The V20 remarks – Spencer Lake

Words: 1000(5-7 mins) April 2016, Washington DC

Dear Finance Ministers, Ladies and gentlemen.

I am very pleased to be here today and an honour to share this platform with so many decision makers. And to have the opportunity to share with you all some of my own thoughts on such an important but complicated topic at this critical moment.

I plan to touch on 3 areas:

- To share some general observations;
- Focus on a solution for further thought;
- HSBC sustainable financing initiative and progress

Part I: General observations

From a private sector prospective, we support the V20 initiative and, in particular, we echo the importance of focusing on those countries that are in greatest need.

1/ The V20 initiatives should be really joined up with key global initiatives such as:

- ✓ G20 Green Finance Study Group;
- ✓ G7 Climate Risk Insurance Initiative;
- ✓ Green Infrastructure Coalition; and
- ✓ Fund specific – ie the Green Climate Fund

1 V20 initiative needs to be very joined up

2 Working Group should focus on key solutions, with speed

3 [illegible]

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2/ The V20 has openly communicated its action plans and formed a working group. In our view, this WG should focus on key solutions and offer specific policy support - some ideas are around:

- ✓ Capital market solutions;
- ✓ How to facilitate efficient capital flows;
- ✓ How to help investors (esp. foreign) to understand and price risks associated with either climate and/or political risks, etc.
- ✓ Specific policy support i.e. incentivised approach; and
- ✓ Increase transparency regarding fund usage, progress and monitoring.

3/ While we all know that the financing requirement is significant. We would welcome if it could be further quantified:

- ✓ at V20 and country level
- ✓ perhaps to also prioritise the short/med/long terms risks, needs and plans (i.e. current and future projects)

For example, can we be more specific on what is required for either adaptation and/or mitigations especially for financing needs/solutions needed.

In our view, mitigation is important but it is long term. To make an immediate difference of V20 – feels that adaptation can bring the short term benefits that the V20 Governments have to deliver whilst waiting for the impact of the global community's efforts on climate change mitigation to feed through (e.g. a reduction in global warming to below 2 degrees)

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For example: V20 countries should aim to:

1) To identify the key issues they face...e.g. desertification

(the process by which fertile land becomes desert, typically as a result of drought, deforestation, or inappropriate agriculture), rising sea levels, more intense hurricanes and tropical storms - lasting longer, unleashing stronger winds, and causing more damage to coastal ecosystems and communities?

2) To identify the adaptation measures they can take - some can be achieved by legislation (deforestation-laws to protect habitat), some by education (improvements in agriculture), some by infrastructure building (sea defences, resilient City design).

3) To identify how the V20 can fund the infrastructure at specific level.

Budgets? Bi-lateral/Multilateral grants? Borrowing?

Part II: A solution /idea for thought - to bring all parties together

Climate risk pooling mechanism

One of your idea is the establishment of a climate risk pooling mechanism, which will look to effectively distribute economic and financial risks emanating from extreme weather events.

We support this initiative as it builds the capacity needed at the macro V20 level. The challenge is how we implement this - then to leverage both public and private capital into a 'scalable' global solution.

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1. To set up a Sovereign V20 fund (it can be structured as an SPV) and can be funded via a combination of some/all from below:

Capital market	e.g the issuance of a 'V20 green bond'
MDBs	Credit support or Cat B (note 2)
GCF or Tax (possible)	(Note 3)
Insurance/reinsurance	Cat Bond or premiums (note1)
Equity	Partly through public budgets as equity capital

The proceeds of which can be used to cover potential losses in member countries and also to provide funding for projects that help you to adapt to and mitigate the effects of climate change.

To make this even more effective, and attract a wider range of investors, a multilateral development bank could act as your partner, to provide credit enhancement or other guarantees and support.

(Note1). To further leverage insurance/reinsurance companies- link with further capital market solutions

<u>Insurance/reinsurance companies</u>

I mentioned earlier regarding the G7 Initiative on Climate Risk Insurance aims to increase access to direct or indirect insurance coverage against the impacts of climate change for up to 400 million of the most vulnerable people in developing countries by 2020.

