DELIVERING ON THE $100 BILLION CLIMATE FINANCE COMMITMENT & TRANSFORMING CLIMATE FINANCE

KEY FINDINGS & MESSAGES | MARCH 2021

INDEPENDENT EXPERT GROUP ON CLIMATE FINANCE

G-24 Technical Session on:
Delivering on Climate Finance to Support Better Recovery and Climate Goals

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INDEPENDENT EXPERT GROUP ON CLIMATE FINANCE

Amar Bhattacharya, Richard Calland (Co-Chairs); Alina Averchenkova, Lorena Gonzalez, Leonardo Martinez-Diaz and Jerome van Rooij.*

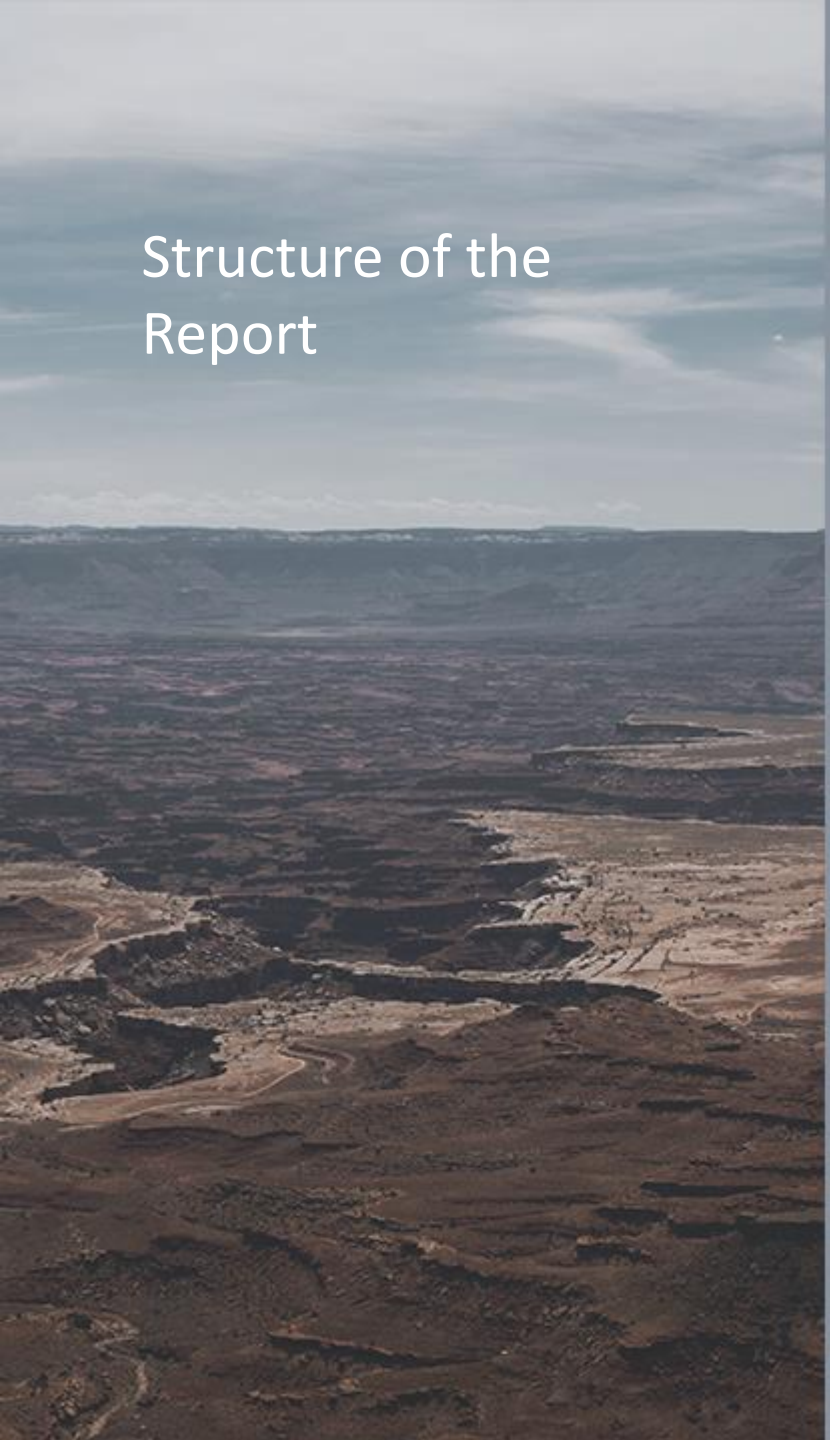





* The views expressed are those of the expert group in their individual capacities, not of the UN or the institutions they represent.

OUR STARTING POINT:

The commitment by developed countries to mobilize $100 billion in climate finance by 2020 has been central to the climate accords since 2009 and is an important symbol of trust. Developing countries rightly consider it essential for securing progress and meeting the goals of the Paris Agreement.



Structure of the Report

1. **THE CHANGING CONTEXT: THE IMPACT OF THE COVID19 PANDEMIC ON THE CLIMATE FINANCE LANDSCAPE AND THE TRANSFORMATIVE IMPERATIVE FOR CLIMATE FINANCE**

2. **PROGRESS TOWARDS THE $100BN TARGET – WHAT IS THE CURRENT STATE OF CLIMATE FINANCE?**

3. **TURNING THE BILLIONS INTO TRILLIONS: HOW CAN WE GET MORE MONEY TO FLOOD INTO THE SYSTEM?**

4. **WHAT DO WE NEED TO DO TO SHIFT THE WHOLE OF THE FINANCIAL SYSTEM? THE ROLE OF THE PRIVATE SECTOR**

1. THE CHANGED CONTEXT FOR THE $100 BILLION PER YEAR BY 2020 TARGET:

THE IMPACT OF THE COVID19 PANDEMIC & THE TRANSFORMATIVE IMPERATIVE OF CLIMATE FINANCE

THE CHANGED CONTEXT: SUMMARY OF KEY FINDINGS & MESSAGES

The world has been transformed by the COVID-19 crisis. The pandemic has caused untold harm – to lives and livelihoods. Developing countries have, however, been particularly hard hit, and many are facing severe fiscal and financial pressures, on top of the public health emergency caused by the pandemic, and in many cases a mounting debt crisis. As a result, economic repercussions are likely to be deeper and more prolonged for them, increasing their vulnerability to future shocks.

