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Summary note: Dialogue prior to the Round Tables

The Climate and Development Ministerial process

On 12 March 2021, IIED, E3G, RCCC and WRI ran a dialogue for the more vulnerable southern countries invited to the Round Tables that will inform the UK's Climate and Development Ministerial on the 31 March 2021. Some non-state experts that had attended the four thematic workshops in February 2021, where solutions were developed for consideration by the Round Tables, were invited to this dialogue also.

The conversations were arranged around the four themes of the ministerial discussion and based on the UK's Round Table discussion paper. All participants who attended the dialogue had been sent a copy of the UK's Round Tables discussion paper and the four workshop reports but had not necessarily had time to read them. This summary note of the dialogue includes the main points and slides summarising each of the workshops, including priority areas to inform the Round Tables. Attachment A, below, captures the responses from participants to the 'chat shower' activities during the dialogue. This paper and all workshop reports are available online.

Theme 1: Responding to climate impacts

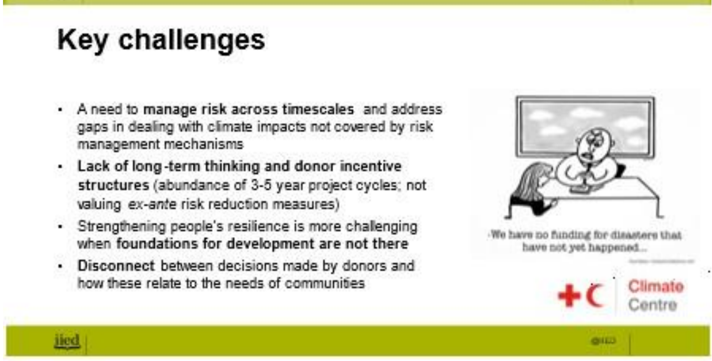
1. Commit to locally led adaptation principles

It is possible to harness many small actions at the local level and aggregate them up through the state mechanisms to support people living in poverty. The ability of local actors to respond is contingent on context; there is no universal answer. So, we need approaches developed for each national context that strengthen local capabilities. Working across the whole of society will expedite solutions – state and civic led organisations both doing what they are best suited for to respond to acute and slow onset events.

The real irony is that climate finance providers, like the Green Climate Fund (GCF), take low risk, but countries face high risk. To tackle climate change, climate finance providers need to share the risk the poorest countries and poorest communities face. This means radical reform of the risk appetite of providers, which is reiterated as a priority also in Theme 2.

2. Integrate climate change into development planning

We should not and cannot separate development and adaptation. Only integrating these agendas will transform the way we develop. All development activities must be aligned to the goals of the Paris Agreement, and actions to progress climate change must reflect the development needs of the context in which it takes place. Vulnerable countries are seeking to lay the foundations for climate resilience and move away from projectized responses, like the Least Developed Countries (LDCs) under their LDC Initiative for Effective Adaptation and Resilience (LIFE-AR) or Bangladesh championing locally led approaches.



Recognising the cross-sectoral and cross-temporal nature of solutions is critical emphasis is needed on both short- and long-term actions that support a holistic response to rising risks. Developing a robust screening tool for all development policy and investment ensures these issues are considered through an ex-ante analysis of climate risks. This must be independent of ministries and connected to the centre of power – the Prime Minister or President, or Ministry of Finance – such as Bhutan's .

Challenges vary by location – whether lack of jobs, loss of nature or water scarcity – so communities are best placed to identify the priorities that inform local government and guide ministry investment. This requires guidelines to ensure long-term issues are also considered. Countries also need to be able to access and share high resolution climate risk information at the scale of relevance to local decision makers and communities.

3. Create anticipatory and comprehensive response pathways

It is essential that climate risk be managed across timescales with a view to break down the silos between disaster response, disaster risk reduction, adaptation and development. Disaster agencies tend to focus on response, while development agencies tend to focus on long-term development, missing important opportunities to coordinate, use scarce resources more efficiently, and ensure no one is left behind. This can be resolved through a more comprehensive approach to risk management whereby the right combination of interventions, across agencies and timescales, are identified with a focus on addressing the needs of those most at risk. The priorities of local actors should drive these decisions and indeed local actors should be part of the decision-making processes. Effective approaches are rooted in engagement with local actors and will ensure short- and longer-term issues are considered.

