Climate & Development Expert Roundtables

Slides Presented 17 and 18 March 2021

Theme 1
Responding to climate impacts

Priorities emerging from expert workshop

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Responding to climate impacts

Risks are managed in silos; responses are too often implemented in silos.

How can we bring more focus on the longer-term future into how we manage risk today?

- Better understanding risk
- Incentivizing early action
- Preparing for intolerable risk
- Elevating local actors

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Key challenges

- A need to **manage risk across timescales** and address gaps in dealing with climate impacts not covered by risk management mechanisms
- **Lack of long-term thinking and donor incentive structures** (abundance of 3-5 year project cycles; not valuing *ex-ante* risk reduction measures)
- Strengthening people's resilience is more challenging when **foundations for development are not there**
- **Disconnect** between decisions made by donors and how these relate to the needs of communities

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Key recommendations

- ✓ **Develop comprehensive climate risk management pathways** to address multidimensional, consecutive and compounding risks
- ✓ **Invest in expanding basic social protection** to strengthen resilience (with wider investment in risk management), as well as shock responsive financing
- ✓ **Embrace long term visions and policies** (10-30 years) and supports ex-ante risk reduction and investment in greater policy coherence with long-term approaches
- ✓ **Place local actors at the center** of decision-making processes to ensure effective, flexible and accessible climate finance
- ✓ **Pursue top-down and bottom-up accountability models**

CBA14 Conference

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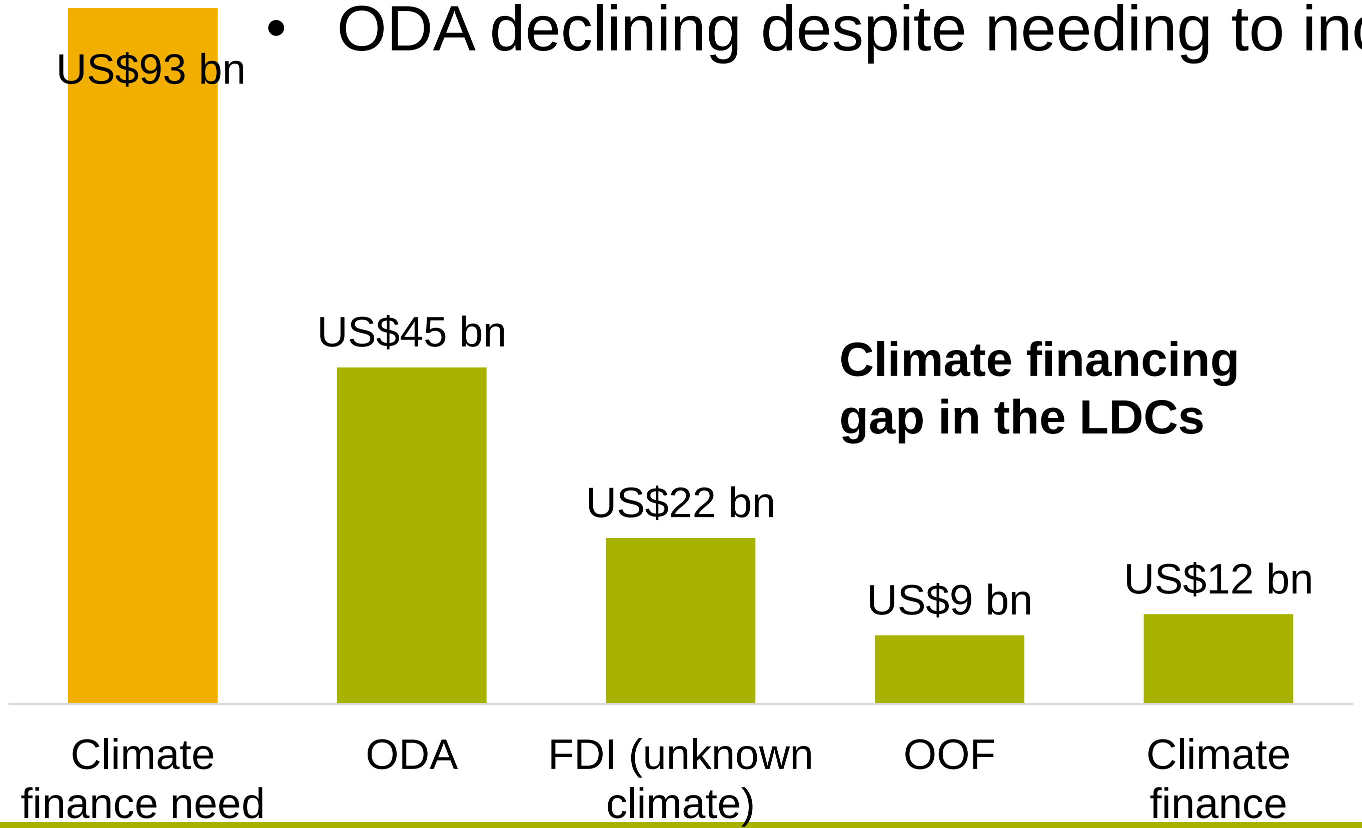
Theme 2 Access to finance

