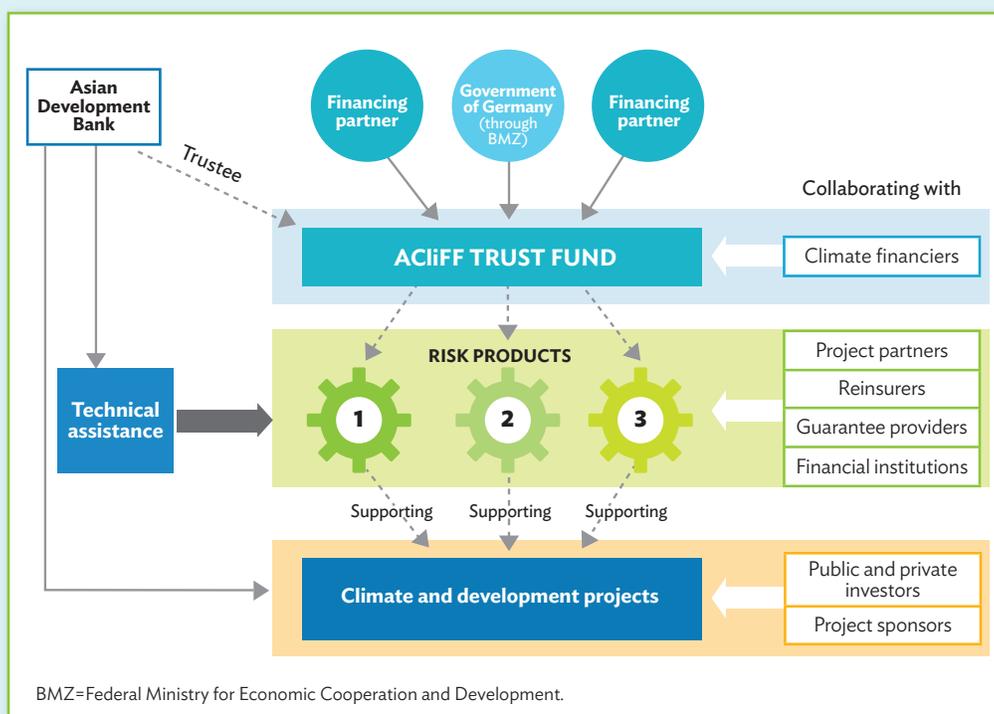


ADDRESSING EXTREME WEATHER EVENTS

Improving resilience to the impact of climate-related disasters, particularly among vulnerable and low-income populations

ACiFF FUND STRUCTURE

ACiFF is a multi-donor trust fund established by ADB in 2017, with the Government of Germany as the initial financing partner, and managed by ADB as the fund's Trustee. Financial risk management products supported by the fund can be implemented alongside both ADB and third-party climate and development projects. ADB's Strategy 2030 prioritizes tackling climate change, building resilience to climate change and disasters, and enhancing environmental sustainability. Working with project partners and the insurance and financial industries, ACiFF provides ADB and third-party projects the leverage to accelerate the adoption and implementation of financial risk management products that scale up climate investment.



¹ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

SUPPORTED PROJECTS

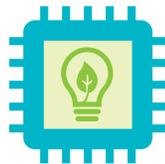
Disaster insurance for city governments in the Philippines

ACliFF is supporting the development and implementation of a parametric disaster insurance product, covering earthquakes and typhoons, for cities in the Philippines. This includes financing of catastrophe risk modeling, capacity building, and legal advisory and support services for the drafting of parametric insurance policy documents.

The city disaster insurance product is expected to provide indirect protection to nine million people, increasing their disaster resilience.

Pilot testing of innovative climate solutions by early-stage companies

With ACliFF support, ADB Ventures is providing reimbursable seed grants to early-stage companies for the pilot testing of new technology-enabled solutions and business models that promote climate change mitigation and resilience, and the deployment of financial risk management products.



The reimbursable grants serve as a financial risk management product for start-ups seen as too early stage for equity investment, in return for the granting of investment rights at these companies' subsequent funding rounds. Seven grants have been funded across the region. The possibility of replicating the approach adopted for ACliFF-supported reimbursable grants to support climate-focused start-ups is being assessed.

