[Side event of the Standing Committee on Finance]

Standing Committee on finance (SCF): Launch of flagship report for COP27

MR21, Sharm el Sheikh
13:15-14:15, Friday 11th November 2022

AGENDA

Part 1: Presentation of the latest reports of the SCF

- Introduction by co-chairs
- Key outcomes of the SCF’s work
  - ➢ Fifth Biennial Assessment and Overview of Climate Finance Flows
  - ➢ Progress report on mobilizing USD 100 billion per year
  - ➢ Definitions of climate finance
  - ➢ Work relating to Article 2.1(c) of the Paris Agreement
  - ➢ SCF Forum on Finance for Nature-based Solutions

Part 2: Open discussion

- Ice-breaker Interventions
- Open discussion
- Closure

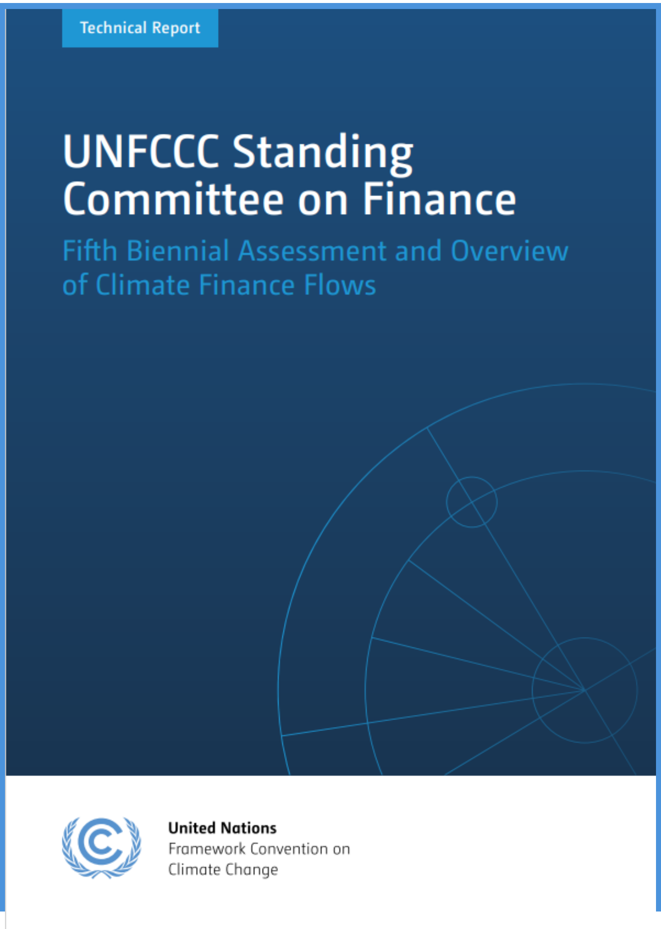
Opening & Introduction

Co-chairs: Zaheer Fakir & Gertraud Wollansky

Key outcomes of the SCF's work

Fifth Biennial Assessment and Overview of Climate Finance Flows

Co-facilitators: Diann Black-Layne


Technical Report

UNFCCC Standing Committee on Finance

Fifth Biennial Assessment and Overview of Climate Finance Flows

United Nations
Framework Convention on
Climate Change

What's in the Biennial Assessment?

Summary prepared by the SCF

➕

Technical Report of the Biennial Assessment prepared by experts under guidance of SCF

Chapter I: Methodological Issues

- MRV systems in and outside the UNFCCC
- Operational definitions of climate finance in use
- Measuring outcomes

Chapter II: Overview of Climate Finance Flows

- Global climate finance estimates and trends
- Climate finance from developed to developing countries
- Recipient perspective

Chapter III: Assessment of Climate Finance

- Thematic, geographic distribution
- Effectiveness: access, ownership, needs, additionality
- Global climate finance in context

KEY FINDINGS: Methodological issues for transparency of climate finance

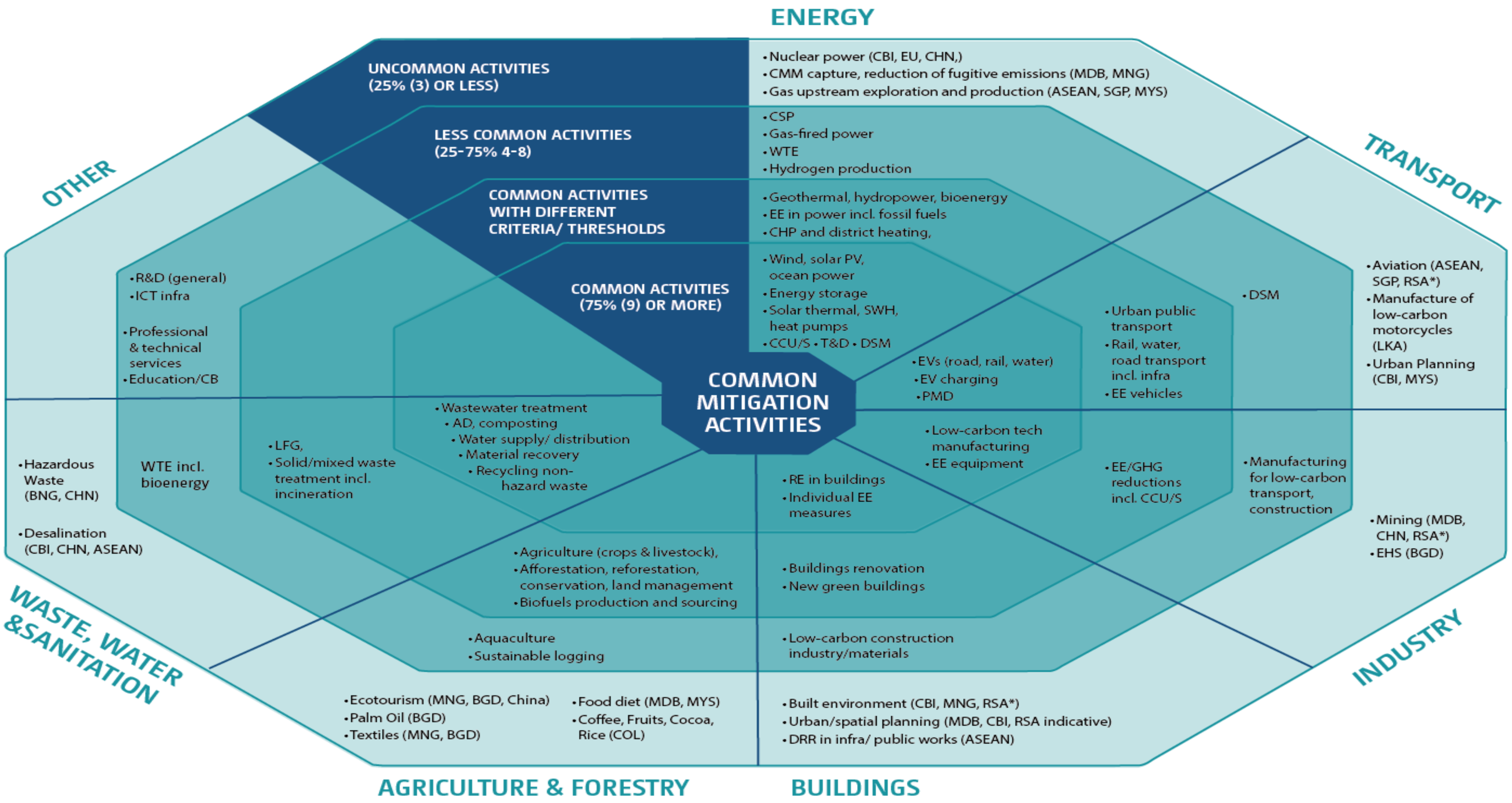
- New reporting tables will improve information on climate finance submitted by Parties
  - ✓ Sectors and sub-sector information
  - ✓ Whether finance contributes to capacity building or technology transfer
  - ✓ Voluntary reporting of grant-equivalent values
  - ✓ Interactive web portal for summary information
- Improving coverage and granularity of reporting on climate finance received
- Doubling of countries developing or implementing climate finance tracking systems

