

Annex I (SCF/2017/16/6)

2017 SCF Forum “Mobilizing finance for climate-resilient infrastructure”

Draft summary report

Proposal by the 2017 SCF Forum co-facilitators

A. Introduction

1. The 2017 Forum of the Standing Committee on Finance (SCF) was held from 6 to 7 September in Rabat, Morocco on the topic of “Mobilizing finance for climate-resilient infrastructure”. The forum was kindly hosted by the Government of Morocco and held in partnership with the Union for the Mediterranean (UfM) and the European Bank for Reconstruction and Development (EBRD), and with contributions from the Government of the Netherlands, the World Bank and the Inter-American Development Bank (IADB).
2. About 120 government officials, representatives of multilateral development banks and the operating entities of the Financial Mechanism that finance climate-resilient infrastructure projects, infrastructure developers, engineers, representatives of the private sector as well as the UNFCCC NGO Constituencies participated in the event.
3. The two-day forum featured plenary presentations, panel discussions, breakout group discussions and parallel plenaries examining climate-resilient infrastructure in the broader global infrastructure landscape, the current trends and gaps in financing climate-resilient infrastructure on Day 1 and some of the practical ways to close the financing gap in light of international best practices and case studies on Day 2.

B. Summary of the main outcomes

a. Opportunities and potential for enhanced financing of climate-resilient infrastructure

4. Infrastructure such as roads, bridges, sewers, electrical grids and buildings is the backbone of our economy and is integral to human development. As seen in the recent extreme weather events around the world, including the flooding in Houston and Mumbai, and the substantial damages experienced by Caribbean countries, climate risks pose a significant threat to human life and infrastructure. Investing in climate resilience early on makes good business sense as it can prevent inefficiencies and costly retrofitting of infrastructure while reducing the vulnerability of society. Investing in climate-resilient infrastructure does not only concern new infrastructure to be built but also the existing infrastructure. While the issue of uncertainty when planning for infrastructure that can withstand extreme weather events and climate risks 100 years or 200 years from now needs to be tackled, integrating climate resilience in infrastructure means equipping it with a capacity to be adjusted quickly in cases of new information and data.
5. The OECD estimates that each 1 dollar spent on climate change adaptation delivers four times its value in terms of potential damage avoided. Until 2030, 70% of infrastructure investments are

expected to be made in developing and emerging economies. While infrastructure needs are huge in developing countries, there are emerging trends and standards for integrating climate resilience in infrastructure in the OECD countries. In this regard, developed countries and multilateral development banks should provide targeted support to developing countries so that they can create an enabling environment for climate-resilient infrastructure by developing appropriate national policies and frameworks.

6. For many developing countries, including the Least Developed Countries (LDCs), where infrastructure is not sufficient, climate-resilient infrastructure presents opportunities to build right from the very beginning integrating climate resilience and sustainable development into infrastructure. Although the upfront cost of building climate-resilient infrastructure could be high, its incremental costs are low and potentially net positive with long-term payoffs over the lifetime of an investment. Not only the long-term economic returns and soundness, climate-resilient infrastructure encompasses a wide range of social, environmental and educational benefits. The participants defined climate-resilient infrastructure in the context of human development.
7. Currently, efforts are being made in some countries for long-term flood prevention and risk mitigation based on community-based flood insurance schemes. New building codes are being reviewed and streamlined for housing rehabilitation schemes. Both direct and indirect impacts of climate change are being tackled as well as the interconnectedness of infrastructure.
8. The Paris Agreement has created a powerful framework for setting out national climate action priorities in the form of Nationally Determined Contributions (NDCs), which have the potential to guide national priorities for addressing climate change challenges, including climate resilience and climate-resilient infrastructure. This can be further developed into country-level strategies and/or approaches for mobilizing finance for climate-resilient infrastructure programmes and projects and enhancing the necessary policy and regulatory frameworks. Strategic planning that translates national climate resilience priorities into investment planning is important; it should include feedback and information collected at the local and regional level with a well-established vertical flow of information. Developing an investment plan that integrates climate vulnerability and resilience in the broader context of the Sustainable Development Goals (SDGs) and the NDCs and identifying the best channels and sources of finance for such plan is a priority.

