



## **Background paper on the outcomes of the first forum of the Standing Committee on Finance**

### **I. Background**

1. The Conference of the Parties (COP), at its 17th session, agreed on the functions and activities of the Standing Committee on Finance (SCF), including the organization of a forum for the communication and continued exchange of information among bodies and entities dealing with climate change finance in order to promote linkages and coherence.
2. Parties, at COP 18, welcomed the work on the forum of the SCF and encouraged the SCF to facilitate the participation of the private sector, financial institutions and academia in the forum. The COP also requested the SCF to provide a report on the forum to the COP.
3. Following the conclusions of SCF 3 in March, the first in-person forum of the SCF took place in Barcelona on 28 May 2013 in conjunction with the Carbon Expo and in collaboration with the World Bank Institute.
4. The co-chairs of the SCF, Ms. Diann Black-Layne and Mr. Stefan Schwager, also participated in a plenary meeting on climate finance and a side event at the Carbon Expo on Wednesday, 29 May 2013, giving the SCF the opportunity to present itself, as well as the outcomes of the first forum to the broader audience of stakeholders participating in the Carbon Expo.
5. The report of the first SCF forum is annexed to this document and may be used by the SCF to further reflect on the outcomes of the forum and for inclusion in its annual report to the COP.



## Annex I

### Report of the first forum of the Standing Committee on Finance

#### I. Theme, programme and format

1. The first forum of the SCF, as agreed by Committee members, took place on Tuesday, 28 May 2013, at the premises of Fira Barcelona and was organized in collaboration with the World Bank Institute.
2. The main theme of the forum was “Mobilizing finance and investments for climate action now” as agreed by the SCF. It also covered mitigation and adaptation aspects, as well as the tracking of climate finance. Special consideration was given to showcase concrete practical experiences at the national and regional level and case studies.
3. The forum consisted of two panel discussions and four follow-up group discussions. The panels covered financing and investment drivers for mitigation and adaptation activities, respectively. Follow-up group discussions addressed: (a) innovative approaches and case studies by national, bilateral, regional and multilateral organisations and the private sector in providing funding and investments for mitigation; (b) innovative approaches and case studies by national, bilateral, regional and multilateral organisations and the private sector in providing funding and investments for adaptation; (c) the role of local investors in mobilizing additional climate finance; and (d) tracking climate finance.
4. The full final programme can be found in annex II.

#### II. Participation, representation and resource persons

5. The forum attracted a wide range of different stakeholders from Parties and representatives from financial institutions, national and multilateral development banks, government officials, think-tanks, NGOs, international organisations, and academia. Overall, participation was high with around 150 people having taken part in this event.
6. UNFCCC Executive Secretary Ms. Christiana Figueres; State Secretary of Environment, Ministry of Agriculture, Food and the Environment of the Kingdom of Spain Mr. Federico Ramos de Armas; and the co-chairs of the SCF Diann Black-Layne and Stefan Schwager concluded the forum.
7. A total of 33 resource persons were engaged, including facilitators and panellists. Panellists included representatives of the financial sector, private investors, multilateral and national financial institutions, international organisations and other relevant sectors.
8. The full list of speakers, panellists and facilitators can be found in the annexed programme (annex II).

#### III. Key messages and conclusions

9. The key messages and conclusions from the first forum of the SCF are summarised below under the themes of: overview of climate finance flows; private sector investments; demand-side issues - absorptive capacity; mobilising finance and investments through market-based mechanisms; role of local and regional actors; adaptation finance; and tracking of climate finance.

##### *Overview of climate finance flows:*

10. Three presentations provided a comprehensive view from different perspectives on the scale, current flows and urgent needs of climate finance.



11. The first speaker referred to various studies showing the extreme urgency to shift investments to climate relevant actions if the international community is to avoid crossing the dangerous threshold of 2 degrees change. A point was raised related to the need to address paradigms focused on the short-term financial gain as opposed to long-term catastrophe avoidance, or those that prioritise financial systems over eco- and life-sustaining systems. The experience of Nicaragua was highlighted as a case study in increasing renewable energy at the expense of traditional oil imports with a comprehensive social involvement.

12. One presentation indicated that total climate finance flows in both developed and developing countries reached around 364 billion US dollars in 2010/11. Climate finance coming from private sectors amounted to 75% of total climate finance flows but public finance remained important as a catalyst of private finance. About one-third of total climate finance flowed through intermediary institutions including multilateral, bilateral and national financing institutions.