When planning for effective response, women, youth, indigenous peoples and other vulnerable groups need particular attention. Too often early warning messages are delivered in terms that are unintelligible by these groups – winds of X miles an hour is only relevant to those who drive, for example. And even if understood, the poorest cannot access the resources required to prepare and respond. Comprehensive approaches are essential – and if people are at the centre of approaches, agencies develop more coherent responses. Forecast based financing offers a promising model whereby communities identify what they need to respond to a potential disaster in advance of an extreme event, and funding is provided to take early action, contributing to a more locally-driven response. Such anticipatory approaches enable people to deliver assistance ahead of predictable shocks. Institutionalizing such approaches and linking them to risk-informed development planning including social protection systems is an example of an anticipatory and comprehensive approach to response

When indebted and poor countries experience a disaster, they turn to the multilateral development banks (MDBs), who do not respond quickly. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) in the Caribbean was set up to tackle this, but pay-outs are much lower than impacts experienced. Structural challenges to access financial markets need to be tackled so countries can access sufficient finance quickly with a disaster.

Governments are central to disaster recovery and to reducing risk, but the agencies that can reduce risk over the long term are often fragmented. Governments that have centralised this role can have success, but projectized external financing creates significant bureaucracy. After a disaster, costs increase and INGOs waste massive amounts on the cost of managing the response, so cash transfers should be the core response. People themselves know what they need. This would speed up the response, reduce transaction costs and be more effective. If done transparently, so all know what they will receive, it can be done without reputation risk for the provider either.

4. Address loss and damage: The limits of adaptation require us to prepare for intolerable risk

In the very year in which COP26 was postponed due to the pandemic, countries experienced severe climate impacts. Just talking about adaptation is not sufficient – providers of climate finance need to consider the limits of adaptation. Historical responsibility requires commitment to both adaptation and addressing loss and damage; both are essential to build trust. More radical solutions can be developed outside the negotiations. Greater analysis is needed of effective approaches, including but also beyond mechanisms for rapid anticipatory and post disaster finance .

Theme 2: Access to climate finance

1. Align climate finance with country priorities

The international institutions were set up in a different era, responding to Europe coming out of war. Today's context is entirely different, and power dynamics need a reset. Structures and incentives need radical reform to be effective. The rapid transformation to green and climate resilient economies should be the shared priority – and not just the national economy, but local economies too.

The Caribbean developed a regional framework for responding to climate change, setting the remit for regional institutions by the countries' shared objectives. Long-term frameworks developed with strong national engagement offer the basis for climate finance providers to respond. Plans developed in short missions by international consultants are not a country's priorities.

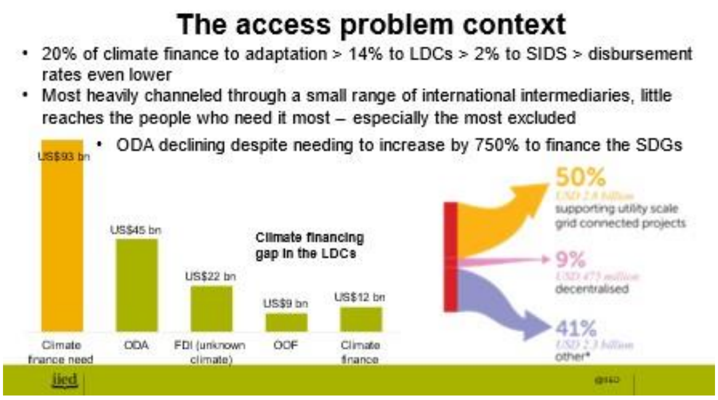
Country priorities need to be based on good science, on risk analysis that is informed by different perspectives at the local level as well as national stakeholders. Funding priorities should align with this science – so it flows to those countries and locations with greatest risk and vulnerability and behind locally-identified priorities not pre-defined solutions that are impractical for local needs. Climate analysis needs to be considered across national, regional and local policies, strategies and investment. Each country needs an independent body to do the due diligence that policies and investment align. In Bangladesh, ministries justify investments on how they will support the transformation.

2. Apply lessons from wider development practice

Development effectiveness principles are not adhered to by the climate finance architecture. The principles for locally led adaptation start to do this. Direct access would deliver alignment with national priorities and increase influence of other investment in country.

Longer term commitments are essential in climate change. 7-10 year commitments, even if budgets are only confirmed annually, is normal in development. Why is this not the case for climate finance?

