Pre-roundtable dialogue

Climate and Development Ministerial

Friday 12 March 2021

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Introduction

The following slides were prepared for a Climate & Development Ministerial pre-roundtable dialogue held on 12 March 2021.

The slides summarise the outcomes of four non-government expert workshops held in February 2021 that aimed to co-design practical solutions that support the delivery of climate adaptation, resilience and sustainable development across four themes:

1. Responding to climate impacts;
2. Access to climate finance;
3. Quantity and quality of climate finance; and
4. Fiscal space and debt sustainability.

Full reports from the four workshops and a summary of the discussion during the 12 March pre-roundtable dialogue will be available to download at this link.

Theme 1

Responding to climate impacts

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

Paul Bisca / CartoonCollections.com

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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**

"I DON'T UNDERSTAND- I KEEP THROWING MONEY AT IT, BUT IT STILL WON'T GROW."

CBA14 Conference

Emily Flake / CartoonCollections.com

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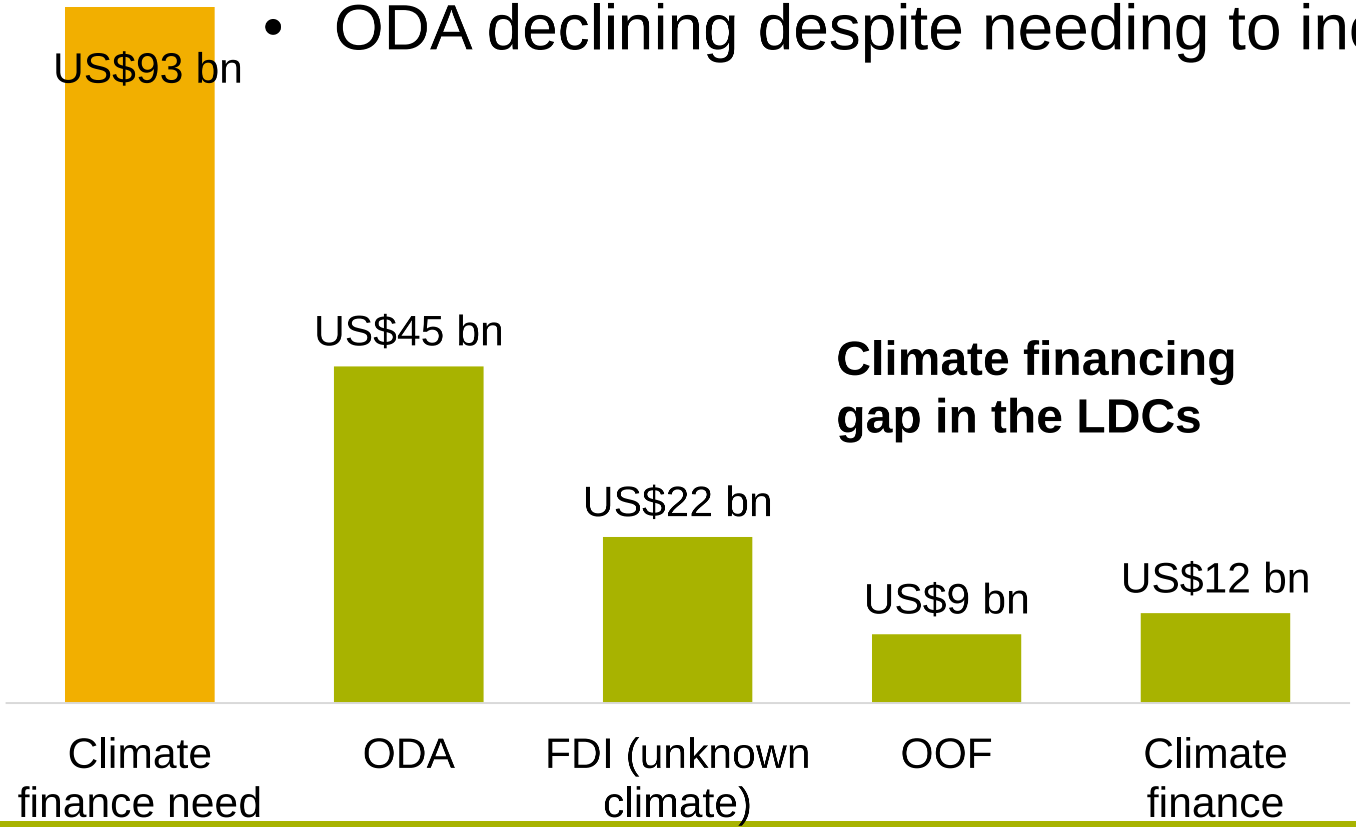
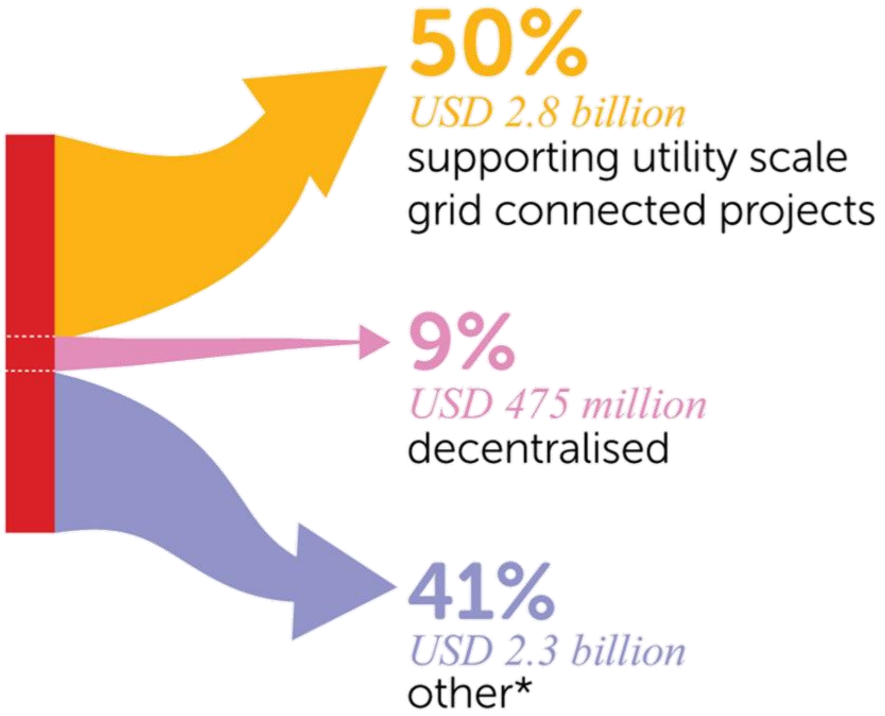
Theme 2

