Framework Convention on Climate Change

Standing Committee on Finance 09 October 2018

Report on the 2018 Forum of the Standing Committee on Finance - Climate finance architecture: enhancing collaboration, seizing opportunities

Executive Summary

I. Introduction

1. At its 17th meeting, the Standing Committee on Finance (SCF) agreed on the theme of the 2018 Forum of the SCF: "Climate finance architecture: enhancing collaboration, seizing opportunities". The SCF also agreed on the three overall objectives of the Forum:

(a) To identify trends, developments and challenges under the climate finance architecture at the international and national level in order to improve climate finance flows from the international to the national level;

(b) To enhance collaboration between the UNFCCC climate funds[1] and other actors;

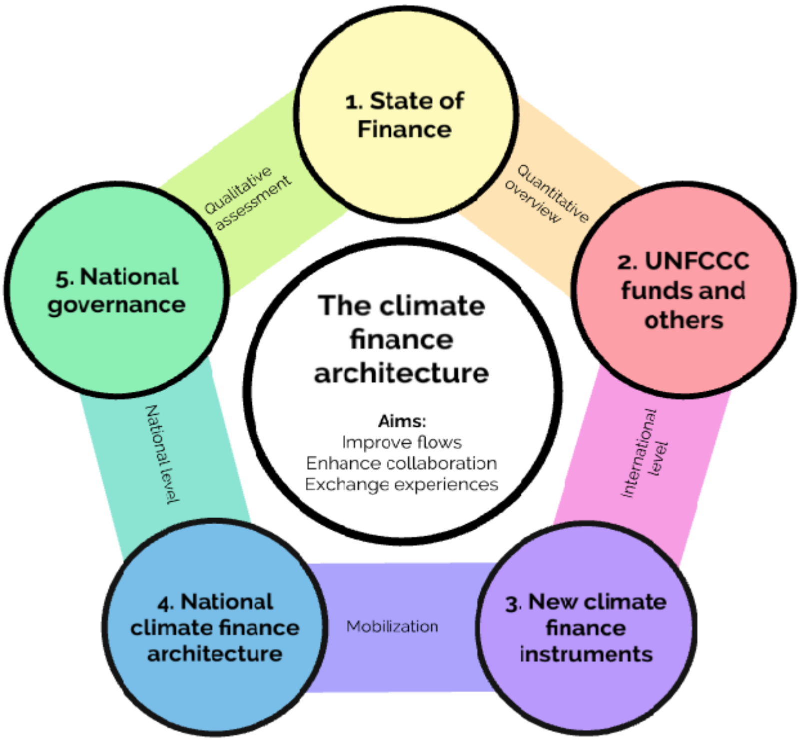
(c) To exchange experience and to identify opportunities for further collaboration at the international and national level.

2. About 130 participants representing national and subnational governments, civil society, academia, think-tanks, multilateral and national banks and the private sector attended the Forum.

3. The Forum was structured around five thematic clusters in order to analyse the international and national climate finance architecture from various perspectives (see figure 1).

[1] Adaptation Fund, Global Environment Facility, Green Climate Fund, Least Developed Countries Fund and Special Climate Change Fund.

Figure 1
The five thematic clusters of the 2018 Forum of the Standing Committee on Finance



4. Day 1 of the Forum focused on the **international climate finance architecture**. Commencing with the state of climate finance, an overview was provided, under **cluster 1**, the trends in the climate finance architecture and the scale of finance flows from the international to the national level, including a qualitative assessment of that scale. Under **cluster 2**, participants discussed the role of the UNFCCC climate funds, multilateral and bilateral institutions and other actors in channelling international climate finance and in enhancing both mitigation and adaptation actions to tackle climate change. The different strategies and operations of the various actors involved in the international climate finance architecture were discussed with a view to identifying opportunities for complementary efforts to meet the objectives of the Paris Agreement. Finally, in relation to scaling up climate finance, new climate finance instruments, including green bonds, and options for how developing countries can be supported in harnessing the full potential of such instruments were identified under **cluster 3**.

5. Day 2 of the Forum focused on the **national climate finance architecture**. Under **cluster 4,** participants addressed the state of the national climate finance architecture and the interplay between national and international finance. They discussed how domestic climate finance is generated, including through the establishment of national climate funds. The focus of **cluster 5** was on the governance of climate finance, and participants discussed ways to enhance stakeholder engagement, for example by introducing conducive policies and coordination structures to facilitate interaction between the relevant stakeholders so as to generate and facilitate access to climate finance.

6. The Forum consisted of the following three types of session, which were arranged around the five thematic clusters:

(a) Plenary sessions, including scene-setting presentations and panel discussions aimed at stimulating further discussion among participants;

(b) Breakout group sessions, consisting of case study presentations for initiating in-depth, facilitated group discussions on challenges encountered and opportunities to overcome them;

(c) Feedback plenary sessions, for summing up the breakout group discussions and identifying opportunities for collaboration and enhanced action, with the overall aim of identifying possible recommendations for the Conference of the Parties on each cluster.

7. Various innovative arrangements were used to trigger interactive and dynamic discussions at the Forum, including video openings to introduce the discussion objectives and the resource persons, and the real-time polling of participants for the generation of 'word clouds' (see figures 2 and 6)[2] to collect key takeaway messages on their perspectives of the international and national climate finance architecture.[3]

8. At the request of the co-facilitators of the Forum, the secretariat circulated a survey to the participants in order to evaluate the organization of the Forum from both the substantive and the logistical perspective. The outcomes of the survey are available online.[4]

9. The following chapter summarizes the discussions under the five thematic clusters of the Forum and does not represent agreed views of the SCF.

II. Summary of discussions under the thematic clusters

A. State of climate finance

10. Planning and implementing ambitious climate action to meet the goals of the Paris Agreement requires mobilizing finance from all sources, taking into consideration the need for predictability and sustainability in the provision of resources from all sources.

11. Challenging aspects of mobilizing and delivering climate finance from public sources include:

(a) Matchmaking actors at the international and national level to design and implement climate projects;

(b) Identifying interventions that meet country needs that are aligned with nationally determined policies and plans, and designing interventions to address them;

(c) Demonstrating the benefits of climate actions for convincing one's own government.

12. A persistent challenge is the lack of clarity in the definition of climate finance, including in relation to the financial instruments used.

13. Developing countries are already engaged in developing a range of sectoral, subnational and national plans and programmes in order to identify their needs and priorities in taking climate action. However, the plans and programmes are often fragmented because of the lack of mapping of existing policies and plans.

14. In decision-making and reporting, there are often challenges relating to distinguishing between adaptation and development and to the lack of commonly agreed criteria and definitions.

B. Role of UNFCCC funds and multilateral and bilateral institutions in delivering climate finance

15. Several multilateral and bilateral institutions are aligning their strategies with the Paris Agreement and mainstreaming climate change in their operations and internal reporting.