According to recent estimates, only about 100 million people in developing countries and emerging economies are currently covered by climate risk insurance.

The G7 recognises that significant funding will be necessary and can leverage several billion USD of risk from the private insurance and re-insurance industry.

V20 countries all have one thing in common - a high level of exposure to potential natural catastrophes.

Green bonds are obvious. Let also look at Cat bonds though they have been most prevalent in North America and Europe, they are increasingly becoming a feature in Asia too.

(Cat bonds - risk-linked securities that transfer a specified set of risks from a sponsor to investors. They were created and first used in the mid-1990s in the aftermath of Hurricane Andrew and the Northridge earthquake.)

As insurance and reinsurance companies in the Asia Pacific region look to strengthen resilience to disasters, there is an expectation that the **catastrophe bond** will increasingly be a feature as regional re/insurers leverage alternative sources of risk capital.

Japan, for instance, has seen its cat bond market become well established in the last few years, with companies like Tokio Marine Nichido and Mitsui Sumitomo Insurance Company coming to market.

China too is exploring how cat bonds can help it more adequately protect itself against risks and its insurance regulator is now considering legislation for the securitisation of insurance liabilities, while the first Chinese entity, China Re, issued a cat bond last year.

In addition to Cat Bonds, other instruments such as insurance – linked securities (ILS) and collateralized reinsurance products are alternative sources of risk funding to reduce the reliance on traditional reinsurers.

Making use of innovations such as this will be crucial to protecting the world's most vulnerable populations.

And here again I see a role for multilateral development banks to play a role in addition to providing credit enhancement or currency hedging solutions.

(Note 2) Multilateral Development Banks (MDBs)

The World Bank issued a cat bond in 2014 linked to earthquake and cyclone risks in 16 Caribbean countries. Perhaps this could be replicated in key V20 currencies.

While, KfW, has established a Climate Insurance Fund, to provide financing to qualified insurance and re-insurance companies based in developing countries which offer insurance solutions against extreme weather events, natural catastrophes or for agricultural insurance.

It is through partnerships such as this: between public and private sectors; combined with the utilisation of the power of capital markets that the world's most pressing problems can be overcome.

(Note 3) Existing fund – GCF – to leverage PPP

V20 countries should be actively seeking funds from initiatives such as this and some of you are represented on the Green Climate Fund itself to make the case.

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Part III: HSBC sustainable financing initiative and progress

HSBC has been successfully accredited to help source commercially viable projects and to provide innovative capital market and risk management solutions – to work alongside of GCF to make a difference.

For HSBC, in addition to wider sustainable financing initiatives (ie bank and capital market solutions), we are also one of the funding members of green bond principles of ICMA.

We also focus on executions via Smart Cities – bring infra and green theme together – we see cities to deliver tangible actions – as they require well-planned, connected, tangible and digital infrastructure, public transportation, energy efficiency and to make more use of renewable energy sources.

Smart Cities are perfect for 'financing sustainability' solutions and can also be used to stimulate capital market solutions (such as municipal bond markets) but also accelerate international capital market integration and wider value creation.

We need Cities globally to take climate action, to solve 'capacity' issues and build 'resilience' that fit for the future.

There is clearly a lots of details that needs further discussion so what I have said serves as some initial thinking – but it's clear that the task is up to each and every one of us, the V20 and the private sector, to use our collective power and these innovative tools, plus the right risk mitigation mechanisms and solutions to achieve our common goals.

Thank you

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Appendix - HSBC

- **HSBC supports the strategic transition**: HSBC supports the strategic objectives to promote a paradigm shift towards low-emission and climate-resilient economy - directly supported by our Group CEO "There is a business imperative as well as a moral imperative to get involved in green financing,"

- **Fits our Group strategy**: This fits well with our current Group strategy - across global infrastructure, sustainable financing and also the recently launched smart cities initiative.

- **To further drive product innovations**: We are keen to bring innovative financing solutions to our clients - for clean energy, energy efficiency, sustainable transport and water by providing financing and offer advice to developing countries.(HSBC internally established a Group wide Climate Business Council in 2010 to focus across all businesses)

- **Our commitments**: CFI initiative is another example of our commitment and proactive approach across our industry with our key partners. Last year we already committed USD 1bn B/S investment and issued its own Green Bond Euro 750m.

