

Fourteenth meeting of the Standing Committee on Finance Bonn, Germany, 3-5 October 2016

Background paper on linkages with the Subsidiary Body for Implementation and the thematic bodies of the Convention

Proposed actions by the Standing Committee on Finance

The Standing Committee on Finance (SCF) will be invited:

- (i) To agree on its submission to the Adaptation Committee/Least Developed Countries Expert Group (AC/LEG) regarding the mandate contained in paragraph 45 of decision 1/CP.21 as contained in annex I;
- (ii) To agree on its response to the invitation by the Adaptation Committee (AC) for further collaboration

I. Options for consideration by the Standing Committee on Finance

Standing Committee on Finance (SCF) response to the call for submissions¹ by the Adaptation Committee and the Least Developed Countries Expert Group (AC/LEG) regarding paragraph 45 of decision 1/CP.21

1. In consultation with the SCF members nominated to take work forward on this matter, the secretariat has prepared the attached draft submission (see the annex) by the SCF in relation to the above mentioned mandate, which is further described in the background section below. The information contained in the draft draws directly from SCF products, referenced in the draft submission. The SCF may wish to consider the draft with a view to agreeing on submitting the draft as contained in the annex, or amended based on feedback provided by SCF members during the meeting.

Agree on its response to the invitation by the Adaptation Committee for further collaboration

2. In addition, the AC has invited the SCF to further collaborate on a number of mandated issues (see accompanying letter from the AC Co-Chairs). Following from this, the SCF may wish to agree on:
 - i. SCF participation in the working group established to advance the work **on paragraph 45 of decision 1/CP.21**; bearing in mind the upcoming election of SCF membership at COP 22, the SCF may wish to nominate either its co-chairs, or the SCF members nominated to take work forward on this matter to continue to engage in the work of this working group;
 - ii. SCF participation in a **side event in Marrakesh on November 10th 2016** to present progress made on paragraph 45 of decision 1/CP.21; the SCF may wish to nominate either its co-chairs, or the SCF nominees to represent the SCF in this side event; should the SCF be invited to make a presentation, the SCF may wish to follow its agreed procedure, in line with which the draft presentation would be prepared by the secretariat under the guidance of the SCF nominees, and shared with the SCF on a non-objection basis in advance of the event;
 - iii. Nomination of an SCF representative to collaborate with the AC on the **Technical Examination Process on adaptation (TEP-A)**, including in the working group charged with its planning, bearing in mind the upcoming election of SCF membership at COP 22;

¹ The call for submissions and guiding questions can be found at <unfccc.int/9761>.



- iv. Whether the SCF will respond to an upcoming call for submissions on **adaptation-related institutional arrangements under the Convention** (tentatively mid-October), with a view to identifying ways to enhance the coherence of the work of the AC in order to respond adequately to the needs of Parties; should the SCF decide to respond to this call for submissions, the SCF may wish to nominate either its co-chairs, or the SCF nominees to provide guidance to the secretariat in the preparation of the draft submission, which would be shared with the SCF on a non-objection.
- v. In this context, the SCF may wish to consider to also request the secretariat to identify potential gaps in the background paper prepared for the AC which the SCF may wish to raise to the AC; this work could be conducted on an inter-sessional basis, and agreed on a non-objection basis by the SCF.

II. Background

Background on paragraph 45 of decision 1/CP.21

3. Through decision 1/CP.21, paragraph 45, the COP requested 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 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session on:
 - (a) 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;
 - (b) Reviewing the adequacy and effectiveness of adaptation and support referred to in Article 7, paragraph 14(c), of the Agreement.
4. The AC and the LEG held an informal joint meeting in Bonn on 27 May 2016 to discuss an approach for responding to the mandates provided to them. At the meeting they also agreed on a work-plan to guide the work and to launch a call for submissions from Parties and other stakeholders to solicit inputs on the mandates.²
5. In addition, the AC and the LEG requested the secretariat to conduct a desk review of relevant information and to prepare background note on this matter. The desk review was presented to the LEG at its 30th meeting on 7-10 September and to the AC at its 10th meeting on September 13-16, 2016.³ The AC and the LEG agreed that the secretariat will synthesize the submissions due by 30 September for each mandate. They also agreed to prepare an information paper with options for each mandate, building on the desk reviews and submissions received. The SCF input is considered as an essential part of this work.
6. In response to the discussions during SCF 13, the two SCF focal points for engaging and liaising with the AC/LEG, Mr. Randy Caruso and Mr. Yaw Kyekyeku Oppong-Boadi confirmed inter-sessionally the SCF products that could be directly drawn from to provide relevant information from its work to contribute to the products currently under development by the AC/LEG. These include: (a) 2014 SCF Forum on Mobilizing Adaptation Finance; (b) Input of the SCF to the 2015 in-session workshop on long-term finance; (c) Fifth review of the Financial Mechanism; and (d) 2014 and 2016 biennial assessments.
7. A draft submission was prepared by the secretariat in consultation with the SCF focal point for adaptation-related matters extracting information directly from the related SCF products and is contained in annex I.

