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Climate: Grant-based finance unfulfilled, "de-risked" private financing elevated

5 Nov, Glasgow (Prerna Bomzan) – At the fourth High-Level Ministerial Dialogue on Long-Term Climate Finance on 3 November, developing countries underscored the importance of adequate, predictable and accessible grant-based financing, with full transparency to address critical adaptation and loss and damage impacts of climate change.

Developed countries emphasized private sector financing with several speakers raising the issue of "de-risking" private investments. In the absence of an agreed understanding on the definition of "climate finance", still elusive in the finance negotiations, declared contributions from developed countries continue to raise questions.

The dialogue at the ongoing 26th session of the UNFCCC's Conference of Parties (COP 26), convened by the United Kingdom as the COP Presidency, comprised of three panels on enhancing support for developing countries and realising the USD 100 billion a year by 2020 goal; supporting a financial system for a net zero and resilient future; and scaling up climate finance to mobilise the trillions needed in developing countries.

The three panels were followed by a plenary discussion, chaired by the UK's lead negotiator **Archie Young** which saw Ministers of both developing and developed countries responding to the following three guiding questions:

i. What specific actions can Ministers take to further enhance the scale and effectiveness of climate finance, in particular with regard to the USD 100 billion per year goal?
ii. What progress has been made to develop a financial system to support a net zero and climate-resilient future? What steps can Finance Ministers take to ensure this progress continues and delivers sustainable growth for developing countries?
iii. How can Governments and other actors, including MDBs and the private sector, significantly scale up private finance mobilisation to developing countries for adaptation and mitigation? What role should public finance play in improving the conditions for this shift?

Bangladesh highlighted the need for grant form of financing as even for least developed countries (LDCs), two thirds come as loans which means a "new kind of debt" in addition to the already existing debt burden as well as the COVID-19 assault on LDC economies. It pointed out the increasing share of overseas development assistance (ODA) being counted as climate finance which is "double injustice since the mission of ODA and climate finance is totally different". It said that public, grant-based finance should be the main source for adaptation finance as the private sector cannot deliver "anticipatory" financing for adaptation as is the case with mitigation initiatives under the different market instruments. Bangladesh also raised the most

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pertinent issue of "definition" of climate finance on which negotiations have not reached a "common understanding" yet, hence there is a "huge deficit" and an issue of "trust", further urging for an understanding to be reached on the issue.

Uganda stressed on effectiveness of climate finance saying that the mechanisms in place have not delivered at the grassroots level, expressing the need to ensure that the bottlenecks be addressed so that "70-80 per cent of funds gets to the grassroots". It underlined the difficulty of "access", calling for "simplified mechanisms" and also highlighted that "some of us cannot even borrow so the issue of social bonds should be given priority for such countries".

Cuba said that the scale and need felt by developing countries shows that climate finance has not been enough and therefore there is need to accelerate the process as well as in a "transparent" way. It underlined that the financial architecture must be based on the "principle of common but differentiated responsibilities and respective capabilities (CBDR-RC)" and highlighted support for "loss and damage" due to climate change impacts. Citing its experience of the approval of its two projects on adaptation at the Green Climate Fund (GCF), Cuba reiterated its "rejection of any measures that could imply the exclusion or limitation for some developing countries when it comes to receiving funds to fulfill their obligations under the Convention (UNFCCC) and the Paris Agreement, since funds and mechanisms must ensure transparency and non-discrimination for all countries".

Grenada expressed disappointment that the USD 100 billion per year commitment by 2020 is still being talked about in 2021, including delivery of which will not be met until 2023. It said that the USD 100 billion is just a "starting line" for much more transformational finance and called for "concrete steps" to be set in place to deliver the collective goal "prior to 2025" which are particularly critical for small island developing states (SIDS) in the areas of adaptation and loss and damage. It said that in adaptation, the main barrier is lack of finance, hence the need for "certainty" in the scale and scope of financial resources. "Loss and damage dedicated finance is no longer a theoretical discussion but something needed now", Grenada stressed, adding that "this needs to be recognised and this will frame the new collective goal".