16. Multilateral and bilateral institutions have difficulty identifying fundable projects, while developing countries encounter challenges in designing quality projects and programmes – this creates a discrepancy between supply and demand in climate finance, particularly for adaptation. The discrepancy can be alleviated by:

[2] A word cloud provides a visual representation of how frequently words are used by participants – the more a word is used, the bigger it appears in the cloud.

[3] All presentations, outcomes of breakout group discussions and the video recordings are available at <https://unfccc.int/topics/climate-finance/events-meetings/scf-forum/2018-forum-of-the-standing-committee-on-finance>. The scene-setting presentation of session 1, is available at <https://prezi.com/view/tOX0HoLpePd0R2WuSCun/>.

[4] Available at <https://unfccc.int/topics/climate-finance/events-meetings/scf-forum/2018-forum-of-the-standing-committee-on-finance>.

(a) Setting ambitious strategies and actions, in terms of both supporting institutions (supply) and countries (demand), through clear policies and targets;

(b) Setting aspirational targets in relation to adaptation finance;

(c) Further mainstreaming climate change in the agendas of public institutions and the private sector entities in developing countries to reflect commitment for action;

(d) Enhancing the support provided to developing countries for designing and implementing quality projects and programmes, including through project preparation facilities and the facilitation of mutual cooperation and collective learning.

17. Multilateral climate funds consider the need to enhance the coherence of policies related to accessing funds, which would include standardizing requirements.

C. New climate finance instruments

18. Although insurance is a risk-mitigating instrument, developing countries, and particularly the most vulnerable communities, often face both internal and external barriers in accessing insurance and harnessing its potential, including high upfront costs, lack of the data required to assess risk levels, and general lack of access to the insurance market.

19. Enhanced financial support and technical assistance, including from domestic, bilateral and multilateral institutions, could help developing countries to enhance their access to green financial markets over time and scale up the mobilization of financial resources through new climate instruments.

D. National climate finance architecture

20. National climate funds contribute to building national capacity for the development and implementation of climate projects, and can benefit from sustainable, predictable and accessible financial and technical support. Challenges remain in meeting the criteria and requirements of resource providers in mobilizing financial resources to replenish national climate funds.

21. Budgetary planning and devising climate investment plans facilitate the process of determining the expenditure required for climate projects, and identifying and attracting additional resources to cover any financing and investment gap. However, challenges remain in:

(a) Mainstreaming adaptation and resilience considerations in sustainable development;

(b) Identifying economic and social co-benefits of climate actions;

(c) Engaging with national stakeholders on fully integrating their needs into budgetary planning and climate investment plans;

(d) Gaining the necessary buy-in across ministries and relevant stakeholders.

22. Efficient access to the readiness support programmes of the multilateral climate funds and international support providers is a key factor in successful country planning but currently access can be time-consuming and complex. Better coordination among the support providers and a tailored approach to providing the services may help improve access. Moreover, many government authorities find it difficult to navigate the capacity-building and readiness support programme and to select the ones suitable for their capacity-building needs. This problem may be addressed through better matchmaking of the readiness support providers and national focal points.

E. National governance

23. A number of countries have governance structures in place that suit their country circumstances and ensure national and subnational coordination on climate change. However, additional opportunities remain for countries to continue to enhance and align domestic policy environments with their nationally determined plans and strategies. Strong political will and the articulation of climate change in national agendas could help to overcome barriers between ministries and enhance communication with subnational actors. Good practices and lessons learned

in relation to overcoming national coordination challenges can be shared among countries, while acknowledging the specific national circumstances of each country.

24. Engaging a wide range of stakeholders is crucial for assessing the needs and priorities of subnational and local actors, as well as for preparing and implementing inclusive and well-informed climate change projects, taking into consideration the different governance structures and stakeholder engagement policies and regulations within countries. Stakeholder engagement may be enhanced by, inter alia:

(a) Financial resources and dedicated budget lines for continuous engagement with relevant stakeholders;

(b) A greater awareness of climate change and opportunities that can be harnessed through climate finance;

(c) Long-term perspectives on engagement among the stakeholders involved;

(d) Guidelines and toolkits on good practices for stakeholder engagement;

(e) Joint indicators for demonstrating stakeholder engagement in the planning and implementing phases of programmes and projects.

25. Micro-, small and medium-sized enterprises (MSMEs) are important actors in the national climate finance architecture because they form the backbone of developing countries' economies. Support, including from domestic, multilateral and bilateral institutions, can help enable MSMEs access climate finance. Several tasks remain in scaling up MSME engagement in climate action and making international climate finance more accessible to them, including providing favourable national enabling environments that will help lower their risk profiles and de-risk investment in them.

26. Country ownership is key to ensuring that developing countries take the lead in developing and implementing climate projects to address their needs and priorities. Ensuring country ownership requires a deep understanding of developing countries' needs and priorities on the part of multilateral climate funds and the relevant developing country authorities. In this context, multilateral climate funds and developing country authorities need to communicate closely with each other, including on strategies and approaches for achieving transformative change through country programming and on the latest policies and decisions of the funds.

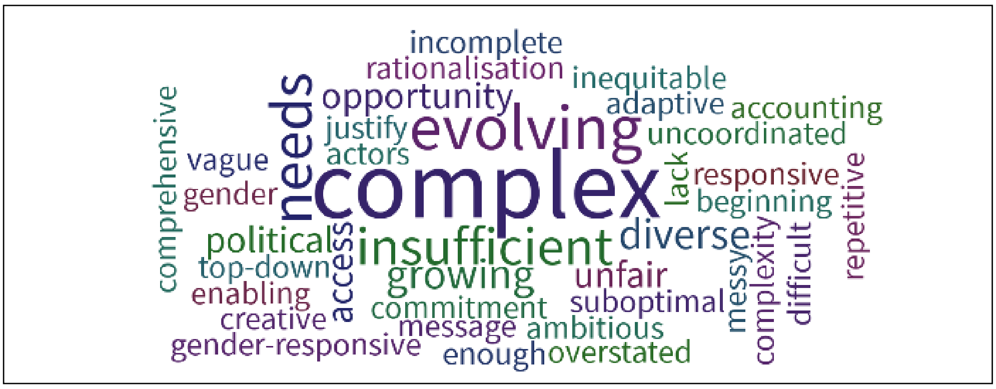
III. Report of the 2018 Forum of the Standing Committee on Finance

A. State of climate finance

27. The climate finance architecture can be characterized as complex and evolving, among other characteristics (see figure 2). The complexity, which can be attributed to the diverse actors involved and the dynamics among them, the specific roles and needs of stakeholders; the various standards and requirements related to accessing climate finance, and the loose boundaries between climate and development interventions, makes it difficult both to develop an agreed definition of what constitutes climate finance and also to access such finance.

28. However, programmes and initiatives exist that help countries to navigate the levels of complexity, including the NDC Partnership and the readiness support programmes of the various climate funds and international support providers. In addition, countries themselves are implementing initiatives to address complexities, including through South-South cooperation.

