Briefing note of the Standing Committee on Finance as input to the 2015 in-session workshop on long-term finance

I. Background

At its twentieth session, the Conference of the Parties (COP) invited the thematic bodies under the Convention, in particular the Standing Committee on Finance (SCF), the Adaptation Committee and the Technology Executive Committee, where appropriate, to consider the long-term finance (LTF) issues referred in decision 3/CP.19, paragraph 12, when implementing their 2015–2016 workplans, as an input to the in-session workshops on LTF.

In response to the invitation by the COP, the SCF, during its ninth meeting,[1] agreed to consider LTF issues in the implementation of its 2015 and 2016 workplans, as well as to provide inputs to the in-session workshops.

The SCF agreed to provide inputs to the LTF in-session workshop in June 2015 based on the work undertaken by the Committee on: a) the 2014 forum on adaptation finance; b) the 2014 biennial assessment and overview of climate finance flows (BA); and c) the fifth review of the Financial Mechanism.

This briefing note is prepared to serve as an input by the SCF to the LTF in-session workshop in June 2015. It provides an overview of its three areas of work relevant to the LTF workshop.

II. Overview of areas of work of the Standing Committee on Finance relevant to the workshop on long-term finance

A. 2014 Forum on Adaptation Finance

The second forum of the SCF, held in June 2014, focused on the issue of mobilizing adaptation finance as per the COP 19 mandate.[2] The forum had the objective of promoting the mobilization of adaptation finance through the sharing of experiences, best practices and innovative ideas.[3]

The Forum provided a platform for discussions on the **current state of play on adaptation finance**. It reviewed the landscape of adaptation finance flows and the roles of the different actors on adaptation finance. Furthermore, participants to the forum also engaged on the variety of **public instruments for adaptation** including the barriers for accessing them and opportunities for financing adaptation in developing countries. The role of the private sector in financing adaptation, including options for fostering **private sector's engagement on adaptation**, was also discussed during the forum. Table 1 below presents an overview of the main issues raised with regard to public and private adaptation finance.

[1] See section 4 of document SCF/2015/9/10.
[2] Decision 7/CP.19, paragraph 5.
[3] More information on the 2014 forum is available at: < http://unfccc.int/8138.php>.

Table 1: Overview of issues related to public and private adaptation finance[4]

	Public sector adaptation finance	Private sector adaptation finance
Issues raised and discussed	Public finance instruments: grants, concessional loans and investments. Barriers to public finance for adaptation include: ○ Diversity and complexity of procedures and reporting requirements of various channels of adaptation finance ○ Lack of national strategies/policy frameworks for adaptation ○ High transaction costs for small-scale projects ○ Difficulties in meeting co-financing requirements ○ Difficulties related to national ownership of adaptation projects and programmes ○ Unpredictability of funding for adaptation Co-financing of climate investments as a means of leveraging additional funding and investments from a broad range of financial institutions. Programmatic funding can be a way to facilitate the integration of adaptation into development planning. There is an opportunity to create a better understanding on adaptation, and to better coordinate adaptation-relevant efforts and budgets across the national level.	Public funding can help leverage and promote private investment in adaptation and climate resilience. Developing countries need support in accessing climate finance through public-private partnerships, as well as for making investments in adaptation A National Adaptation Plan can enhance understanding of adaptation and better market adaptation to the private sector. Public funding to support integration of adaptation objectives into business plans can be an effective way of leveraging adaptation finance from the private sector. By integrating adaptation into their production processes, companies can improve the quality of their products, and can utilize "green labels" to increase the value of their products. Progressive companies and investors are already working on adaptation because it is smart business and because the potential returns are better understood.

During the forum, a number of **innovative adaptation finance options** were also discussed, many of which involved private and public finance. Table 2 below provides an overview of some of those options as discussed during the forum.