Blue bond incubator

ACliFF is supporting the structuring and pilot testing of sovereign and corporate blue bonds, including the design of de-risking components to attract investment from the private sector into these.

The success of pilot issuances will demonstrate the potential applicability of such financial risk management mechanisms to blue bonds, on the basis of which a coordinated approach to replicability and scale up can be developed.

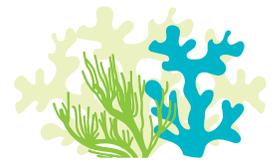
Climate risk insurance for microfinance borrowers in India

ACliFF, together with India's Microfinance Institutions Network, is supporting the design and pilot testing of a climate risk insurance product for microfinance borrowers in India.

The index insurance product, to be made available through five microfinance institutions, is expected to provide climate risk protection to over 850,000 low-income borrowers, at least 80% of whom are women.

Support for the development of coral reef insurance

ACliFF is financing the design and implementation of insurance products to protect coral reefs in four countries across Asia and the Pacific, in collaboration with coastal tourism businesses, government agencies, the insurance industry, academia, as well as local scientific and community organizations. Among other objectives, the project is aimed at demonstrating the applicability of coral reef insurance and risk management models in targeted, high-opportunity sites in four DMCs.

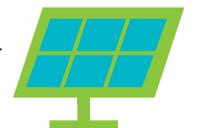


The project will cover parts of the diverse Coral Triangle in Southeast Asia and the Pacific—including Fiji, Indonesia, the Philippines, and Solomon Islands—and builds on lessons from the successful implementation of a coral reef insurance model in Mexico to protect coastal businesses and livelihoods dependent on tourism and fishing.

Renewable energy in Uzbekistan

ACliFF is funding the structuring and implementation of letters of credit (LCs) under the Uzbekistan Solar Public-Private Partnership Program.

The LC developed for the Sherabad Solar project (200 MW) has been replicated for use in the Zarafshan Wind Farm project (500 MW), also in Uzbekistan. This project has mobilized \$485 million in third-party finance.



The V20 Sustainable Insurance Facility

ACliFF support for the first project under the V20 Sustainable Insurance Facility involves analyzing potential business models and insurance product design options to help MSMEs manage climate risk better.

A solution will be developed for the Philippines before a pipeline of countries that could support its replication is built.

The aim is to reach at least 10,000 MSMEs in the Philippines in the implementation phase.



Support for Kazakhstan's innovative green housing program

ACliFF funding will support the development and use of financial risk management products to scale up the adoption of green technologies and make green housing more affordable to low- and medium-income households.

The envisioned integrated financing mechanism for green technology, including the financial risk management product, will be the first of its kind in any sector in Kazakhstan.

For more information, contact:

Andreas Lunding

Senior Climate Change Specialist and ACliFF Fund Manager
(alunding@adb.org).

<http://www.adb.org/acliff>

Expanding solar energy in the outer islands of Maldives

ACliFF is financing a liquidity support facility to backstop the power payment obligations of the national electricity utility company to solar independent power producers and a performance-based incentive scheme to maximize the performance of independent power producers with a view to enhancing the financial viability of renewable energy projects in Maldives.

The combined risk mitigation and incentive structure is expected to increase project bankability, catalyze private sector investment, and reduce the tariff paid by end users—all critical factors in scaling up renewable energy solutions in a small island developing state.

2024 project pipeline

ACliFF has identified further opportunities to support

- city disaster risk insurance in Viet Nam;
- the strengthening of resilience through climate insurance for vulnerable groups (e.g. MSMEs and women), including through scaled-up and regionally focused support for the V20 Sustainable Insurance Facility;
- weather-indexed crop insurance in Pakistan, Cambodia, and Viet Nam;
- solar power and battery energy storage in Timor-Leste; and
- financial intermediary loan facilities for energy efficiency (Cambodia) and climate-resilient livestock production (Uzbekistan).

Note:

In this publication, “\$” refers to United States dollars.



Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO)

© 2024 ADB. The CC license does not apply to non-ADB copyright materials in this publication.

<https://www.adb.org/terms-use#openaccess>

<http://www.adb.org/publications/corrigenda>

Publication Stock No. ARM240089-2

DOI: <http://dx.doi.org/10.22617/ARM240089-2>

pubsmarketing@adb.org