



WU Conference on ESG and climate risks for the financial sector

From climate risk assessments to supervisory approaches

Lessons from World Bank engagement in EMDEs

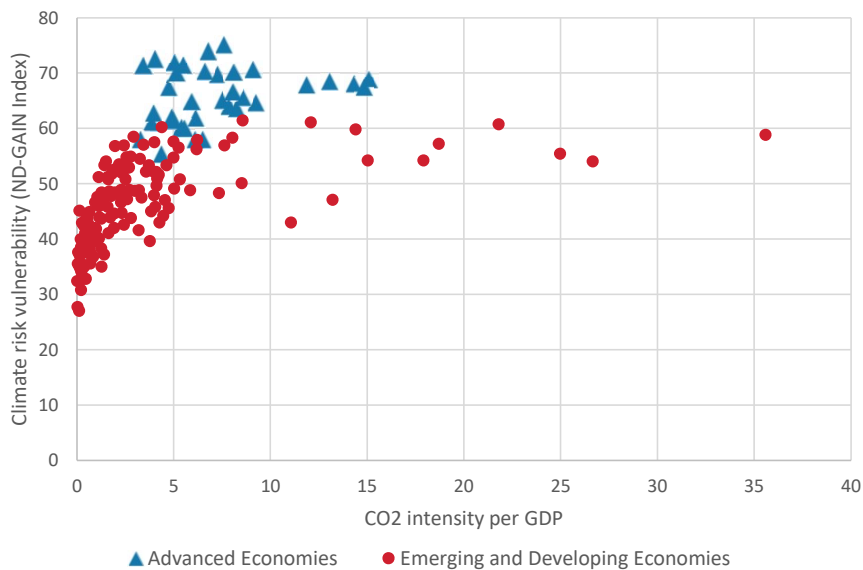
May 29, 2024

Gunhild Berg
Lead Financial Sector Specialist
World Bank

EMDE economies are particularly vulnerable to climate change

Countries which have contributed least to climate change are the most vulnerable to its impact...

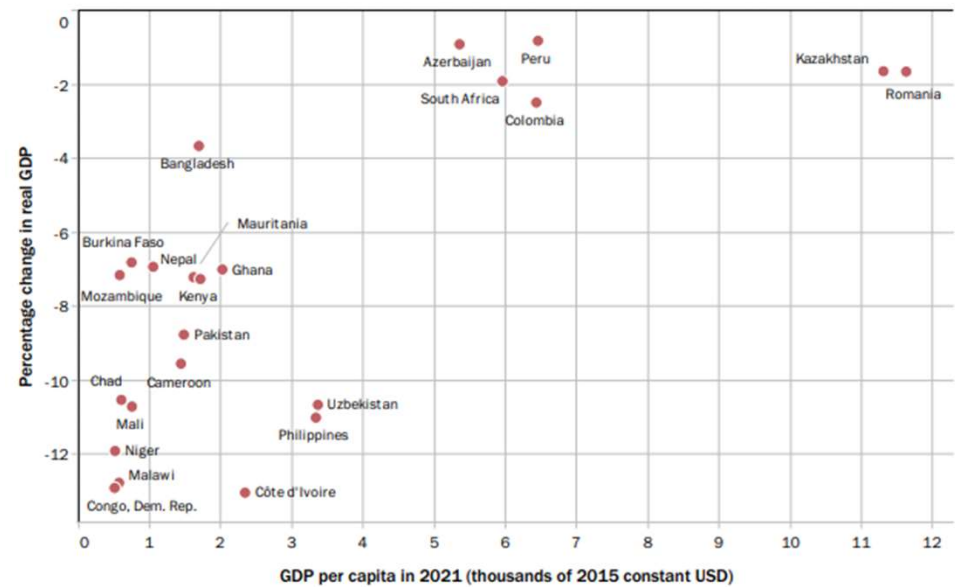
Vulnerability to climate change and emission intensity for EMDEs and AEs



Source: World Bank based on ND-GAIN Index (2023) and Our World in Data (2023). ND-GAIN indices span in range from 0 to 100 with higher values representing greater readiness and lower vulnerability.