24 countries established systems for national budgets

Another 24 with methodologies for tracking in development

KEY FINDINGs: Range of views on mitigation activities per sector

Common and uncommon mitigation activities across 12 sustainable finance taxonomies



EXCLUSION LISTS OR EXAMPLES

ENERGY
- Coal-fired power (EU, BGD, MDB). All solid fossil fuels (SGP)
- T&D dedicated exclusively to fossil fuel power (EU, COL, RSA, MDB, CBI, SGP)
- MDB: peat-fired power, Brownfield displacement of carbon intensive fuel with lower carbon fuel when electricity generation only, Fossil fuel upstream and midstream, Nuclear power, first generation biofuels unless sourced from waste, Utilisation of gas from oil or coal production.
- CBI: Coal or oil power or combined heat and power (CHP) without CCS; WHR from coal or oil power, coal mining or oil upstream
- SGP: New gas power plants, Power plants dedicated to support fossil fuel infrastructure or operations

TRANSPORT
- Fossil fuel dedicated infrastructure (MDB, EU, COL, RSA, CBI, SGP)
- New road infrastructure (CBI, SGP)
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INDUSTRY
- CBI: Products dedicated to clean-up or efficiency of fossil fuel energy

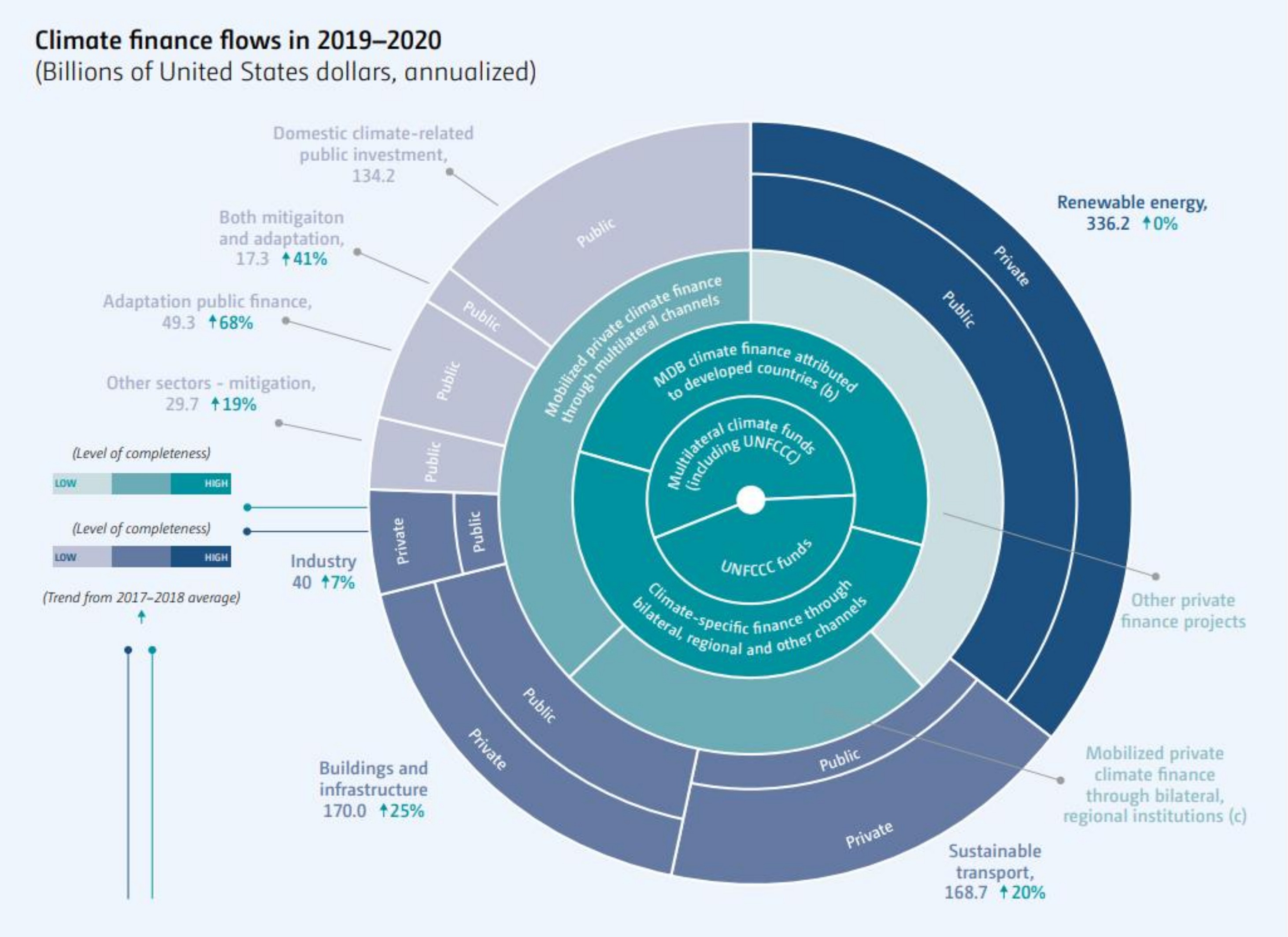
BUILDINGS
- SGP: Buildings dedicated to extraction, storage, manufacturing, transport of fossil fuels'.

AGRICULTURE & FORESTRY
- CBI: agriculture/timber production on peatland

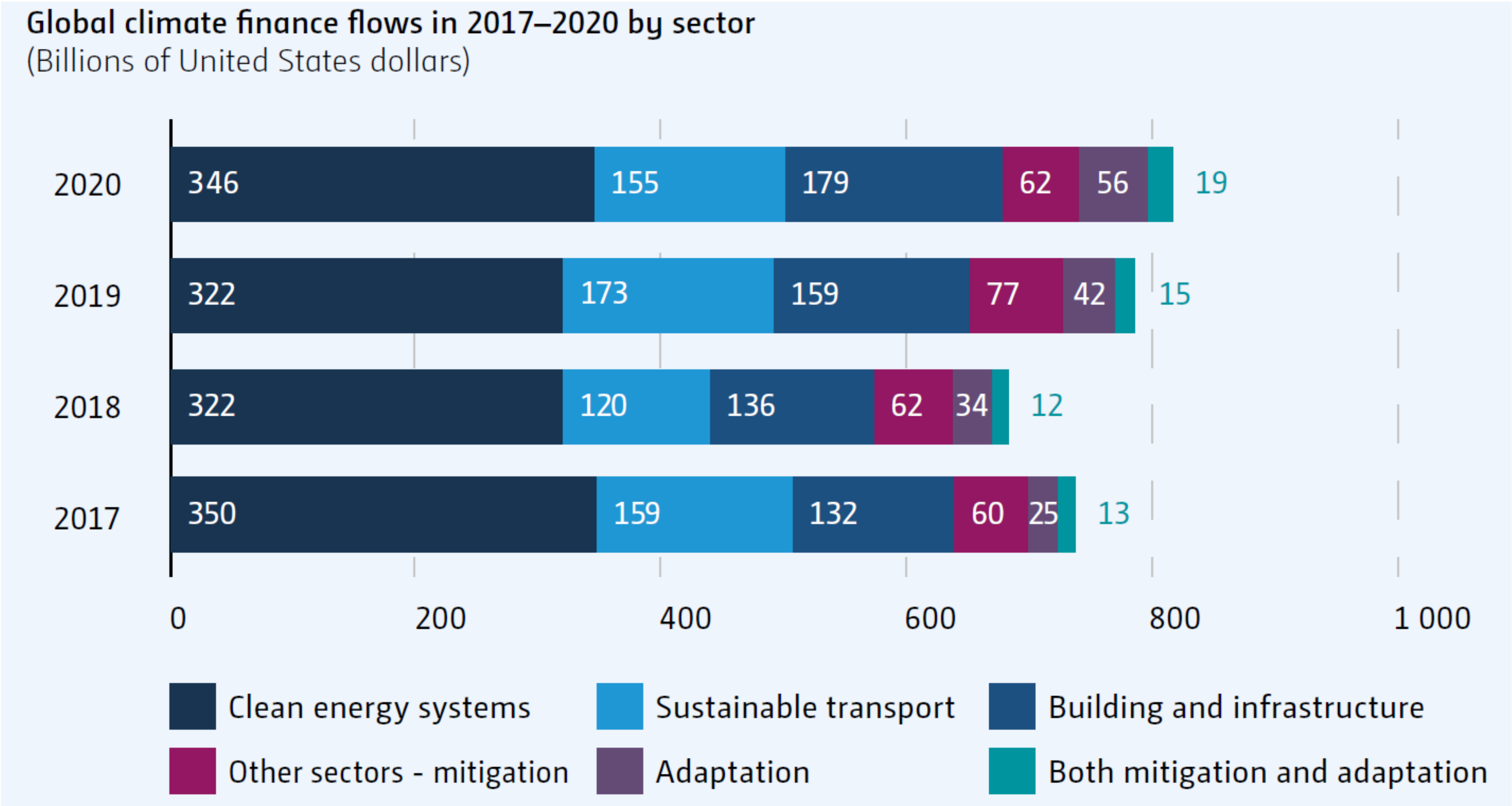
KEY GRAPHIC: Onion diagram frames different sources and channels