Unrelentingly, the climate continues to change with mounting costs and risks; the window for taking action to avoid a climate catastrophe is shrinking. The crisis presents an enormous threat but also a one-off, last chance opportunity – to restructure economies at the pace and scale that the climate crisis requires.

There is only one solution: to fully integrate climate-aligned structural change – in particular by accelerating the shift to low-carbon and resilient infrastructure – with a strong post-COVID economic recovery. The world must mobilize private finance to offset the constraints on public finance while ensuring that "every financial decision takes climate risk into account".

This changed context has enormous significance for climate finance, which is now critical to financing a 'green' recovery as well as long-term transformation. A large volume of new public climate finance must now be mobilised, to unlock even larger pools of private finance. The starting point remains that the $100 bn by 2020 commitment made by developed countries in 2009 is the bedrock of the international public climate finance eco-system.

WHAT IS THE ROLE OF CLIMATE FINANCE?

- International climate finance and the $100 billion commitment has been an integral part of the climate accords since 2009 and plays an essential role in maintaining commitment and encouraging greater ambition among many emerging markets and developing countries.
- The delivery of the $100 billion commitment must pave the way to move from “billions to trillions”: it must catalyze the deployment of private capital at an altogether different scale.
- Climate finance must serve the urgent needs of the poorest and most vulnerable; provide support for countries that need strong concessional finance; and help crowd in private finance.
- Article 2.1c of the Paris Agreement is of enormous consequence. In it, Parties commit to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."
- Now is the time to deliver on this commitment, by converging the post-COVID economic recovery with the transition to a low carbon global economy.