Access to climate finance

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

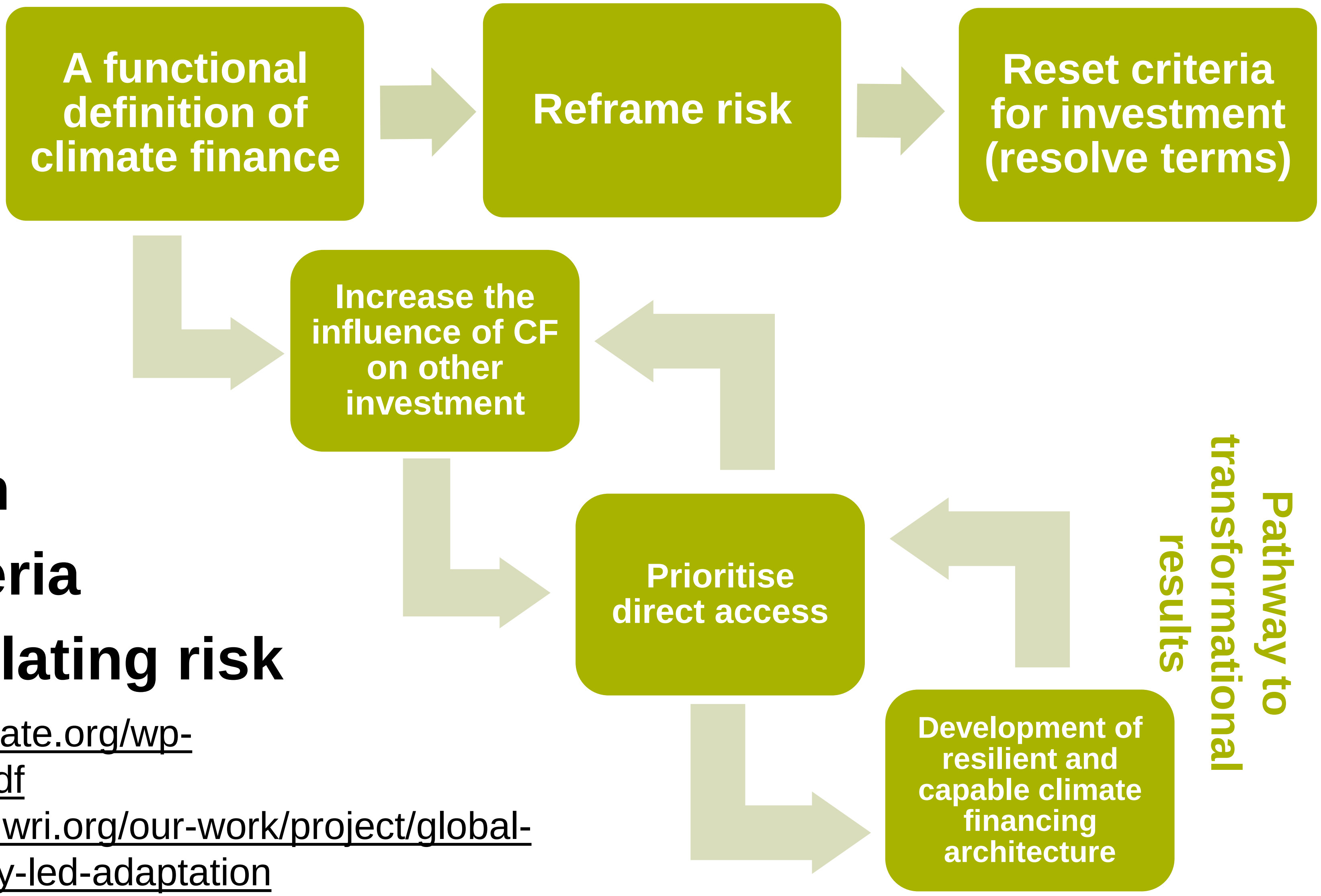




Definitional access barriers & solutions

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

78%

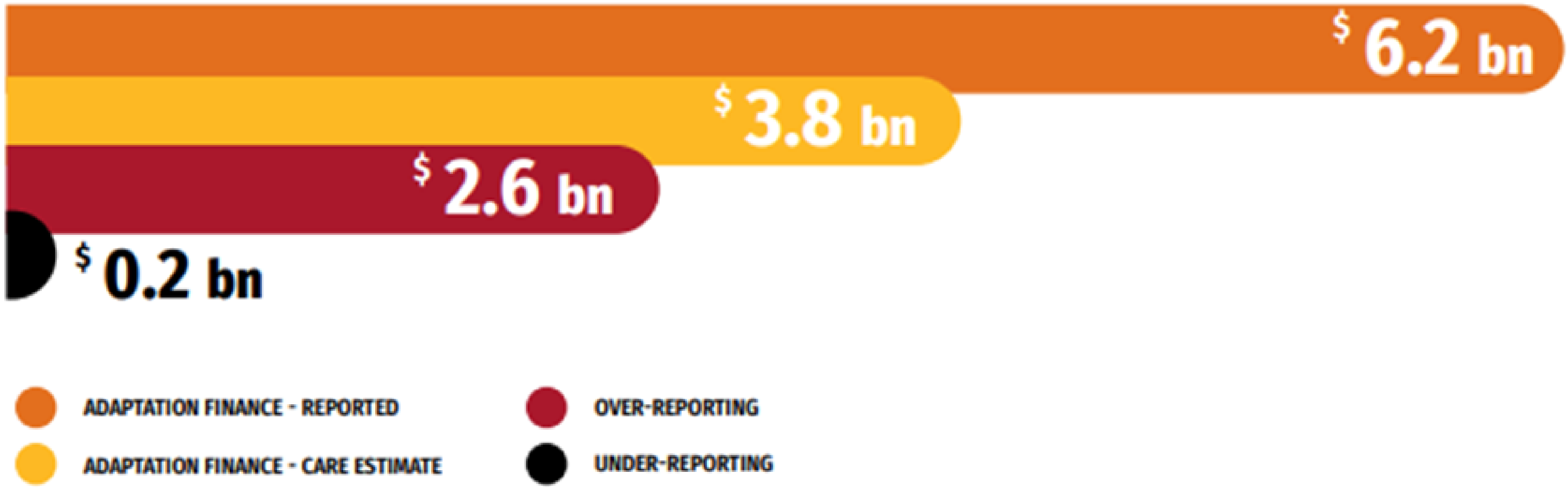
of the GCF’s portfolio is internationally led **– total funding 81%**

13%

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

Theme 3: Key Highlights

1. Rebuilding trust requires credible delivery of the annual $100 billion goal. Process is as important as outcomes. But this is a floor.
2. Acknowledging that the system has delivered a small fraction of climate finance for the most vulnerable countries, particularly SIDS and LDCs, especially for adaptation.
3. Increasing climate finance goes in par with reducing fossil fuels financing and addressing perverse incentives.
4. Providing TA and enhancing CB to facilitate better and faster access to finance.
5. Rethinking the overall narrative on climate finance in the context of a green, inclusive, and climate resilient recovery (climate finance is one element of larger financial system transition)
6. Injecting renewed leadership to the climate finance debate that transcends the North/South divide