Blue shading indicate **global** climate finance flows by sector

Green shading indicate flows from **developed to developing countries**, with UNFCCC funds at the core



KEY FINDING: 12% increase in global climate finance flows



KEY FINDING: Flows from developed to developing countries in 2019-2020

Bilateral Flows

Climate-specific financial support **+6%** based on preliminary data

Multilateral climate funds

+21% in finance approvals largely due to GCF Board, GEF Council, and the Clean Technology Fund

MDBs

+17% in climate finance, USD 30 billion per year attributed to developed countries

More public finance flows for mitigation than for adaptation.

However, adaptation finance has grown significantly through bilateral channels and MDBs compared to the 2017-2018 period

Bilateral flows:

- 57% / 28%

Adaptation +39%
(+USD 2.5 billion*)

Multilateral climate funds:

- 37% / 19%

Adaptation +1%
(+USD 8 million*)

MDBs:

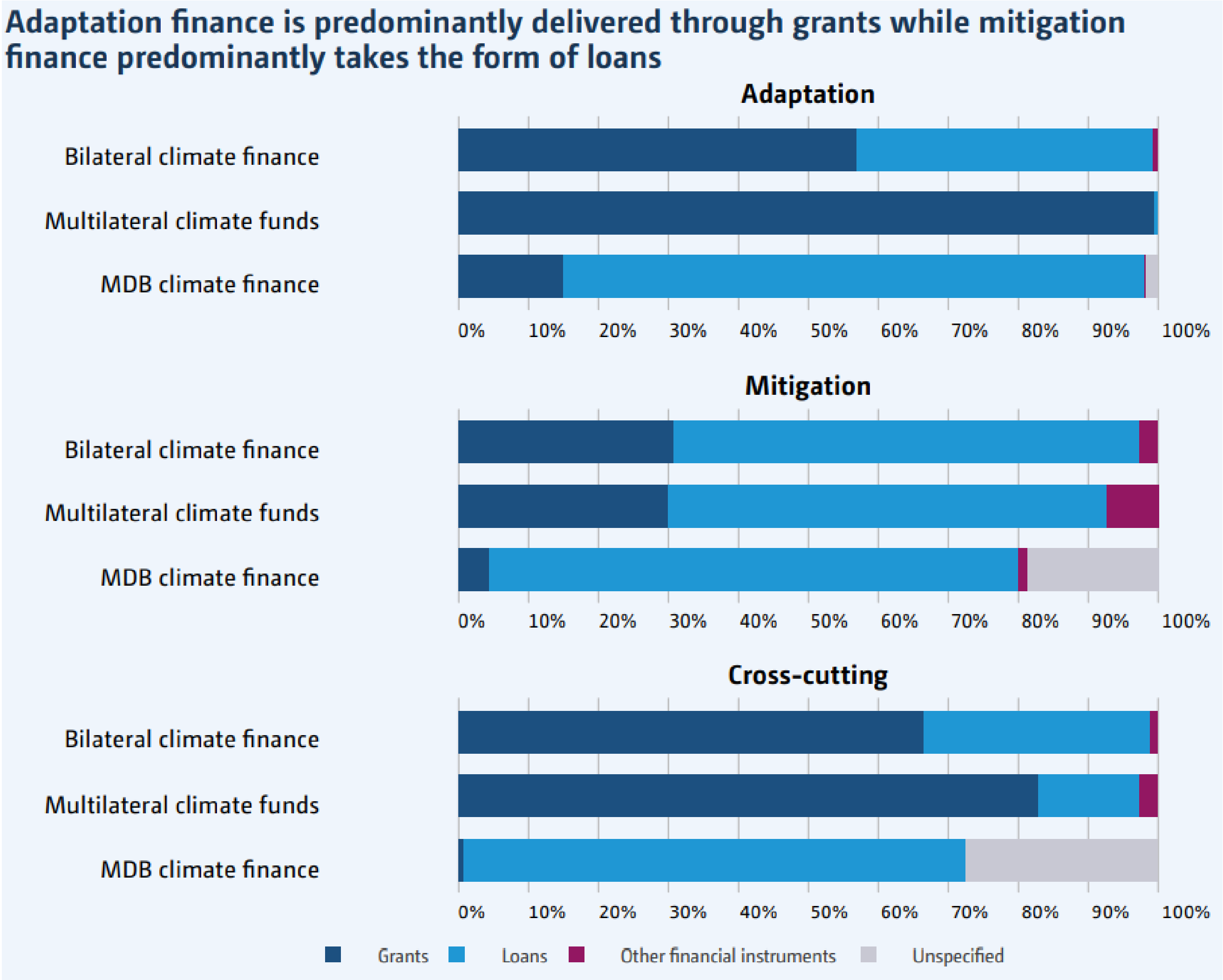
- 62% / 36%

Adaptation +48%
(+USD 6 billion*)

