Executive summary of the report on the second Standing Committee on Finance forum entitled "Mobilizing adaptation finance"

A. Introduction

1. The second forum of the Standing Committee on Finance (SCF) took place from 21 to 22 June 2014 at the Montego Bay Convention Centre, Montego Bay, Jamaica. The theme was "Mobilizing adaptation finance" with the objective of promoting the mobilization of adaptation finance through the sharing of experiences, best practices and innovative ideas.

2. It was organized in collaboration with the Climate Investment Funds Partnership Forum, through effective cooperation with the Climate Investment Funds Administrative Unit and the Inter-American Development Bank. The forum was also made possible by the cooperation of the Jamaican Government, the Saint James Parish and the United Nations Development Programme (UNDP) in Jamaica. In addition, the SCF collaborated with the Adaptation Committee and a joint information note was produced.[1]

3. The forum took the form of panel discussions, presentations and interactive breakout group discussions, with emphasis given to questions and answers, and interaction from the floor. Special consideration was given to showcasing concrete practical experiences at the national and regional levels. The first day focused on national-level adaptation finance options, and the second day on mobilizing finance in specific sectors.

4. Further information on the forum can be found in the full forum report which has been made available online on the virtual forum website.[2] The virtual forum aims at engaging stakeholders and providing, inter alia, relevant background information, inputs on climate finance related issues received by the SCF, presentations and recordings of the SCF forums.

5. The forum brought together representatives from Parties, financial institutions, the private sector, civil society and academia, with over 140 participants. More than 40 resource persons were engaged in the forum as panellists and facilitators, including representatives of: the SCF, the Adaptation Committee, the Least Developed Countries Expert Group (LEG) and the Technology Executive Committee (TEC); governments; multilateral and national financial institutions; the private sector, including the insurance sector; national, regional and international organizations; think tanks; and other relevant sectors.

6. Opening statements were made by the UNFCCC Executive Secretary, Ms. Christiana Figueres (by video), as well as by representatives of the Government of Jamaica, the UNDP and the Climate Investment Funds Administrative Unit. Hon. Ian Hayles, Minister of State of the Government of Jamaica, provided the closing statement.

B. Highlights of the outcomes of the discussions

7. The forum generated a multitude of new insights. Some of the key substantive outcomes are highlighted below.

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[1] <http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/publication3_v4.pdf>.

[2] <http://unfccc.int/8138>.

1. Mobilizing adaptation finance

8. Discussions amongst participants during the forum highlighted the latest science from the Intergovernmental Panel on Climate Change (IPCC), namely that climate change is not a future event, it is already occurring, and it is caused by human activities. Thereafter, it was mentioned that finance must be a catalyst that mitigates the emissions that cause climate change, and must serve as a driving force behind efforts to build resilience and enable adaptation.

9. With regard to the Green Climate Fund (GCF), participants noted the recent decision by the Board of the GCF to aim for a 50/50 balance between adaptation and mitigation over time, on a grant-equivalent basis.[3] This was seen as a key factor in scaling up adaptation finance.

10. Participants also discussed how to replicate and disseminate good practices for the delivery of adaptation finance in both the public and the private sectors in the future. A number of case studies from different sectors were shared, highlighting opportunities and barriers (please see the full report[4]). Many of the case studies mentioned adaptation investments in infrastructure development and cities. It was highlighted that action taken today, at a sufficient scale and speed, minimizes risk and reduces costs in the long term.

11. The need for sustainable and predictable adaptation finance was discussed during the forum, in conjunction with discussions on scaling up finance. Participants emphasized that finance from a wide variety of sources is needed, including public, private and innovative finance. It was noted that opportunities and barriers exist in terms of access to adaptation finance from different channels. These are elaborated further in the full report.[5]

12. Many participants mentioned that it is important to obtain sufficient information prior to making adaptation investment decisions and that cost-benefit analysis can be very useful. Some called for better matching of available public and private financing sources and mechanisms with the adaptation needs of developing countries.

