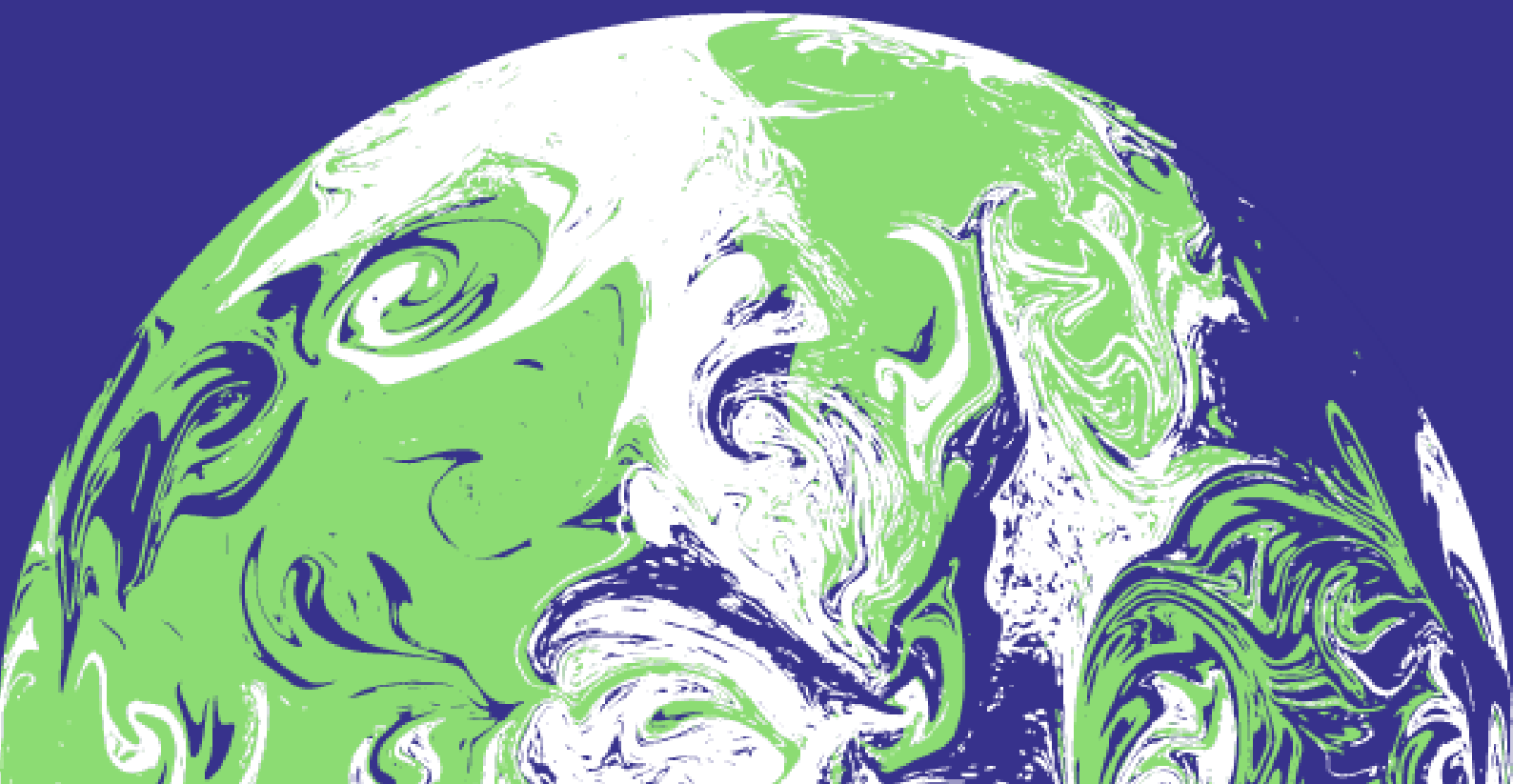


PRIORITIES FOR PUBLIC CLIMATE FINANCE IN THE YEAR AHEAD

COP26 PRESIDENCY

JANUARY 2021





SUMMARY

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Urgent action is required to tackle climate change and biodiversity loss. The transition to a more sustainable, inclusive and resilient future will require action at all levels across the world. It will also require all forms of finance. This paper highlights the main issues related to public climate finance that have been raised through our extensive consultations as incoming COP26 Presidency and sets out initial steps for the international community to address them. In doing so, it complements our related work on private climate finance.

