Submission: National Adaptation Plan Issues Paper

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Summary

For institutional investors, adaptation is both a systemic risk and an opportunity. However, for private investment to be directed towards adaptation, there are significant barriers that must be addressed. The first National Adaptation Plan provides an important opportunity to do this and should consider:

1. **Including a co-developed private finance strategy and plan.**
2. **Aligning adaptation across governments' climate change activities.**
3. **Facilitating public-private partnerships and developing frameworks to manage complex adaptation challenges.**
4. **Developing and co-funding case studies for best practice private and public-private financing of adaptation and resilience.**
5. **Legislating the National Adaptation Plan and National Climate Risk Assessment.**
6. **Establishing a coherent climate information, skills, and science strategy.**

Implementing these recommendations will increase investor confidence that the physical impacts of climate change are being proactively and effectively managed, and enable Australia to continue to attract international capital investment. In addition, they will support the allocation of private finance towards adaptation and resilience.

Introduction

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide a submission on the National Adaptation Plan (NAP) Issues Paper.

Relevance for investors

Adaptation is a risk and an opportunity for institutional investors.

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over $5 trillion in Australia and New Zealand, and $35 trillion globally. As the long-term custodians of trillions of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries that are commensurate with the level of risk taken. Due to the systemic nature of climate change, unless it is addressed in an orderly and just way, the retirement savings of millions of Australians are under threat.

The physical damages of climate change will cost the Australian economy hundreds of billions of dollars in the coming decades, primarily driven by loss of life and damage from extreme weather events. Public-private partnerships and other investment vehicles will be required to fund the magnitude of adaptation and resilience projects, which are essential to avoid detrimental economic damages for the nation, vulnerable people, and communities. However, there are currently significant barriers to private investment. These include:

- Limited or complex investment cases for adaptation – challenges include creating clear, low-risk revenue streams and aggregating small, local projects for institutional investors.
- Measuring risk and return on investments – particularly where benefits are spread across stakeholders and may be derived from cost avoidance as opposed to value creation.
- Lack of decision-useful data – current data and methodologies for assessing physical risk are not fit-for-purpose for adaptation. More information is included in IGCC's Investor Expectations of the National Climate Risk Assessment and Submission: Independent Review of the Australian Climate Service.
- Regulatory and taxonomy constraints – current financial regulations and taxonomies (e.g., Australian Sustainable Finance Taxonomy) do not recognise or incentivise adaptation investments as green or sustainable.
- Insufficient public-private partnerships – limited frameworks for collaboration on adaptation projects.
- Lack of coordination across levels and departments of government – effective adaptation will require collaboration across geographical and organisational boundaries.

Increasingly, investors view adaptation as both a risk and an opportunity and support the necessity for adaptation and the role of the private sector in funding it. This is highlighted by the target outcome of IGCC's Physical Risk Strategy: Road to Resilience, which aims for investors to manage climate change's physical risks by driving urgent, economy-wide adaptation and resilience. The first National Adaptation Plan (NAP) is an important opportunity to facilitate this investment, by addressing key barriers, facilitating partnerships, providing decision-useful information, and developing a clear strategy and plan for private investment in adaptation going forwards.

Key recommendations

Recommendation 1: Co-develop a finance strategy and plan to attract private investment into adaptation and resilience.

IGCC supports the focus on the economy, trade, and financial system both as a systemic risk (e.g., insurance unaffordability, capital flight from high physical risk areas) and an opportunity (e.g., private investment in adaptation) in the Issues Papers and the recent first-pass National Climate Risk Assessment (NCRA).

However, as outlined above, there are substantial barriers to direct private finance into adaptation and resilience.

While many of these barriers were acknowledged in the Issues Paper, there was little information on how they will be addressed. As one of the key objectives of NAP is to drive substantial uplift in private investment in adaptation, this is essential to the success of the plan. To do this, a finance strategy and plan should be co-developed with the finance sector and should include:

- How the Government will engage and collaborate with the private sector on adaptation financing.
- How the barriers identified above will be addressed.
- Pricing, subsidies, and regulation that can also support private sector investment.
- High-level guidance on where the Government sees opportunities for private sector investment. This may include private investment and/or public-private partnerships and may include asset-classes such as bonds and infrastructure.

This strategy could either be focused on the private sector or could span both private and public adaptation finance. This should be supplemented with a plan or roadmap, which should include:

- Timelines for addressing barriers and introducing incentives and regulations.
- A list of priority investments for private finance.

The finance strategy and plan should be included in NAP, updated on the same cycle (e.g., every 5 years), and developed alongside in the Sustainable Finance Strategy to avoid duplication.