**Growth in annual average adaptation finance for period 2019-2020 compared to 2017-2018*

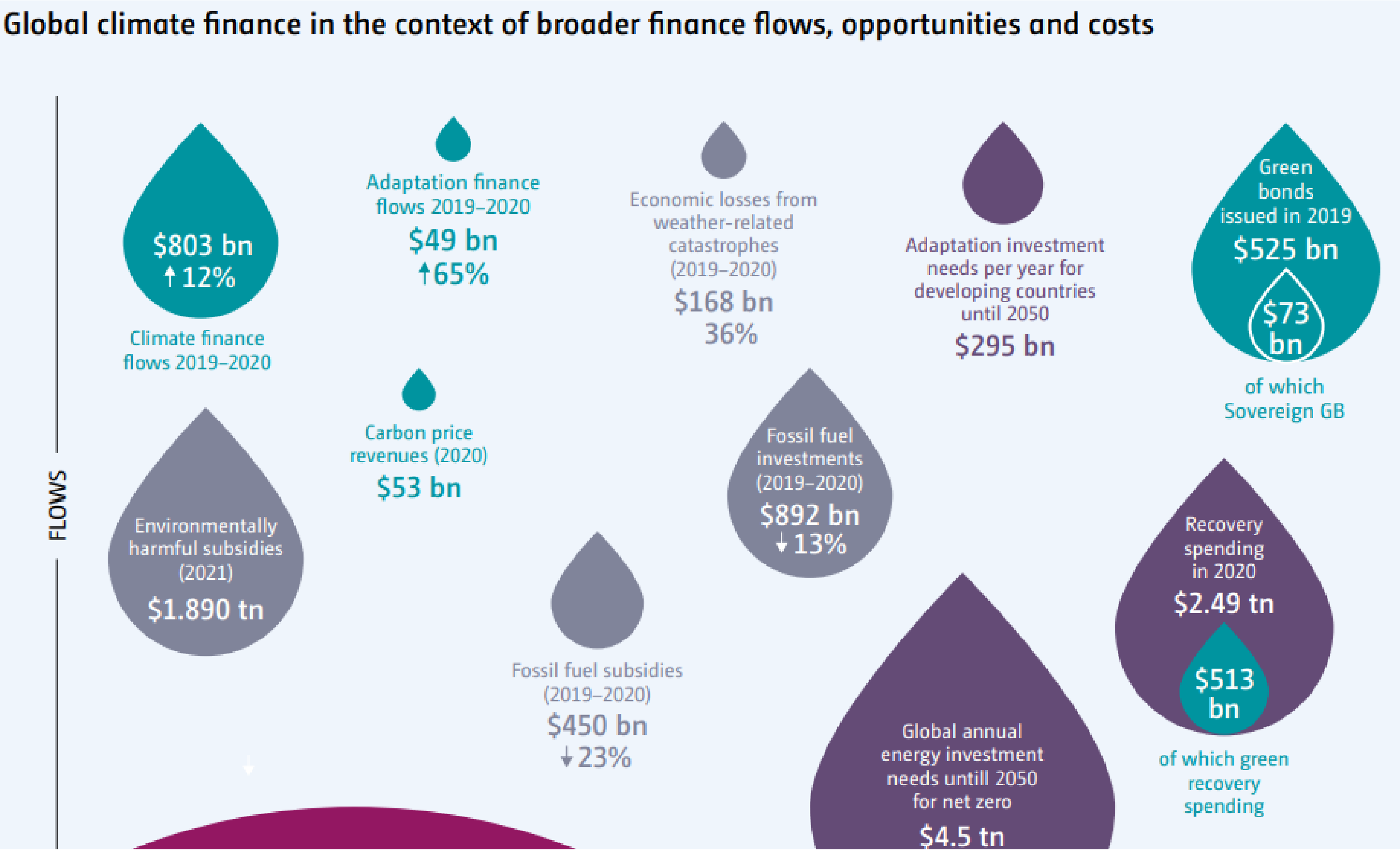
KEY FINDING: Flows from developed to developing countries

- **Grants** continue to be a key instrument particularly for adaptation finance
  - 57% of bilateral flows
  - 99% of multilateral climate funds
- Geographically, Asia and African largest destination
- Share of support to LDCs/SIDs relatively stable
  - LDCs 20-25%
  - SIDs 2-7%



KEY FINDING: Climate finance in context

Global climate finance flows are small relative to the overall needs for the climate transition and to respond to the needs of developing countries



Report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries in the context of meaningful mitigation actions and transparency of implementation

Co-facilitators: Gabriela Blatter & Richard Muyungi

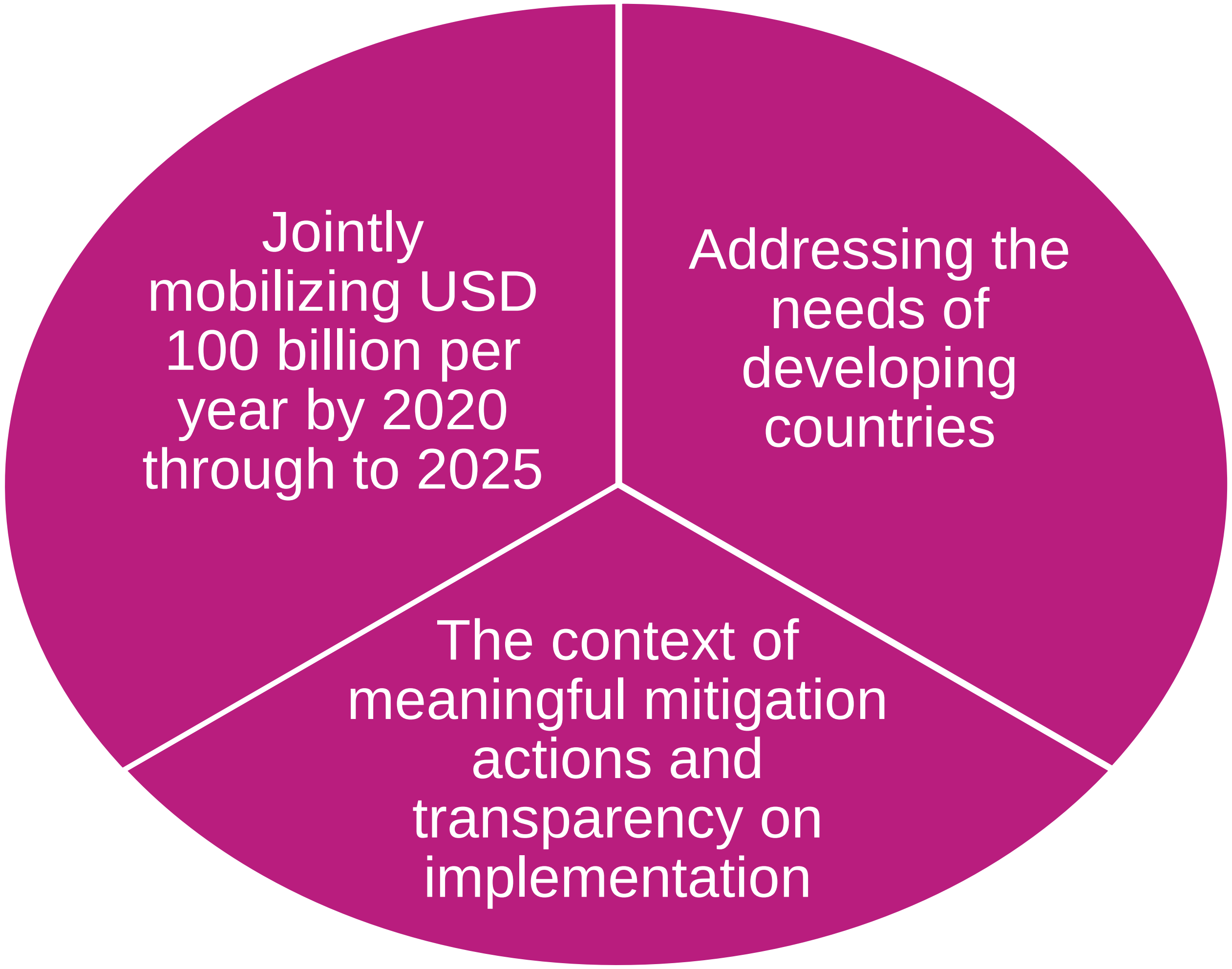

Technical Report

UNFCCC Standing Committee on Finance

Report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries in the context of meaningful mitigation actions and transparency of implementation