Table 2: Overview of some innovative options discussed during the SCF forum on adaptation finance

Options	Scope and rationale
Risk transfer and risk sharing mechanisms	The development and use of risk transfer and risk sharing mechanisms, if well laid out, encompass a comprehensive and sustained approach to disaster management.
Risk pools and early response mechanisms	African Risk Capacity (ARC)[5] and the Caribbean Catastrophe Risk Insurance Facility (CCRIF)[6] combine early-warning, insurance and response strategies and measures. They provide cost-effective contingency funding so that governments affected by extreme weather events can implement contingency plans.
Micro-finance	Crucial, particularly at the community level, where livelihood diversification could be further enabled, to lead to co-investments and increased resilience. Also in line with the local nature of adaptation.
Policy based loans	They are usually disbursed quickly, and facilitate coordination among development partners, while involving ministries of finance in climate change and improving institutional capacity.
Green bonds	Fund-raising instruments. 'Green' city bonds can assist cities to adapt and to enhance their credit worthiness.
Share of proceeds from certified	A 2% levy on the certified emission reduction issued from Clean Development

[4] The information included in this table has been extracted from the report of the second forum of the Standing Committee on Finance. Available at: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2nd_scf_forum_for_web.pdf

[5] The African Risk Capacity (ARC) was established as a Specialized Agency of the African Union (AU) to help Member States improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters, therefore protecting the food security of their vulnerable populations. ARC's mission is to use modern finance mechanisms such as risk pooling and risk transfer to create pan-African climate response systems that enable African countries to meet the needs of people harmed by natural disasters. More information is available at: http://www.africanriskcapacity.org/home.

[6] In 2007, the Caribbean Catastrophe Risk Insurance Facility was formed as the first multi-country risk pool in the world, and was the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets. It was designed as a regional catastrophe fund for Caribbean governments to limit the financial impact of devastating hurricanes and earthquakes by quickly providing financial liquidity when a policy is triggered. More information is available at: http://www.ccrif.org/content/about-us.

emission reductions	Mechanism project activities is used to finance the Adaptation Fund.

The issues of **enabling environments** to improve access to funding and investor confidence in adaptation at the domestic level and **integrating adaptation into development** were also discussed. In this regard, capacity-building was viewed as important to plan for, access, deliver, monitor, report and verify climate finance. Moreover, there was a discussion on how tax incentives and a good legal framework can be used to incentivize investment, as can the provision of information and a budget allocation for adaptation. National Adaptation Plans were viewed as an important way of creating an enabling environment in countries. Last but not least, the forum also discussed the issue of **co-benefits between adaptation and mitigation** as a way of scaling up adaptation finance.

As an outcome of its 2014 forum on adaptation, the SCF agreed on a set of conclusions that it provided to COP 20 contained in the "Executive summary" of the report.[7] These conclusions are highlighted in Box 1 below.

Box 1: Conclusions agreed by the SCF as outcomes of its second forum on adaptation finance

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.

[7] As contained in annex IV of document FCCC/CP/2014/5. The full report of the forum is available at: < http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2nd_scf_forum_for_web.pdf>.

B. 2014 Biennial Assessment and Overview of Climate Finance Flows

The SCF conducted the 2014 Biennial Assessment and Overview of Climate Finance Flows (BA),[8] to present a picture of climate finance to the extent possible, drawing on available sources of information on the geographical and thematic balance of flows.

The BA reviewed the operational definitions of climate finance and reporting systems used by institutions that collect climate finance data; discussed the available estimates of global climate finance and estimates of flows of climate finance from developed to developing countries. The BA attempted to assess these two sets of information, as well as identify areas where further work is needed.

Key findings from the BA

Definitional issues: The review of the climate finance definitions adopted by data collectors and aggregators identified in the BA points to a convergence that can be framed as: "*Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts*."

Reporting approaches: Institutions report on climate finance for different purposes, and use different methods. Quality assurance of reporting and public disclosure of the underlying data also varies. Efforts to improve the comparability of reported data are beginning. Further efforts to develop common approaches for measuring and reporting, to the extent feasible, could improve the quality of data of climate finance in future reports.