Figure 2
Word cloud describing Forum participants' views of the climate finance architecture at the international level



29. Mobilizing public and private finance and delivering financial resources to meet the needs and priorities of developing countries requires keeping in mind the complex and evolving nature of the climate finance architecture and country-specific circumstances. Discussions under this cluster therefore focused on:

(a) Mobilizing and delivering international public finance;

(b) Unlocking private finance;

(c) Determining country needs and priorities.

1. Mobilizing and delivering international public finance

30. One complexity of international public finance centres on the predictability and sustainability of the mobilization of public climate finance, which is necessary to encourage ambitious and long-term climate action. Public climate finance is mobilized through financial pledges and contributions and some of the UNFCCC funds are mobilized through voluntary contributions. As climate planning is a long-term endeavour, developing countries find it challenging to take long-term climate action if the availability of financial resources is not predictable and if the pledges and contributions are affected by changes in global politics and economics. Therefore, there is a need for more assurance in the provision of climate finance. Various ideas were discussed, including those related to enhancing the transparency and clarity of individual contributions of developed countries within the global goal for finance.

31. The following challenging aspects of mobilizing and delivering international public climate finance were also identified:

(a) Matchmaking actors at the international and national level to design and implement climate projects;

(b) Honing international support and interventions to meet the needs of developing countries and to align such support with the Paris Agreement;

(c) Demonstrating the benefits of climate actions for convincing one's own government. It can be challenging to demonstrate the co-benefits of climate action and the linkages between climate interventions and development, in particular the United Nations Sustainable Development Goals.

2. Unlocking private finance

32. Another complexity of climate finance relates to unlocking private finance. It has been recognized that climate change cannot be addressed using public financial resources alone. A significant amount of international climate finance needs to be mobilized through private sources to complement the scaling up of international public climate finance. Private investments are an addition to, not a substitution for, international public finance.

33. As the case study from Uruguay presented at the Forum demonstrated, unlocking private investments can be achieved with the following factors in place:

(a) A robust project structure that can lower the cost and investment risk;

(b) Strong government support, including a conducive and enabling environment and policy frameworks for climate-friendly private investments;

(c) Implementing entities with strong track records;

(d) A stable economy and sound foreign exchange rate to help investors hedge investment risks.

34. Recognizing the importance of the private sector in mobilizing climate finance, the special circumstances of the least developed countries (LDCs) and small island developing States (SIDS) were discussed, including how they can also harness the potential of private finance. The LDCs and SIDS face challenges in entering private–public partnerships and attracting private investments. Major private investors tend not to favour investing in or partnering with such countries owing to the perceived country risks, especially in the case of private investment in adaptation projects as adaptation interventions are not considered to generate revenue.

35. Recognizing the challenges that many developing countries, particularly the LDCs and SIDS, face in attracting private investments, particularly for adaptation projects, it was noted that the private sector is willing to invest in viable projects, regardless of whether they are mitigation or adaptation projects, provided the structure and fundamentals are right. Initiatives like the Blended Finance for Climate Program of the Government of Finland and the International Finance Corporation have been developed to encourage private investments in high-risk countries, including the LDCs, and high-risk sectors relating to adaptation (see figure 3).

Figure 3
Blended Finance for Climate Programme of Finland and the International Finance Corporation

Source: Available at <https://unfccc.int/sites/default/files/resource/Session%202_BOG%201_Satu%20Santala.pdf>.

36. The Green Climate Fund (GCF) could play a critical role in de-risking private investments, particularly in developing countries, and supporting MSMEs in developing countries by reducing the risk of investing in them, building their capacity and supporting their access to international markets. In fact, the GCF Private Sector Facility of is currently identifying opportunities to engage the private sector, including local actors, in adaptation action at the national, regional and international levels, and in developing modalities to support activities that enable private sector involvement in action in the LDCs and SIDS.

3. Determining country needs and priorities

37. In determining their needs and priorities, countries face various challenges and different levels of complexity, from the development of sectoral, subnational and national plans to the actual implementation of projects and programmes.

38. Developing countries are engaged in developing a range of plans and programmes, such as the national adaptation programmes of action, national adaptation plans, nationally appropriate mitigation actions and nationally determined contributions (NDCs). However, the plans and programmes tend to be fragmented because countries fail to map existing strategies and relevant policies so as to ensure coherence and avoid overlaps and gaps. Moreover, in some cases the plans and programmes are driven by international consultants, who are not familiar with the local context or with the previous planning efforts undertaken. The importance of country coordination, as well as of engaging multiple national stakeholders, including local governments, thus following both a bottom-up and a top-down approach, was highlighted in the discussions. This dual approach not only ensures that the plans, projects and strategies address country needs and priorities, but also contributes to strengthening country ownership in the implementation of projects and programmes.

39. To address the gaps identified, participants recommended establishing national coordination mechanisms to link national, subnational and sectoral plans, and identifying and addressing policy gaps in a participatory manner, including through involving various stakeholders, particularly women and indigenous communities. The mechanisms would also be used to identify available resources to implement projects and programmes and to mobilize the additional finance, including from climate funds, required to cover any deficits. Further discussions on national coordination mechanisms were held under cluster 5 (see chapter E.1 below).

40. Formulating adaptation projects and programmes and distinguishing them from ordinary development projects is also challenging for developing countries. While some have made progress in developing metrics and indicators to strengthen the climate rationale of adaptation projects and distinguish them from development projects, further work and support are needed. This is considered to be a difficult endeavour as, according to the Paris Agreement, adaptation needs should be addressed in the context of sustainable development. Furthermore, while it might be possible to distinguish between adaptation and development in theory, in practice climate-induced disasters can have negative impacts on development-related sectors such as health, infrastructure and education. Therefore, adaptation projects that aim to make communities resilient to disasters such as floods need to be designed in a more holistic manner by addressing the various impacts of climate change on a country’s vulnerable sectors.

B. Role of UNFCCC funds and multilateral and bilateral institutions in delivering climate finance

41. Between 2015 and 2016 an average of USD 410 billion in climate finance was channelled globally, most of which was spent where the financial resources originated from, which indicates strong policies and regulatory frameworks that are aligned with climate change. Multilateral financing was in the order of USD 11 billion, of which USD 3.2 billion was spent on adaptation finance compared with USD 8.7 billion on mitigation finance.

42. The Multilateral Fund for the Implementation of the Montreal Protocol was cited as a successful model of multilateral cooperation from which lessons can be learned for the climate finance architecture under the Convention. Fair and equitable governance, a strong compliance regime, clear targets and expected results of its funding, and assessed financial contributions are the key factors that contributed to the success of the Montreal Protocol Fund, which in turn contributed to reducing ozone-depleting substances from the atmosphere. It was noted that developing countries were given a grace period for implementing the Montreal Protocol, and that the assessed contributions enhanced the predictability of the grant-based financial support available to cover the incremental costs of abating ozone-depleting substances. However, some questioned whether this model could apply to the UNFCCC context as this was a specific case.

43. Further discussions under this cluster centred around the complementarity of climate funds and the role of multilateral and bilateral institutions in delivering climate finance to developing countries to meet the Paris Agreement goals.