Maldives echoed Grenada and hoped to see USD 500 billion in total delivered by 2025. It also pointed to access to climate finance which it said cannot be mired by "excessive red tape" as in its experience, the ground reality changes by the time they get the go-ahead for implementation. It stressed on "grants-based adaptation finance to be prioritised" and called for "new, additional and predictable financing" to meet urgent adaptation needs as well as to limit temperature rise to 1.5C, adding that the new collective goal must be reached before 2025.

China said that "climate finance is the foundation for us to achieve the trust" and that "developed countries should carry out the delivery of the pledge to provide adequate, sustainable and predictable financing, strengthen financing transparency and reporting". It underscored that "long term finance is consensus reached by all" and provision of climate finance by developed countries is in the Convention as a long-term commitment. It believed developed countries should fill the gap of the USD 100 billion as a starting point, and post-2020 come up with "more ambitious climate finance with a clear timetable and roadmap so as to raise transparency and predictability continuously to have the matching funds needed for our ambitions". It acknowledged the important role of private finance but stressed on the role of public finance for adaptation.

Nepal said that it is "losing 1.5-5 per cent of GDP every year" to climate change impacts in the form of loss and damage which it is addressing through budget cuts in other sectors and hence, climate finance is key. It stressed that financial resources committed must be "predictable, adequate and accessible" and called for "grants and full cost financing especially for adaptation and loss and damage".

The **United States (US)** said that "finance is absolutely critical to tackling the climate change crisis" but pointed out that "no government in the world has enough money to be able to deal in billions and pretend we can solve the problem", adding that it is "only by bringing trillions to the table that we can get the job done". Focusing on those trillions, some of which have "fiduciary constraints" and some needing "de-risking", it said they cannot be deployed "unless (with) blended finance and unless mixed with philanthropy" which then can "create bankable investments". It maintained that "public finance is vital" and that the US has quadrupled its contribution to USD 11.4 billion including a "six-fold increase in adaptation finance", further informing that the US has announced the day earlier its first ever contribution to the Adaptation Fund.

The US made it clear that "mobilising finance at scale requires all hands on deck and that means going forward, countries who can contribute need to be part of the global effort that was enshrined in the Paris".

Referring to the USD 130 trillion pledge made by the Glasgow Financial Alliance for Net Zero (GFANZ), it said "people are prepared to put that money into legitimate investing so it puts the burden on all of us to make sure we can make it". The US emphasised on partnering with "philanthropies around the world on how we take the first risk" as well as "how we get the multilateral development banks to perhaps restructure in some way so that they can go for greater drawdown and make that money available, all of which can bring that private sector trillions to work and get the job done".

It said that the G20 countries are responsible for 80 per cent of global emissions, highlighting acceleration of their transition as part of the challenge and in closing, stressed that "if we focus on these 20 developed countries" then "we can get the fastest advance in the fastest way possible".

[It is surprising that the US referred to developing country members of the G20 as "developed countries".]

The **European Union (EU)** said to keep the 1.5C alive means all financial flows must be aligned with the Paris Agreement objectives. It said that even though the USD 100 billion goal was not met in 2020, the EU provided USD 23 billion of public finance in 2020 to developing countries to support reducing emissions and adapt to climate change and that it will continue to scale up its public finance. It underscored on "effectiveness" of climate finance saying that "really important is also decreasing unit costs" and reassured that the EU is committed to "getting an outcome in Glasgow" on the post-2020 new collective quantified goal.

Japan pointed to its commitment made in June of USD 60 billion over the next five years until 2025 which includes both public and private finance as well as its announcement made a day earlier of an additional USD 10 billion, bringing the total commitment to USD 70 billion in five years. It said it has doubled its adaptation assistance with a new commitment of approximately USD 14.8 billion over the five years. It said it is increasingly important to mobilise more private finance and also leverage bilateral and international institutions. It expressed concern about access to climate finance at the GCF where it has already pledged USD 3 billion and stressed on capacity building.

Before the plenary session, there were three panel discussions with guiding questions for the respective panelists.