...with the economic impact being as high as 14% of GDP in certain EMDEs

GDP impact of climate change in 2050 in pessimistic scenarios for selected EMDE countries against a baseline scenario (percent of real GDP)

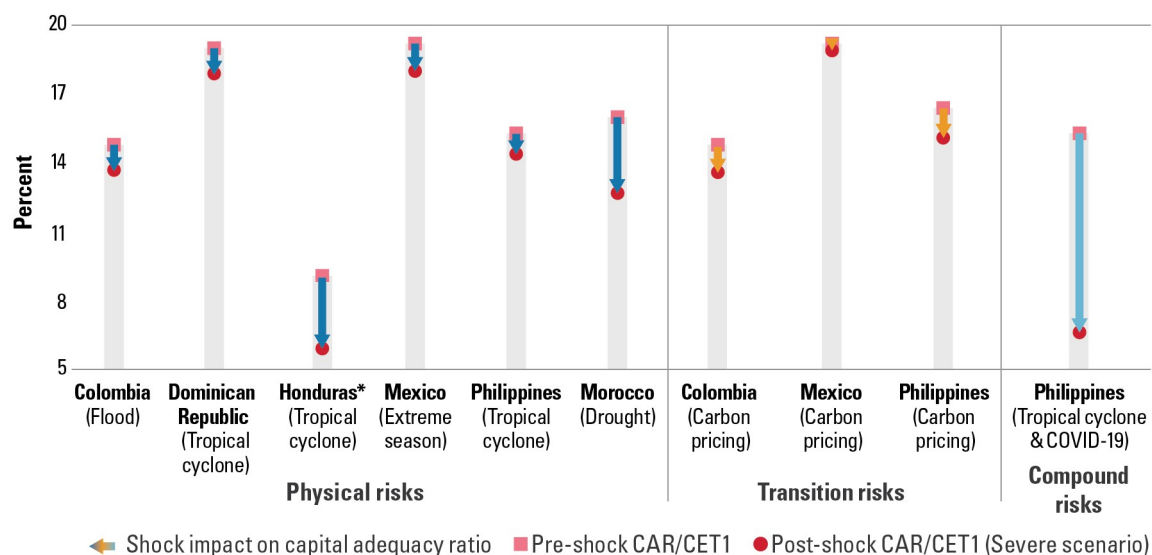


Source: World Bank, 2023

The impact on banks' capital seems manageable but limits to current stress-testing methodologies may lead to underestimation, while compounding scenarios can create severe stress

The impact of climate risk on banks' capital appear limited...

Climate stress test results as impact on system-wide capital adequacy ratio for different scenarios, selected countries (pre- and post-shock banking system capital ratio in %)



Source: World Bank Staff calculation based on publicly available climate risk assessments across 6 EMDEs.

...but is likely underestimated due to methodology limitations

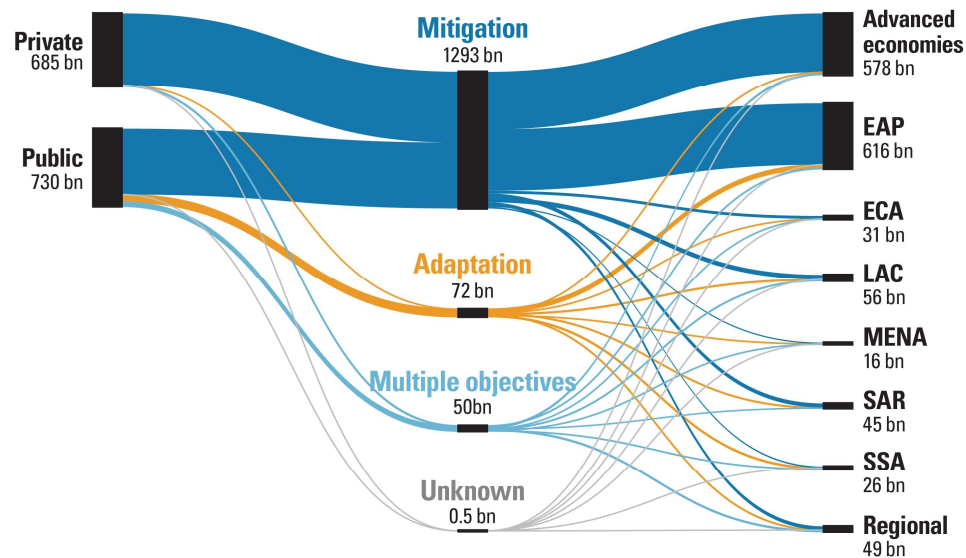
Limitations to current climate risk assessment methodologies

- Data quality and availability
- Impacts of tipping point events and extreme tail risks
- Potential non-linearities arising from second-round effects
- Limited subset of scenarios and transmission channels
- Compounding shocks

EMDEs face specific challenges in providing and accessing climate finance

Private climate finance is nearly exclusively focused on mitigation, and mainly flows to advanced economies and China...