THE URGENT IMPERATIVE FOR TRANSFORMATIVE CLIMATE FINANCE

- The economic recovery programmes that need to follow rescue and stabilization must pave the way for accelerated and sustained transformation to low-carbon climate-resilient growth. Sustainable investments to boost recovery and long-term transformation have good short and long-term features. In the short run, they can be labor intensive but not import intensive, and have strong economic multipliers.

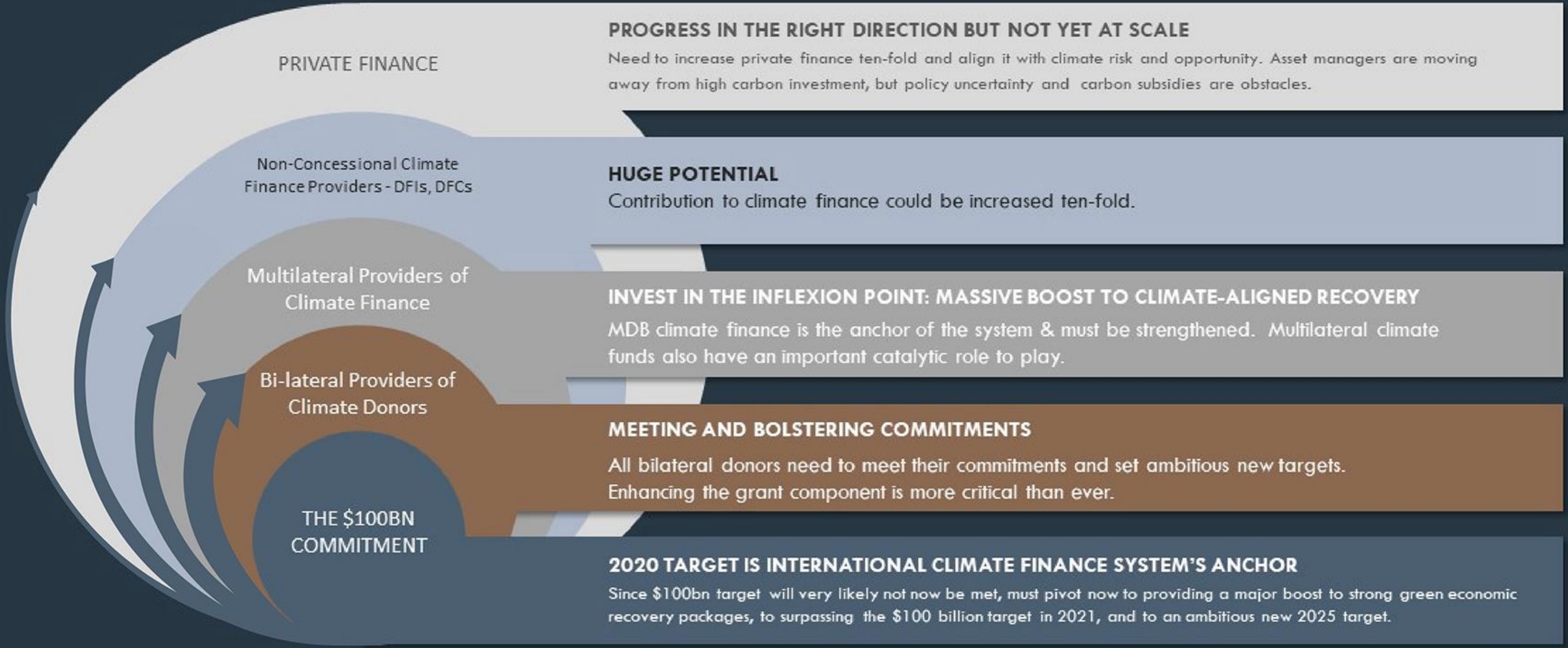
- In the long-run, they can boost productivity and generate powerful co-benefits such as reduced co-benefits and protection of ecosystems and biodiversity.

