Relevant SCF work for ExCom

18 September 2018

Mandate of SCF

At COP16, Parties established the SCF to assist the COP in exercising its functions in relation to the Financial Mechanism of the Convention. This involves:

a) improving coherence and coordination in the delivery of climate change financing,

b) rationalization of the Financial Mechanism,

c) mobilization of financial resources, and

d) measurement, reporting and verification of support provided to developing country Parties

Relevant work by the SCF to date

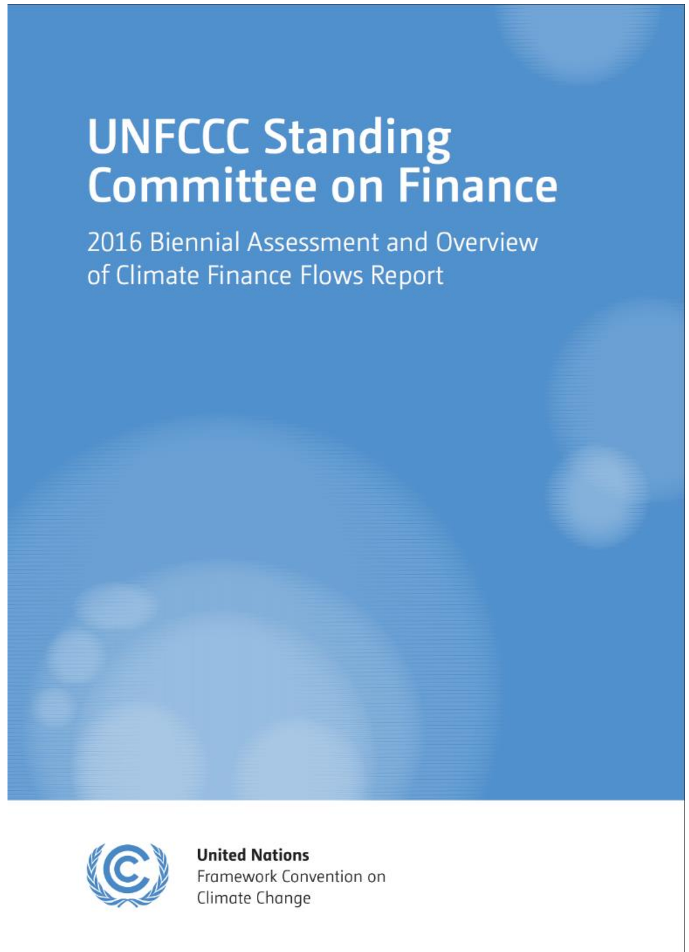
Targeted work:

1) 2016 Biennial Assessment and Overview of Financial Flows: dedicated section on loss and damage.
2) 2016 Forum: “Financial instruments that address the risks of loss and damage associated with the adverse effects of climate change”

Other relevant work:

1) 2017 Forum: “Mobilizing Finance for Climate-Resilient Infrastructure”
2) 2015 Forum: “Mobilizing Adaptation Finance”

2016 Biennial Assessment



2016 Forum: Overview

- Topic: “Financial instruments that address the risks of loss and damage associated with the adverse effects of climate change”
- In response to invitation by ExCom, in context of “Action Area 7” of its workplan
- 5-6 September, 2016 in Manilla
- Held in cooperation with the Asian Development Bank and the Philippines Climate Change Commission.
- ~200 representatives from governments, financial institutions, private sector and civil society attended
- Outputs: Webcasts | Full report | 1-page summary

2016 Forum: Participants (non-exhaustive)

- Munich Climate Insurance Initiative (MCII)
- World Bank | Asian Development Bank
- International Institute for Applied Systems Analysis
- Swiss Re
- African Climate & Development Initiative
- Grantham Research Institute on Climate Change and Environment
- Caribbean Catastrophe Risk Insurance Facility (CCRIF)
- African Risk Capacity (ARC)
- International Federation of Red Cross and Red Crescent Societies (IFRC) Climate Centre
- Resilience Design & Research Labs