1. Complementarity of climate funds

44. Enhancing complementarity among climate funds can be considered: using a bottom-up approach, from the country perspective, or a top-down approach, from the fund perspective. In the bottom-up approach, countries play an active role in identifying how the various multilateral climate

funds, used in a complementary manner considering the comparative advantages of each fund, can support their country programming and climate change investment plans. In this context, NDCs can be used as an entry point for ensuring the complementarity of climate funds at the country level. In the top-down approach, Parties consider how the strategies and operations of the UNFCCC funds should be guided in order to enhance the complementarity of the funds, taking into account each fund's comparative advantage in relation to, inter alia, scale of resources, scope and priorities, governance, financial instruments and historical relevance. Participants focused their discussions largely on the top-down approach, in particular on the approaches and activities undertaken by the GCF to enhance complementarity with other funds.

45. The GCF is in the early stages of enhancing complementarity with other funds and is exploring ways to simplify the process of accessing climate finance, including by scaling up pilot activities undertaken initially by other funds and integrating lessons learned from other funds' programmes and activities. The GCF is implementing activities to enhance complementarity in the context of its operational framework on complementarity and coherence, through which it has identified several options for complementary action (see the table below).

Green Climate Fund activities to enhance complementarity with other climate funds

Fund	*Green Climate Fund efforts for complementarity*
Global Environment Facility	Collaboration on co-financing, once the Green Climate Fund has a policy on co-financing in place
	Provision of support for mobilizing stakeholder engagement
	Continued reduction of accreditation requirements under the fast-track accreditation modality for entities accredited under the Global Environment Facility
Adaptation Fund	Continued reduction of accreditation requirements under the fast-track accreditation modality for entities accredited under the Adaptation Fund
	Provision of support for direct access entities that are accredited to both funds
Least Developed Countries Fund	Provision of adaptation planning support, whereby the Least Developed Countries Fund channels pilot ideas and early implementation of national adaptation programme of action and national adaptation plan activities, and the Green Climate Fund supports the scaling up of adaptation action
Nationally appropriate mitigation action (NAMA) Facility	Provision of support for unfunded project proposals from the NAMA Facility
Climate Investment Funds	Learning lessons from the programmatic approaches of the Funds
	Supporting unfunded investment plans submitted to the Funds

46. The comparative advantages of the climate funds were discussed. The Least Developed Countries Fund occupies the niche of providing capacity-building and dedicated support to the LDCs for their adaptation planning and implementation processes.

47. The comparative advantage of the Adaptation Fund lie in its focus on concrete adaptation projects and its grant-based nature. Owning to its long-term experience of and focus on smaller adaptation projects, the procedures related to accessing finance from the Adaptation Fund are perceived to be less complex than those of other funds. Another comparative advantage of the Adaptation Fund is its direct access modality, which has enabled several developing countries to implement projects through national or regional entities. Furthermore, the Adaptation Fund has

strength in facilitating accreditation processes, gained from helping numerous countries with accreditation and having established fast-track accreditation arrangements with the GCF.

48. In terms of identifying areas for complementary action among the UNFCCC funds, noting the comparative advantages of the Global Environment Facility and the Adaptation Fund in relation to enabling activities, capacity-building and smaller-scale projects, it was suggested that the GCF should focus on delivering projects and programmes at scale; for instance, by scaling up projects and pilots that have been successfully implemented under the Global Environment Facility and the Adaptation Fund, or funding higher-risk projects. Furthermore, the GCF has the potential to promote broader private sector engagement by building the capacity of and reducing market barriers to MSMEs in developing countries through its Private Sector Facility and the specialized financial instruments available to it.

49. Various options emerged for ways to make policy coherent in order to simplify the process of accessing climate finance. The different funding requirements set by multilateral climate funds result in high transaction costs for developing countries and also for the implementing entities. Setting common standards for countries to access climate finance resources from the various climate funds was suggested as a solution. Some examples were shared in this regard, including the initiative of the Food and Agriculture Organization of the United Nations and the International Tropical Timber Organization to create common questionnaires to assess countries' needs and priorities relating to forest and agriculture, thereby enhancing coherence and reducing duplication, as well as the attempts of the GCF to establish simplified approval processes and fast-tracked accreditation modalities.

50. The following were highlighted as ways to further enhance the complementarity and coherence of multilateral climate funds:

(a) Providing clear guidance to the operating entities of the Financial Mechanism and other UNFCCC funds on their strategic objectives and priorities;

(b) Using the periodic review of the Financial Mechanism as an opportunity to comprehensively evaluate it and its operating entities;

(c) Continued interaction among the multilateral funds, with the operating entities having a key role, to identify ways to improve complementarity and coherence given each fund's comparative advantages and expertise.

2. Role of UNFCCC funds and multilateral and bilateral institutions in delivering climate finance to developing countries to align with the Paris Agreement

51. Multilateral development banks (MDBs) and bilateral institutions have played a major role in scaling up climate finance through the concrete commitments that they have made to support the implementation of climate-related projects (see figure 4). MDBs are applying climate risk screening to their project portfolios, aligning reporting standards and adopting common accounting methodologies for climate finance, in which they have been joined by the member institutions of the International Development of Finance Club. As recently announced at the 2017 One Planet Summit, MDBs and members of the International Development of Finance Club have pledged to align their strategies with the Paris Agreement through the mainstreaming of climate change in their investment portfolios and operations (see figure 5).

52. Even though the commitments of MDBs and bilateral institutions have been increasing, developing countries face challenges in designing quality projects and programmes, while MDBs and bilateral institutions have difficulty in identifying fundable projects – this creates a discrepancy between the supply of and demand for climate finance. Furthermore, most MDBs take sectoral approaches to providing funding for projects, and while some sectors (e.g. water, agriculture) are open to adaptation, for others (e.g. infrastructure, transport) more effort is required to mainstream adaptation and scale up the adaptation portfolio. However, as reported by MDBs, they are getting better in programming their adaptation finance, as commitments for adaptation increased from USD 5 billion in 2015 to USD 6.2 billion in 2016.

53. In this context, the following options for minimizing the discrepancy between supply and demand in climate finance were mentioned:

(a) NDCs should be used as the entry point for fostering country-driven demand for climate finance, particularly for adaptation, based on national priorities and needs;

(b) Climate change should be further mainstreamed by governments and multilateral and bilateral institutions by aligning their strategies and operations with the Paris Agreement, reforming policies to move away from fossil fuel subsidies and refraining from supporting carbon-intensive activities;

(c) MDBs and bilateral institutions should be encouraged to set ambitious adaptation targets in their strategies;

(d) The support provided to developing countries for designing and implementing quality projects and programmes should be enhanced through project preparation facilities, in-country dialogues, long-term trajectories, conducive and enabling environments, and ramping up the capacities of local private sectors;

(e) Multilateral and bilateral institutions should pursue complementary action to streamline requirements for accessing financial resources and to support countries in mainstreaming climate change through country-driven programming.