The eleven public finance priorities that have been identified are: the quantity and predictability of climate finance; the role of Multilateral Development Banks, Public Development Banks and Development Finance Institutions; delivery through Multilateral Climate Funds; mobilising private climate finance; wider fiscal challenges; the allocation of finance – in particular grants – to the poorest and most vulnerable; access to climate finance; finance for adaptation and resilience; finance for nature and nature-based solutions; the coherence of approaches to climate impacts; and the gender-responsiveness of climate finance.

These issues are interlinked and require coherent holistic action, but also benefit from specific targeted attention. They are not listed in a particular order, as priorities will differ according to local contexts. As we look towards COP26 and beyond, we look forward to working with all countries, sectors,

institutions, and constituencies to make collective progress on these critical issues and accelerate climate action across the globe.



CONTEXT

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The world is already facing climate change and biodiversity loss emergencies, and these are set to become more extreme unless we act now, act together and act at scale. 2020 is likely to be one of the three warmest years in recorded history, and the recent decade has been confirmed as the warmest.¹ Urgent collective action is required to limit temperature rises to 1.5°C above pre-industrial levels. It is imperative to prevent the world from reaching dangerous and irreversible tipping points, which would put climate goals out of reach and cause extreme and unacceptable impacts on the poorest and most vulnerable.

At the same time, the world has been transformed by the COVID-19 crisis. The zoonotic origin of the coronavirus highlighted the consequences of disrupting the balance between humanity and the natural world. Beyond the human costs and loss of life, the pandemic has resulted in catastrophic economic impacts with severe job losses and a global depression. Global growth is estimated to have contracted by 4.4% in 2020;² and for many countries the worsening economic crisis has resulted in constrained finances for investing in people, recovery and climate. Countries are experiencing food security crises, with approximately 265 million people estimated to be at the brink of starvation.³ At the beginning of 2020, cyclones, hurricanes, wildfires, droughts and

locusts were battering lives and economies; and during the remainder of the year, an estimated 51.6 million people faced weather-related disasters at the same time as dealing with the effects of the pandemic.⁴

2020 was the year of rescue and response. 2021 must be the year of deepening the foundations for a sustainable, inclusive and resilient recovery. We have a once-in-a-generation opportunity to reset our economies in a way that delivers sustainable, good quality jobs, more resilient societies and greater equity, while also tackling head on the climate change and biodiversity loss emergencies. Even before COVID-19, the world was not on track to achieve our global climate goals, so it is imperative that we avoid returning to the outdated and unsustainable business-as-usual models of growth and development. 2021 also brings critical milestones for the global community on climate (the United Nations Framework Convention on Climate Change, UNFCCC), biodiversity (through the Convention on Biological Diversity, CBD) and food systems (through the UN Food Systems Summit). Of course, these challenges are interlinked and plans to tackle them will be mutually reinforcing. **Ambitious, revised Nationally Determined Contributions, Long Term Low Emission Development Strategies, enhanced adaptation communications and plans, post-COVID recovery plans and**

¹ WMO, 2020: <https://public.wmo.int/en/media/press-release/2020-track-be-one-of-three-warmest-years-record>

² IMF, 2020: <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

³ WFP, 2020: <https://www.wfp.org/news/wfp-chief-warns-hunger-pandemic-covid-19-spreads-statement-un-security-council>

⁴ IFRC, 2020: <https://media.ifrc.org/ifrc/press-release/least-51-6-million-people-doubly-hit-climate-related-disasters-covid-19-new-analysis-ifrc-reveals>

National Biodiversity Strategic Action Plans can form the basis for sustainable, inclusive and resilient recoveries.