- The scale of investment requirements will require boosting all pools of finance, and ensuring that they are used more effectively, individually and collectively. We should keep in perspective though that the $100 billion is a fraction of more than $10 trillion that advanced economies have deployed so far in response to the COVID pandemic.

- Economic decision makers have a unique opportunity to design and implement comprehensive stimulus packages that can drive a strong recovery and build a better future. This imperative has been underscored by the UN Secretary General and by the Coalition of Finance Ministers for Climate Action.

- All aspects of climate finance must align with this imperative – bi-lateral, MDB, multilateral climate funds, DFIs, as well as domestic finance and private finance. Now is the moment to seize what may be a last opportunity to set the global economy on a new climate-friendly development pathway.

FORWARD-LOOKING CLIMATE FINANCE AGENDA: THE CONCEPTUAL FRAMEWORK



2. PROGRESS TOWARDS THE $100BN TARGET – WHAT IS THE CURRENT STATE OF CLIMATE FINANCE?

UNDERSTANDING THE NATURE OF THE $100 BILLION COMMITMENT

The language of the climate accords starting with COP16 makes it clear that the $100 billion may include finance from public and private sources.

It is not prescriptive to the types of financial resources that should be counted (no stipulation for counting only grant-equivalent finance).

This has been reflected in the official reporting on climate finance under the UNFCCC, in the Biennial Assessments (BAs), and in the periodic assessments of progress by the OECD.

Some other approaches exclude non-grant equivalent public finance and/or finance mobilized from private sources.

There is an agreement that the composition and quality of finance matters and needs to be improved.

There has also been a push to improve the accuracy and transparency of the underlying data.

WHERE ARE WE ON THE PATH TO THE $100 BILLION?

There has been an upward trajectory in climate finance from both bilateral providers and MDBs. Altogether, climate finance mobilized by developed countries increased from $52.2 billion in 2013 to $58.6 billion in 2016 to $78.9 billion in 2018, according to the OECD, which is broadly consistent with the trends of the Biennial Assessments and the underlying BRs.

The upward trajectory appears to have continued in 2019 but at a pace not sufficient to reach the $100 billion in 2020.

As implementation of the Paris Agreement moves into its first 5-year cycle, the focus must immediately pivot to ensuring that there is a major collective boost of climate finance to support strong and green recovery packages and investment needs to deliver on more ambitious NDCs. The collective goal must be to surpass the $100 billion target in 2021 and to further support the acceleration of climate investments for developing countries.

These steps will also lay the foundation for a more robust climate finance architecture for the period leading up to 2025 when an ambitious new collective target must be set.

As ongoing deliberations, expert assessments reflected in the BA produced by the SCF, and some critiques, including by Oxfam and other researchers, have underlined, there have been a number of important shortfalls in the quality and composition of climate finance flows—in the scaling up of grant finance instead of other financial instruments, the underfunding of adaptation, the lack of adequate finance for LDCs and SIDS, and obstacles to expeditious access of developing countries to climate finance.

In addition, there is a need to increase predictability and trust in future climate finance flows, strengthen country ownership and effectiveness, enhance gender responsiveness and tackle loss and damage.

Enhancing the quality and composition of flows

Characteristics of climate finance

Enhanced transparency of support

Financial instruments:

Grants are a small share and not growing

Thematic split:

Adaptation finance is far from achieving a balance allocation

Quality & composition of climate finance

Priority attention to SIDS and LDCs :

Inadequate and falling short

Access to climate finance:

Obstacles and barriers

3. TURNING THE BILLIONS INTO TRILLIONS: HOW CAN WE GET MORE MONEY TO FLOOD INTO THE SYSTEM?

BILLIONS TO TRILLIONS: THE NEED TO MOBILIZE AT SCALE

Even prior to the COVID-19 pandemic, it was clear that a major scaling up of international climate finance would be needed to enable developing countries to adopt more ambitious NDCs and the sustainable development goals.