Measurement and reporting relating to the Convention: Initial analysis of the Biennial Reports (BRs) on climate finance for this BA report suggests inconsistencies in how UNFCCC guidelines have been used so far. This suggests a need to better understand the reasons. To form a comprehensive picture of climate finance, information on both finance provided by developed countries and finance received by developing countries is needed.

Overview of current climate finance flows 2010–2012:

- **Global total climate finance** which includes public and private financial resources devoted to addressing climate change globally, **ranges from USD 340 to USD 650 billion per year**. Several sources of climate finance are not fully captured by these estimates, so the total may be higher. Some of the sources included report the full investment rather than the climate component. If estimates were limited to incremental costs, the totals might be lower.
- **Flows from developed to developing countries range from USD 40 to USD 175 billion per year**. This includes annual flows of USD 35 to 50 billion through public institutions and USD 5 to USD 125 billion of private finance. Public institutions, that help channel climate finance from developed to developing countries include developed country governments, bilateral finance institutions, multilateral development banks, and multilateral climate funds.
- Climate finance reported through the biennial reports (BRs) of developed countries is included in the flows from developed to developing countries:
  - Total climate finance provided by developed countries reported through BRs was USD 28.755 billion in 2011 and USD 28.863 billion in 2012; and
  - The amount of fast-start finance (FSF) committed and reported by developed countries for the period 2010–2012 exceeded USD 33 billion.

Figure 2 below, presents an overview of current climate finance flows, including channels of delivery.

Instruments of finance: 44 to 51% of funding through multilateral climate funds, as well as FSF and climate-related Official Development Assistance (ODA) is provided as grants. Concessional loans, Other Official Flows (OOFs) and export credit finance for climate change activities were also reported as part of FSF. There appears to have been a greater use of both loan and non-concessional finance in the larger economies of Asia and the Middle East.

Thematic distribution of finance: 48 to 78% of finance reported as FSF, in BRs, through multilateral climate funds, and through Multilateral Development Banks supports mitigation or other/multiple objectives (6 to 41%).[9] Adaptation finance in the same sources ranges from 11 to 24%. **There is some evidence that adaptation finance has been increasing**, though it remains a small share of the current

[8] All information related to the first BA is available at: <http://unfccc.int/8034.php>.

[9] Classifying REDD+ finance as contributing to multiple objectives, as many countries have done in their BRs, results in a reduction in the share of mitigation finance relative to that reported in FSF.

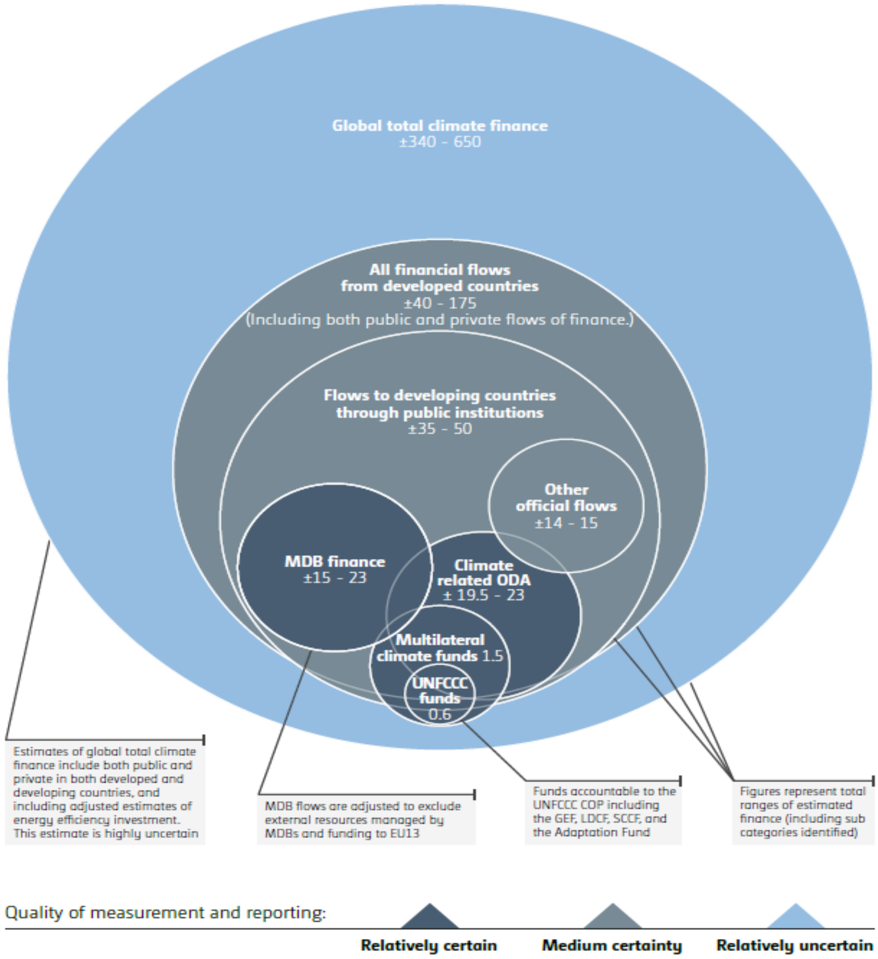
estimates. The Least Developed Countries Fund, Special Climate Change Fund and Adaptation Fund approved an average USD 190 million per year between 2010 and 2012.