"ENHANCING SUPPORT FOR DEVELOPING COUNTRIES AND REALISING THE USD 100 BILLION GOAL"

For this first panel discussion the guiding questions were: *What specific actions can Ministers take to further enhance the scale and effectiveness of climate finance, in particular with regard to the USD 100 billion per year?*

The panel was chaired by Jochen Flasbarth, the State Secretary at the Ministry for Conservation and Nuclear Safety, Germany, and panelists included Akinwumi A. Adesina, President, African Development Bank (AfDB); Yannick Glemarec, Executive Director, GCF; Nigel Clarke, Minister of Finance and the Public Service, Jamaica; and Annika Saarikko, Minister of Finance, Finland.

Flasbarth (Germany) who along with Canada's Minister Jonathan Wilkinson have been tasked by the UK COP 26 Presidency to head the USD 100 billion Climate Finance Delivery Plan, said that developed countries missed the target in 2020, however "we will touch the USD 100 billion in 2022 and we might cross it with a bit of luck in 2023". He urged developing countries not to be "extremely disappointed and to be mistrustful as in the end, the USD 100 billion will come and we'll over-achieve it and that is a fair basis for our discussion".

Saarikko (Finland) speaking also in her role as Co-Chair for the Coalition of Finance Ministers for Climate Action, highlighted the need for "facts" and "real numbers" in relation to what kind of problems climate change is causing and what are the "costs" of losing in the financial way. "If we don't know how much it costs then real change won't happen, we need concrete numbers", she stressed.

Clark (Jamaica) speaking from his country's perspective emphasised on disaster risk reduction saying "we don't have the luxury of adaptation financing since the risks are here" referring to the annual tropical storms that continue to ravage his island state. He therefore said it is necessary to have a "menu" of financing and shared that his country is the first one to introduce "catastrophe bonds" with technical assistance from the World Bank and bilateral support from the UK, Germany and the US.

Adesina (AfDB) said that the USD 100 billion is the floor as the actual requirement is USD 1-2 trillion per year and that the most important element is the measurement of wealth which today is in GDP and which does not take into account the "positive and negative externalities" so this is a "systemic" issue. He made a call to "re-measure wealth" in a way "without destroying our environment and biosphere".

Glemaric (GCF) said that besides the amount of USD 100 billion, its composition is also critical in terms of the kind of form and instruments, as this amount needs to catalyse the trillions needed for transformation. He also emphasized on the financing gap for adaptation.

SUPPORTING A FINANCIAL SYSTEM FOR A NET ZERO AND RESILIENT FUTURE

The second panel discussion posed the following guiding questions: *What progress has been made to develop a financial system to support a net zero and climate-resilient future? What steps can Finance Ministers take to ensure this progress continues and delivers sustainable growth for developing countries?*

The panel was chaired by Rishi Sunak, Chancellor of the Exchequer, UK; Carlos Dominguez, Finance Secretary of the Philippines; Azucena Arbeleche, Minister of Economy and Finance, Uruguay; Alison Rose, Chief Executive, NatWest Group; and Mathias Cormann, Secretary-General, OECD.

Sunak (UK) stressed on the need to mobilise the "power of private finance" since public money is not enough, and that climate finance needs to be aligned with climate goals in the Paris Agreement. He said that the UK is the first country to mandate climate disclosures in the Task Force on Climate-Related Financial Disclosures (TCFD) guidelines as well as the "first country to have a net zero aligned financial centre", embedding net zero in its financial regulations.

Dominguez (the Philippines) said that it is important to have a "clear definition of what constitutes climate finance" and spoke of three elements – grants, investments and subsidies. He said accountability and transparency should be ensured and that those "who emitted and continue to emit" must bear the burden of financing.

Arbeleche (Uruguay) said that for the first time in the country's budget law, there are articles that mainstream climate action into economic policies and its central bank is part of the green financial system networking. She shared her country's key performing indicators related to its nationally determined contribution (NDC).

Rose (NatWest Group) said that the private sector is at the table with the financing and committed to drive the change required, and in order to deploy this capital more rapidly, governments need to put policies in place to provide confidence to investments.