13. With regard to climate finance provided to developing countries, another speaker pointed out that there is a large financial gap between the needs, which are about 600 billion US dollars in 2020 and 3 trillion US dollars in 2050, and what is actually provided.

*Private sector investments:*

14. Investment decisions are based on risks and return and hence there are four barriers to scaling up mitigation investments: policy risks; macroeconomic risks; cash flow profile of an investment; and liquidity, which is the capacity for investors to enter and exit investments cost-effectively.

15. Three approaches to mobilising private sector investments can be suggested: what kind of instruments can deliver additional returns; ways to cheapen the debt; and ways to address the lack of initial seed capital, especially in medium and small enterprises.

16. Lack of legal and regulatory frameworks is a fundamental barrier to encouraging private sector investments in climate mitigation.

17. A credible MRV system needs to be in place for the private sector to demonstrate project effectiveness.

18. There are several examples of how investments can reach small and medium size enterprises: 1) Forest Investment Programme which is known as the first private sector programme for activities on Reducing Emissions from Deforestation and Forest Degradation; 2) investments for greening supply chain of multinational companies to reduce their GHG emissions; 3) regional green microfinance product coordination; and 4) private equity investing for small businesses.

*Demand-side issues: Absorptive capacity:*

19. There is a shortage of bankable, monitorable and technically robust projects. Banks are typically risk averse, therefore public policy should support projects through risk mitigation mechanisms. Technology certification and benchmarking are important for attracting financing.

*Mobilising finance and investments through market-based mechanisms:*

20. Clean Development Mechanism (CDM) has historically been a success having mobilised USD 200 billion in investments. Key elements of the CDM infrastructure such as scoping, baseline setting, government process, IT, MRV system, and others should be carried over into the future. The Green Climate Fund could, for instance, provide performance payments for CDM to make sure returns for investors if the market does not work.

21. CDM and NAMAs are not mutually exclusive. A purely sectoral approach may put some countries at disadvantage. Also, it is difficult to determine additionality and ensure environmental integrity in sectoral approaches.

22. There are niche opportunities for private sector investments in climate-related projects such as for example reducing emissions from gas flaring and development of renewables. Investors engage in these projects because of a favourable policy environment, technology advancement and resource instability rather than for future carbon credits only.



*Role of local/ regional actors and institutional investors:*

23. Reference was also made to the fact that a large share of investments for renewable energy in developing countries comes from developing countries. North-South investment flows in renewable energy amounted to around USD 8 billion in 2011, while total investments in renewable energy in developing countries reached USD 112 billion in the same year.

24. Institutional financiers have the potential to become the main investors for long-term climate finance. Institutional investors hold USD 70 trillion worth of assets. Local pension funds are growing, for instance in Asia – Thailand and Malaysia - and invest part of the money abroad.

25. Role of National Development Banks is significant as they know local conditions and business environments and can more easily find bankable projects in line with the country's priorities. Role of national municipal banks is also instrumental in financing climate change activities with existing examples of NAMAs relating to solid waste and public lightning.

26. Local banks have a larger role in financing large-scale projects, for instance installation of solar water heaters on roofs. The advantage of local investors is that they can finance in local currency which is a big challenge for international funds. However, local banks are not up to speed with international processes and face a number of challenges such as lack of information, training, and capacity building.

27. Crowd-funding, or crowd-financing, can be a complementary source of microfinance for climate mitigation and adaptation. It should however be taken with caution as crowd-funding takes place between private players without any approval procedures.

*Adaptation finance:*

28. The overall scale of adaptation finance is modest but it has increased significantly in the recent years as part of fast-start finance. Two elements should be looked at: scale of adaptation finance and diversity of approaches. Lessons so far show that the use of public sector for attracting private sector financing for adaptation has been difficult and linkages between adaptation and development are complex. Adaptation finance has moved from individual projects to more holistic approaches like disaster risk reduction, food security etc. Mitigation and adaptation are interlinked and can be mutually supportive: for instance, solar energy has mutual benefits.

29. Several new funds have been established recently including the Adaptation Fund, Climate Investment Funds' Pilot Program for Climate Resilience, and bilateral schemes. Some funds have pioneering design features but there is a need for more innovation in adaptation in practice.

30. Perception of risk differs in mitigation and adaptation projects as estimating the cost of mitigation is easier than that of adaptation. Risks and uncertainties are different in adaptation projects from those in mitigation, for instance, in relation to sea-level rise.

31. It is also difficult to assess the effectiveness of an adaptation project since impacts of a successfully implemented project are not apparent.