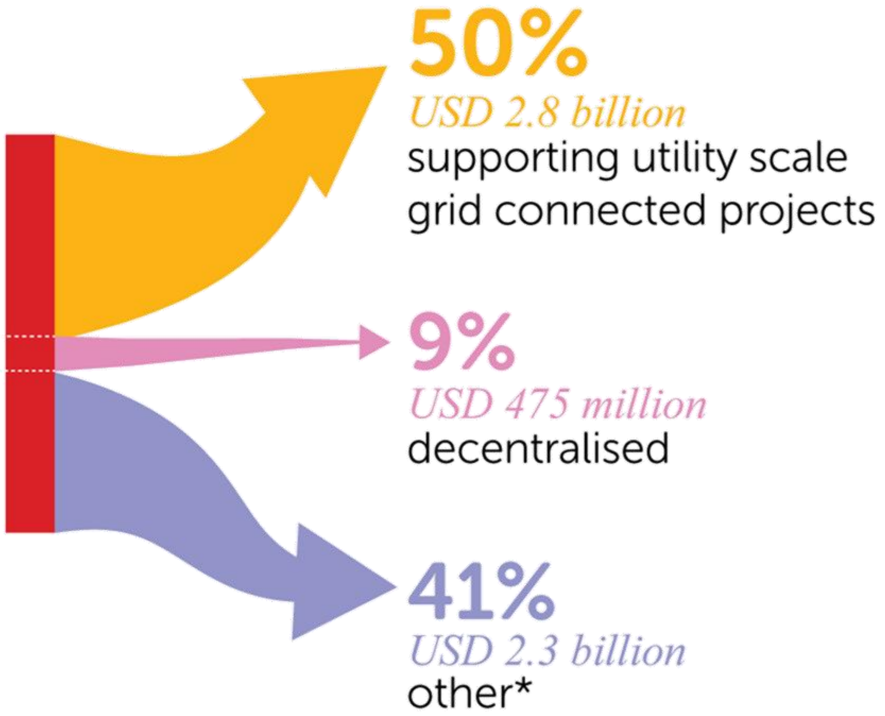
Priorities emerging from expert workshop

Clare Shakya, IIED

The access problem context

- 20% of climate finance to adaptation > 14% to LDCs > 2% to SIDS > disbursement rates even lower
- Most heavily channeled through a small range of international intermediaries, little reaches the people who need it most – especially the most excluded
    - ODA declining despite needing to increase by 750% to finance the SDGs