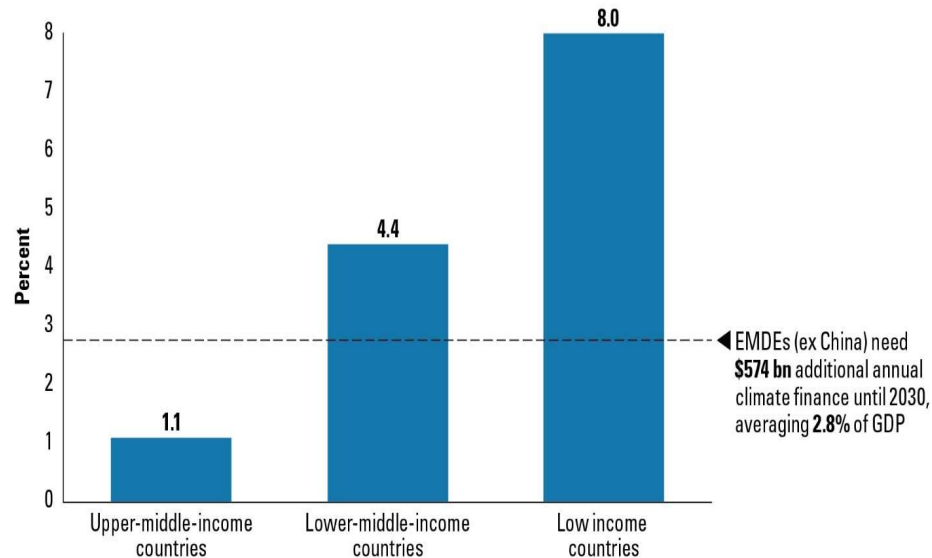
Climate finance flows by source type, use case and region of destination in 2022 (USD bn)



Source: World Bank staff calculation based on CPI (2023)

...while climate finance needs are large in EMDEs

Additional annual climate finance needs between 2023 and 2030 by income level (percent of GDP)

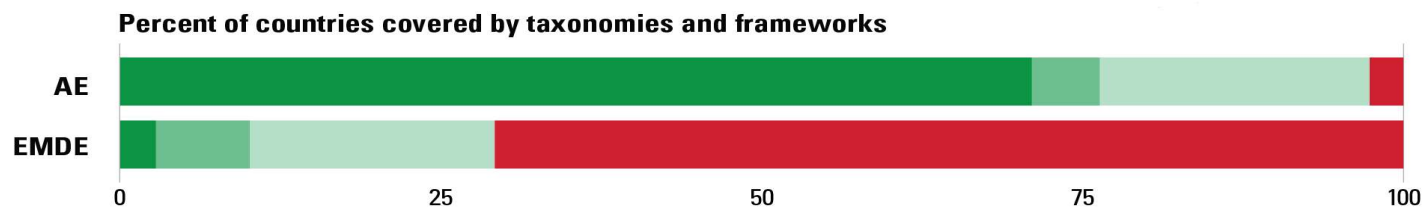
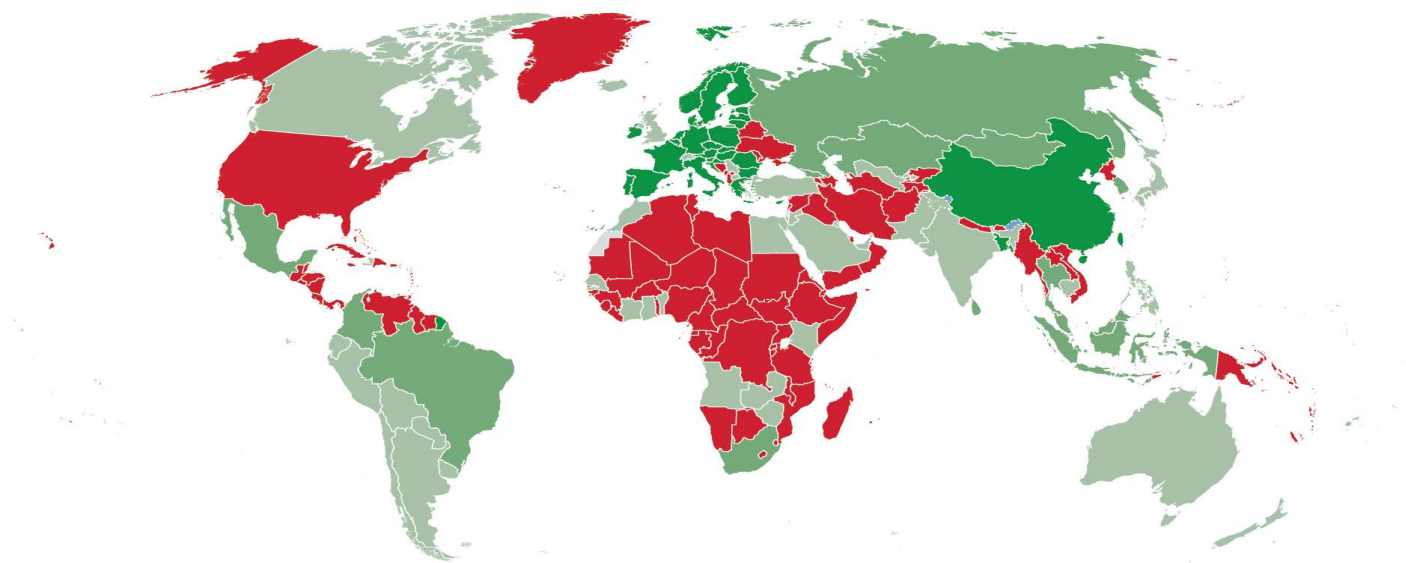