Peer to peer learning is essential for rapid learning on what works – and southern experiences are often more relevant than northern ones. How one country has designed their climate finance architecture or their experience in accessing finance can help another.



Building technical skills in country needs an institutionalised approach not one-off workshops, staff change too often. Working with local universities and training institutes to strengthen the skills and knowledge required to access finance should be the priority.

3. Reduce transaction costs for accessing climate finance

Failure to ensure finance reaches the poorest countries and local level is not acceptable. The rules are set against the vulnerable and reform must happen now. The pandemic alongside climate impacts cause our communities to fall deeper into poverty today.

As noted under Theme 1, trust and transparency should go both ways – and risks should be genuinely shared, not just the providers of climate finance imposing their risk mitigation measures on those they fund. Climate finance is about solidarity and risk should be too. Developed country governments have shown they can take risk with their public finances, investing hugely in their pandemic response and placing money more directly into the hands of the people and businesses that need it most; this same kind of risk tolerance must be taken for climate finance within developing countries, recognising that it is okay that some approaches may not work, but that experimentation to find the right approach is essential to get better outcomes overall.

Climate Funds must take more risk and make direct access in support of locally led financing the priority. It is not acceptable that it takes 5 years to access funds when hurricanes are hitting countries twice a year. The rules for Funds must change to incentivise this. They could be given fixed time financial closure guidelines, with a maximum time, say 12 months, to approve and start disbursement – with a penalty to the Fund if it does not close in time, following best practice from the private sector.

80% of GCF financing goes through international intermediaries. The rules for intermediaries must also change. Expanding direct access should be the aim even of the international intermediaries. Priority should be given to the many national and regional institutions to be accredited to act as project warehouses, building their financial absorption capacity, to aggregate investments into larger deal sizes for the Funds, that collectively address the range of different risks vulnerable people face on the ground. As local institutions do not get direct access, intermediaries must also have expectations set on them, so they are not a bottleneck. The intermediaries could also pool risks and mitigate these collectively across projects and countries, rather than taking advantage of developing country's low absorptive capacity and controlling the climate financing narrative.

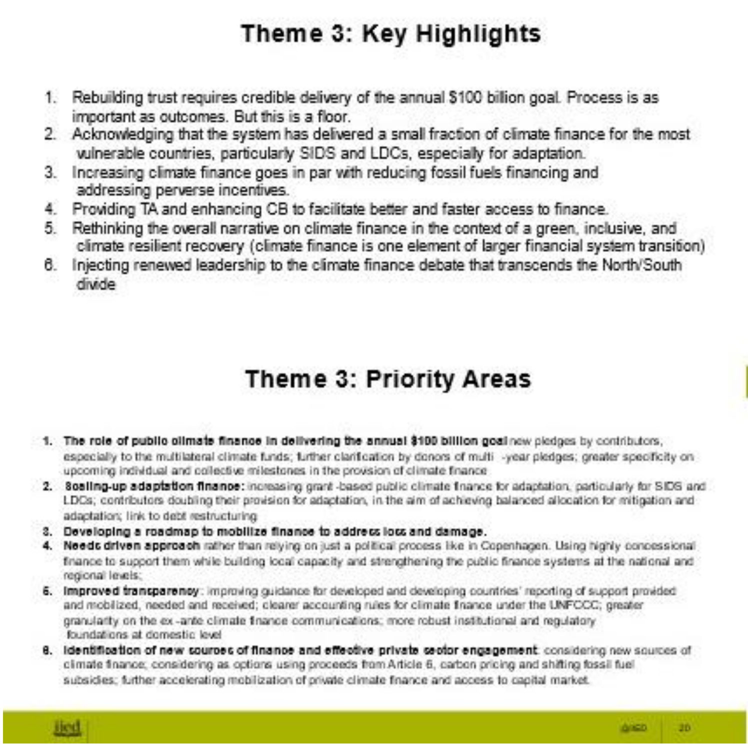
Climate finance needs to shift away from funding projects, to financing governance structures that devolve decision making over solutions as close as possible to the ground, rather than earmarking for certain interventions that are unpractical for the problems experienced on the ground.