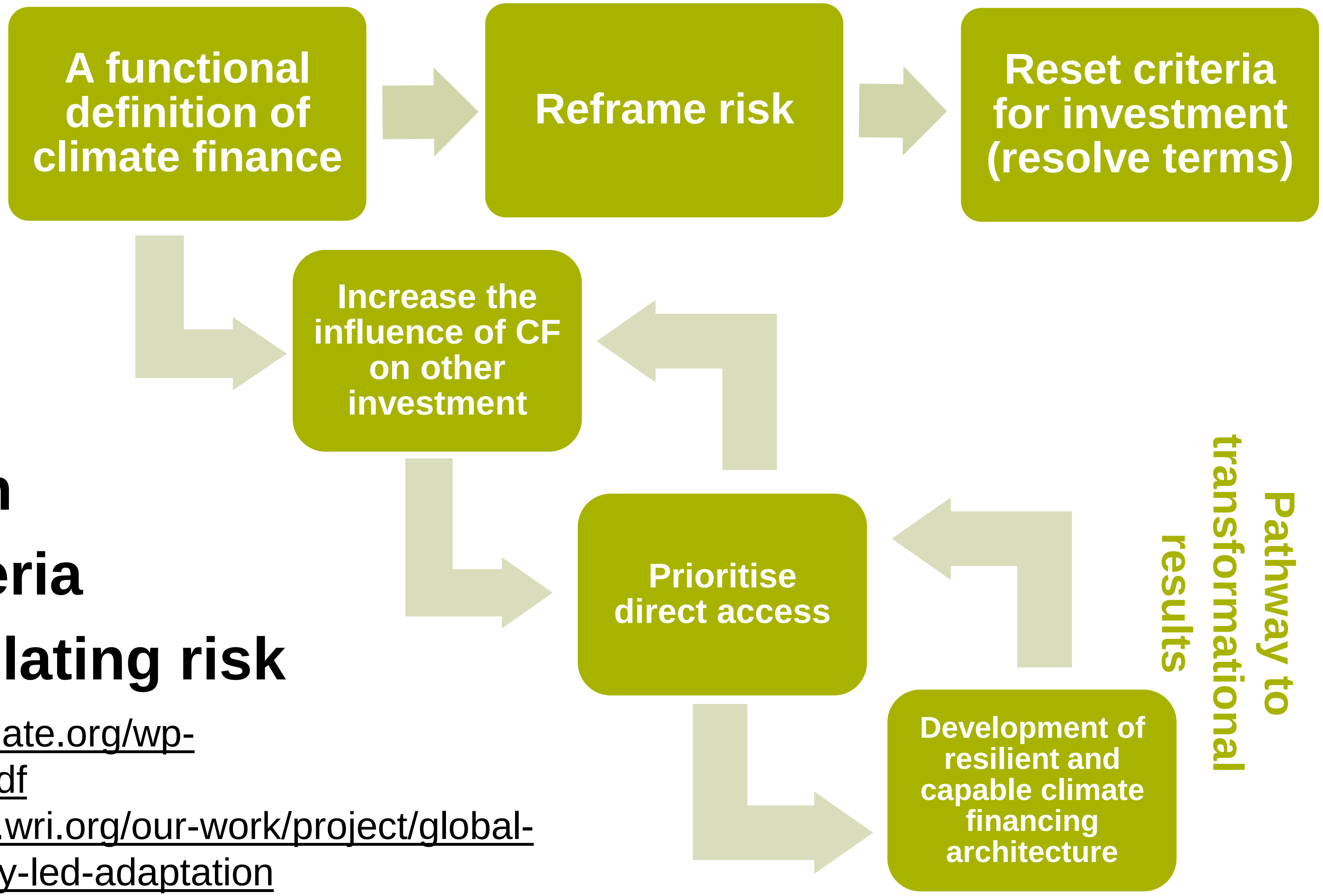




Definitional access barriers & solutions

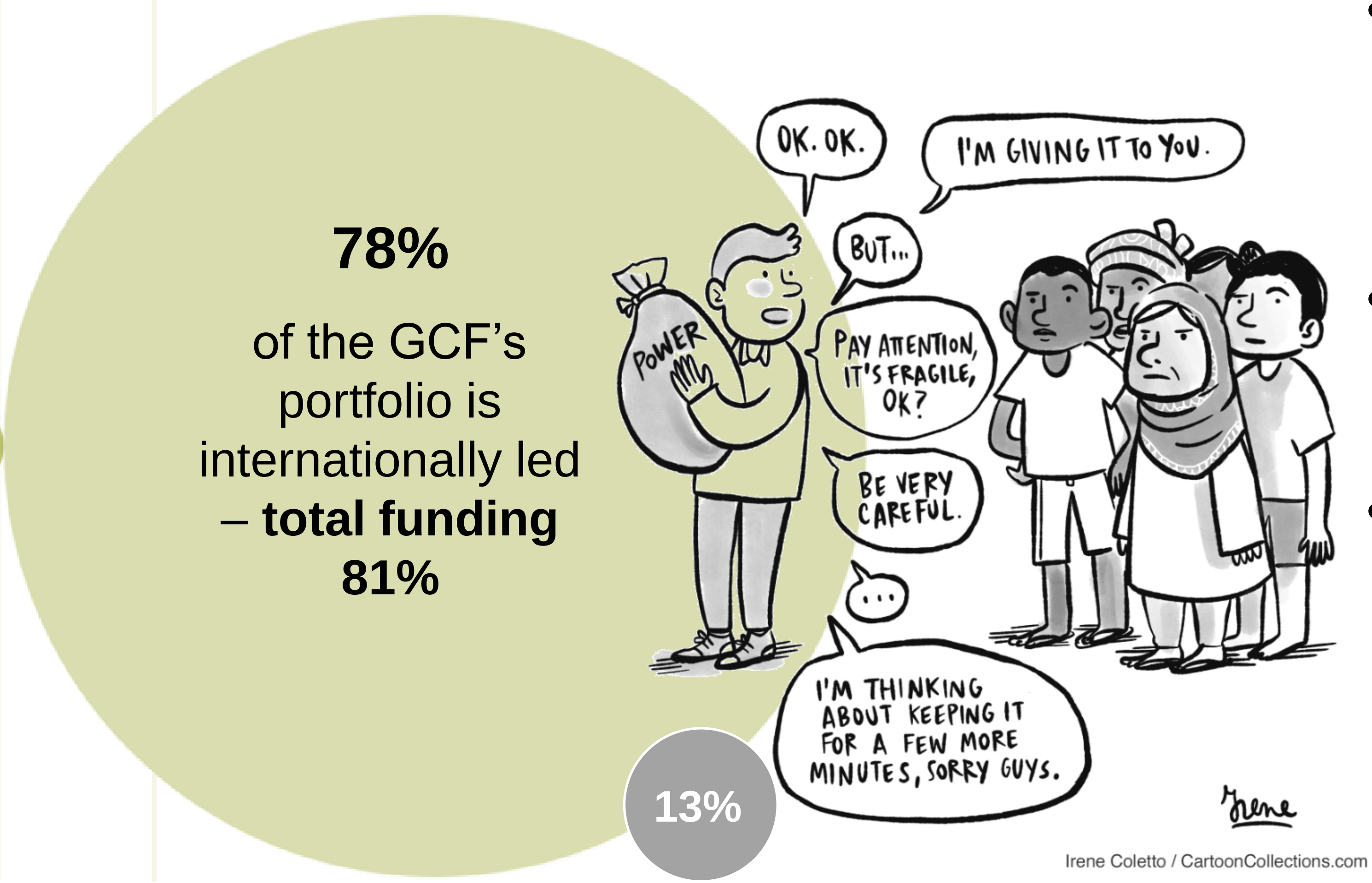
For climate finance to transform development & private finance we need to change its incentives, to change its incentives we need:

- A **functional definition**
- Different **success criteria**
- Different ways of **calculating risk**



Example, LIFE-AR: http://www.ldc-climate.org/wp-content/uploads/2019/09/2050-Vision.pdf
Example, LLA principles: https://www.wri.org/our-work/project/global-commission-adaptation/principles-locally-led-adaptation