Source: World Bank (2023)

Note: Based on estimates of 42 World Bank Country Climate Development Reports (CCDRs) on incremental investment needs compared with a realistic business-as-usual baseline.

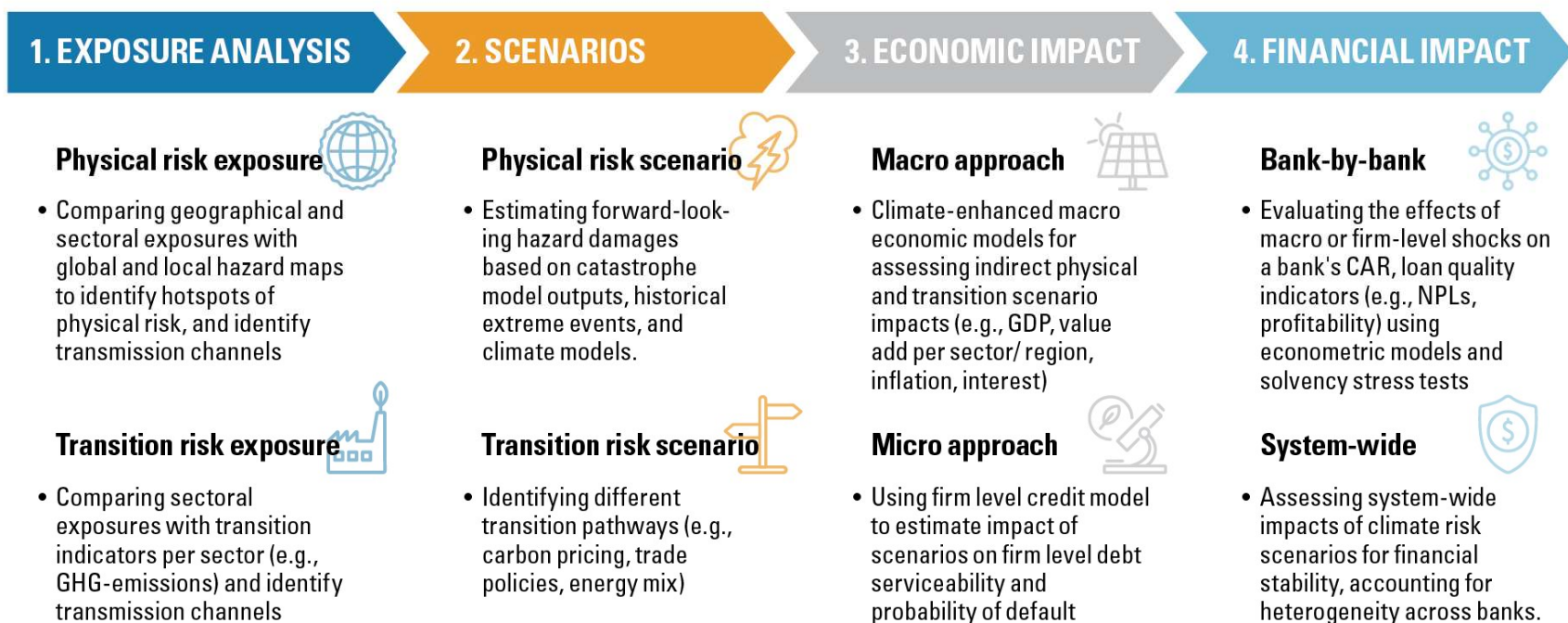
Effective classification of sustainable activities is needed, but only one-third of EMDEs are covered by taxonomies or sustainable bond frameworks