United Nations Framework Convention on Climate Change

APPROACH: Progress in relation to 3 dimensions of the goal



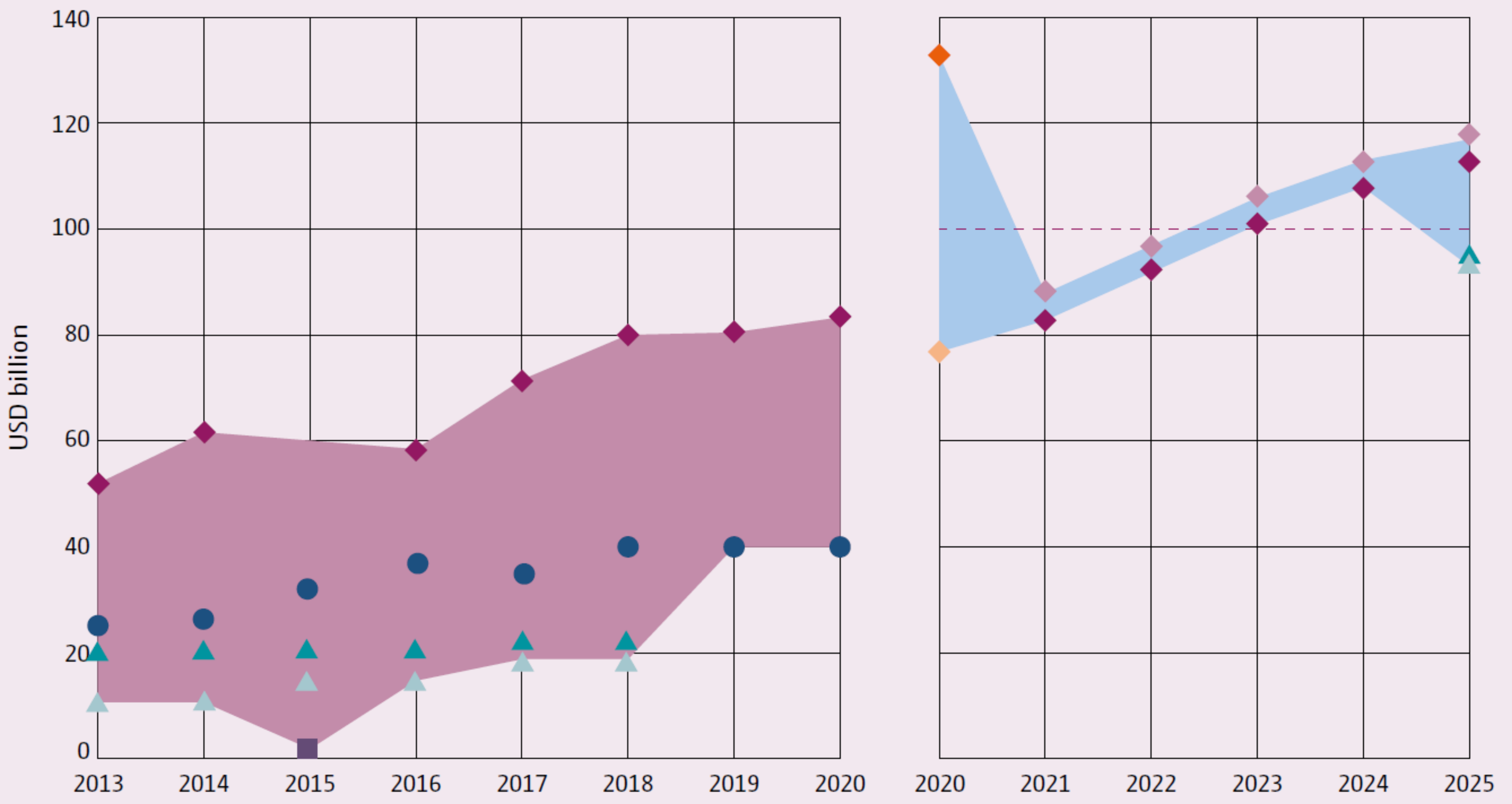
- Quantitative and qualitative information in 3 dimensions and the interlinkages between them
- Wide range of sources of information
- Methodological challenges and limitations
  - Lack of detailed guidance on how to measure and track progress on the goal
  - Data availability and consistency

KEY FINDING: Trends in aggregate estimates towards achieving the goal

The report confirmed the goal was not met in 2020

Forward-looking: the goal could be achieved in 2023 with a range of USD 101 billion to USD 106 billion

Trend in aggregate estimates from backward-looking information (2013-2020) and forward-looking projections (2020-2025).



KEY FINDING: Addressing the needs of developing countries

Goal not intended to match needs but should address priorities

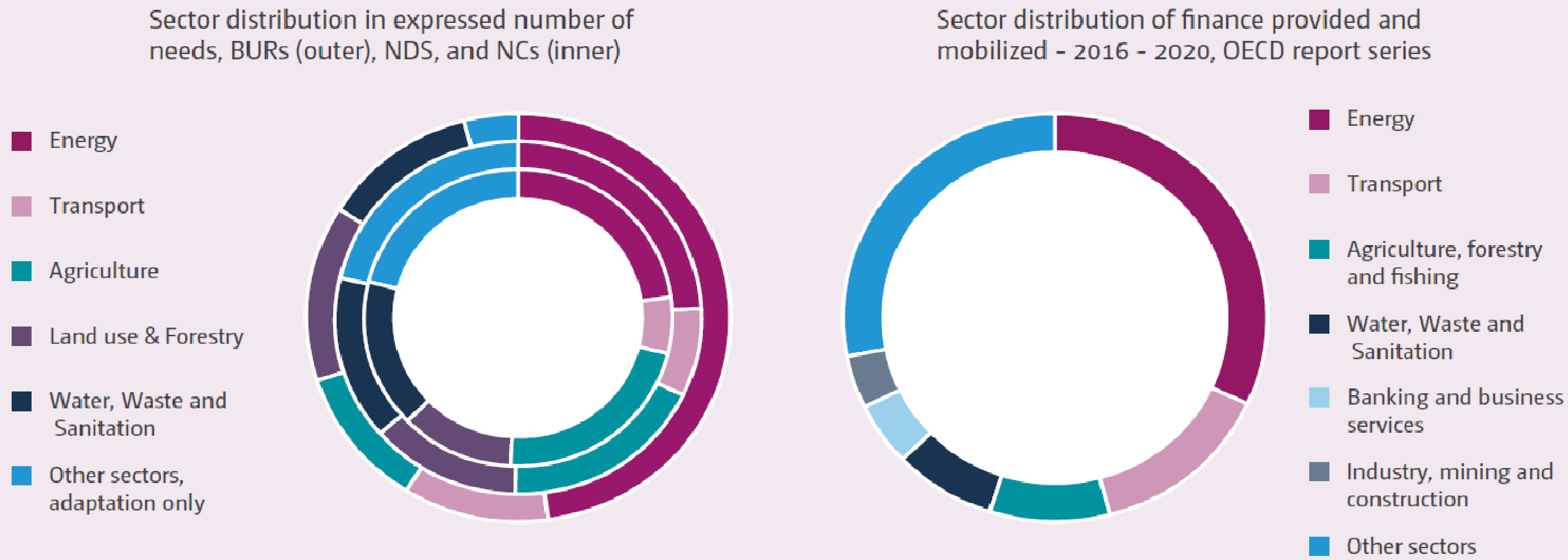
Proportional comparison of finance flows to needs reported in SCF’s 2021 Needs Determination Report

- Adaptation represented 28-34% of the finance in 2019-2020 against 14-52% of the share of needs expressed in national reports.