Geographic distribution of finance: In general, *the largest share of funding from multilateral climate funds, FSF, and climate-related development assistance has been directed to the countries of the Asia and Pacific region (38 to 53%)*. 13 to 20% of funding has been directed to global programs that target multiple countries. The countries of *Latin America and the Caribbean and Sub-Saharan Africa appear to have received broadly comparable shares of the finance committed (12 to 15%) of multilateral climate funds and FSF*. More than 25% of climate-related development assistance appears to have been directed to Africa.

Understanding mitigation and adaptation impact: Climate finance providers are starting to assess the impact of mitigation finance on emissions; many investors are also beginning to account for their emissions impact. Adoption of such approaches is nascent. Furthermore methodologies are not always consistent. Methodologies for assessing impact on resilience and effective adaptation are much less developed.

Alignment with needs: Many developing countries are assessing their needs for climate finance and the level of climate change investments. [10] Needs assessment processes have not always been well linked to decision-making on finance and investment. Better systems to track finance received may help strengthen alignment with national priorities.

Figure 2: Climate finance flows (USD Billion and annualized)[11]



Notes to diagram

1. Estimates of global total climate finance, which are probably conservative figures include both public and private finance, and incorporate adjusted estimates of energy efficiency investment.
2. Bilateral ODA flows are adjusted to exclude funding through multilateral climate funds to reduce double counting.

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[10] Case studies from Indonesia, the Maldives, Niger and Peru show that efforts are getting underway in developing countries to strengthen national systems to manage climate finance.

[11] A clarification note to the BA was issued by the Standing Committee on Finance and should be read in conjunction to this briefing note. The clarification note is available at: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/clarification_note_2014_ba.pdf .

3. MDB flows are adjusted to exclude external resources managed by MDBs and funding to economies in transition / developed countries.
4. Other official flows (OOF) consist of: i) grants or loans from the government sector not specifically directed to development or welfare purposes and ii) loans from the government sector which are for development and welfare, but which are not sufficiently concessional to qualify as ODA. These flows are channelled through bilateral channels (e.g. IDFC members, OPIC)
5. ** ** Figures represent total ranges of estimated finance (including sub categories identified).
6. The representation is not to scale.

Recommendations by the SCF from the BA

The recommendations provided by the SCF to COP 20 address three main areas: (i) methodologies; (ii) operational definition of climate finance and (iii) ownership, impact and effectiveness. For each of the areas, the SCF highlighted various issues for consideration by the COP.[12]

With regard to *methodologies*, further efforts would enable better measuring, reporting and verifying of climate finance flows, which will require many steps over a number of years and require the cooperation of all data producers and aggregators identified in the BA.