Climate finance should also be available outside of government delivery systems. Intermediaries that are already locally connected with communities can act as a bridge between international and local levels. Grassroots federations or BRAC-like organisations can devolve funds cost effectively to the local level and organise communities. This complements what governments can do – whether national, municipal, local. If social movements had direct access, their central values and purpose would ensure funds were devolved and communities supported to experiment in tackling numerous local challenges, offering solutions to other communities and to local government.

Theme 3: Quantity, quality and composition of climate finance

1. Increase the scale of public climate finance

Climate finance providers have an opportunity to respond to the science and the ambition of developing countries by scaling up their public finance offering and providing additional support for loss and damage finance, in solidarity with those countries affected by the emissions of richer countries. The pandemic has shown us we are only safe when we are all safe.



The narrative needs to change about climate finance. These are investments where a 10-year commitment will give yields over 30 or more years. But short-term projects cannot achieve as much – it is analogous to health insurance or a pension. Richer countries were able to access finance to respond to the pandemic, so it is feasible. The radical change required for climate change needs to be an equivalent priority. For example, removing fossil fuel subsidies will create significant additional finance.

The climate finance gap – what is reaching the poorest countries and communities – should be discussed at every meeting. And every provider of climate finance should be expected to fix the gap. The $100 billion is anyway insufficient. It is not responding to countries' priorities or building our systems. Far greater levels of support is needed – including for responding to loss and damage.

2. *Increase the composition of support for adaptation*

Whilst mitigation is a priority because it reduces the need to adapt, most mitigation investments can attract private investors. As such, climate finance providers should commit to providing at least 50% for adaptation. Minimum funding targets should also be provided for locally led adaptation and for direct access.

We need to create a buzz about quality adaptation like there is around Net Zero. Can we achieve this by promoting Locally Led Adaptation?

3. *Improve quality of climate finance*

Public climate finance will never be sufficient and so must take the risk to leverage other investments and do what other finance cannot. This means it should be used to:

1. De-risk private investment. This would help change the credit ratings for developing countries, allowing institutional capital to come in.
2. Finance adaptation, as much of what is needed creates public goods that private finance will not finance – but this would also reduce the physical risk concerns of private investors.
3. Innovate – not just technology, but the design and governance of the institutional systems required to respond to climate change. Public funds should test innovation and support its adjustment to apply in different developing countries contexts. Funding should prioritise the development of governance mechanisms that can absorb investments and upgrade the ability of countries to attract investment. This is application innovation.

Given adaptation finance is seeking to transform development pathways, the question by Funds of how this differs from development should change, to ask, how will it support this transformation? And whilst public finance is most needed for adaptation, private investors need to be engaged in adaptation in new ways. Would the tourism industry be prepared to invest in the resilience of tourist attractions, to protect their revenues into the long-term? Non-state actors also need to be incentivised to act on climate at scale – should grassroots movements also have access to global finance to ensure progress continues even through the ups and downs of domestic political attention?

4. *Improve transparency*

It is essential to have a proper definition of what climate finance is, and what it is not. This will provide clarity and enable climate action. The current reporting of flows are not trusted because the finance is not visible to recipients, and evidence increasingly shows that adaptation finance is over-reported and that not enough of it is new and additional to ODA. For example, reporting should always distinguish between public climate finance and other finance mobilised, because some "mobilised finance" is not delivering climate action.

Climate finance providers need to report how much of their finance reaches the most vulnerable countries and local communities, only then can we say whether it is the right quality of support. This is essential for improving impact but requires the finance to be flexible rather than earmarked, so poor people can prioritise for their needs. Communities need a range of mechanisms to provide different services such as shock responsive social protection, community funds or enterprise support. It is essential that there is high transparency of climate finance – and on the concessionality of this finance as well as the face value investment.

We must be able to track climate finance effectively. So there needs to be independent evaluation of reported spend to verify that money is spent as donors' claim. And this should also include bottom-up reporting on the donors' conditionality and their expectations of grantees. There have been many studies under readiness support, but this now needs to be translated into action by all parties.

The pandemic has been used as an excuse to cut aid. However, this is misguided - the really strategic questions need to be around the quality of the finance and what that finance is doing. Every penny needs to be used efficiently.

5. *Incorporate transition and physical risks into global finance to meet the needs of vulnerable*

The private sector is not the villain - we need to educate them and take a proactive role to engage them. We need to focus on our enabling environment if we are to use our share of the $100bn to leverage much greater levels of private investment.