KEY FINDING: Addressing the needs of developing countries (2)

46% of the finance is going to energy and transport sectors, whereas other sectors play a greater role in terms of needs

Sector distribution of expressed needs (NDR) and climate finance provided and mobilized (OECD)

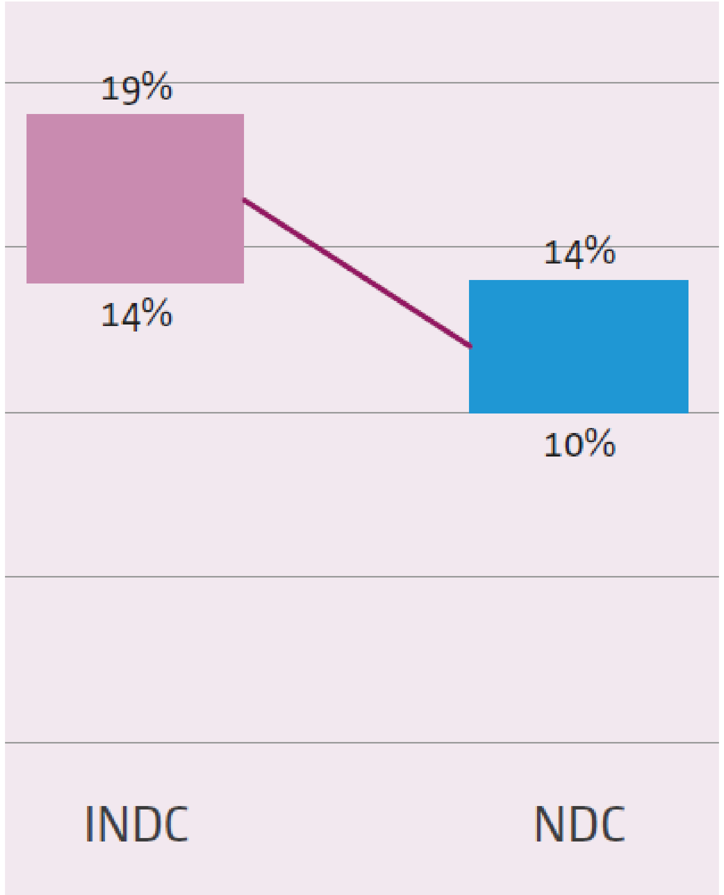


KEY FINDING: Context of meaningful mitigation action and transparency on implementation

Challenge to establish any causal link to finance flows, some notable trends since 2010 include:

- Almost all Parties have signed and ratified the Paris Agreement
- Parties communicating ambition on mitigation increased from **88** in 2010 to **194** in 2021
- Updated NDCs result in up to **10-14%** aggregate emissions in 2025 above 2010 levels, improvement from up **14-19%** from initial NDCs.

Aggregate effect of NDCs up to 2021 compared to INDCs in 2016



Percentage above 2010 emissions in 2025 with conditional actions included

KEY FINDING: Context of meaningful mitigation action, transparency on implementation (2)

- 96% Annex I Parties reporting on climate finance provided and mobilized
- 94% non-Annex I Parties NC2, 59% NC3, mitigation actions and needs
- 51% non-Annex I Parties at least one BUR on mitigation actions, needs and support received

KEY FINDING: Challenges and Lessons learned (1)

- Mobilization of private climate finance to and in developing countries underperformed relative to expectations – 60% below expected amount in 2020
- Aspects in attracting and mobilizing private sector investment:
  - cross-cutting enabling environment (e.g. macro-economic, policy and currency stability; bankable project pipelines; financial market depth; procurement regimes),
  - role of grant finance in de-risking projects, and
  - role of MDBs and guarantee instruments to scale up private finance.
- Macroeconomic headwinds, and high debt burdens in developing countries, have implications on climate finance provision and mobilization to meet the goal

KEY FINDING: Challenges and Lessons learned (2)

- Role of international public climate finance remains critical
- Overcoming capacity gaps in building project pipelines and making better efforts to mobilize private finance are important
- Increasing access to capital requires innovation – simplified access modalities to funds, and innovative instruments to access capital markets
- Knowledge gaps hinder thorough assessment of all dimensions of the goal
- Robust goal-setting includes specifics and clear metrics or methods at the outset to support successful implementation of the goal

Work on definitions of climate finance

Co-facilitators: Diann Black-Layne & Apollonia Miola

INPUTS: Work on definitions of climate finance

22
Submissions received

Inputs to SCF work on definitions

18
Parties submissions on operational definitions

4
Non-Party Stakeholder submissions

- Synthesis of views on definitions from submissions
- Overview of operational definitions of climate finance in use under the Convention and Paris Agreement (Parties, funds, SCF)
- Overview of operational definitions of climate finance in use outside the Convention and the Paris Agreement (International institutions, Country-level)
- Considerations related to operationalizing definitions and conceptual issues

Considerations and conceptual issues in operationalizing definitions

- Views on definitions of climate finance can differ in three main areas:

a) **Climate-relevance:** what climate-related activities should be financed?;

b) **Financial instruments and accounting**: how finance should be accounted for?;

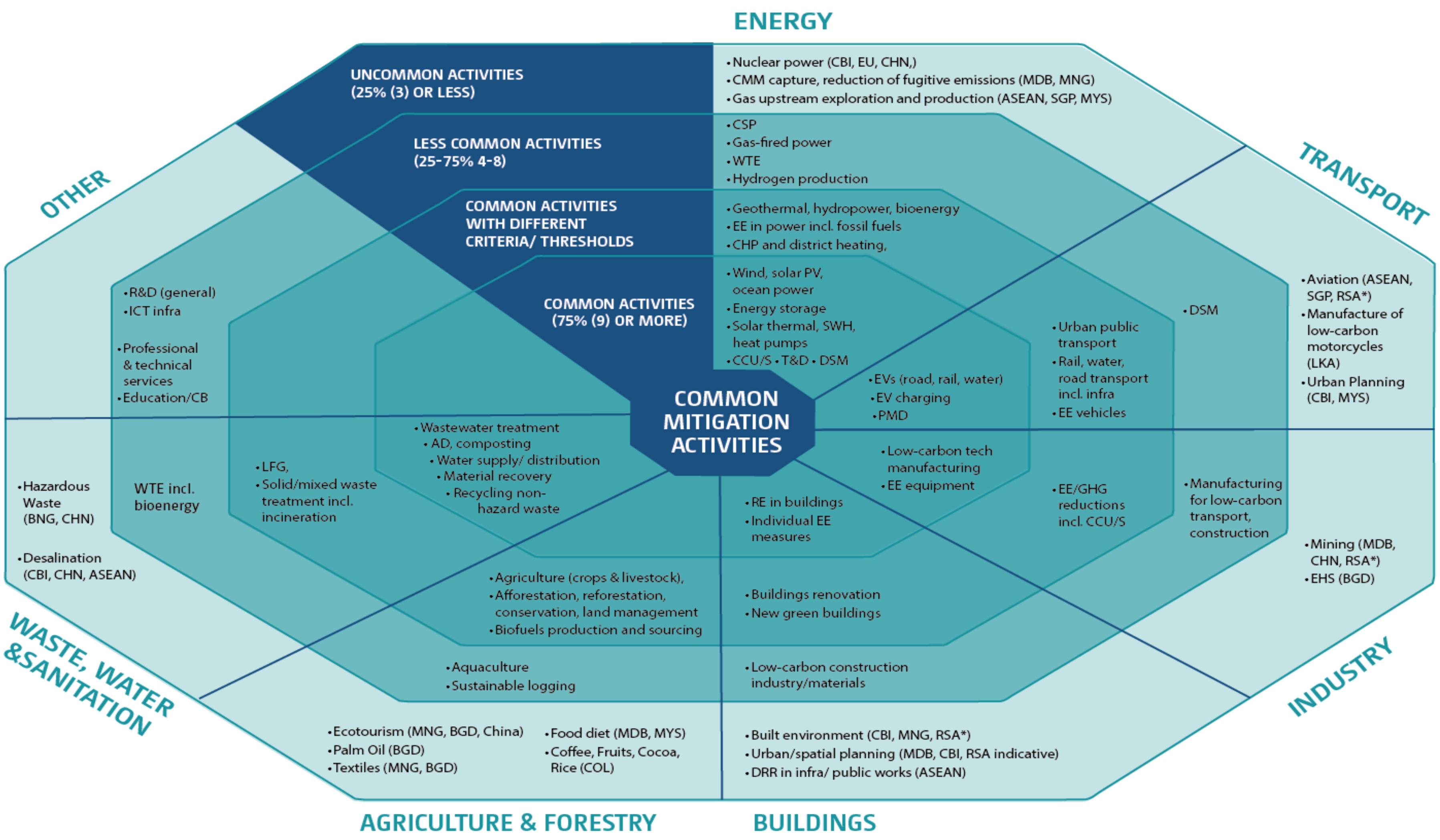
c) **Actors:** Which actors are involved, and what is the corresponding direction of financial flows?