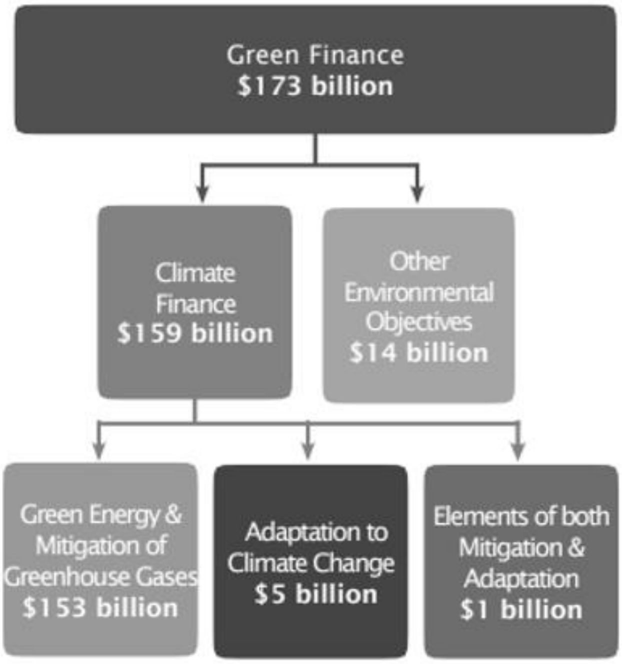
Figure 4
Contributions of multilateral development banks to scaling up climate finance

MDB	Targets Announced
ADB	Doubling climate finance to USD 6 billion annually by 2020 (own resources only), of which USD 4 billion is for mitigation and USD 2 billion is for adaptation
AfDB	Triple climate financing to reach 40 percent of investments by 2020
EBRD	40 percent of EBRD annual business investment by 2020 in green finance[a]
EIB	Global target of greater than 25 percent of all lending. Increased target of 35 percent of lending in developing countries by 2020
IDBG	Goal to double climate finance to 30 percent of operational approvals by 2020 to an average USD 4 billion per annum, and to improve evaluation of climate risks and identify opportunities for resilience and adaptation measures
WBG	A one-third increase in climate financing, from 21 percent to 28 percent of annual commitments by 2020. If current financing levels are maintained, this would mean an increase to USD 16 billion in 2020. The WBG intends to continue current levels of leveraging co-financing for climate-related projects, that could mean up to an another USD 13 billion a year in 2020. The direct financing and leveraged co-financing together represent potentially an estimated USD 29 billion in 2020.

Source: Presentation at the 2018 Standing Committee on Finance forum entitled “Moving towards a 20° world: the role of climate funds” by a representative of the Asian Development Bank. Available at <https://unfccc.int/sites/default/files/resource/Session%203_Preety%20Bhandari.pdf>.

Abbreviations: ADB = Asian Development Bank, AfDB = African Development Bank, EBRD = European Bank for Reconstruction and Development, EIB = European Investment Bank, IDBG = Inter-American Development Bank Group, WBG = World Bank Group.

Figure 5
Contribution of International Development Finance Club members to scaling up climate finance
(United States dollars)



C. New climate finance instruments

54. Under this cluster, participants looked at the opportunities and challenges in the use of new climate finance instruments to scale up the level of climate finance, with discussions centring around the following topics:

(a) Green bonds;

(b) New climate finance instruments for addressing adaptation and loss and damage;

(c) Technical support available to countries.

1. Green bonds

55. Considering the trillions of dollars of investment needed to establish a low-carbon and climate-resilient pathway, new climate finance instruments have the potential to help countries to overcome market, financial and regulatory constraints and unlock the mobilization of financial resources at scale for both mitigation and adaptation. Green bonds are one climate finance instrument that both public and private institutions can utilize to scale up the mobilization of climate finance by attracting investments at scale, including from large investment banks, institutional investors and pension funds. Green bonds may not be new and innovative in themselves but using the share of proceeds from them for mitigation and adaptation actions can be considered new and innovative. According to a representative of the Climate Investment Funds, the green bonds market has grown to USD 250 billion in 2018, far exceeding the record USD 155 billion of green bonds issued in 2017, a significant share of which is expected to cover climate projects.

56. Some of the main challenges and limitations associated with green bonds are the lack of common standards and criteria to determine whether or not a bond is green and the lack of a common monitoring and verification system to ensure the environmental and social standards of the underlying assets. Recognizing these limitations, MDBs, following joint common principles for tracking climate finance, have started to report what they deem to be green with a view to establishing common criteria for green projects and bonds. Another challenge is that developing countries have difficulty in meeting the credit standards required to access the green bonds market. Participants debated whether green bonds contribute to mobilizing new and additional climate

finance and whether the proceeds generated by green bonds will address adaptation and mitigation projects equally. Adaptation is a priority area for many developing countries, particularly for local communities.

57. Increasing the issuance of green bonds would require:

(a) Mainstreaming climate considerations in the investment plans of public institutions and private businesses so as to encourage climate investments;

(b) Adopting consistent standards and criteria for issuing green bonds as well as developing a common monitoring and verification system to ensure the environmental and social integrity of projects;

(c) Scaling up the technical and financial support provided for building the capacity of developing countries. Climate-friendly national policies and enabling environments, such as a common taxonomy for sustainable finance and/or regulations on transparent financial disclosures by corporations, would also help developing countries to harness the full potential of green bonds.

2. New climate finance instruments for addressing adaptation and loss and damage

58. Participants recognized that there are limited instruments available to developing countries for addressing adaptation and loss and damage. Climate risk insurance schemes, ranging from parametric risk insurance products to indemnity insurance, are commonly used to address adaptation and loss and damage. While different insurance products are being developed and made available to developing countries,[5] there are some questions on whether insurance can contribute to mobilizing new and additional climate finance, by, for example, leveraging financial resources from the insurance industry, or whether insurance is a risk-mitigating financial instrument with existing financial resources.

59. Furthermore, insurance products often do not benefit poor countries and communities because of:

(a) The high upfront costs, including for developing suitable insurance products;

(b) The data required over a long-time frame to determine the different levels of risk;

(c) The barriers preventing developing countries from engaging in the insurance market include lack of capacity and unfavourable market conditions. While parametric instrument products targeting local communities, such as weather index insurance, are available in some countries, many developing countries and communities cannot afford the high premiums. In this context, new climate finance instruments should be developed on the basis of country needs and priorities so as to ensure the applicability of the instruments to different national contexts. The financial resources generated from the instruments must reach the most vulnerable communities and actors at the local level.

60. A representative of the African Development Bank reported at the Forum on its engagement and partnership with the African Risk Capacity agency and insurance companies on developing innovative climate insurance products targeting local beneficiaries.

3. Technical support

61. Developing countries often require technical assistance and support to fully harness the potential of new climate finance instruments. In particular, countries require assistance in identifying suitable and applicable instruments to finance mitigation and adaptation projects and programmes, which sometimes takes the form of a technical facility as part of a project or programme.