Theme 3: Priority Areas

1. **The role of public climate finance in delivering the annual $100 billion goal**: new pledges by contributors, especially to the multilateral climate funds; further clarification by donors of multi-year pledges; greater specificity on upcoming individual and collective milestones in the provision of climate finance
2. **Scaling-up adaptation finance:** increasing grant-based public climate finance for adaptation, particularly for SIDS and LDCs; contributors doubling their provision for adaptation, in the aim of achieving balanced allocation for mitigation and adaptation; link to debt restructuring
3. **Developing a roadmap to mobilize finance to address loss and damage.**
4. **Needs driven approach** rather than relying on just a political process like in Copenhagen. Using highly concessional finance to support them while building local capacity and strengthening the public finance systems at the national and regional levels;
5. **Improved transparency**: improving guidance for developed and developing countries' reporting of support provided and mobilized, needed and received; clearer accounting rules for climate finance under the UNFCCC; greater granularity on the ex-ante climate finance communications; more robust institutional and regulatory foundations at domestic level
6. **Identification of new sources of finance and effective private sector engagement**: considering new sources of climate finance; considering as options using proceeds from Article 6, carbon pricing and shifting fossil fuel subsidies; further accelerating mobilization of private climate finance and access to capital market.

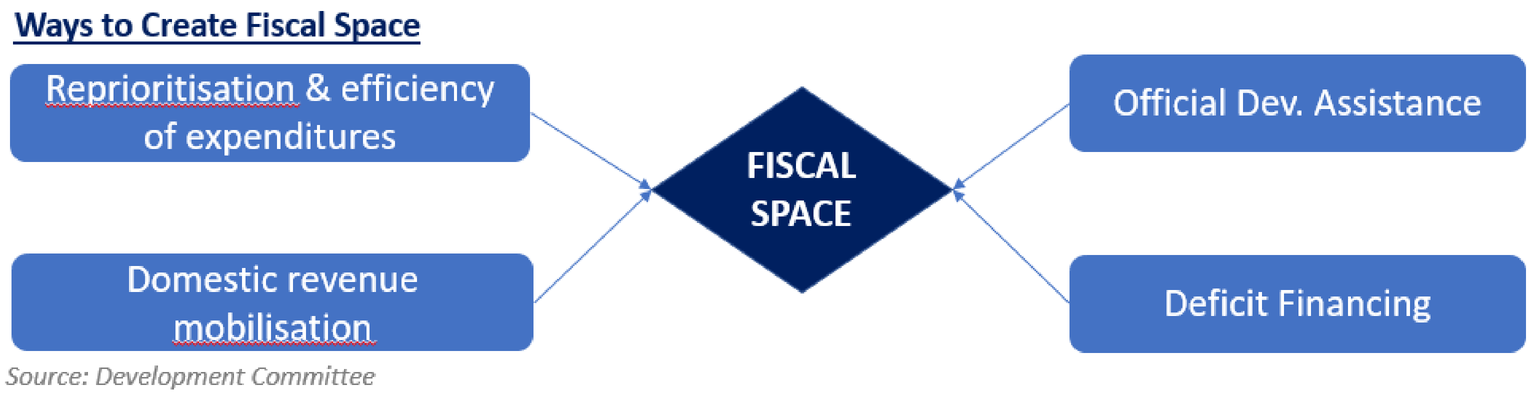
Theme 4

Fiscal space and debt sustainability

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



Breaking down the challenges

E3G

Short term liquidity:

Creating sufficient fiscal space essential to ensure countries have resources to deal with the health crisis & keeping their economies afloat

Linking short-term liquidity to medium-term/long-term solutions:

The short-term solutions need to be linked with the longer-term sources and scale of investments that will put economies on a sustainable pathway.

Long term solutions to linking debt management with climate change, nature and sustainability:

In parallel, solutions should be explored to ensure that in the long-term countries have the capability to bounce back better after future financial and non-financial crises.

Key recommendations

Support an SDR issuance and re-allocation

- The re-allocation should be defined on the needs of countries and climate vulnerability. Recognition of the limitations of this instrument in the medium term.
- Issuance is close to an agreement. Reallocation and issuance should be treated separately so issuance can be fast-tracked

Emphasize the importance of the MDBs in a green recovery and as key players to crowd-in additional capital and stakeholders at both domestic and international level.

- Ensure MDBs maximise their balance sheets, have sufficient capital to fulfill this key counter-cyclical role for both LICs and MICs, and that their support is aligned with the Paris Agreement.
- It remains challenging to get shareholders to increase MDBs resources and promote transformative ambition

Debt remains a challenge for many countries

- Debt sustainability criteria need to be reformed to enable greater investment in climate mitigation and adaptation, and that climate risks need to be considered in the base line assessments. Performance-linked debt instruments could promote climate action. Debt moratorium following climate disasters.
- The intellectual argument for reforming debt sustainability assessment has been won but the process has yet to gain political attention. Challenges remain regarding how to deal with the private sector, particularly around debt suspension.

Overarching points

- Solutions need to be co-developed with the Global South
- Middle Income Countries should not be overlooked