Developing a clear, time-bound strategy and plan for private sector investment in adaptation would have a number of benefits, including:

- Sending a clear signal to private investors that adaptation is a priority for the Government and an important investment opportunity.
- Providing tangible opportunities for private investment in adaptation.
- Building confidence in both investors and other stakeholders that the objectives of NAP, including mainstreaming adaptation action and driving substantial uplift in private sector investment, will be achieved.

Recommendation 2: Align adaptation across governments' climate change activities.

One of the key objectives of IGCC's Physical Risk Strategy: Road to Resilience is to integrate physical risk and resilience, including adaptation, into all climate change-related policies and activities. As such, IGCC supports the Government's goal to mainstream adaptation. To achieve this, the Government should:

- Expand the Australian Sustainable Finance Taxonomy to include adaptation and resilience measures, broadening sustainable investment definitions and opportunities.
- Include adaptation in sovereign green bonds issuances.
- Mandate climate-related financial disclosures that include comprehensive risk assessments for high-physical risk scenarios (e.g., 3+°C).

Recommendation 3: Facilitate public-private partnerships and develop frameworks to manage complex adaptation challenges.

Public-private collaboration will be required to fund the scale of adaptation required and will be necessary to address current barriers to private investment in adaptation. In addition to this, collaboration will be required to effectively implement adaptation and increase resilience.

In the Issues Paper, it is stated that "it is generally most efficient and appropriate for businesses and individuals to understand and manage their own risks". While this is appropriate in some circumstances (e.g., direct damage to a privately owned asset), the damages of physical risk are often indirect, including supply chain issues and disruption, and through overall finance system risks. This limits the ability of a single business or individual to increase their resilience. For example, many roads are publicly owned but if not adapted to climate change can have a negative impact on businesses and individuals.

This example highlights the need for collaboration when increasing the resilience of communities, businesses, and assets to the physical damages of climate change. While the Federal Government may not have a role in all cases, they should provide national leadership on how to address these complex risks. This may include collaborations with other levels of government, communities, and the private sector to produce case studies and frameworks.

Recommendation 4: Develop and co-fund case studies for best practice private and public-private financing of adaptation and resilience.

In addition to the draft principles for prioritising adaptation actions outlined in the Issues Paper, actions that can facilitate further adaptation should be included. For example, case studies that address barriers to adaptation or private investment.

Similarly to the remit of the Australian Renewable Energy Agency, the Government should consider co-funding (with the private sector) case studies for private and public-private financing of adaptation and resilience. This will build investor confidence, test frameworks and methodologies, and provide low-risk opportunities for private investment.

Recommendation 5: Legislate NAP and NCRA.
IGCC supports the Climate Change Authority's recommendation that NAP and NCRA should be legislated with updates at least every 5 years, with legislation to also cover ongoing monitoring and evaluation. This positions adaptation as a key priority for the Government and builds investor confidence that it will continue to be. In addition, requiring monitoring and evaluation supports investor confidence that physical risk is being proactively and effectively managed, and that Australia remains an attractive place for international capital investment. A similar framework to the United Kingdom, where progress reports, perhaps by the Climate Change Authority, are required every two years, would be appropriate.

Recommendation 6: Establish a coherent climate information, skills, and science strategy.
As NAP and NCRA develop, they will produce insights into what information, skills, and science are needed to achieve their objectives. It is essential that the development of these is prioritised and funded within a coherent, national strategy. While this need not all be funded publicly, communication of these priorities will allow relevant sectors to contribute to develop these resources and capabilities. In addition, this strategy should extend to collecting and disseminating existing decision-useful information, as well as funding the development of new information. These may include hazard data, risk assessments, exposure information, and climate projections (see IGCC's Investor Expectations of NCRA for more examples).

Conclusions

IGCC is broadly supportive of the objectives and priorities identified in the Issues Paper. In particular, the inclusion of the economy, trade, and financial system as both a systemic risk and an opportunity. However, to direct private investment to adaptation, key barriers need to be addressed. This can be achieved by incorporating a clear, time-bound finance strategy and plan into NAP. In addition, partnerships, cohesion across climate change activities, best practice case studies, and decision-useful information will be essential to support private investment. Finally, legislating NAP and NCRA will build investor confidence and support continued investment in Australia.

For more information or to discuss, please contact:

Kate Simmonds
Advisor, Physical Risk and Resilience
kate.simmonds@igcc.org.au

Michael Bones
Advocacy Manager, Policy
michael.bones@igcc.org.au