The COVID-19 pandemic has made the delivery of international climate finance even more urgent. Developing countries need to put in place ambitious and sustainable recovery packages that can enable them to respond simultaneously to the COVID-19 and climate crises.

But they must do so against a much more difficult debt and financing context. Beyond the recovery phase, a sustained scaling up of investments in green and resilient infrastructure will be required to enable them to transform their economies to meet their climate and development goals.

BILLIONS TO TRILLIONS: THE NEED TO MOBILIZE AT SCALE

The $100 billion commitment should play a key role in enabling developing countries secure a strong and sustainable recovery and can be a foundation for the scaling up of climate finance in the 2021-25 period needed for sustained transformation.

Although the $100 billion commitment constitutes the dominant part of international public climate finance, given the scale of the needs, all pools of international finance will have to be bolstered and used more effectively - individually and collectively: bilateral and multilateral, concessional and non-concessional, and especially private finance.

All countries will need to unlock opportunities for low carbon climate resilient infrastructure and other climate-related investments to support recovery and transformation. Domestic policy must play its part and should include a decisive phasing out of fossil fuel subsidies and the equitable pricing of carbon. This will also help boost progress on the SDGs.

GETTING MORE MONEY TO FLOW INTO THE SYSTEM

All bilateral donors must live up to their climate finance commitments and set more ambitious targets. The need for the grant component of climate finance is even greater than before; given its critical role in the climate finance architecture, grant finance should be at least doubled from its very low level of around $12 billion in 2018.

Multilateral climate funds, while modest in overall volumes, can play an important catalytic role in scaling up investments and leveraging other sources of finance including the MDBs.

The international community under the leadership of the UN must seek to bolster and make more coherent the concessional climate finance architecture encompassing the Green Climate Fund, the Global Environment Facility, the Climate Investment Funds, the Adaptation Fund as well as the concessional windows of the multilateral development banks and the Global Infrastructure Facility.

THE PIVOTAL ROLE OF THE DEVELOPMENT FINANCE SYSTEM

The MDBs occupy a key position within the international climate finance delivery system. Because of their mandates, instruments, and financial structures, they are the most effective international means to support enhanced climate action in developing countries and for mobilizing and leveraging climate finance at scale.

In the immediate context, they are uniquely positioned to help developing countries prepare, implement and finance comprehensive stimulus packages that can lead to a sustainable recovery.

MDBs must better leverage their balance sheets, improve their private sector multipliers and work better as a system. However, given the volume of emergency rescue and stabilization finance they are providing, and the magnitude of funding that will be needed for recovery and transformation, it is critical that shareholders consider additional and substantial infusions of capital with urgency, taking individual MDBs' circumstances into account.