- No taxonomy/framework/guidelines
- Mandatory green/sustainable finance taxonomy
- Green/sustainable bond framework
- Voluntary green/sustainable finance taxonomy



Source: World Bank - Forthcoming

Climate-related financial risk assessments need to be adapted to local contexts

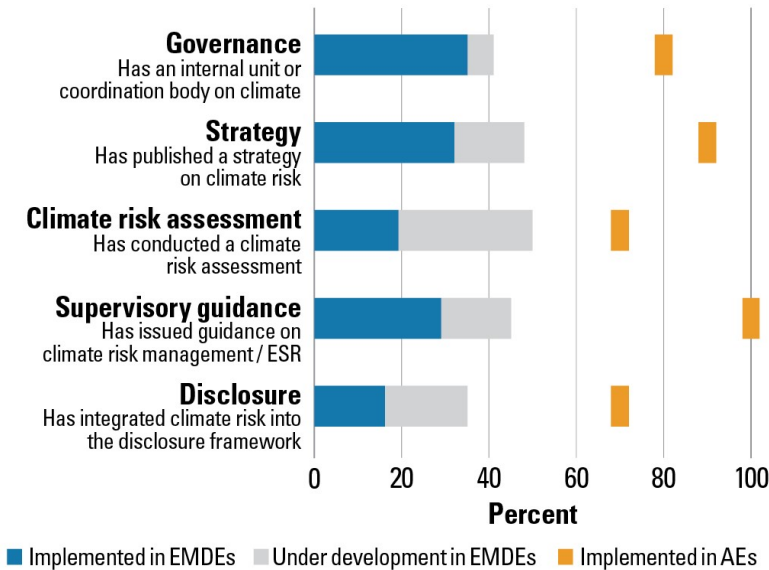


Source: World Bank- Forthcoming

Climate risk supervision and management are in the initial phases in EMDEs

EMDE banking authorities are in the earlier stages of climate risk supervision compared to advanced economies...

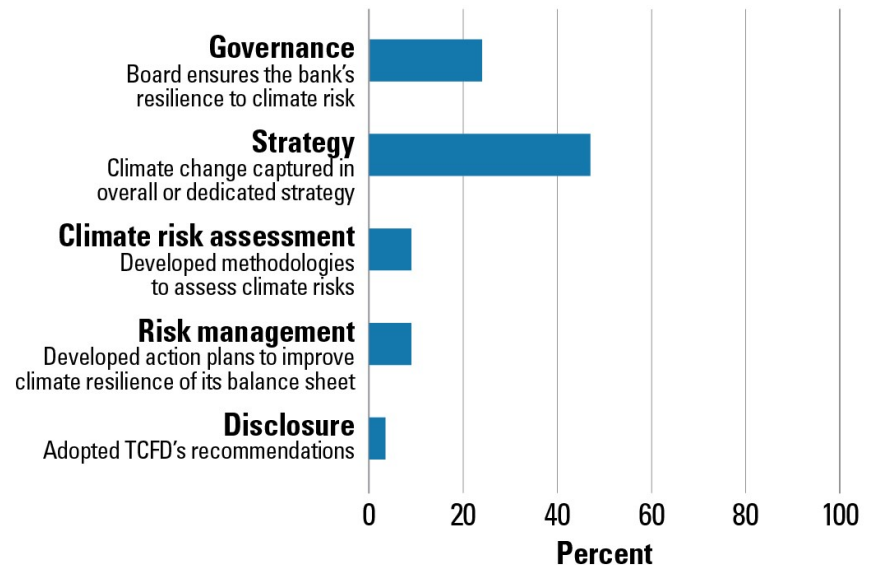
Share of banking authorities implementing selected supervisory actions related to climate risk