2. The landscape of adaptation finance flows

13. During the forum, the current state of adaptation finance was discussed in terms of mechanisms, amount of flows, practices, issues, challenges and opportunities.

14. Data and information from the World Bank and Climate Policy Initiative showed that annual international adaptation finance flows to developing countries reached USD 13 billion in 2011/2012,[6] with the World Bank estimating that the costs (between 2010 and 2050) of adapting to a world that is approximately 2 °C warmer by 2050 are USD 70–100 billion per year (estimate published in 2010).[7] Many participants at the forum mentioned that support for adaptation currently falls far short of the level of demand.

15. Development finance institutions, with the key support of governments and climate funds' grants and concessional financing, channelled 67 per cent of the total adaptation finance mentioned in paragraph 14 above. Furthermore, low-cost loans and grants made up 74 per cent of the total for that specific period. In total, 47 per cent of the total was used to support investments in the highly vulnerable water and agriculture sectors. Sub-Saharan

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[3] Decision GCF/B.06/06.

[4] <http://unfccc.int/8138>.

[5] <http://unfccc.int/8138>.

[6] <http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/s1_barbara_scf_june_2014_bbuchner_final.pdf>.

[7] <http://www.worldbank.org/en/news/feature/2011/06/06/economics-adaptation-climate-change>.

Africa and South Asia were the key recipients, receiving 25 and 20 per cent of the total amount of adaptation finance, respectively.[8]

16. The linkages between official development assistance (ODA) and adaptation were discussed. Data from the Organisation for Economic Co-operation and Development showed that the total ODA commitment in one year (2012) was approximately USD 132 billion and of this, about half is relevant to adaptation. The total adaptation-related ODA commitments amount to USD 9 billion, or 7 per cent of ODA, per annum. Grants comprise 69 per cent of all adaptation-related aid commitments. Furthermore, adaptation overlaps with other ODA objectives such as desertification, mitigation, biodiversity and the environment.[9]

17. It was noted that tracking private-sector finance for adaptation is not straightforward, partly due to the fact that adaptation action funded by private-sector entities may not be labelled as adaptation. Private-sector companies do not always report on their adaptation efforts. It is important for the public and private sectors to “speak the same language” in order for them to collaborate on adaptation.

3. Integrating adaptation into development planning

18. The forum discussed how adaptation finance is linked to development finance, and that resilience to climate change should be included in development planning. It was noted that integrating adaptation into development planning can increase access to finance and coherence.

19. The forum also highlighted how adaptation can be integrated at different levels, as illustrated by a number of case studies. Adaptation can be integrated into planning processes at the regional, sectoral, national and municipal/city levels. The integration of adaptation into long-term planning is a practical mechanism to scale up adaptation finance and can lead to mainstreamed resilience.

20. The second day of the forum featured examples of how to mobilize adaptation finance in specific sectors. It became clear that sectoral policies promoting climate resilience and the integration of adaptation into sectoral development plans are essential.

4. Public adaptation finance

21. A variety of public finance instruments for adaptation exist, including grants and concessional loans and investments. There are also a range of channels, with associated opportunities and barriers for developing countries.

22. Some barriers mentioned by participants included those related to the diversity and complexity of procedures, requirements and reporting requirements of multilateral funds. The project approach can also present barriers, as it does not necessarily catalyse the sustainability of adaptation projects and programmes in the longer term. Other barriers include the lack of national strategies/policy frameworks for adaptation; high transaction costs for small-scale projects; a lack of incentive of the public sector to engage the private sector; difficulties related to national ownership of adaptation projects and programmes when external consultants are hired or agencies are tasked with planning; and limited and unpredictable adaptation finance.

[8] <http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/s1_barbara_scf_june_2014_bbuchner_final.pdf>.

[9] <http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/s3_2_stephanie_bilateral_finance_for_adaptation_final.pdf>.

23. Opportunities were also discussed, including how programmatic funding can be a way to facilitate the integration of adaptation into development planning, retain national capacity and access scaled-up and predictable financial resources. Participants noted that as adaptation is a long-term commitment, any financial mechanism for adaptation should "be in it for the long haul". Furthermore, some participants pointed out that the transformation of economies is inherently programmatic, and should first begin with a measure to provide sufficient budget space for mitigation and adaptation. It was also discussed that a pipeline of projects is needed as an alternative to programmes, based on and mainstreamed into national plans and policies.