Synthesis of Parties views in submissions

- Is a common definition necessary? 8 submissions Yes, 8 submissions No.
  - 5 submissions proposed definitions, others suggested existing operational definition in use by the SCF was still valid or could dynamically capture new developments
- What is included in a definition?
  - All Parties reference mitigation and adaptation, some include other areas such as loss and damage, disaster risk reduction, technology transfer, etc.
  - Whether inclusion of instruments is a definition or a method for accounting? Some Parties focus definitions on grants or concessional finance flows only
- Sources of finance relevant to a definition. Differing views on the role and emphasis of public / private sources, and origination from domestic / international contexts

Example of views on climate-relevance of activities – mitigation actions

Common and uncommon mitigation activities across 12 sustainable finance taxonomies



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Example on accounting and reporting issues – key variables for consideration

Different definitions are used for specific purposes such as

- tracking global climate finance,
- tracking finance from developed to developing countries, or
- tracking finance in government budgets.

Factors	Range of approaches						
Geographic scope	International flows only	Domestic flows only	Global flows				
Recipient	Public sector	Private sector	NGOs and civil society				
Objective	Programmed or budgeted for climate objectives	Addresses climate as one of multiple objectives	No stated climate goals but possible co-benefits				
Causality	Direct finance	Finance mobilized as co-finance	Finance mobilized through support for project preparation or technical assistance	Finance mobilized through support for enabling environments			
Instruments	Grants	Concessional loans	Non-concessional loans	First loss/patient equity	Equity	Guarantees	Insurance
Total or incremental cost	**Total cost** of a project or action	**Incremental cost** of a climate project or action compared to the baseline case					
Point of measurement	**Commitments**: Counting finance when the commitment is made, irrespective of when the finance will be disbursed (e.g. over a number of subsequent years of a project)	**Disbursements**: Counting finance that is actually disbursed and received by recipient entities					
Cost of expenditure	**Nominal value**: The face value of a loan	**Subsidy cost**: The cost of providing the loan measured by discounted cash flows					
Gross/net flows	**Gross flows**: The amount spent or committed in a given year	**Net flows**: The amount spent accounting for repayments over time (e.g. loans)					

Work related to Article 2, paragraph 1(c), of the Paris Agreement

Co-facilitators: Kevin Adams & Ali Waqas Malik

SCF work related to Article 2, paragraph 1(c) of the Paris Agreement

COP26 & CMA3: Two mandates specific to Article 2, paragraph 1(c), for consideration at COP27 and CMA4

Work related to Article 2.1.(c)

Synthesis of submissions regarding ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation

Further work on mapping the available information relevant to Article 2, paragraph 1(c), of the Paris Agreement, including its reference to Article 9 thereof

KEY FINDINGS: Synthesis of views regards ways to achieve Article 2.1c

14 submissions received (11 Parties, 3 non-Party stakeholders)

- Type of finance and actors identified that might be relevant, particularly asset managers, banks, and governments
- Almost all submissions recognized it can include both public and private finance flows, and in domestic and international contexts
- Many Parties put forward methodologies, policies and approaches to implement Article 2.1c, including fiscal, macroeconomic and regulatory policy levers or incentives, with the application of financial instruments, voluntary standards and orientation of investments
- All Parties make reference to or see relationships between Article 2.1c and Article 9 of the Paris Agreement on the provision and mobilization of financial support to developing countries

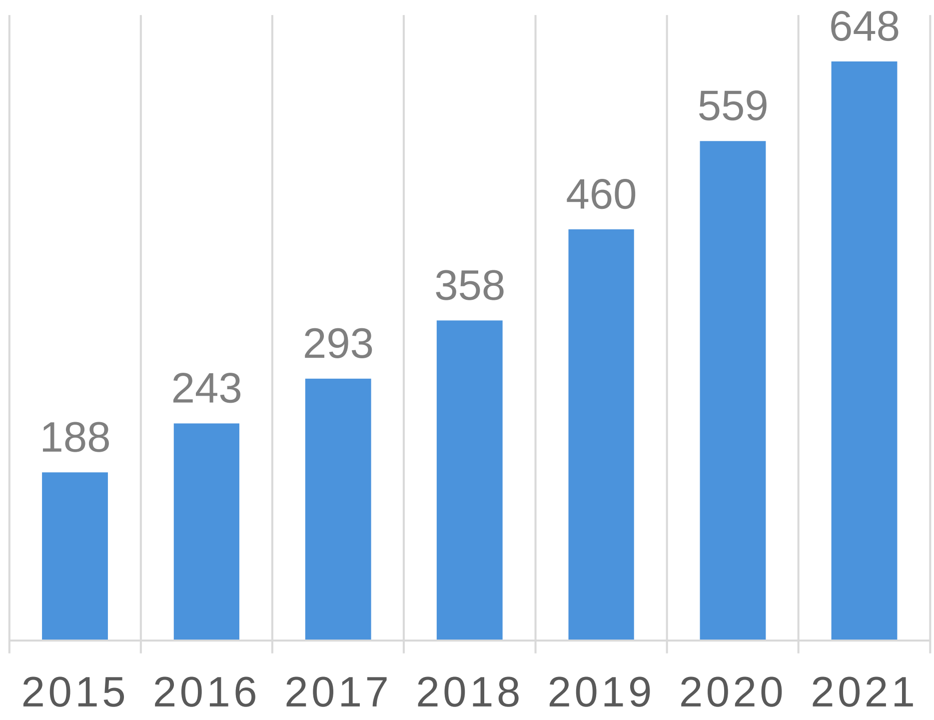
KEY FINDINGS: Synthesis of views regards ways to achieve Article 2.1c

- A variety of views were expressed on **further operationalizing Article 2.1(c)**, relating amongst others to:
  - The role of the CMA, the COP or the broader UNFCCC process, and the role of the SCF
  - The respective roles of the private financial sector and of governments
  - Consideration of the national context and circumstances, equity and just transition, in efforts to implement Article 2.1(c), including to avoid unintended consequences and to take into account the risk of stranded assets
  - Tracking and reporting modalities or guiding frameworks for assessing consistency of finance flows and relevant policies
  - Inclusion of Non-Party stakeholders in reporting progress made towards achieving Article 2.1(c) and the sharing of best practices