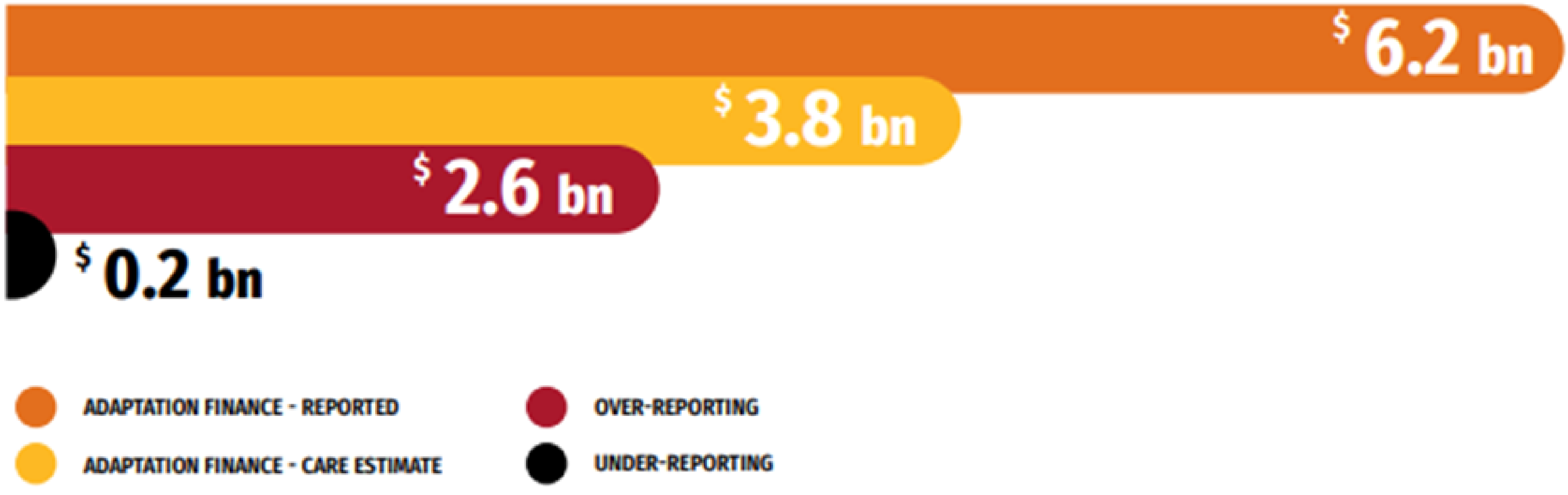
Procedural access barriers & solutions



Irene Coletto / CartoonCollections.com

- **Harmonizing, streamlining, simplifying & democratizing** climate finance access
- **Access quotas** on international vs. direct access
- **Placing rules on international intermediaries to** mentor national & sub-national institutions, especially to on-grant and on-lend

Improving Trust - Issues of Transparency



Source: Climate Adaptation Finance: fact or fiction? CARE (2021)

- **Agreed climate finance accounting standard**
- **Good project information** to allow bottom-up accountability and learning, including how decision making is happening
- **Independent verification of climate finance flows** including the financial and technical support to allow government and civil society actors to perform this role

Theme 3
Quantity, quality and composition of climate finance

Priorities emerging from expert workshop

Theme 3 – key highlights

1. **The urgency to have renewed trustworthy leadership** in the climate finance debates with a credible delivery of the **$100 billion as a floor.** Public finance through
   - New announcements and pledges by contributors, especially to the multilateral climate funds (GCF, GEF, AF, etc.).
   - further clarification by contributors about multi-year pledges.
   - Needs-based & lessons-based process for new goal with subgoal on adaptation.
2. **Increase grant-based public climate finance for adaptation should be a top priority for 2021 and beyond**
   - doubling their provision of public finance for adaptation as soon as possible to achieve balanced allocation.
3. **Immediate actions to effectively support developing countries, especially LDCs and SIDS' enhanced climate plans.**
   - Reduce constraints: e.g. reduced fiscal space, facing increasing cost of capital, and debt sustainability issues.
   - Ways for the international climate finance landscape to effectively facilitate highly concessional finance while building local capacity and strengthening the public finance systems at the national and regional.

Theme 3 – key highlights

4. Advance transparency of climate finance, predictability, to build trust. At the core of the different estimates of climate finance, address the **underlying definitional issues**, including on what constitutes new and additional financial resources, remain:

- Collectively improve the guidelines for reporting support provided and mobilized, as well as needed and received + clearer accounting rules.
- Greater granularity on the ex-ante climate finance communications, mandated by Article 9.5 of the Paris Agreement.

5. Scale-up finance for climate action while reducing the financing for fossil fuels and addressing the perverse incentives that perpetuate unhelpful interventions and misaligned investments.