32. Three main ingredients to be taken into account in assessing the effectiveness of adaptation finance from on-the-ground perspective are: 1) development of a knowledgeable institution to fill in gaps of literacy among different ministries; 2) enhancement of an enabling policy environment; and 3) tailor-made support for developing countries in promoting each country's ownership and coordination.

33. The need to work with diverse vulnerable groups, often at household level, in the developing world poses constraints for adaptation financing.

34. Some of the lessons of financing adaptation projects by multilateral financing institutions include: 1) need for building ownership in developing countries at national level; 2) the need for high-level support and engagement of a Ministry of Finance in applying a programmatic and cross-sectoral approach; 3) enhancement of partnership between multilateral development banks and wider stakeholders at national level; 4) linkages with private sectors investments; and 5) controversy on adaptation finance in a form of loans.



*Tracking of climate finance:*

35. Current estimates of the levels of climate finance mobilised by developed countries for mitigation and adaptation activities in developing countries are patchy and incomplete. The recent analysis by the Climate Change Expert Group highlights that these estimates are also not comparable due to different definitions used by different actors.

36. There is no single point on the "supply side" of climate finance where measuring, reporting and verifying could occur without either the risk of missing some money flows or double counting others. It would therefore be useful to explore increased reporting of climate finance received.

37. The panel considered that the SCF could assist to make the tracking climate finance more comparable, complete, credible and efficient by:

- developing working definitions of the activities, flows and interventions that comprise mobilised climate finance;
  - focusing tracking efforts on the most uncertain areas (private climate finance, inflows);
  - encouraging data provision on both inflows and outflows of mobilised climate finance; and
  - building on tracking efforts which are already underway, e.g. OECD's DAC Rio Markers and MDB joint-initiative, as well as by using the tools available for reporting of financial flows under the UNFCCC, such as Biennial Reporting.
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**Annex II****Programme of the first forum of the Standing Committee on Finance**

**First Forum of the Standing Committee on Finance:**  
**“Mobilizing finance and investments for climate action now”**

*28 May 2013 – Barcelona, Spain*

**Programme**

<b><u>Time</u></b>	<b><u>Theme/Activity</u></b>	<b><u>Speaker / Panellist</u></b>	<b><u>Objective</u></b>
08:00 – 08:45	Registration of participants		
08:45 – 09:00	Opening plenary	Ms. Diann Black-Layne Mr. Stefan Schwager <i>Co-Chairs of the Standing Committee on Finance</i>	Welcoming of participants and opening of the forum - Overview of the scope of the forum and outline of its key aims – Overview of the role, responsibilities, functions and activities of the Standing Committee on Finance.
09:00 – 09:45	Strategic perspectives on climate finance	Mr. Paul Oquist <i>Presidency of Nicaragua</i>  Ms. Barbara Buchner <i>Climate Policy Initiative (CPI)</i>  Ms. Mariama Williams	<ul style="list-style-type: none"> <li>• Overview of the need for urgent action on the increasing intensity and frequency of extreme weather events and associated costs;</li> <li>• Overview of climate finance institutions and work under the UNFCCC;</li> <li>• Overview of the wider climate finance architecture, including multilateral, bilateral and national finance</li> </ul>



<u>Time</u>	<u>Theme/Activity</u>	<u>Speaker / Panellist</u>	<u>Objective</u>
		<i>South Center</i>	institutions; • Overview of current climate finance flows, both public and private.
09:45– 11:00	Financing and investment drivers for mitigation activities	<p>Facilitator: Mr. Syed Mujtaba Hussain <i>Government of Pakistan</i></p> <p>Mr. Hugh Sealy <i>CDM Executive Board</i></p> <p>Mr. Abyd Karmali <i>Bank of America Merrill Lynch</i></p> <p>Mr. Vikram Widge <i>International Finance Corporation (IFC)</i></p> <p>Mr. Jose Juan Gomez <i>Interamerican Development Bank</i></p>	Discuss the underlying opportunities, challenges, barriers and factors that determine investment decisions and/or the allocation of financial resources in mitigation activities, including a brief overview of current trends. Among other key questions, participants will have an opportunity to reflect on why investments in clean technologies still lag behind fossil fuel intensive technologies.
11:00 – 11:15	<i>Coffee break</i>		
11:15 – 12:30	Follow-up discussion Group A: Innovative approaches and case studies by	<p>Facilitator: Mr. Neeraj Prasad <i>World Bank Institute</i></p> <p>Ms. Mary Gomez-Torres</p>	Show-casing of concrete experiences in developing and implementing policies, strategies and activities, as well as necessary measures or steps to accelerate the mobilization of finance for mitigation at the national and