24. In terms of country ownership and direct access to finance, the experiences of the national implementing entities under the Adaptation Fund were highlighted during the forum. Another good practice identified by some participants was the equitable access modality of the Least Developed Countries Fund.

25. The co-financing of climate investments was highlighted by some participants and identified as a means of leveraging additional funding and investments from a broad range of financial institutions, including multilateral development banks and international financial institutions. Others pointed out the challenges experienced by some developing countries in meeting co-financing requirements.

5. Private adaptation finance

26. The participants discussed private climate finance in terms of how private-sector companies can adapt their infrastructure and value chains to ensure sustainable productivity in a world affected by climate change, and by examining ways in which the private sector can fund adaptation as part of environmental and social responsibility efforts.

27. It was highlighted that companies can improve the quality of their products, and can use 'green labels' to increase the sale value of their products, if they integrate adaptation into their production processes. Participants also mentioned the need for improved understanding of adaptation finance on the part of the private sector, and that the private sector would be a willing partner if companies could identify the risk to their operations posed by climate change. Climate vulnerability and risk assessments are also relevant for micro, small and medium-sized enterprises.

28. It was noted that integrating adaptation objectives into business plans can be an effective way of leveraging adaptation finance from the private sector. Furthermore, public funding can help to leverage and promote private investment in adaptation and climate resilience.

29. Private finance options exist for adaptation activities including: financial market instruments; innovative approaches; micro-finance; and micro-insurance. It was noted that the financial leverage and expertise of the private sector, as well as its capacity to innovate and produce new adaptation technology, could form an important part of a multisectoral partnership between governmental and non-governmental organizations, and private and multilateral entities.

6. Innovative adaptation finance options

30. A number of innovative options were discussed, many of which involve private and public finance. One of the main forms of innovative finance discussed was insurance. Some participants mentioned that there is a need to promote the development of financial and risk-sharing mechanisms, particularly insurance and reinsurance, and that risk pools and early response mechanisms can provide cost-effective funding.

31. Other participants highlighted the key role to be played by micro-finance, particularly at the community level, where livelihood diversification could be further enabled. Parallel interventions in different sectors were also seen as an innovative way of financing adaptation, as were innovative agreements that create partnerships between governments and the private sector.

32. 'Green' bonds were also discussed, and one of the benefits mentioned was that the market for 'green' city bonds can assist cities to adapt and to enhance their credit worthiness. Furthermore, policy-based loans can introduce innovative mechanisms, such as hybrid loans that encompass an investment component.

33. Some innovative features of financing under the Adaptation Fund were discussed, including the share of proceeds from certified emission reductions and the direct access modality.

7. Enabling environments

34. Some participants mentioned the need to improve access to funding and investor confidence through well-articulated domestic enabling environments, which, in turn, require funds to achieve. The need was also noted for increased capacity to plan for, access, deliver, monitor, report and verify climate finance.

35. Participants further discussed how climate change finance might be managed in a cross-cutting manner which would engage different ministries, including ministries of planning, finance and environment. It was mentioned that national adaptation plans (NAPs) are an important way to create an enabling environment, and the NAP Global Support Programme[10] seeks to do this.

8. Co-benefits between adaptation and mitigation

36. Co-benefits between mitigation and adaptation were discussed as a way of scaling up adaptation finance. It was mentioned that without adequate adaptation, mitigation efforts would not achieve the desired results. Adaptation can increase the cost of development, but the resultant benefits are seen as outweighing the costs.

37. It was explained that clean development mechanism projects and other mitigation projects deliver multiple adaptation-related, as well as sustainable development related, co-benefits. The small island developing States (SIDS) Dock[11] was another example cited as a means of generating financial resources for adaptation through the energy sector.