b. Barriers to climate-resilient infrastructure financing

9. There is still a considerable gap in the prioritization of adaptation in the NDCs. In EBRD countries of operation, at least, there is less weight given to adaptation in their NDCs. Countries should define what their adaptation needs are and turn their NDCs and National Adaptation Plans (NAPs) into concrete action plans and project proposals, which is always helpful when applying for funding from the operating entities of the Financial Mechanism: namely, the Global Environment Facility (GEF) and the Green Climate Fund (GCF). At the same time, more flexibility is needed in accessing the funds.
10. There is a need for internationally recognized and accepted climate resilience standards and metrics, as they can direct investment towards infrastructure projects that are better designed and more resilient to medium to long-term climate change impacts. These metrics and standards imply a need for certification tools and systems that investors, together with donors, the operating entities of the Financial Mechanism and the governments and the private sector

entities in recipient countries, can use to verify whether a proposed infrastructure project is consistent and meets these standards. The Standard for Sustainable and Resilient Infrastructure (SuRe) developed by the Global Infrastructure Basel (GIB), and Standard & Poor's Global Ratings Green Evaluation are examples of resilience standards and certifications.

11. The need for targeted and intensified capacity-building with regards to developing climate-resilient infrastructure projects that can readily attract funding was noted. Many developing countries and their national and local governments often do not know what makes a project attractive for investments and funding, and capacity-building in the project development phase is needed. A lack of awareness of the climate funds and requirements at the subnational and national level also needs to be tackled. A sound project design and engineering is also required. Developing countries and project developers need more information about the technical guidelines of financial institutions, which need to be better aligned.
12. There is a lack of sufficient and adequate projects that could attract the private sector engagement. Further, a risk-return disequilibrium prevents the private sector to more actively engage in climate-resilient infrastructure financing. The LDCs are still perceived as risky investment grounds.
13. The need for building the capacity of the private sector was also mentioned, given that there is currently a mismatch between private investments and long-term public needs in the context of climate change. Further, the need for creating structures for non-revenue generating and small-scale projects that may not appear attractive to lenders and investors was stressed, given the various non-commercial benefits of climate-resilient infrastructure.
14. Climate change needs to be integrated into the budget planning processes, and archaic building codes and construction standards need to be revised to better support climate-resilient infrastructure. The public sector also needs to create an enabling environment to spur more private sector engagement.
15. A lack of technical tools for modeling externalities and screening long-term climate risks was noted. How to monetize non-commercial benefits needs to be further explored so as to enhance financing of climate-resilient infrastructure.

c. How to move forward and enhance financing for climate-resilient infrastructure

16. Integrated planning, multi-stakeholder coordination as well as local consultation are important. A more harmonized approach across donor organizations for in-country support is needed. In local setting, people are often not aware of climate risks, and capacity-building is needed. Changing the mindset of the local people, who are often not fully aware of the risks that climate change poses, is also important to avert damage and a loss of human lives in extreme weather events. Developing country participants also highlighted the need for changing the mindset of infrastructure planners and developers at home so that they can start doing things differently and integrating climate resilience into infrastructure development.

17. Targeted support is needed to make risk data and information accessible to policymakers and industries especially in developing countries. The challenge is compounded by the fact that the market for climate resilience certification services is still in its infancy. Donors and the operating entities of the Financial Mechanism can help strengthen hydro-meteorological services in developing countries so that better weather and climate data and information services become available to inform the cycle of infrastructure planning, designing, building and operation. Further, they can help put in place governance structures that require public and private infrastructure developers to assess and disclose publically identified climate risks and corresponding proposed adaptation and climate-resilient measures. Ideally, these governance structures will be set up under the umbrella of NDC implementation support and use best international practice standards while taking into account national circumstances and capacities. For an effective climate risk management, the use of digitalization and satellites can be considered for data-gathering purposes.
18. Infrastructure developers need sector- or industry-led best practices guidelines to move forward with climate-resilient infrastructure. For instance, the World Bank and the International Hydropower Association (IHA) are working together to finalize climate resilience guidelines for the hydropower sector in September 2017. The IHA is currently preparing a blueprint of a resilient hydropower project, in which the private sector can readily invest.
19. There was an agreement among the participants that they need to use public finance to draw the private sector to climate-resilient infrastructure projects. The African Development Bank representative mentioned the use of concessional financing for de-risking climate-resilient investments. The Korean government representative stressed that the public sector still needs to provide clear policy frameworks and guidance for green bonds so that the private sector could join the drive. The Korean government is looking into the possibility of setting up financial institutions that specialize in climate finance. There is a need for a strong push from the public sector to mobilize private finance.
20. A mix of instruments and sources, both public and private finance, can be used to finance climate-resilient infrastructure. A participant suggested that removing fossil fuel subsidies and scaling clean energy solutions could be considered as options to remove price distortions and make a level playing field for low-carbon and climate-resilient infrastructure.
21. Finding the right terms for the private sector and investors that they would understand is also important. The benefits of climate-resilient infrastructure need to be emphasized, as businesses are looking for opportunities, not risks. Further, financial structuring would require a clear definition of resilience and adaptation as well as clear criteria for resilient infrastructure. Identifying where projects are struggling and finding an appetite for investors and the private sector is also important with regards to mobilizing finance for climate-resilient infrastructure. There is a growing interest from the financial sector in identifying the physical aspects of climate risks through financial disclosure initiatives and resilience ratings, and this opportunity needs to be capitalized.
22. Recent success stories and good practices include asset pooling and project aggregations to finance small-scale infrastructure projects, as the New Development Bank did to finance a set of small-scale hydropower projects. Introducing new requirements for businesses to insure certain