As for the recommendation on *operational definition of climate finance*, that transparency and accuracy of estimates of climate finance could be strengthened with a common definition of climate finance;

In terms of the recommendation on *ownership, impact and effectiveness*, steps can be taken to advance the effectiveness and developing country ownership of climate finance.

C. Fifth Review of the Financial Mechanism

For the first time, the SCF provided expert input to the fifth review of the Financial Mechanism which was concluded at COP 20. The SCF provided its expert input in the form of the "Executive summary of the technical paper on the fifth review of the Financial Mechanism of the Convention".[13]

The executive summary contains key insights, conclusions and possible recommendations of the SCF as provided to COP 20, which were built on the criteria for the review agreed by Parties at COP 19.[14] For each of the criteria, the SCF provided conclusions, as well as in some cases recommendations, which directly addressed the Global Environment Facility (GEF) and/or the Green Climate Fund (GCF) as the two operating entities of the Financial Mechanism.

COP 20 encouraged the operating entities to address, as appropriate, these recommendations in their future work, particularly with regard to the complementarity between the operating entities of the Financial Mechanism.

Issues of relevance to the LTF deliberations in 2015

In light of the focus of the 2015 deliberations on the issues of adaptation finance, needs for support to developing country Parties and cooperation on enhanced enabling environments and support for readiness activities as per the mandate provided by COP 20, box 2 below outlines some of the conclusions and recommendations by the SCF, that may be of interest to the LTF discussions.

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[12] See the recommendations by the SCF to COP as included in the summary and recommendations on the 2014 BA, available at: <http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_ba_summary_and_recommendations_by_scf_on_the_2014_ba.pdf>

[13] As contained in annex III of document FCCC/CP/2014/5. The full technical paper as prepared by the secretariat is available at: <https://cms.unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/technical_paper_fifth_review_of_the_financial_mechanism_18112014__final.pdf>.

[14] As contained in the annex to decision 8/CP.19.

Box 2: An overview of deliberations by the SCF on the fifth review of the Financial Mechanism with relevance to the LTF discussions

Adequacy, predictability and sustainability of funds

- Funding for adaptation at the GEF, through the LDCF and the SCCF, is voluntary and therefore cannot be considered as predictable and sustainable;
- Although the funds provided to the LDCF and SCCF have substantially increased over the period of the review, the needs have also increased and there remains a backlog of fundable projects;
- The GEF and the GCF may consider collaborating in the use of funding pathways that may include the LDCF and the SCCF.

Accessibility to funding

- The least developed countries and the small island developing States still face challenges to access their resources, despite considerable progress achieved by the GEF on access;
- GCF to benefit from lessons learned on the accreditation process from other funds.

Disbursement of funds

- There is a recognised need to strengthen GEF project monitoring systems in order to be able to provide better information on the level of disbursement of the approved funds.

Country-ownership

- Upfront support to facilitate national stakeholder engagement on how best to use country allocations has proven to be useful through the National Portfolio Formulation Exercises (NPFEs);
- Developing countries should continue to avail themselves to the undertaking of the NPFEs in order to facilitate the programming of their GEF-6 STAR allocations.

Sustainability of programmes and projects

- Policy and legislative changes as well as mainstreaming have been seen to promote sustainability, but cannot always be fully implemented within the lifetime of the project.

Enabling environments

- There is ample room for the GCF to learn from the experiences of other funds in terms of improving the enabling environments in recipient countries;
- The GCF can do this by linking investments with focused efforts to engage stakeholders within countries in programming, and providing technical assistance and capacity building to strengthen the enabling environments – institutions, policies, and regulations – that support mitigation and adaptation actions in developing countries.

Strengthening adaptation and mitigation results

- The GEF and the GCF may consider collaborating to harmonize impact indicators and set new norms around reporting practice, especially in the context of adaptation finance, and that the operationalization of the GCF results management framework presents an opportunity to make progress in this regard.