62. The Development Bank of Southern Africa has established a project preparation facility that is financed through an annual allocation of its funds and blended with other project preparation funds, for example, readiness support from the GCF. The latter has the advantage of preparing their counterparts for project implementation, including financial support from the GCF or other investors and funds. Other institutions, such as the African Development Bank and the Global Innovation Lab for Climate Finance of the Climate Policy Institute, have also established technical assistance

[5] More information on financial instruments to address the risks of loss and damage under the UNFCCC are available at <https://unfccc.int/event/2016-forum-standing-committee-finance> and <https://unfccc.int/topics/resilience/resources/financial-instruments>.

facilities to provide countries with technical support for utilizing the climate finance instruments they offer.

63. In terms of enhanced action and collaboration, the GCF could play a critical role in helping countries and local institutions to access the green financial market over time. Awareness needs to be raised by financial institutions and international support providers of innovative financial instruments and the support that they can offer governments and the private sector. One practical way of enhancing such awareness is to track and monitor climate finance flows mobilized by new climate finance instruments in order to create a common understanding on new climate finance instruments among the relevant key stakeholders and inform their decision-making.

D. National climate finance architecture

64. Participants expressed the view that the climate finance architecture at the national level is often perceived as complex, disjointed and uncoordinated, both within the national level and with the international level (see figure 6). Such architecture requires a deep understanding of the diverse contexts of the national institutions utilizing climate finance, the financial and governance systems in place and the dynamics around the various actors at the national level and their interactions with actors at the international level.

65. Countries are engaged in generating domestic climate finance, including by establishing national climate funds; putting in place policies to encourage private investments; integrating climate change into national and subnational plans and budgets; and leveraging international climate finance. As such, discussions under this cluster centred around challenges and lessons learned in relation to:

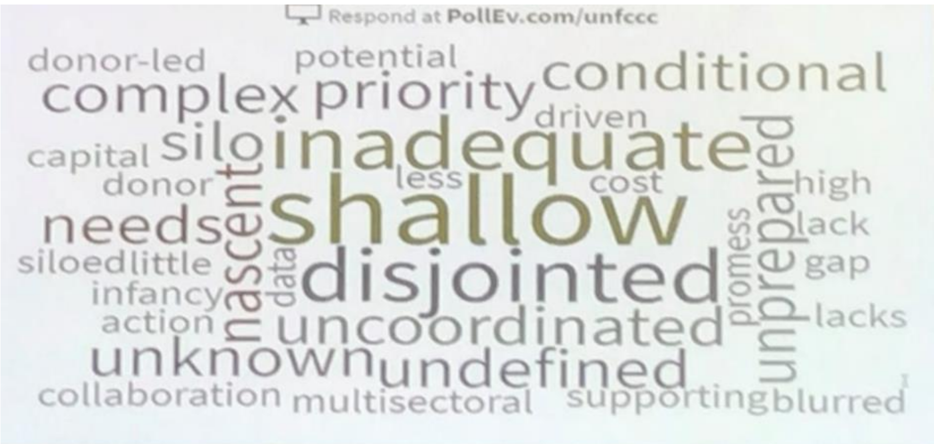
(a) Establishing and utilizing national climate funds;

(b) Budgetary planning and devising climate investment plans;

(c) Creating policy incentives and regulatory frameworks to engage a range of stakeholders;

(d) Building the capacity of national and subnational actors to mobilize and deliver climate finance.

Figure 6
Word cloud describing Forum participants' views of the climate finance architecture at the national level



1. Establishing national climate funds

66. National climate funds can be capitalized through national and international climate finance to provide resources for domestic climate action. As Cambodia's experience demonstrates, setting up a national climate fund can contribute to building national capacity for developing and implementing climate projects (see box 1).

Box 1
Cambodia's experience in setting up a national climate fund

The Government of Cambodia set up the Cambodia Climate Change Alliance (CCCA) Trust Fund in response to the lack of a mechanism that would channel financial resources to domestic actors implementing climate action. Before the establishment of the CCCA Trust Fund, climate finance resources provided to Cambodia were typically channelled by international bilateral partnerships through a project-based approach. When establishing the CCCA Trust Fund, government officials were concerned that establishing a dedicated climate fund might hinder national efforts to mainstream the sustainable development agenda in national development planning. However, the Government recognized that a national climate fund would attract climate finance and the technical support needed to develop and implement projects for attaining sustainable development and tackling climate change that would not attract funding otherwise. National entities gained experience in the development and implementation of climate projects by utilizing the CCCA Trust Fund, which also contributed to building their track records and capacity.

67. Participants shared challenges faced by countries in setting up and utilizing national climate funds, including a general lack of capacity in national fund secretariats to manage project cycles, and the need for well-honed criteria for selecting quality project proposals. In relation to developing selection criteria, South-South cooperation and peer-to-peer learning emerged as good practices. For example, Malawi benefited from Rwanda's experience in setting up its national climate fund and in developing selection criteria, which contributed to building the capacity of the stakeholders involved, including government officials.

68. Other challenges relate to the capitalization of national funds, depending on the sources. Capitalizing funds from government budgets might involve challenges such as competing with other sectors for limited domestic public finance, or the difficulty of gaining buy-in from other ministries.

69. Regarding capitalizing funds from international sources, the principle of country ownership can be jeopardized if replenishment of the funds is contingent upon the expectations of climate finance providers on the quality of the project pipeline of the national funds. Furthermore, the finance providers might set environmental and social safeguards and gender policies to be applied in the proposed activities, which some developing countries may not easily conform to because of a lack of data and/or capacity. The discussions at the Forum covered whether such requirements and criteria should be reduced or standardized, or whether technical support provided to countries should be enhanced to assist them in meeting the requirements.

2. Budgetary planning and devising climate investment plans

70. Budgetary planning and devising climate investment plans can be helpful for governments to gain clarity on needs for and gaps in national climate finance and to inform their decisions on how to address those gaps. Budgets and climate investment plans also provide clarity on how much countries are spending on climate action and how to accurately cost activities in order to determine and identify any additional resources required.

71. One of the main challenges in budgetary planning relates to the difficulty of classifying projects under adaptation, mitigation or development. Distinguishing between adaptation and development projects has proven to be particularly challenging because of debates on the root cause of climate change, often owing to a lack of data and scientific evidence. Direct causality may be too high a standard, especially for projects in developing countries, as projects are undertaken in the broader context of sustainable development, of which climate change is only one element. Furthermore, data collection on climate finance and expenditure remains a challenge, especially for the LDCs and at the local level. Another challenge relates to engaging national stakeholders in integrating their needs and inputs into budgetary planning and setting up a project pipeline that is agreeable to all stakeholders. Further discussion on ways to improve stakeholder engagement was facilitated under cluster 5 (see chapter E.2 below).

72. With respect to national climate investment plans, some countries have shown political will and established institutional processes to formulate them. However, knowledge-sharing among government authorities is necessary to foster a better understanding of the purpose and implications of climate investment plans. Highlighting the potential for utilizing international resources to realize

the climate investment plan could help to allay the fears of policy-makers regarding the implications for the national budget and to gain the necessary buy-in.