The most vulnerable countries' credit ratings fall with climate shocks. They need support to access the capital markets, through enhancing their capacity, and this requires engaging both vulnerable countries and the private sector to develop approaches.

Theme 4: Fiscal space and debt sustainability

1. Unlock immediate liquidity

Covid is a stress multiplier, poverty is increasing exponentially on the ground, and too much global debate is disconnected from this reality. Small economies cannot raise funds domestically so release and reallocation of Special Drawing Rights (SDRs) need to prioritise highly indebted countries and those vulnerable to climate shocks.

Poor countries do not have sufficient liquidity to tackle the pandemic let alone climate change.

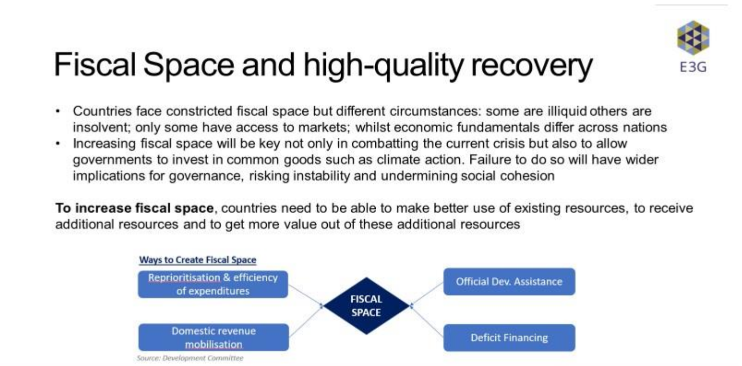
The allocation of SDRs is necessary but insufficient as it does not currently respond to the shocks that vulnerable countries face. A global risk pool fund could provide an insurance cushion and be put on countries' balance of books immediately, increasing liquidity.

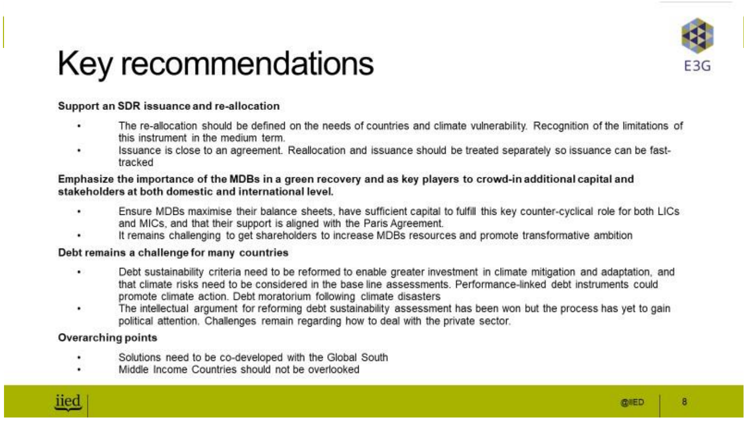
There is discussion around capitalising the banks to release money quickly. But in India, $7bn was given to the banks for liquidity and it is unclear where this money has gone. Are banks actually effective at channelling money down to the local level quickly?

2. Medium to long term sources of fiscal space

Every package for greening the recovery or building back greener is different and it is not clear how well the different packages will create fiscal space given climate impacts.

Developing countries are borrowing at a much higher rate than developed countries, who are at close to zero per cent. The most vulnerable countries are already in debt. Half their adaptation finance comes in the form of loans. Richer countries must take responsibility, so that support does not increase vulnerable countries' debt.





In developing countries, so many basic needs are yet to be met and each extreme event takes away significant resources that would have financed poverty reduction. The pandemic is further compounding the challenge, and yet Overseas Development Assistance (ODA) is going down. There needs to be a long-term strategy that enables patient and predictable investment from a range of sources. Large scale debt swaps for climate and nature could provide opportunities to reward the more ambitious countries.

Even greater focus should be placed on shifting away from fossil fuel subsidies and facilitating investment into renewables that could create fiscal space for adaptation. Hundreds of US$ billions are spent every year by developing country governments on fossil fuels to power their economies, if renewables were funded, this may open up significant fiscal space for domestic adaptation investment.

3. Tackle underlying structural challenges

We need to tackle the structural drivers of debt, which requires understanding the link between debt and climate as well as the colonial legacy of institutions and trade. When climate finance arrives as a loan, it is increasing debt burden. LDCs get finance from the capital markets at far higher interest rates but are ambitious in trying to invest in the transition. It is easier to raise finance for coal than clean energy.