<u>Time</u>	<u>Theme/Activity</u>	<u>Speaker / Panellist</u>	<u>Objective</u>
	national, bilateral, regional and multilateral organisations and by the private sector	<i>Corporacion Andina de Fomento (CAF)</i>  Mr. Marc Stuart <i>Allotrope Ventures</i>  Ms. Avril Benchimol <i>Interamerican Development Bank</i>  Mr. David Rodgers <i>Secretariat of the Global Environment Facility</i>	regional level.  Discussion of cases of private sector engagement and partnerships to support mitigation activities.
12:30 – 13:30	<i>Lunch break</i>		
13:30 – 14:45	Financing and investment drivers for adaptation activities	Facilitator: Mr. Naderev Saño <i>Co-chair of the work programme on long-term finance</i>  Mr. Juan Hoffmaister <i>Adaptation Committee</i>  Mr. Carlos Fuller <i>Caribbean Community Climate Change Centre</i>  Ms. Smita Nakhooda <i>Overseas Development Institute</i>	Overview of existing opportunities, challenges, barriers and factors that determine financial flows for adaptation activities, including a discussion on the overall financial needs, as well as possibilities for increased private investment involvement.





<u>Time</u>	<u>Theme/Activity</u>	<u>Speaker / Panellist</u>	<u>Objective</u>
		Ms. Saliha Dobardzic <i>LDCF/SCCF (Secretariat of the Global Environment Facility)</i>	
14:45 – 16:00	Follow-up discussion Group B: Innovative approaches and case studies by national, bilateral, regional and multilateral organisations and by the private sector in providing funding and investments for adaptation	Facilitator: Mr. Stefan Agne <i>European Commission</i>  Ms. Ana Fornells / Mr. Daouda Ndiaye <i>Adaptation Fund Board and secretariat</i>  Mr. Alexander Froede <i>GIZ</i>  Ms. Andrea Kutter <i>CIFs Administrative Unit</i>  Mr. Jorge Barrigh <i>General Manager of Ecoresources Inc.</i>	Show-casing of concrete experiences in developing and implementing policies, strategies and activities, as well as necessary measures or steps to accelerate the mobilization of finance for adaptation at the national and regional level. Discussion of cases of private sector engagement and partnerships to support adaptation activities.
16:00 – 16:15	<i>Coffee break</i>		
16:15 – 17:30	Group C: The role of local investors in mobilizing additional climate finance	Facilitator: Mr. Ulf Moslener <i>Frankfurt School of Management</i>  Ms. Jessica Paola Jacob Davila <i>Findeter</i>	Getting a first-hand view on what actions of the Green Climate Fund (and MDBs, governments, etc.) would be considered most helpful by local investors, taking into account presentations by a wide range of on-the-ground actors in developing countries faced with opportunities and challenges in mobilizing climate finance in those



<u>Time</u>	<u>Theme/Activity</u>	<u>Speaker / Panellist</u>	<u>Objective</u>
		Ms. Diann Black-Lane and Mr. Konrad von Ritter <i>Government of Antigua and Barbuda</i>	regions. Relevant experiences in micro-finance and crowd financing will also be explored.
16:15 – 17:30	Group D: Tracking climate finance	Facilitator: Mr. Dennis Tirpak <i>World Resources Institute</i>  Mr. Alvaro Umana <i>Ministry of the Environment, Costa Rica</i>  Ms. Jane Ellis <i>OECD</i>  Ms. Franka Klingel <i>EBRD</i>  Ms. Ruta Bubniene <i>UNFCCC secretariat</i>	Stock-taking of existing guidelines and methodologies for tracking climate finance, both under the UNFCCC and on-going initiatives by other institutions.
17:30 – 18:15	Summary and	Ms. Christiana Figueres	Strategic perspective revisited



<u>Time</u>	<u>Theme/Activity</u>	<u>Speaker / Panellist</u>	<u>Objective</u>
	<b>conclusions:</b> Closing remarks Main conclusions and potential way forward.	<i>Executive Secretary, UNFCCC</i>  Mr. Federico Ramos de Armas <i>Secretario de Estado de Medio Ambiente. Ministerio de Agricultura, Alimentación y Medio Ambiente (State Secretary of Environment, Ministry of Agriculture, Food and the Environment)</i>  Ms. Diann Black-Layne Mr. Stefan Schwager <i>Co-Chairs of the Standing Committee on Finance</i>	Presentation of key conclusions and recommendations.