Channelling the finance to enable climate action is a challenge faced by every country and organisation - the scale and speed of this transition will require all forms of finance: public and private; domestic and international. In the Convention⁵ and the Paris Agreement,⁶ developed country Parties have committed to provide financial resources to assist developing country Parties with respect to mitigation and adaptation. Public finance plays a crucial role in bearing risk and in catalysing action, but it cannot fund the transition alone. In Article 2.1c of the Paris Agreement, all Parties also committed to making finance flows consistent with a pathway towards low greenhouse gas and climate resilient development; this should catalyse the trillions of investment needed, but requires a fundamental shift in the global financial system. That all financial decisions should take climate and nature risk into account is not a 'nice to have', it is essential to economic, social and environmental sustainability. Whilst private finance is not a substitute for increased public finance flows, it will be vital in increasing the scale and reach of climate mitigation and adaptation actions, and ultimately in enabling this transition. Mark Carney, the UN Special Envoy on Climate Action and Finance and the Prime Minister's Finance Adviser for COP26 has set out the priorities for private finance.⁷

Achieving this transition requires renewed action from all stakeholders to support the needs of developing countries. From the global to the local level, we need to put in place the conditions for a sustainable recovery and climate action, creating the

right investment environments and aligning national budgets and planning processes with the goals of the Paris Agreement and 2030 Sustainable Development Agenda. From now to 2030, we must optimise public policy and finance so that it effectively leverages private investment, helping to develop new markets by de-risking investment wherever possible. Policymakers and regulators, as well as key international financial institutions should mainstream climate into national and global planning.

The international community must deliver on its commitments. Developed countries committed to jointly mobilise \$100bn of climate finance a year by 2020, and through to 2025, from a range of public and private sources (i.e. private finance mobilised through public interventions). The OECD estimates that \$78.9bn of climate finance was mobilised in 2018 - an increase from \$71.2bn in 2017.⁸ Other estimates of the quantum of climate finance delivered in previous years adopt different accounting methodologies. Recent independent analysis of scenarios for 2019 and 2020 suggests that the impact of COVID-19 will have made it increasingly challenging that the \$100bn target will have been met in 2020.⁹ Whilst the final figures for 2020 will not be known until 2022, developed countries must demonstrate now how they will scale up climate finance to meet their commitments.

Rising to this challenge also requires donors to recognise and act on concerns about the composition, quality and impact of climate finance flows. As the incoming COP Presidency, we are listening to the concerns raised by developing countries: they

⁵ UN, 1992: https://unfccc.int/files/essential_background/background_publications_htmlpdf/application/pdf/conveng.pdf

⁶ UN, 2015: https://unfccc.int/sites/default/files/english_paris_agreement.pdf

⁷ https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf

⁸ OECD, 2020: <http://www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-18-f0773d55-en.htm>

⁹ Independent Expert Group on Climate Finance, 2020: https://www.un.org/sites/un2.un.org/files/100_billion_climate_finance_report.pdf

relate to the balance of adaptation and mitigation spending; the real challenges developing countries face in accessing resources; concerns about loss and damage; finance for nature-based solutions; and the extremely challenging fiscal and debt positions all countries currently face. At this stage, no one has all the solutions, but we commit to listening, consulting and using the platform of the incoming Presidency to convene all actors necessary to help tackle these concerns. Making progress on these issues ahead of November will be foundational for progress over the next critical decade.



THE WAY FORWARD

THE WAY FORWARD

2021 must be the year to get back on track with climate finance commitments and disbursements, setting the stage for success as we implement the Paris Agreement. As we come together to raise ambition to meet our collective goals, to drive towards net zero and to meet adaptation needs, we must ensure similar ambition on finance.