There needs to be predictable suspension of debt payments after a shock.

Criteria for debt sustainability needs to be rethought – adaptation to physical risk must be a central consideration, as should transition risk. Debt needs to enable structural transformation, so social and environmental policy is central, not just the macroeconomics. Climate vulnerability needs to factored in also, so countries do not see falls in credit rating and access to capital when shocks hit.

Analysis of short- and long-term positions on debt could help design instruments to reduce interest rates. Poor countries need support to refinance debt. To shift the historical causes of indebtedness, debt could be separated by Paris Aligned good and bad debt. Bad debt - for stranded or stressed assets - would be given lower interest rates, there is precedent for this during the financial crisis. Isolating bad debt could create fiscal space.

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Attachment A

Chat shower posts

During the pre-roundtable dialogue on 12 March 2021 with participants from more vulnerable countries, 'chat showers' were used to capture direct input from all participants on their views of priority solutions needed against all four themes of the Climate and Development Ministerial. Below are the raw and deidentified responses from participants collected from the zoom chat function.

Theme 1: In your view, what priority solution is needed to address the challenges of responding to climate impacts?

- 1. Start developing high resolution climate risk atlases for developing countries. 2. Develop a unified emergency response framework, which would integrate state and community responses. 3. Assess critical development policy through a climate resilience lens.
- Expand extreme event clauses in debt relief initiatives
- improve our understanding of how to deal with losses and damages
- The need to recognize climate change as a national development issue is a critical first step. Adapting to current climate risks with long term adaptation goals through a "pathways approach". Distilling the development signal from the climate impact signal through climate impact assessment of national development will identify development risks, including the socio-economic dimension that would identify vulnerable groups. This reduces the risks of lock-in to maladaptation.
- More vulnerable voice on the decision table_ Youth and Women should be represented!
- all governments committing to locally led adaptation principles
- Site specific assessment and appropriate actions and regular feedback loops
- accepting losses and damages derive from climate change and have to be addressed through collaboration from developed countries, including by post disaster financing and better, scaled up financing to adaptation and resilience planning and infrastructure
- Put money and decision making power in the hands of organized communities and women's groups.
- Loss and damage and investing in climate resilient infrastructure
- mainstreaming
- institutions like GCF need to take more risks, granular data on climate risks at the local level is needed/
- Donors must consider extreme climate events from the lens beyond traditional DRR bubble.
- Locally led ada principles should be Ministerial priority
- Value of ex-ante risk reduction must be recognized as part of long-term solutions, bold thinking risk taking required!
- to reduce climate risk it is crucial that climate funds as GCF take a bit more risks itself on reducing the overwhelming amount of requirements and chanelling more effecitiently and urgently the funds to vulnerable conutries and communities.
- Build a strong screening tool to assess the climate change impacts in every developmental aspect and policy
- Needs to be state and non-state responses
- national to local assessment and access
- Locally led adaptation
- As with the covid response in the US direct payments to allow them to recover is a quick, efficient and effective approach to disaster recovery
- Enhance CSOs role and participation in awareness and climate action
- The postponement of COP26 ,means Loss and Damage is happening in reality and must now be addressed . If it isn't then COP26 will be worthless !
- Rethink, reinvent, reprioritise systems. Financial resources and technology for developing countries.

- GCF and other funds providing financing without requirement for additionality and understanding that good investment must fund adaptation as part of long-term, resilient development

Theme 2: In your view, what priority solution is needed to address the challenges of accessing climate finance?

