Annex II

[English only]

Report on the first forum of the Standing Committee on Finance

I. Theme, programme and format

1. The first forum of the Standing Committee on Finance (SCF), as agreed by its members, took place on 28 May 2013 at the premises of Fira Barcelona in Barcelona, Spain, 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 covered mitigation and adaptation aspects, as well as the tracking of climate finance. Special consideration was given to showcasing concrete practical experiences at the national and regional levels as well as case studies.

3. The forum consisted of two panel discussions and four follow-up group discussions. The panel discussions covered financing and investment drivers for mitigation and adaptation activities, respectively. The follow-up group discussions addressed: (a) innovative approaches and case studies of national, bilateral, regional and multilateral organizations and the private sector in providing funding and investments for mitigation; (b) innovative approaches and case studies of national, bilateral, regional and multilateral organizations 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.[31]

II. Participation, representation and resource persons

4. The forum attracted a wide range of different stakeholders, including representatives of Parties, financial institutions, national and multilateral development banks, governments, think tanks, non-governmental organizations, international organizations and academia. Overall, participation was high, with around 150 people having taken part in the event.

5. UNFCCC Executive Secretary, Ms. Christiana Figueres, State Secretary for the Environment at the Ministry of Agriculture, Food and Environment of Spain, Mr. Federico Ramos de Armas, and the Co-Chairs of the SCF, Ms. Diann Black-Layne and Mr. Stefan Schwager, concluded the forum.

6. A total of 33 resource persons were engaged in the forum, including facilitators and panellists. The panellists included representatives of the financial sector, private investors, multilateral and national financial institutions, international organizations and other relevant sectors.

7. The presentations made and a video recording of the forum are available on the virtual forum website.[32]

[31] The full forum programme and other relevant information are available at <https://unfccc.int/7561.php>.

[32] Available at <http://unfccc.int/7624.php>.

III. Summary of the issues raised at the forum

8. The key issues raised at the first forum of the SCF are summarized below under the following themes: overview of climate finance flows; private-sector investments; demand-side issues – absorptive capacity; mobilizing finance and investments through market-based mechanisms; the role of local and regional actors; adaptation finance; and tracking climate finance.

1. Overview of climate finance flows

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

10. The first speaker referred to various studies showing the extreme urgency of shifting investments to climate-relevant actions if the international community is to avoid crossing the dangerous threshold of a 2 °C temperature change. A point was raised related to the need to change paradigms, focusing on the short-term financial gain to avoid long-term catastrophe, and to prioritize finance over eco- and life-sustaining systems. The experience of Nicaragua was highlighted as a case study, an example of increasing renewable energy at the expense of traditional oil imports with comprehensive social involvement.

11. One presentation indicated that total climate finance flows in both developed and developing countries reached around USD 364 billion in 2010/2011. Climate finance coming from the private sector amounted to 75 per cent of the total climate finance flows, but public finance remained important as a catalyst for private finance. About one third of the total climate finance flowed through intermediary institutions, including multilateral, bilateral and national financing institutions.

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

2. Private-sector investments

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

14. Three approaches to mobilizing private-sector investments can be suggested, namely considering: 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 small and medium-sized enterprises.

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

16. A credible measurement, reporting and verification system needs to be in place for the private sector to demonstrate project effectiveness.

17. There are several examples of how investments can reach small and medium-sized enterprises: (a) the Forest Investment Program, which is known as the first private-sector programme for activities on reducing emissions from deforestation and forest degradation; (b) investments in ‘greening’ the supply chain of multinational companies to reduce their greenhouse gas emissions; (c) regional green microfinance product coordination; and (d) private-equity investing for small businesses.

3. Demand-side issues – absorptive capacity

18. 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.

4. Mobilizing finance and investments through market-based mechanisms

19. The clean development mechanism (CDM) has historically been a success, having mobilized USD 200 billion in investments. Key elements of the CDM infrastructure, such as scoping, baseline setting, the governmental process, information technology, the measurement, reporting and verification system and others, should be carried over into the future. The Green Climate Fund could, for instance, provide performance payments for the CDM to ensure returns for investors if the market does not work.

20. The CDM and nationally appropriate mitigation actions (NAMAs) are not mutually exclusive. A purely sectoral approach may put some countries at a disadvantage. Also, it is difficult to determine additionality and ensure environmental integrity in sectoral approaches.

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

5. The role of local and regional actors and institutional investors

22. In the presentations, reference was made to the fact that a large share of investments for renewable energy in developing countries comes from developing countries. North–South investment flows for 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.

23. Institutional financers have the potential to become the main investors in long-term climate finance. Institutional investors hold USD 70 trillion worth of assets. Local pension funds are growing, for instance in Asia (Malaysia and Thailand), and part of that money is invested abroad.

24. The role of national development banks is significant as they know the local conditions and business environments and can more easily find bankable projects in line with the country's priorities. National municipal banks are also instrumental in financing climate change activities, with existing examples of NAMAs relating to solid waste and public lighting.

25. Local banks have a larger role in financing large-scale projects, for instance the 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.

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

6. Adaptation finance

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

28. Several new funds have been established recently including the Adaptation Fund, the 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 when it comes to adaptation in practice.

29. The perception of risk differs in relation to mitigation and adaptation projects, as estimating the cost of mitigation is easier than for adaptation. The risks and uncertainties in adaptation projects are different from those in mitigation projects, for instance in relation to sea level rise.

30. In addition, it is difficult to assess the effectiveness of an adaptation project since the impacts of a successfully implemented project are not obviously apparent.

31. Three main elements to be taken into account in assessing the effectiveness of adaptation finance from the on-the-ground perspective are: (a) the development of a knowledgeable institution to fill literacy gaps among different ministries; (b) the enhancement of an enabling policy environment; and (c) tailor-made support for developing countries in promoting country ownership and coordination.

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

33. Some of the lessons learned in relation to the financing of adaptation projects by multilateral financing institutions include: (a) the need to build ownership in developing countries at the national level; (b) the need for high-level support and the engagement of ministries of finance in applying a programmatic and cross-sectoral approach; (c) the need to enhance partnership between multilateral development banks and a wider range of stakeholders at the national level; (d) the need for linkages with private-sector investment; and (e) that there is controversy when it comes to adaptation finance in the form of loans.

7. Tracking climate finance

34. Current estimates of the levels of climate finance mobilized 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 those estimates are also not comparable, owing to the different definitions used by different actors.

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

36. The relevant panel considered that the SCF could assist in making the tracking of climate finance more comparable, complete, credible and efficient by:

(a) Developing working definitions of the activities, flows and interventions that comprise mobilized climate finance;

(b) Focusing tracking efforts on the most uncertain areas (private climate finance and inflows);

(c) Encouraging the provision of data on both inflows and outflows of mobilized climate finance;

(d) Building on tracking efforts which are already under way, for example the Rio markers of the Development Assistance Committee of the Organisation for Economic Co-operation and Development and the multilateral development banks' joint initiative, as well as using the tools available for the reporting of financial flows under the UNFCCC, such as biennial reporting.