9. Outreach and awareness-raising

38. Participants noted the importance of awareness-raising on adaptation in order to scale up finance. They discussed the importance of the dissemination of information on adaptation finance and how the forums of the SCF are a good means of doing so. Some suggestions to complement the existing modalities included the enhanced use of social media and webinars, while taking into account the fact that some countries do not have access to high bandwidths.

39. It was noted that national governments have a role to play in communicating with domestic stakeholders and other governments about the positive results of their work, so that lessons can be learned and best practices be shared.

[10] <http://www.undp-alm.org/projects/naps-ldcs/about>.

[11] <http://www.google.de/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CCMQFjAA&url=http%3A%2F%2Fsidsdock.org%2F&ei=iEYgVNDhMIraasXmgpgE&usg=AFQjCNGGQotHVR6spoASKATCUxwzIY_Lfw&sig2=UI07rNYHT4qlYM-OjN6PzA&bvm=bv.75775273,d.d2s>.

40. It was emphasized that the business sector needs to be aware of how climate change will affect their profits in order to incentivize their engagement in adaptation efforts, both for themselves and for the communities in which they operate.

41. In terms of making adaptation more effective, conveying the science of climate change to different stakeholders in different ways and languages was also highlighted as important.

C. Conclusions

42. The forum generated new insights into the topic of adaptation finance and brought together a number of important stakeholders. Both opportunities and barriers exist in terms of mobilization and access to adaptation finance from different perspectives, including providers and recipients.

43. The integration of adaptation into development planning at different levels, including the regional, national, subnational, municipal and local levels, provides an opportunity to improve access to financing.

44. The current state of adaptation finance includes varied mechanisms, flows, practices, issues, challenges and opportunities. Complementarity and synergy between existing adaptation finance flows, and between adaptation and development finance can be improved. There are different requirements in order to access different funding sources. These requirements should be streamlined as much as possible, in order to assist developing countries to access much-needed funds for adaptation.

45. Finance from a wide variety of sources is needed, including public and private sources, and from a wide range of mechanisms, including innovative mechanisms. Coherence and complementarity among the different sources of finance is also required. Public funding can be an effective way of leveraging finance from the private sector to support adaptation.

46. Approaches to match available public and private financing sources and mechanisms with the adaptation needs of developing countries should be enhanced. In that respect, the forum served as a platform for networking, bringing together recipients and donors of climate finance.

47. Concrete actions to support cities/communities to access funds are important: this includes work on enhancing creditworthiness, lowering interest rates through cooperation with financial institutions, and the use of innovative mechanisms such as ‘green’ bonds.

48. Given that the amount of private climate finance available is greater than the amount of funding from the public sector, it is imperative to continuously mobilize private-sector finance.

49. Capacity-building is needed to assist developing countries to build their enabling environments in order to attract investments from a range of sources and build investor confidence.

50. Numerous co-benefits exist between mitigation and adaptation, including in the form of finance benefits. Information on such benefits should be shared through case studies.

D. The way forward

51. New financing schemes have been developed for adaptation. Awareness-raising of many of these innovative approaches is needed. The forum was a good way of helping to raise such awareness and place innovative financing options on the agenda; however, continued information exchanges are required. The SCF should take a role in further disseminating information about good practices in terms of financing for adaptation, beyond the annual forums.

52. The relevance of the SCF forums for the private sector needs to be more clearly communicated in the future. The SCF may wish to consider ways of further enhancing private-sector participation in the organization of future forums.

53. Logistical and administrative lessons can be learned from the first and second forums, which should be applied to future forums. Some of the modalities from the second forum should be repeated, such as using two or three focused guiding questions for each topic.

54. The interactive breakout groups, the two-day format, and a range of case studies from which to learn should also be repeated.

55. Further work between the SCF and the Adaptation Committee could assist in the mobilization of adaptation finance.

56. The outcomes of the forum on mobilizing adaptation finance, as well as of future SCF forums, can feed into other areas of work of the SCF, such as the biennial assessment and overview of climate finance flows.

57. The next SCF forum should be informed by a background paper, based on the discussions of the SCF on coherence and coordination of financing for forests.