Submission by the Standing Committee on Finance on AC-LEG mandates stemming from decision 1/CP.21

The Standing Committee on Finance (SCF) welcomes the opportunity to submit its views and recommendations on the elements to be taken into account in developing a set of options for considerations by Parties in accordance with Decision 1/CP.21, paragraph 45.

The SCF furthermore welcomes the progress achieved by the AC and the LEG relating to this mandate, including the outcomes of an informal meeting between the AC and the LEG held on 27 May 2016 and a desk review of existing modalities and methodologies gathering and synthesizing information relevant to the mandates.

The work and the functions of the SCF are very much related to these mandates. Based on paragraph 121 of decision 2/CP.17, the SCF shall assist the Conference of the Parties in exercising its functions with respect to the financial mechanism of the Convention in terms of improving coherence and coordination in the delivery of climate change financing, rationalization of the financial mechanism, mobilization of financial resources, and measurement, reporting and verification of the support provided to developing country Parties through activities such as the following:

- Organizing a forum for the communication and continued exchange of information among bodies and entities dealing with climate change finance;
- Providing to the Conference of the Parties draft guidance for the operating entities of the financial mechanism of the Convention;
- Making recommendations on how to improve the coherence, effectiveness and efficiency of the operating entities of the financial mechanism;
- Providing expert input, including through independent reviews and assessments, into the preparation and conduct of the periodic reviews of the financial mechanism by the Conference of the Parties;
- Preparing a biennial assessment, overview of climate finance flows, to include information on the geographical and thematic balance of such flows.

Furthermore, in line with assisting the Conference of the Parties in exercising its functions with respect to the financial mechanism of the Convention in terms of improving coherence and coordination, the SCF has prepared a compilation and analysis of past guidance to the GEF and GCF[1] which the AC and the LEG may also wish to consult.

Deriving from the abovementioned functions and based on the guiding questions provided by the AC and the LEG, the SCF identified the following possible sources of work and outputs of the SCF which might contribute information:

i. 2014 SCF Forum on Mobilizing Adaptation Finance
ii. Input of the SCF to the 2015 in-session workshop on long-term finance
iii. Fifth review of the Financial Mechanism
iv. 2014 and 2016 biennial assessments

[1] http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/6881.php
The Thirteenth Standing Committee on Finance Meeting.

The elements the SCF recommends the AC and the LEG to take into account in fulfilling these Paris mandates are a compilation of the summaries and conclusions of the above mentioned SCF products.

1. Mobilization of support for adaptation

Decision 1/CP.21, paragraph 45(a): *Also requests* the AC and the LEG, in collaboration with the Standing Committee on Finance (SCF) and other relevant institutions, to develop methodologies, and make recommendations for consideration and adoption by CMA 1 on taking the necessary steps to facilitate the mobilization of support for adaptation in developing countries in the context of the limit to global average temperature increase referred to in Article 2 of the Agreement.

Guiding questions: What experiences, including lessons learned and good practices, do you consider valuable in facilitating the mobilization of support for adaptation in developing countries?

Which steps would be necessary to facilitate the mobilization of support for adaptation in developing countries in the context of the limit to global average temperature increase referred to in Article 2 of the Agreement?

A. 2014 SCF Forum on Mobilizing Adaptation Finance, Input of the SCF to the 2015 in-session workshop on long-term finance

The 2014 forum of the Standing Committee on Finance focused on mobilizing finance for adaptation from both public and private sectors with the objective of promoting the mobilization of adaptation finance through the sharing of experiences, best practices and innovative ideas.

The website[2] and Virtual Forum[3] contain a range of information on, and emerging from, the forums of the SCF. Presentations and additional information are also available. The forum generated a multitude of new insights. Some of the key substantive outcomes are also included in the briefing note of the Standing Committee on Finance as input to the 2015 in-session workshop on long-term finance. Table 1 below presents an overview of the main issues raised with regard to public and private adaptation finance.

[2] http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/8138.php
[3] http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/7552.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: o Diversity and complexity of procedures and reporting requirements of various channels of adaptation finance o Lack of national strategies/policy frameworks for adaptation o High transaction costs for small-scale projects o Difficulties in meeting co-financing requirements o Difficulties related to national ownership of adaptation projects and programmes o 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.

[4] The information in this table has been extracted from the report of the second forum of the Standing Committee on Finance and was included in the Briefing note of the Standing Committee on Finance as input to the 2015 in-session workshop on long-term finance

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[5]

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)[6] and the Caribbean Catastrophe Risk Insurance Facility (CCRIF)[7] 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 emission reductions	A 2% levy on the certified emission reduction issued from Clean Development 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 favourable 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 tool for creating an enabling environment in countries. Last but not least, the forum also discussed the adaptation and mitigation co-benefits as a way of scaling up adaptation finance, for example looking at raising adaptation finance through the Clean Development Mechanism (CDM).

[5] See footnote number three.

[6] 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.

[7] 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.

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[8]:

- 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 architecture of adaptation finance includes varied mechanisms, flows, practices, issues, challenges and opportunities. Complementarities and synergies between existing adaptation finance flows, and between adaptation and development finance can be improved. There are different requirements for accessing 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 sources and 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.
- 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 financial instruments 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 CDM projects delivering multiple adaptation-related, as well as sustainable development-related co-benefits or low-carbon credit lines offered to farmers. Information on such benefits should be shared through case studies.

B. Fifth Review of the Financial Mechanism, Input of the SCF to the 2015 in-session workshop on long-term finance

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"[9].

[8] 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>.

[9] As contained in annex III of document FCCC/CP/2014/5. The full technical paper as prepared by the secretariat is available:<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>.

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[10]. These criteria have been grouped in the following clusters of issues: (i) Governance; (ii) Responsiveness to COP guidance; (iii) Mobilization of financial resources; (iv) Delivery of financial resources; (v) Results and impacts achieved with the resources provided; (vi) Consistency of the activities of the Financial Mechanism with the objectives of the Convention; (vii) Consistency and complementarity of the Financial Mechanism with the other sources of investment and financial flows. 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.

In light of the mandates the following conclusions and recommendations by the SCF may be of interest to the AC and LEG:

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.

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. It 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.

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

2. Adequacy and effectiveness of adaptation and support

Decision 1/CP.21, paragraph 45(a): *Also requests* the AC and the LEG, in collaboration with the SCF and other relevant institutions, to develop methodologies, and make recommendations for consideration and adoption by CMA 1 on reviewing the adequacy and effectiveness of adaptation and support referred to in Article 7, paragraph 14(c), of the Agreement.

Guiding question: What information/data or metrics are needed for the review of adequacy and effectiveness of adaptation and support for adaptation?

A. 2016 biennial assessment and overview of climate finance flows (BA)

- This section could draw on findings of the 2016 BA which is being prepared by the SCF. In particular section 3.3.4 in the assessment chapter which focuses on alignment with needs is of relevance in this regard.
- Consistency and comparability in the approaches taken to reporting on finance needs would offer better insights into how current levels of effort in delivering finance align with needs both within countries and at an aggregate global level.

B. Fifth Review of the Financial Mechanism

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.

Recommendation to strengthen 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. Further, the operationalization of the GCF results management framework presents an opportunity to make progress in this regard.

Guiding question: Which lessons learned, good practices, challenges and barriers have been encountered in such reviews?

Guiding question: What methods can be used to review the adequacy and effectiveness of adaptation and support for adaptation?