HSBC's Value/Why HSBC:

1. **Our Credentials & Specialisation**:

    - We are currently ranked as the World's No 1 ranked Project Advisor and the No.1 ranked Infrastructure Finance House and the leading advisor in sub-Saharan Africa.

    - We have a particular specialization in the financing of sustainable public transport and we are also the leading bank financier of Bus Rapid Transit and have identified areas which countries and cities can make a real difference such as our smart cities initiative.

    - HSBC has been a key arranger and financier of PPP projects in the first world and we use that experience to support the least developed countries and emerging market governments who want to replicate elements of PPP financing for their own infrastructure needs.

    - HSBC has the experience and skills to fully assess the risks associated to infrastructure investment opportunities. (this is because those projects have a broad range of risk and return profiles and structuring funding requires broad market and product knowledge, experience and the ability to dedicate significant resources over a long period of time to bring the project to completion.

2. Our footprint and diversified client base - so that will boost projects and investment opportunities:

- HSBC's global footprint and comprehensive product suite means we have better deal **origination** capabilities and can identify large numbers of climate change and wider sustainable finance opportunities.

3. Our impact & outcome driven approach:

- HSBC focus on sustainable projects and a new **impact-based assessment** process that will enable HSBC to target projects with the highest environmental and social benefits.

- HSBC applies the **IFC's Performance Standards** to the projects we support, requiring employers on projects to be non-discriminatory with regard to gender, race, religion, age or sexual orientation.

(e.g. The projects that we finance provide communities all around the world with access to sustainable energy and transport and clean water. We promote gender equality by providing equal transport opportunities to all, acting as an enabler for women to access health services and education facilities, job opportunities, to participate in politics and social development.)

Appendix – data

1) **Cumulative GDP of V20 members: US$981bn** (1.27 % global GDP). Population is ~700m, c.10% global population.
2) **Climate risk pooling mechanism:** V20 was only founded in October 2015 where this was announced. There are no article written since then providing more detail or evidence that this has progressed. I would be very surprised if it could be arranged in this timescale.
3) **Cat bonds:** CIRC has sought feedback from market participants following circulation of proposals in December 2015. It is now considering legislation for the securitisation of insurance liabilities.

   This is a good article (Fitch wrote a note about cat bonds in Asia Pacific): http://www.artemis.bm/blog/2015/08/21/catastrophe-bond-issuance-in-asia-pacific-to-increase-fitch/

   There have been quite a few in Japen, eg. Tokio Marine Nichido (Japanese insurance company) has issued cat bonds. Or Mitsui Sumitomo Insurance Co completed Japan typhoon-only cat bond in March 2016.

   First ever Chinese cat bond by Panda Re Ltd in 2015.

   June 2014 World Bank issued cat bond linked to earthquake and cyclone risks in 16 Caribbean countries.

   Role of insurance-linked securities?

4) **GCF overlap members V20:**
   - Tanzania is alternate member for South African co-chair
   - Bangladesh is a board member
   - Maldives is alternate member for China

Country	GDP millions US$
Afghanistan	20,444
Bangladesh	183,824
Barbados	4,354
Bhutan	1,983
Costa Rica	49,553
Ethiopia	54,809
Ghana	38,616
Kenya	60,937
Kiribati	181
Madagascar	10,674
Maldives	2,885
Nepal	19,761
Philippines	284,618
Rwanda	7,897
Saint Lucia	1,404
Tanzania	48,089
Timor-Leste	4,970
Tuvalu	38
Vanuatu	822
Vietnam	185,897
Total	**981,756**
% World	**1.270566288**

Naoko Ishii

Remarks at V20 meeting
April 14, 12:15-1:00pm

~~for giving GEF~~

Thank you f~~or the opportunity to address this important meeting.~~

for your leadership to

I would like t~~o begin by once again~~ congratulat~~ing~~e all ~~of your for putting~~ the V20 initiative together. ~~At this critical moment in time after the SDGs and Paris COP, the strong leadership that the V20 can provide is extremely important.~~ I ~~think it is great news~~ that V20 is growing even bigger.