3. Policy incentives and regulatory frameworks

73. Establishing well-honed and targeted policy incentives and regulatory frameworks, supported by strong political will, is crucial to attracting the climate finance required to implement climate plans and actions.

74. Egypt's efforts in developing and revising its 2030 Sustainable Development Strategy, including setting specific goals to be achieved by 2030, provide an example of setting policy incentives to align climate plans and policies, and mainstreaming climate change in the broader national planning. The Government of Egypt is bringing together various stakeholders, including line ministries, civil society and the private sector, on this strategy. To ensure buy-in and applicability and to encourage private sector engagement, the Government has identified clear roles and responsibilities for the various actors and has demonstrated the benefits for each actor in shifting to a sustainable development pathway, such as health improvements, job creation, and creating new investment and market opportunities for private businesses.

75. Another example is the Republic of Korea's efforts to unlock private sector engagement in climate action. The private sectors of many developing countries are not incentivized to invest in climate change projects for three reasons. First, climate projects are relatively small compared with alternative investment. Hence, they often result in high transaction costs for private entities and are therefore not viable investments. Second, many private sector companies prefer investing in developed countries with which they are more familiar and which offer stable economic conditions and less perceived risk. Finally, private firms need to capitalize their investment in a relatively short period of time, which is often not viable in the case of developing countries, climate funds or MDBs. The Government of the Republic of Korea, in order to address these challenges, created policy incentives through greenhouse gas reduction targets and carbon pricing schemes, in which the private sector must participate, to reduce national greenhouse gas emissions by 20 per cent by 2030.

4. Building the capacity of national and subnational actors

76. Capacity-building, particularly long-term institutional capacity-building, was identified as a crucial element for effectively mobilizing and delivering national climate finance.

77. An underlying challenge for some countries, particularly francophone countries, is the language barrier, as application forms and guidelines for accessing funding are frequently provided only in English. A type of language barrier is also experienced in relation to unfamiliarity with the financial and climate-related terms that are required to be used to develop strong proposals, particularly in articulating the climate components of adaptation and mitigation projects. To address this challenge, the Government of the United Kingdom of Great Britain and Northern Ireland is implementing a Climate Finance Accelerator project, which aims to support developing countries in overcoming language barriers by:

(a) Providing translations of documents relating to access;

(b) Supporting countries in developing investment plans based on their NDCs and in developing project pipelines;

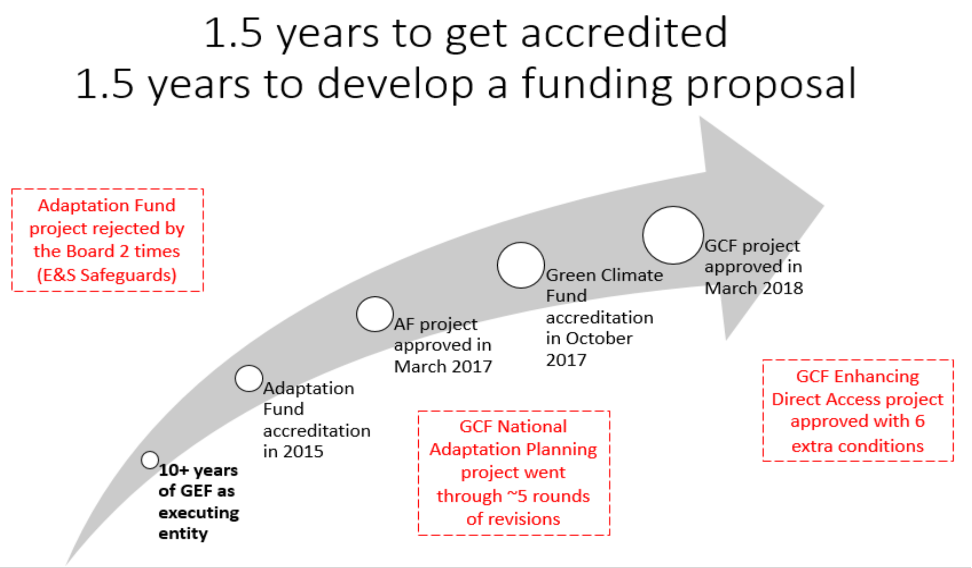
(c) Providing technical support for articulating mitigation and adaptation projects.

78. There are several good practices that can help to build the long-term capacity of countries and institutions for utilizing climate finance. In lieu of relying on international consultants, national and local experts can be engaged in the development and implementation of climate projects and programmes by systematically involving them in climate activities and taking advantage of their knowledge and expertise of the national and local context. The Global Green Growth Institute, through its 'training of trainers' approach, is building the long-term capacity of different levels of government, research institutions, universities and youth groups. Long-term capacity-building also entails awareness-raising activities, including at universities, to nurture a young generation that will lead climate change projects in the future.

79. Other approaches to building long-term capacity are through learning-by-doing and peer-to-peer learning. A learning-by-doing approach can be time-consuming but successful practices show

that first-hand experience in accessing climate finance can harness the growth of institutional capacity and knowledge. For example, direct access entities in Antigua and Barbuda, Ethiopia and Rwanda went through the lengthy accreditation processes of the Adaptation Fund and/or the GCF and their experience shows that their in-house capacity has improved over time as a result (see figure 7 for Antigua and Barbuda's experience). The direct access entities have not only gained the capacity to meet the numerous standards and criteria of the funds, but are also now capable of sharing lessons learned with other developing countries in similar circumstances. Antigua and Barbuda and Rwanda have started providing peer-to-peer learning to other developing countries seeking accreditation under the direct access modality of the Adaptation Fund through its South-South cooperation grants, including through preparing and submitting relevant documents required for accreditation.

Figure 7
Antigua and Barbuda's learning-by-doing experience



80. Capacity can also be built through regional cooperation, as demonstrated by the Union for the Mediterranean, a regional institution that is enhancing cooperation between its developed and developing country member States. The Union is facilitating capacity-building among its member States for preparing national and subnational climate finance strategies through the provision of not only financial resources but also technical support via its climate finance centres.

81. Participants discussed opportunities for obtaining capacity-building support, such as through the readiness support programmes offered by multilateral climate funds and other international support providers, and the NDC Partnership. Some participants noted that obtaining readiness support can be complicated and time-consuming, which further prolongs and complicates capacity building and project preparation and implementation. Furthermore, capacity-building provided by multilateral climate funds and other international support providers is sometimes uncoordinated, resulting in the duplication of support areas, and sometimes too generic. Against this background, participants highlighted the need to accelerate the provision of readiness programmes and to coordinate the activities of the support providers.

82. Many government authorities have difficulty in navigating the available support programmes that can meet their needs, and determining how to access them. This could be addressed through enhanced communication between the readiness support providers and national focal points, who can seek ways to better match the available support with country demand.

E. National governance

83. A sound national governance structure is needed to access and utilize international climate finance to generate domestic climate finance. The discussions under this cluster focused on:

(a) National coordination mechanisms and structures;

(b) Stakeholder engagement at the national and subnational levels;

(c) Engagement of MSMEs;

(d) Country ownership and country driven strategies.