MAPPING: Growth in public sector initiatives, actions relevant to Article 2.1c

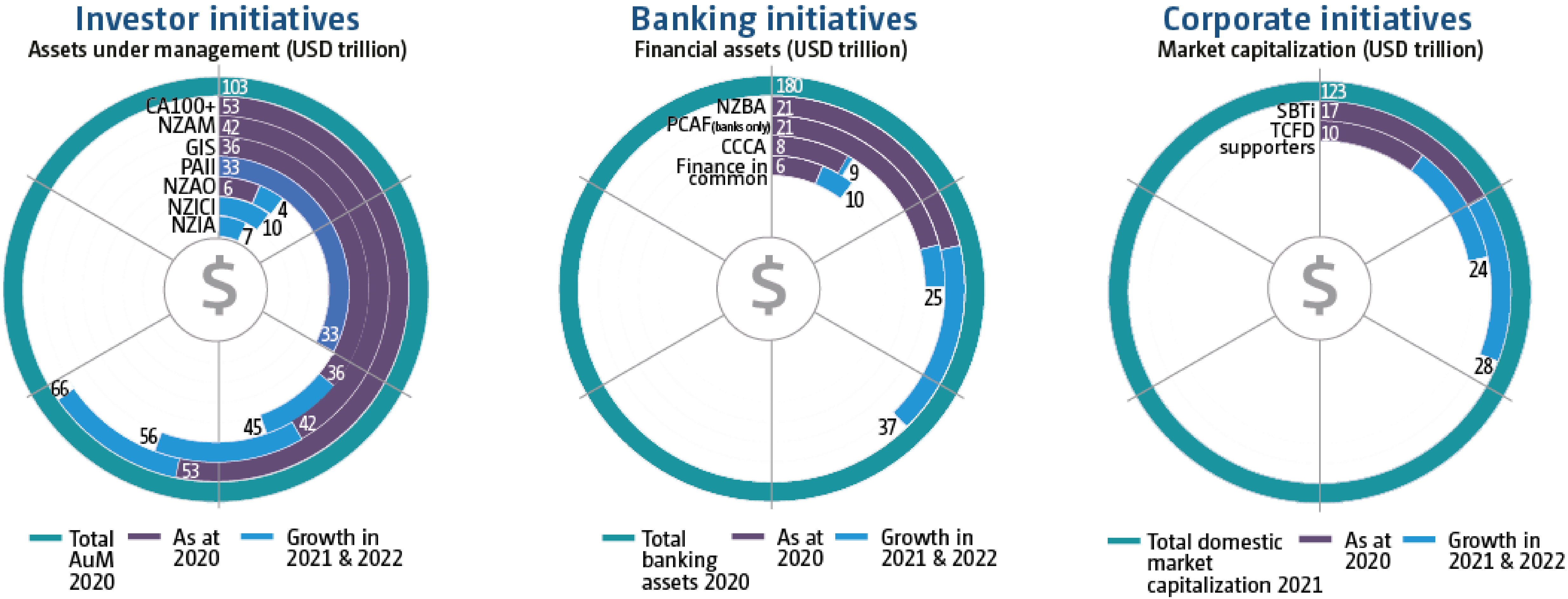
- Governments, financial supervisory authorities and central banks are active on the national, regional and global level to foster a more sustainable financial system
- **16%** increase in the number of policy and regulatory measures on green finance.
- **33%** increase in membership of Coalition of finance ministers for climate action
- **20%** increase in membership of the Network for Greening the Financial System

Growth in cumulative green finance policy and regulatory measures



MAPPING: Growth in initiatives and actions relevant to Article 2.1c

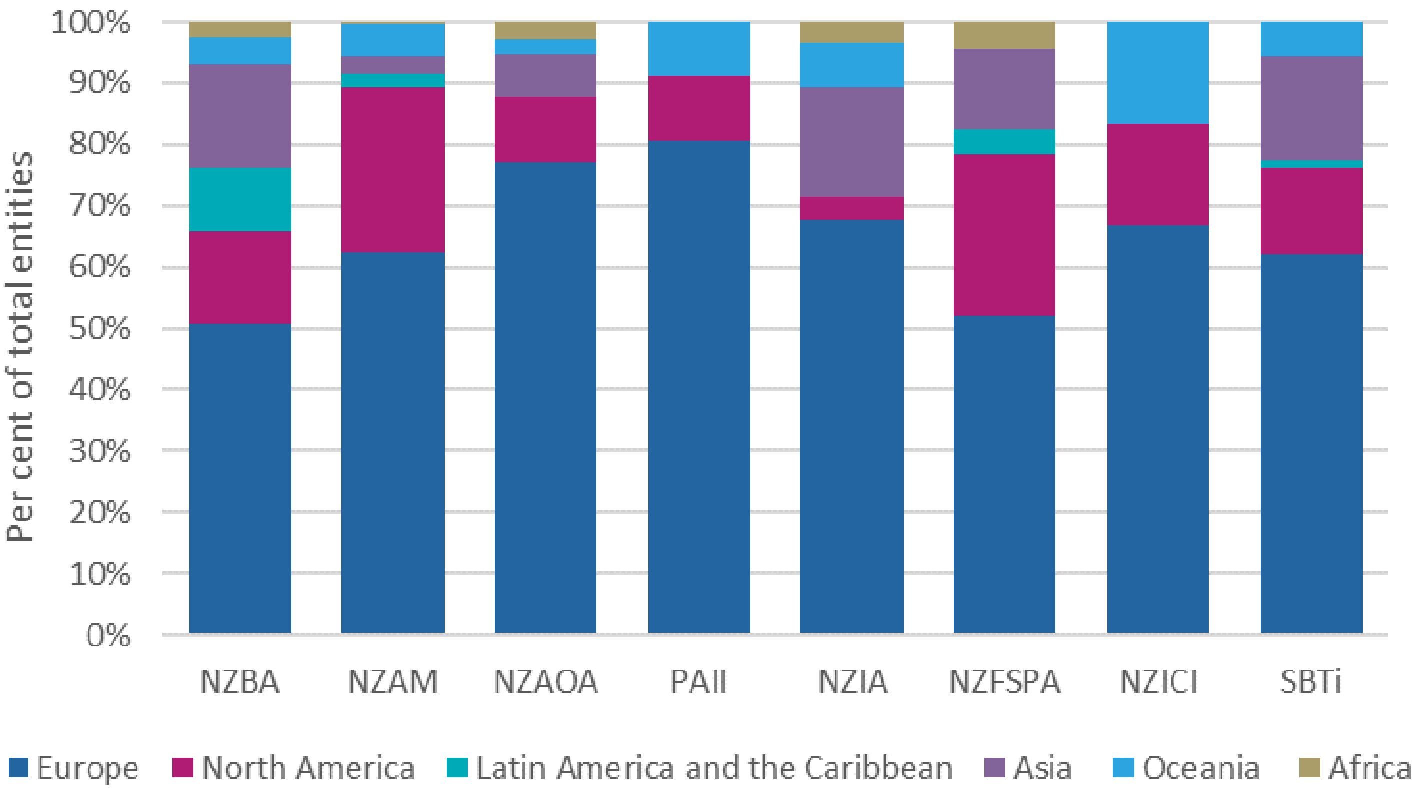
Investor initiatives +25-60% since 2020; Banking +76%; Corporate +65%



MAPPING: Geographical distribution of initiatives

- Private financial sector initiatives have a footprint in every world region, but concentrated within Europe and North America
- Public sector initiatives have broader global coverage with increasing participation of developing countries in recent years

Regional composition (share) of private finance initiatives, as at July 2022



MAPPING: Insights from the mapping

- A number of **insights** as well as **efforts, possible challenges and opportunities** have been identified by financial sector actors to implement Article 2.1(c):

  - Net-zero target setting and commitments need approaches, methods and indicators to meet them
  - Transparency: In response, ensuring the robustness, credibility and transparency of financial sector targets and commitments is an emerging field of activity and initiatives
  - Fewer initiatives towards consistency of finance flows with climate-resilient pathways are registered and related methodologies are at earlier stages of development
  - Persistent climate-related data gaps at country, sector, entity and asset level continue to prove an obstacle for the development of transition and physical risk assessments and decarbonization alignment methods

SCF Forum on Finance for Nature-based Solutions

Co-facilitator: Fiona Gilbert

PART2: Open discussions

Ice-breaker interventions

Preety Bhandari

Senior Adviser

World Resources Institute

Ice-breaker interventions

Joe Thwaites

International Climate Finance Advocate
Natural Resources Defense Council

Ice-breaker interventions

Eric Usher

Head of UNEP Finance Initiative
United Nations Environment Programme

Open discussions

Closure

Thank you for your participation