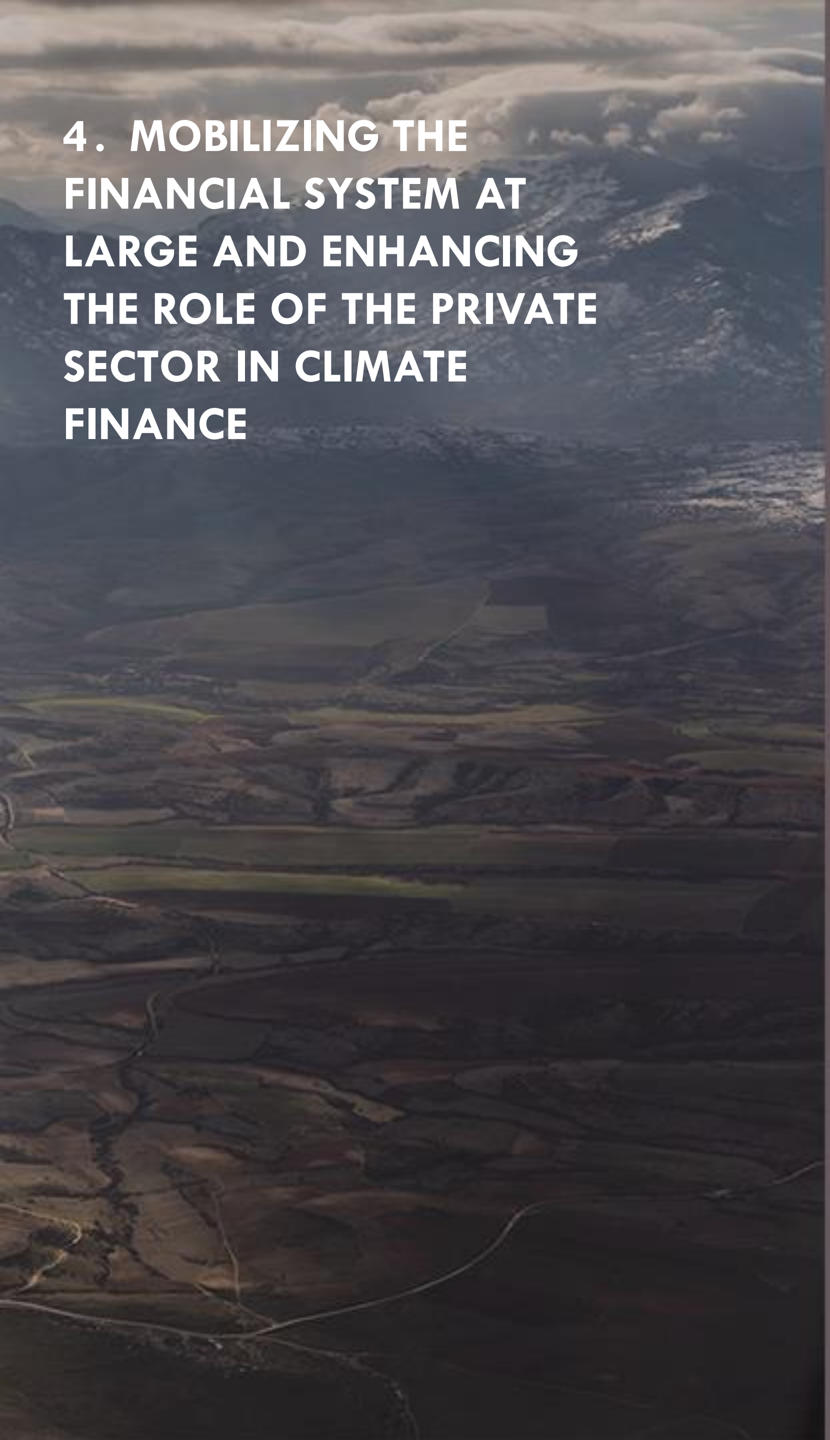
MDBs need to accelerate the alignment of their financial support and activities with the Paris Agreement, building on the common framework set out at COP25.

- The broader development finance system, including bilateral and national development banks, can also make a huge contribution – their financing for climate could be increased by as much as ten-fold. They must also aggressively align their lending and portfolios with the Paris Agreement, building on the joint statement at the recent Finance in Common Summit of all public development banks.

- Given the scale of climate finance needs in the coming years, the international community under the leadership of the UN should explore all options to enhance the envelope of international public finance, including through innovative and alternative sources of finance. One promising option—that that has been highlighted in the high-level dialogue on financing for development in the era of Covid-19 and beyond—would be large additional SDR allocations and revised allocation mechanisms to enable poor and vulnerable countries to access low cost finance.

- Developing countries urgently need better financial tools to raise resources when climate-related disasters strike. New ways to channel concessional resources to this end, strengthening of existing disaster risk finance instruments, and potential for establishment of new ones should be explored.