1. National coordination mechanisms and structures

84. Each country has its own distinctive governance structure that ensures coordination. Structures range from formal institutions, such as climate ministries and high-level interministerial committees, to informal or ad hoc arrangements, such as interdepartmental task forces. The examples shared during the Forum showed that both types of structure can be effective for conjoining efforts among stakeholders, but strong political will and national coordination and consultation on climate action are prerequisites for success in both cases (see box 2).

Box 2
Country-specific examples in setting up national coordination mechanisms

In Colombia, the Government, in response to a presidential decree, has formulated a national vision on climate change that will incorporate climate change considerations into all aspects of national planning, including the implementation and assessment of policies and projects, by 2030. To achieve this vision, the Government has established a national coordination committee on climate finance, which acts as an advisory body that facilitates the coordination of public and private actors to mobilize financial resources for climate action.

Chile has enhanced its national coordination mechanism through the establishment of a committee composed of 10 ministries that are responsible for sustainable development. The committee is chaired by representatives of the Ministry of the Environment and aims to maintain coherence and consistency in the development of Chile's national climate finance strategy.

In Burkina Faso, the President has dedicated a national day to consultations with various national stakeholders, including farmers and the private sector. The President is also bringing together the national focal points for the Green Climate Fund, the Global Environment Facility and the UNFCCC to develop and implement a climate finance strategy.

85. Challenges related to establishing and maintaining national coordination mechanisms include the difficulty ministries of environment, which are often the focal point for climate change, have convening other ministries, as they are sometimes considered to be less influential than ministries such as the ministry of finance; the frequent turnover of staff, including as a result of political change, resulting in loss of institutional memory and capacity; and absence of accountability, as different government units do not have to report to each other. Participants shared lessons learned and good practices in relation to addressing or avoiding some of those challenges (see box 3).

Box 3

Good practices relating to national coordination mechanisms

The Philippines has established a national coordination mechanism comprising a council on sustainable development. The council has an inter-agency coordination structure and covers climate change, biodiversity and other topics related to sustainable development. The council has political and technical members, the former often changing every four years owing to changes in government. The technical members are more likely to remain on the council for longer, thereby contributing to its stability and to the maintenance of institutional knowledge.

Through the national adaptation programme of action and the national adaptation plan processes, the Sudan has developed a national coordination and consultation mechanism for climate change by establishing focal points and task forces in all 16 states of the country. This has resulted in enhanced horizontal coordination between the ministries and also vertical coordination between the governments at the state and national level. The mechanism has also contributed to building state-level capacity, through training the focal points and task forces and engaging them in the development of projects and in mainstreaming climate considerations in their subnational sectoral plans.

The Government of the United Kingdom of Great Britain and Northern Ireland has enacted a climate change proposal that includes the establishment of an independent national climate change coordination mechanism. The independence of this mechanism is a key factor in coordinating the relevant ministries in an effective manner and overcoming any interministerial politics and issues arising from governance structure.

2. Stakeholder engagement at the national and subnational level

86. National and subnational stakeholders play a critical role in mobilizing climate finance and need to be closely engaged in the planning and implementation of climate projects. In this respect, stakeholder engagement should be seen not as one-off consultations but as a continuous interaction to assess and reflect the needs of local communities. The engagement should be based on an assessment of the needs and priorities of local communities and the diverse subgroups within them, and of the actions needed to mitigate and adapt to climate change.

87. Some of the challenges highlighted around stakeholder engagement include:

(a) Insufficient financial resources and lack of dedicated budget lines for engaging with stakeholders across countries;

(b) Frequent changes in government staff and their counterparts, making it difficult to build long-term partnerships;

(c) A general lack of awareness among stakeholders about climate finance and opportunities for financial support, including through the GCF;

(d) Difficulties around communication involving different languages and local dialects.

88. To address some of the challenges identified, participants suggested requesting the UNFCCC funds to develop and implement joint indicators that project and programme proponents can use to demonstrate stakeholder engagement in the planning and implementation phases. Further suggestions include utilizing a toolkit for countries on good practices and lessons learned in relation to engaging with a wide range of stakeholders. Enhanced provision of financial resources and tailored technical support were also suggested by the participants as ways to enhance stakeholder engagement.

3. Engagement of micro-, small and medium-sized enterprises

89. MSMEs form the backbone of developing countries’ economies; therefore, it is important to engage them in the national climate finance architecture to scale up climate action. Participants discussed challenges that MSMEs face in accessing climate finance, at both the national and international level, and ways to overcome them.

90. MSMEs often cannot access loans from commercial banks owning to the perceived risk associated with them, and the different banking regulations across developing countries. Some loans

from multilateral institutions are provided in United States dollars rather than in local currency, which adds currency risk and creates difficulties for MSMEs in using and repaying the principal. Moreover, there tends to be a lack of awareness among MSMEs about support available from international climate finance providers. While the GCF request for proposals is a positive attempt to strengthen the engagement of MSMEs and harness their potential, the application process for funding is considered lengthy, resulting in MSMEs seeking alternative opportunities to access climate funds. Furthermore, different ways of categorizing MSMEs among countries and multilateral and bilateral institutions can make it difficult to develop eligibility criteria (from the recipient country perspective) and difficult to design suitable support programmes (from the support provider perspective).

91. There is an increasing amount of initiatives and support aimed at MSMEs, provided by multilateral and bilateral institutions and national governments. The African Development Bank, for example, provides guarantees in local currency to mitigate the risks of lending, and the Government of Canada has developed a support programme for MSMEs in developing countries through the International Finance Corporation. Participants suggested that support providers should build and expand on these efforts to provide support to MSMEs for climate projects and programmes.

4. Country ownership and country-driven strategies

92. While country ownership and country-driven strategies are not defined, they were highlighted by participants as important elements for ensuring that developing countries are taking the lead in developing and implementing funding proposals.

93. There are ongoing efforts by climate finance actors to ensure country ownership and country-driven strategies at both the international and national level. Multilateral climate funds and accredited entities must receive explicit government endorsement (e.g. in the form of a non-objection letter stating that it is in support of the request). Countries are undertaking a wide range of stakeholder consultations and are aligning proposed interventions with national plans and policies.

94. The direct access modalities of the Adaptation Fund and the GCF contribute to maintaining country ownership and country-driven strategies by enabling national and regional entities to implement projects themselves rather than through an international entity. This contributes to building long-term institutional capacity and ensures that projects can be implemented in a manner that meets country needs and priorities.

95. Relying on international consultants was considered to hinder the building and maintaining of institutional knowledge and capacity, which should be done engaging national experts and pooling their expertise.

96. While some institutions such as the GCF have a non-objection procedure in place, ensuring country ownership requires a deeper understanding of developing countries' needs and priorities – beyond non-objection letters – on the part of the institutions and developing country authorities. In this regard, multilateral climate funds, accredited entities and national focal points have a responsibility to implement the existing country ownership guidelines and procedures. In turn, this requires enhanced communication of the relevant policies and access requirements of the funds so that the national institutions involved can stay updated and respond as needed.