Source: World Bank staff calculations based on World Bank climate diagnostics and technical assistance in 31 EMDE countries and publicly available information in the 10 AEs with the highest GDP

...while climate risk management by EMDE banks is in its infancy

Share of EMDE banks that have adopted selected actions related to climate risk



Source: World Bank staff calculations based on IFC data


The World Bank is supporting efforts to green financial sectors in 60+ countries through its technical assistance, analytical and lending activities

Morocco



- Climate risk analysis
- Climate risk guidelines
- Training & capacity building

Mexico



- FSAP Climate risk analysis
- ESG risk guidelines

Türkiye



- Climate risk analysis
- Capacity building



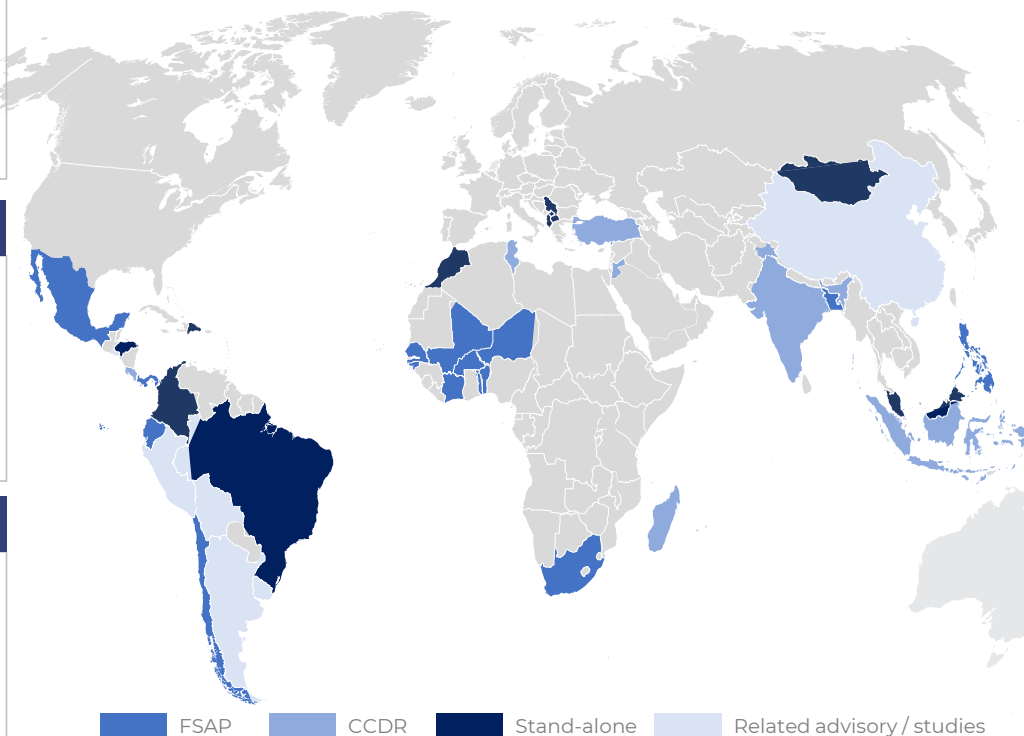
Disclosure & reporting




Risk Management



Green Finance

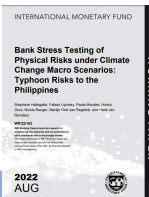


South Africa



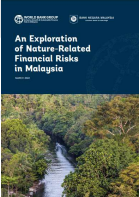
- FSAP climate risk analysis
- Advisory climate risk analysis
- Training/capacity building

Philippines



- FSAP climate risk analysis
- Transition risk analysis
- Development policy operation

Malaysia



- Nature risk analysis
- Training/capacity building



Thank you



WORLD BANK GROUP
Equitable Growth, Finance & Institutions