2016 Forum: Objectives

- The specific goals of the 2016 SCF forum were to:

a) Understand and take stock of existing financial instruments across different levels (e.g. local, national, regional and international) and sectors;

b) Share and learn from country experiences and case studies on the benefits, limits, gaps and good practices from the different financial instruments;

c) Explore ways for scaling up and replicating good practices and potential innovative financial instruments that can be used to address the risks of loss and damage in developing countries, particularly with respect to the gaps in and limits of existing approaches;

d) Contribute to developing possible conclusions of and/or recommendations on actions and next steps to be taken of how financial instruments to address the risks of loss and damage associated with the adverse effects of climate change can be designed and effectively deployed and what steps might be taken to address the gaps and limits.

2016 Forum: Highlights

Overview of existing financial instruments discussed during the 2016 forum of the Standing Committee on Finance

Risk tranfer schemes

- **Description:** Schemes where an individual or organization pays a premium to transfer their risk to another party, usually in the form of an insurance contract.

- **Examples:**
  - African Risk Capacity
  - Carribean Catastrophe Risk Insurance Facility
  - Sahel Crop Insurance scheme

Social protection schemes

- **Description:** Policies and programmes designed to reduce exposure to, and enhance capacity to respond to, economic and social risks. Includes targeted cash transfers after a catastrophe, building resilience and adaptive capacity, smart use of climate information and climate risk management tools, helping vulnerable people prepare for a disaster and protecting them in disaster situations.

- **Example:**
  - Red Cross Haiyan livelihoods programme

Catastrophe and resilience bonds

- **Description:** Bonds that allow insurers or governments to transfer their risks to investors. If a disaster occurs within the life of the bond, some of the interest and/or principal of the bond will be forgiven. This money can be used to fund the post-disaster relief effort. If no disaster occurs, the insurer or government must pay back the principal and interest to the investors.

- **Example:**
  - Mexico’s MultiCat Bond

Contigency finance

- **Description:** Finance in the form of a line of credit or a fund that a government can draw on in the case of an emergency to allow for early response and early recovery measures.

- **Examples:**
  - African Risk Capacity
  - Nicaragua contingency loan from the Inter-American Development Bank
  - Japan International Cooperation Agency contingency credit programme

2016 Forum: Highlights relevant for technical paper

1. Financial instruments are in use across all levels (e.g., local, national, regional, and international) and sectors.
   - **Requires a deep and broad review to appreciate existing landscape both under and outside of Convention**.
2. Those instruments are immensely diverse in order to address the risks of loss and damage on the basis of different country contexts and the multi-causality of the risks faced. No 'one-size-fits-all' approach, and no single financial instrument can cover all the risks associated with loss and damage.
   - **Requires a flexible and wide-ranging view of relevant instruments available under and outside of Convention**.
3. Effectiveness of different instruments is a critical component (e.g., addressing slow-onset events, affordability, sustainability, outcomes.)
   - **Requires looking at qualitative aspects such as effectiveness.**
4. Complementary approaches are needed that build long-term resilience while enabling countries to immediately respond to disasters after they occur. Finding smart ways of combining instruments is crucial for addressing the risks of loss and damage in a comprehensive and holistic manner.
   - **Requires looking not just at instruments in isolation, but on complementarity and combinations across instruments and policies.**
5. While opportunities for scaling up financial instruments exist, governments can promote the uptake of good practices by strengthening policies and regulatory frameworks that incentivize stakeholders to avert, minimize and address loss and damage.
   - **Requires taking stock of enabling policies and regulatory frameworks that are themselves critical instruments required in any and all financing arrangements.**

Potential additional opportunities for SCF engagement

- October SCF meeting
- Written input to technical paper, drawing on existing work
- 2018 Biennial Assessment (to be released COP24)

Questions