I was at the inauguration in this, great Secretary, in person

Secretary

Just a few weeks ago, I had the opportunity to meet ~~minister~~ Purisima in Manilla. ~~Minister:~~ as we discussed, it is so encouraging that Ministers of Finance are now taking the lead on this important agenda.

~~V20~~ V20, growing

~~It is~~ a clear recognition that what for many years was considered "environmental issues" are now being mainstreamed into broader, national economic decision-making.

Nationally determined commitment ~~to~~ on climate agenda.

Many INDCs ~~that were~~ submitted in Paris included references to adaptation and resilience. Now is the time to firmly integrate the INDCs into economic and development policy. Ministries of Finance will have a key role to play in this.

V20, US.

~~It has been~~ ~~you~~ have emphasized.

mobilizing finance

~~You have~~ rightly emphasized the importance of V20 countries having access to sufficient financial resources to pursue resilient development in the face of a rapidly changing climate.

~~GEF~~ I want to be useful in

~~I want to assure you that the G-E-F is ready to do all we can to help you in this endeavor.~~ All V20 countries have access to GEF grant funding. We have supported innovative programs in several countries that have helped improve countries' climate risk preparedness. For ~~example, the~~

expanded

many of you have never seen GEF.

The fact is that

Gl. early warning systems

GEF ~~has worked on more than~~ financed ~~a dozen~~ 12 countries to establish Climate risk insurance schemes aimed at reducing the vulnerability of individuals, households and companies to extreme events.

Looking ahead, I think we ~~have huge~~ seek new opportunities with you, the minister of finance, to further expand these innovative financial mechanism.

I look forward to continuing our collaboration.

Thank you.

RMI FOREIGN MINISTER JOHN SILK
OPENING REMARKS
V20 Ministerial Dialogue
World Bank, Washington DC
14th April 2016

Chairman Purisima, Honorable Ministers of Finance, Distinguished Guests and Ladies and Gentleman.

Please allow me to express my sincere thanks and gratitude to the CVF and V20 for welcoming the Marshall Islands to today's V20 Ministerial Dialogue.

A special thanks or as we say in Marshallese – Kommol tata - to our Philippines Chair and to the Honorable Ministers from Bangladesh and Ethiopia as the Troika.

Kommol tata also to all of you for so warmly welcoming me here - not least when you may have been expecting to meet my colleague Brenson Wase, RMI's Finance Minister! He sends his regrets and hopes to meet you in the future.

The Marshall Islands is one of five atoll nations in the world and is highly vulnerable to climate change.

I know many countries here worked very closely with RMI in the run up to Paris. Tony de Brum, my predecessor and now RMI's Ambassador for Climate Change, spoke extremely highly of the CVF's leadership.

We know that our shared commitment helped enshrine the limit of 1.5^0 C into the Paris Agreement. It also helped deliver other ambition elements such as the five-year cycle of adjustment, the early stock take in 2018 and stronger rules on transparency of action and support, including new provisions on adaptation and on loss and damage.

We must make sure the spirit and letter of Paris are kept and implemented to the fullest.

We are doing our share.

Marshall Islands was the third country after Fiji and Palau to complete domestic proceedings necessary for our Parliament, *The Nitijela*, to approve the Paris Agreement at the end of March.

I know that many of you are also leaders on the ratification front. Nearly all the early ratifying countries come from the CVF.

But the truth is that the climate is changing more than we would like.

Loss and damage are occurring. Last month my country was put on high-alert for widespread king-tide inundation, and one of the first acts of the new Government was to declare a State of Disaster. Drought conditions threaten to leave our capital city, Majuro, without any fresh water supplies in less than three months' time.

So the work you have mapped out already on in the Work Program is much needed. We will gladly help take forward the work of the new Advocacy and Partnerships Focus Group.

The Marshall Islands will do all we can to support the next phase of the V20. Once again, I extend my thanks to you Honorable Secretary Purisima for all you are doing for the V20.

Kommol tata to you all and hope to see some of you in New York or in the Marshalls!