4. MOBILIZING THE FINANCIAL SYSTEM AT LARGE AND ENHANCING THE ROLE OF THE PRIVATE SECTOR IN CLIMATE FINANCE



PRIVATE CLIMATE FINANCE: SUMMARY OF KEY FINDINGS & MESSAGES

Meeting the commitments in the Paris Agreement will require mobilizing private capital at scale. Without a fundamental shift in the financial system as a whole, the climate goals of carbon net zero by 2050 and those of the Paris Agreement cannot be met.

The Paris Agreement itself provides little guidance in terms of how Article 2.1c should be interpreted and operationalized, and no global mechanism or platform currently exists to track progress in this regard.

New financial structures and business models will be needed, as well as more rigorous definitions, labels, and standards, to ensure that finance designated as "climate-aligned" or "green" really is what it purports to be.

With this in mind, the COP26 Private Climate Finance Agenda provides a useful framework to think about the separate lines of work that must be advanced to bring Article 2.1c to life.

PRIVATE CAPITAL ON THE MARCH?

Many segments of the business community are displaying leadership and ambition to advance the net-zero agenda. There are at least 34 major private sector initiatives, frameworks, and sets of principles designed to advance progress in areas relevant to Article 2.1c.

This ground-breaking activity in the private sector has been propelled by, and in many ways reflects, several macro-trends: shifting investor attitudes, a growing divestment movement, increasing shareholder activism, and the awakening of financial regulators to climate risk.

Over time, the social and economic forces behind these trends could accelerate progress.

Although perceptible, resultant shifts in capital flows are not yet sufficient, and private finance for climate action remains highly concentrated sectorally and geographically; more thought and attention must be given to how private finance can also be directed towards EMDEs.

Article 2.1c

National governments should take a more active role in the various dimensions of Article 2.1c implementation through coordination, harmonization, and regulation. Governments should get more involved and begin to set minimum rules that all players must follow, in consultation with the private sector. In the same vein, national regulators and international bodies should consider how to accelerate the shift toward reliable, comparable, and consistent reporting of climate-related risks by companies and financial institutions, including through regulatory approaches.

Partnerships between private-sector financial institutions and public development finance institutions should accelerate progress toward designing, deploying, and demonstrating new financial models that can be scaled up. These models should make effective use of blended finance; they should also, where appropriate, utilize asset pooling and securitization.

Parties to the UNFCCC should adopt decisions to operationalize the tracking of collective progress on Article 2.1c. Also, the Standing Committee on Finance, supported by the UNFCCC Secretariat, should ensure that progress on Article 2.1c is adequately covered in future Biennial Assessments, and that the methodologies used to track progress draw on the best available information and continually improve in coverage and technical sophistication.

Article 6

- International and national carbon markets should be promoted more actively. Progress in the negotiations over Article 6 of the Paris Agreement has renewed hopes that international carbon markets can be brought into operation. Parties should resolve outstanding technical and political issues and ensure the integrity and credibility of international carbon markets. At the same time, progress in domestic carbon market development should be encouraged and accelerated.

HUMANITY FACES AN 'HISTORICAL MOMENT' - THE CLIMATE CRISIS AND OTHER SYSTEM SHOCKS SUCH AS THE PANDEMIC PRESENT ENORMOUS THREATS BUT ALSO A HUGE OPPORTUNITY FOR TRANSFORMATION.

STARTING WITH THE $100 BILLION PER YEAR BY 2020, THE WHOLE CLIMATE FINANCE SYSTEM MUST SCALE UP, URGENTLY. A STEP CHANGE IS NEEDED.

THIS IS NOT THE TIME TO RETREAT.
IT IS THE TIME FOR FAR GREATER AMBITION.

CLIMATE FINANCE IS NOW CRITICAL TO FINANCING A GREEN RECOVERY FROM THE COVID19 PANDEMIC AND TO BUILDING
A NEW CLIMATE ECONOMY FOR INCLUSIVE AND SUSTAINABLE GROWTH.