² The report of the meeting can be found at http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/20160704_report_acleg_mandates_cop21.pdf.

³ AC-LEG/2016/2.

Background on areas for further collaboration*Background on further collaboration in the context of para 45 of 1/CP.21*

8. The AC and the LEG have established a working group to advance work to respond to the mandate provided through paragraph 45 of 1/CP.21. This work includes the development of an information paper based on the submissions from Parties and organizations and the desk review conducted and presented to the last AC10 meeting in early September. The SCF has been invited by the AC to join this work.
9. Related to this work, the AC and LEG have planned to present progress made on these tasks and seek additional input from Parties at a side event on Thursday 10 November from 13.15 to 14.45. The SCF has also been invited to participate in this side event.

Background on the Technical Examination Process (TEP-A)

10. The technical examination process on adaptation (TEP-A) was established by decision 1/CP.21 as part of the enhanced action prior to 2020. The TEP-A is taking place during 2016-2020. The COP further decided that the TEP-A is to be organized by the subsidiary bodies, be conducted by the Adaptation Committee (AC) and supported by the secretariat.
11. To respond to this mandate, the AC agreed to invite members of other relevant related work programmes, bodies and institutions under the Convention, including the SCF, to contribute to its dedicated working group on this matter. The Terms of Reference for the AC working group on the TEP-A is found in the Annex to the accompanying letter from the AC Co-chairs.
12. Following from an agreement at SCF12 on SCF participation, through the SCF nominees to the Task Force on National Adaptation Plans (NAP TF), the SCF provided input through Mr. Yaw Oppong-Boadi to the workplan of the Task Force. This input suggests that the potential contribution to the TEP-A by the SCF could be in providing information from the biennial assessment and overview of climate finance flows reports on global estimates on public finance for adaptation and the amount of adaptation finance from developed to developing countries.

Background on adaptation-related institutional arrangements under the Convention

13. The AC has been mandated by paragraph 42(a) of decision 1/CP.21, to review the work of adaptation-related institutional arrangements under the Convention, with a view to identifying ways to enhance the coherence of the work of the AC in order to respond adequately to the needs of Parties.
14. The AC at its tenth meeting considered a background paper prepared by the secretariat on this matter and decided to issue a call for submissions in mid-October on the latter⁴.

⁴ See document AC/2016/12 available at <unfccc.int/9653>.

Annex: Draft 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.

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

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?

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 website¹ and Virtual Forum² 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.

¹ http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/8138.php

² http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/7552.php

Table 1: Overview of issues related to public and private adaptation finance³

	Public sector adaptation finance	Private sector adaptation finance
Issues raised	<p>Public finance instruments: grants, concessional loans and investments.</p> <p>Barriers to public finance for adaptation include:</p> <ul style="list-style-type: none"> ○ 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 <p>Co-financing of climate investments as a means of leveraging additional funding and investments from a broad range of financial institutions.</p> <p>Programmatic funding can be a way to facilitate the integration of adaptation into development planning.</p> <p>There is an opportunity to create a better understanding on adaptation, and to better coordinate adaptation-relevant efforts and budgets across the national level.</p>	<p>Public funding can help leverage and promote private investment in adaptation and climate resilience.</p> <p>Developing countries need support in accessing climate finance through public-private partnerships, as well as for making investments in adaptation</p> <p>A National Adaptation Plan can enhance understanding of adaptation and better market adaptation to the private sector.</p> <p>Public funding to support integration of adaptation objectives into business plans can be an effective way of leveraging adaptation finance from the private sector.</p> <p>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.</p> <p>Progressive companies and investors are already working on adaptation because it is smart business and because the potential returns are better understood.</p>

³ 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 finance⁴

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) and the Caribbean Catastrophe Risk Insurance Facility (CCRIF) 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 favorable 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). 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 report⁵:

- 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

⁴ See footnote number three.

⁵ 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>.

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.

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".⁶

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 19⁷. 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:

Access 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.

⁶ 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.

⁷ As contained in the annex to decision 8/CP.19.

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.

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?

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.

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.