Cormann (OECD) agreed that it is important to reach the USD 100 billion a year goal as soon as possible and confirmed that based on current commitments this objective should be reached and also be exceeded from 2023 onwards. He said in order to reach net zero, all financial flows need to kick in that direction which is not happening and that "governments should be removing those distortions that divert investments away from net zero", adding that too many policies still encourage emissions-intensive investments. He said that the OECD will "fully align ODA with the goals of the Paris Agreement" and that it is "advancing policy framework of environmental, social and governance (ESG) factors that support net zero transition".

"SCALING CLIMATE FINANCE TO MOBILIZE THE TRILLIONS NEEDED IN DEVELOPING COUNTRIES"

The third panel posed the guiding questions: *How can Governments and other actors, including MDBs and the private sector, significantly scale up private finance mobilisation to developing countries for adaptation and mitigation? What role should public finance play in improving the conditions for this shift?*

The panel was chaired by Lord Stern, Chair of the Grantham Research Institute; Sri Mulyani Indrawati, Minister of Finance, Indonesia; Makhtar Diop, Managing Director, International Finance Corporation (IFC); Remy Rioux, Chief Executive Officer, Agence Francaise de Developpement (AFD).

Stern (Graham Research Institute) underlined that scaling up public finance is also important along with private finance, and that first and foremost the USD 100 billion must be delivered without moving the goalpost as it is a "basic question of trust". He highlighted five different components to mobilise the trillions of climate finance that is necessary – bilateral commitments, concessional funding, finance by multilateral development banks, private finance and innovative financing like the IMF's special drawing rights (SDRs), the voluntary carbon markets, and from philanthropists.

Indrawati (Indonesia) in her role as incoming Chair of the G20 and Co-Chair as for the Coalition of Finance Ministers for Climate Action along with Finland, emphasised that since the USD 100 billion has not been delivered the "accountability of this amount will continue" as on the one hand the developed countries have not delivered, while on the other hand, developing and emerging economies need money. She said that her country has submitted an updated NDC as well as the 2050 long-term strategies in which commitment to net zero is set for "2060 or earlier". She informed about requiring USD 270 billion to achieve the NDC with "our own budget providing 21 per cent, therefore, additional finance will be critical" and also added that "long-term finance must continue beyond 2020". She stressed on blended finance as innovative financing since the trillions required would not be possible from either ODA or the public sector.

Diop (IFC) underlined the need to work on the regulatory framework as standardising it will reduce the cost of investment. He also stressed on innovation and blended finance and the need for "de-risking", as well as "synergy with development finance institutions and philanthropy". He announced a new "social bond" that the IFC launched so that no one is left behind.

Rioux (AFD) said that the AFD "just revised its energy policy to exit from all fossils including natural gas". He said since Paris, the AFD had provided more than USD 30 billion in climate finance with "USD 7 billion this year as part of the USD 100 billion pledge which is more than what France pledged at COP 21". He also announced the AFD's commitment to "link climate finance with biodiversity finance" pledging "30 per cent of its climate finance to be nature positive by 2025". Referring to the 2020 Finance in Common Summit initiative which he headed and gathered all public development banks aiming to structure into a global network for public investment, Rioux floated the idea of "aligning USD 2.5 trillion for climate and the sustainable development goals (SDGs)", adding "why not allocate SDRs somehow in this network". He said a strategic discussion is being started in Glasgow. For private finance, he stressed on the need for "mandates" saying "we need targets, methodologies and risk sharing, who will take which risks".

The ministerial dialogue also included a presentation on the Standing Committee on Finance's 2020 Biennial Assessment and Overview of Climate Finance Flows by Co-facilitator S**eyni Nafo (Mali)**. He presented key findings on the global climate finance flows; flows from developed to developing countries; assessment of climate finance; climate finance in context; and mapping information relevant to Article 2.1c of the Paris Agreement.

UNFCCC Executive Secretary **Patricia Espinosa** closed the dialogue remarking on the need to make substantive progress on the finance agenda and hoped by the second week of COP 26, there would be greater clarity with respect to way forward on the issue of climate finance.