- New sources of climate finance + ways to further accelerate the mobilization of private climate finance: e.g. the share of proceeds from Article 6, carbon pricing and shifting fossil fuel subsidies; technical assistance to access capital markets

6. Identify approaches to address matters related to loss and damage.

7.Rethink the narrative and ensure a clear, inclusive, and robust process for climate finance this year with key milestones to deliver a comprehensive COP26 package + **explore specific pathways/ milestones for the overall transition of the financial system, in the context of COVID19 recovery and shared prosperity.**

Theme 4
Fiscal Space and Debt Sustainability

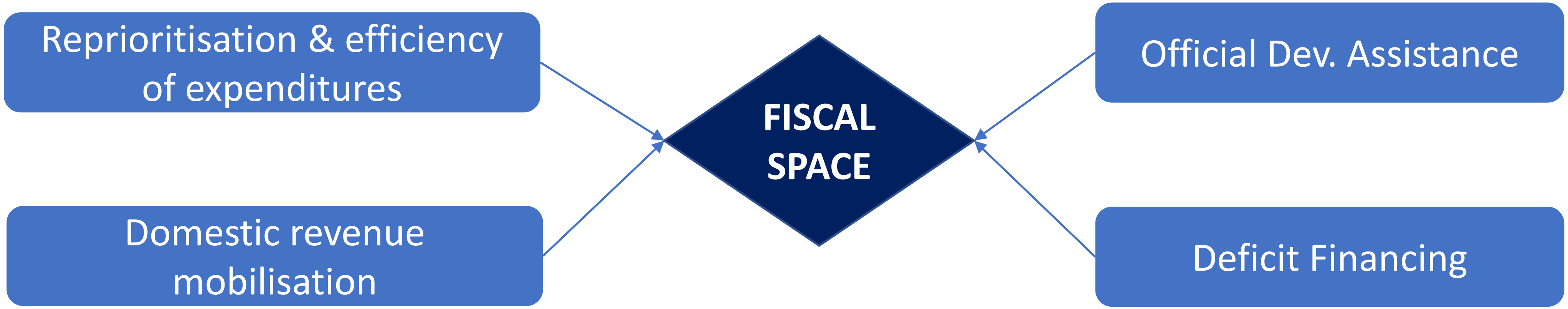
Priorities emerging from expert workshop

Ronan Palmer, E3G

Fiscal Space and high-quality recovery

- Countries face constricted fiscal space but different circumstances: some are illiquid others are insolvent; only some have access to markets; whilst economic fundamentals differ across nations
- Increasing fiscal space will be key not only in combatting the current crisis but also to allow governments to invest in common goods such as climate action. Failure to do so will have wider implications for governance, risking instability and undermining social cohesion
- **To increase fiscal space**, countries need to be able to make better use of existing resources, to receive additional resources and to get more value out of these additional resources

Ways to Create Fiscal Space



Source: Development Committee

Solutions evolve over time

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Short-term

- deal with the health crisis
- keeping economies afloat

Medium- & long-term

- sources & scale of investment
- putting economies on a sustainable path

Long-term

- Enable countries to bounce back better after future crises
- Including nature, climate & sustainability

Key recommendations

- **Solutions co-developed**
  - between northern & southern countries
  - including LICs & MICs
- **Support SDR issuance and re-allocation**
  - Based on the needs of countries
  - Fast track SDR issuance
  - Reallocation of SDRs to follow
- **MDBs are vital to a green recovery,** crowding-in additional capital & stakeholders, domestically & internationally
  - Maximise balance sheets
  - Take a counter-cyclical role, aligned with Paris Agreement
  - Convince shareholders to increase resources & promote transformation
- **Debt remains a challenge**
  - Debt sustainability assessments should enable investment in mitigation and adaptation
  - Consider climate risks in base line assessments
  - Performance-linked debt instruments could promote climate action
  - Consider debt moratoriums (cancellation) following climate disasters
  - Role of the private sector on debt relief?

About E3G

E3G is an independent climate change think tank accelerating the transition to a climate safe world.

E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018, for the third year running, E3G was ranked the fifth most globally influential environmental think tank.

More information is available at www.e3g.org