- There are many innovations made by souther countries which have to be adapted and peer learning done there
- Utilize the basket of project and programme ideas generated by regional institutions.
- Commitment from climate funds and MDBs to collectively improve their processes to make access quicker and easier
- Devolved, democratised finance channeled to communities at local level
- Have more direct access with devolved decision making. And to use technology to provide reports and accountability.
- Common risk mitigation mechanism - funds have to take more risk, but can be tackled above single project level
- streamlining procedures; non climate funds actively encouraging climate risk mainstreaming
- Revise and reduce co-financing rates.
- Recognise that access to finance is a problem, then donor countries and institutions to strengthen mandates and incentives to deliver transformative and scaled-up climate action including by striving to make financial activities consistent with low-emissions, resilient development and reducing or phasing out investments in emissions-intensive technologies
- Three ideas: (1) Fixed time financial closure guidelines (max 12 months, for instance); (2) Common risk mitigation mechanism to pool multiple and multiple projects across countries; (3) Regional institutions to serve as project warehousing facilities, to reduce the transaction costs for individual projects.
- Help low capacity countries with right capacity to access CF. Not do for them but help them. Direct Access support.
- Identify, enable and capacitate intermediaries to receive finance to ensure funds get to local level
- Strongly promote locally led adaptation and direct Access on climate funds as GCF.
- For local access to finance, recognize the differences of impacts and identify appropriate actions including financial windows available.
- lots of examples from the south to leverage.
- There needs to be a climate finance definition as a foundational issue
- Green the Coviid recovery and responses through green finances. Bring private sector in
- clarity about what is good climate finance
- Low transaction cost because the share gets reduced for better outcomes/ outputs
- Use intermediaries who can reach the grassroots communities.. Eg like BRAC which is the biggest NGO in the world operating in the LD S
- Simplify the process , build capacity
- For direct access for civil society and vulnerable communities, we need to leverage existing intermediaries (including CSOs) that are well poised to support on-granting and capacity building of these groups in parallel
- I suggest this publication on ideas: https://protect-eu.mimecast.com/s/oCaCCP7yJskkMoFj44u1?domain=wri.org

Theme 3: In your view, what priority solution is needed to address the challenges associated with the quantity, quality and composition of climate finance?

- Scale up percentage to adaptation
- Urgent need for a clear and agreed climate finance definition. And CF identification must be needs based above ODA.
- Ease of accessibility through reduction of bureaucracy to ensure actual delivery to where it is needed; accent on targeted financing for tangible implementation
- A global fund for local grassroots organizations and movements
- 10 year commitment/intentions by donors, will give yields over 30 years

- We need to break out of the ghetto of climate finance in billions and get to the real investments in the trillions
- scale up grants over loans
- Loss and damage finance be additional to 100B goal.
- more public finance
- 1. Use public funds for de-risking mitigation projects. 2. 50:50 share for adaptation funding. 3. Give long-term certainty with 10 years of funding and 20 years of payout (like insurance companies work). 4. Use public funds for application-driven innovation, not lab-based R&D.
- Criteria development and matching country specific circumstances with available finance
- Bring in the private sector - we understand vulnerability help raise awareness on how to help them act on this too for their bottom line
- So we want 100B per year but the national enabling Financial Architecture s not adequate to spend this in most developing countries.   If you are not ready Get ready to spend.
- A full definition of climate finance
- long term focus on financing commitments
- adopting goals for climate finance to invest an additional USD 15 trillion in the global energy system until 2050, USD 300 billion by 2030 for adaptation and phase out fossil fuel subsidies
- Covid showed that being able to reach the poor is what has been profound
- Scale up finance for adaptation and mechanisms/facilities to channel this finance to the ground to support vulnerable communities
- Agree - just look at the US, greater investments for the poor than ever before thanks to the stimulus
- set up minimum funding targets on locally led adaptation and direct access

Theme 4: In your view, what priority solution is needed to address the challenges of fiscal space and debt sustainability?

- Looking at how to connect global process to vulnerable people.
- restructure country classifications/income levels.
- 1. Create a Global Risk Pooling Reserve Fund using additional SDRs to create an insurance cushion. 2. Create a Multilateral Bad Bank for bad debts that are climate inconsistent.
- provide scope for enhancing country's fiscal space
- Separate bad debt (stranded/stressed assets) & good debt with different interest rates for both - perhaps with refinancing
- Expand and reallocate SDR especially to highly indebted countries
- Looking at climate debt swaps and start looking at more radical solutions as in a war like scenario for climate change
- Proper definition of key terms
- coordination across the globe
- Strengthen climate-debt link - More radical solutions needed - for example climate debt swaps
- redefine the meaning of debt sustainability and how this can promote investment in infrastructure to make countries more resilient.
- Debt for climate swaps as key solution as part of finance packages
- Tracking financial investments vis-vis climate programs
- Reforming debt sustainability assessments
- Deferment of Interest for Loan
- Transparency on CF
- National contexts and circumstances
- Consideration of debt for nature/climate swaps for vulnerable countries
- better alignment in priority on climate and sustainability when the financial decisión are taken at the multilateral inst