types of assets and developing a sustainable insurance roadmap, as seen in the case of Morocco, could be helpful in addressing insurance-related barriers. An insurance scheme that takes into account the lifetime of an asset was also presented as a way forward.

C. Draft recommendations of the Standing Committee on Finance

23. On the basis of the outcomes of its 2017 forum, the SCF submits the following recommendations for consideration by the Conference of the Parties (COP):

- a) Invite developing country Parties to develop effective strategic planning frameworks that translate national climate resilience priorities into investment plans in the context of NDCs and NAPs;
- b) Invite the international financial institutions, operating entities of the Financial Mechanism and multilateral development banks (MDBs) to provide targeted support to developing countries in developing climate-resilient infrastructure projects in line with nationally determined priorities;
- c) Encourage Parties, the operating entities of the Financial Mechanism, and international organizations to strengthen capacity-building activities at the local, subnational and national government level so that developing countries can submit climate-resilient infrastructure proposals that can be readily funded, thereby expediting the process;
- d) Invite Parties to encourage an enhanced engagement of government agencies, including ministries of finance and planning, to further mainstream climate resilience and integrate it into national planning and budgetary processes;
- e) Encourage Parties, research institutions and the private sector to work together to promote climate-related financial disclosures, capitalizing on the growing interest from the financial sector in identifying the physical aspect of climate risks;
- f) Encourage developed country Parties and international organizations to support in enhancing hydro-meteorological services in developing countries so that better climate data and information services become available to inform the process of infrastructure planning, designing, building and evaluation;
- g) Invite Parties, MDBs, international organizations, expert institutions and the private sector to create a platform that can spearhead developing universal standards and metrics and certification systems for climate resilience in infrastructure;
- h) Invite Parties to consider adopting regulatory frameworks that incentivize private sector action on climate-resilient infrastructure investment and to establish and/or strengthen the dialogue with key actors at the subnational, national, regional and international levels to fully bring the private sector on board in accelerating financing for climate-resilient infrastructure;
- i) Invite the GCF, GEF and the Adaptation Fund to continue supporting the implementation of climate-resilient infrastructure projects in developing countries, while ensuring

coordination and complementarity among these funds and with other providers of financial support.

D. Follow-up activities of the Standing Committee on Finance in 2018

24. The SCF will consider undertaking the following activities in relation to the topic of its 2017 forum:

- a) Assess how to integrate the issues of climate resilience metrics in the 2018 biennial assessment and overview of climate finance flows;
- b) Provide practical and concrete guidance to the operating entities of the Financial Mechanism with regards to accelerating financing for making infrastructure climate-resilient, including readiness and capacity-building;
- c) Collaborate with other constituted bodies, such as the Adaptation Committee and the Technology Executive Committee, to explore what can be done to enhance hydro-meteorological services in developing countries so that the cycle of infrastructure planning and implementation can be better informed;
- d) Continue to engage with relevant institutions such as MDBs, private sector, regulators, industry associations to further discuss how to enhance financing for climate-resilient infrastructure projects based on lessons learned and good practices, including considering the possibility of SCF engagement in relevant events, including but not limited to the COP or meetings of the subsidiary bodies;
- e) Produce outreach materials, including a publication to disseminate the outcomes of the 2017 SCF Forum, as part of a broader outreach strategy to better promote the outcomes of SCF forums.