As the incoming COP Presidency, we are committed to securing successful outcomes on the finance issues mandated for negotiation at COP26. These mandates include exchanges on long-term finance, the review of the UNFCCC's Financial Mechanism, and the initiation of deliberations on a new collective finance goal from 2025. We also recognise the relevance of finance to several other negotiation items due to be agreed in Glasgow. To address the concerns about the quantity, quality and impact of climate finance, we should learn the lessons from all our experiences of climate finance deployment to date. Building on the initial exchanges in the 2020 UN Climate Change Dialogues, Parties should make the most of meetings in 2021 (both virtual and in person) to explore further how these lessons can inform mandated discussions at COP26. This includes at established events, like the Petersberg Climate Dialogue and through our continuing Presidency consultations.

However, ambition on finance must extend beyond the UNFCCC negotiations to catalyse the investment required. As Presidency of COP26 and the host of G7 in 2021, we have a unique opportunity to prioritise international climate finance. We will also work with our

COP26 partners Italy, as President of the G20, to make sure that ambitious action to tackle climate change and protect the natural world stays at the top of the global agenda.

We recognise several issues that require the attention of the international community, and outline below the initial actions we will take to convene discussions to address them; ensuring they are prioritised in relevant fora and that progress is made ahead of COP26.

1. Quantity and predictability of climate finance. The commitment to jointly mobilise \$100bn of climate finance a year is critically important: **developed countries must meet existing commitments and come forward with ambitious post-2020 climate finance pledges, to achieve and surpass the \$100bn a year goal.** Closely linked to this is the predictability of future finance flows, which supports developing country planning processes.

- The incoming Presidency calls on all climate finance providers to offer clarity and predictability on future levels of support, including in their Article 9.5 communications.
- The Prime Minister has committed to double the UK's public International Climate Finance to £11.6 billion between 2021 and 2025. Several other countries have recently indicated they will make their future climate finance commitments in the run up to COP26 – we urge all developed countries to be as ambitious and forward reaching as possible.

2. Multilateral Development Banks, Public Development Banks and Development Finance Institutions play a central role in delivering and scaling up climate finance.

- We call on Multilateral Development Banks (MDBs) and their shareholders to: deliver on their post-2020 climate finance commitments; set out clear methodologies and implementation plans for both mainstreaming nature across their entire portfolios and aligning them with the goals of the Paris Agreement; and deploy resources to build in-country capacity for countries to develop and finance low carbon and resilient transition plans.
- We also call on all Public Development Banks (including bilateral Development Finance Institutions - DFIs) from around the world, including the 347 that signed up to the commitments at the Finance in Common Summit and (through their associations) its Declaration, to publish their timelines and action plans for Paris alignment. We also urge them to mainstream adaptation and nature and help redirect private financial flows in support of low-carbon and climate-resilient sustainable development.
- The incoming COP Presidency will use the 2021 schedule of international meetings to advocate for shareholder boards and leaders of these institutions to deliver on these areas for the 2021-2025 period. The IMF and World Bank Spring and Annual Meetings provide an opportunity to take stock of progress and push for enhanced commitments.

3. Multilateral climate funds. Climate funds that serve the Paris Agreement - the Green Climate Fund, Global Environment Facility and Adaptation Fund - and other multilateral climate vehicles, including the Climate Investment Funds and Global Infrastructure Facility, are key elements of the international climate finance architecture.

- The incoming Presidency calls on the multilateral climate funds to improve their capacity to target resources towards the most transformational mitigation and adaptation outcomes. This includes enhancing country planning capacities and supporting country-led programming. In addition, there should be a concerted effort to increase commitments, attract contributions from a broader set of donors, speed up programming approvals, enhance efficiencies and improve access to resources.
- The incoming Presidency will support these institutions throughout key moments across the year (annual meetings and board sessions) and encourage the climate funds' own initiatives and dedicated problem-solving sessions.

4. Mobilised private climate finance. Private climate finance directly mobilised by developed countries in 2018 was \$14.6 billion, a similar level to the previous year.¹⁰ Much work has been done to develop innovative financing solutions, but it continues to prove difficult to scale up new instruments and blended finance models. How the international community engages the financial sector to allocate capital to manage physical climate risks and seize opportunities in the transition to net zero will be critical.

¹⁰ OECD, 2020: <http://www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-18-f0773d55-en.htm>

- Alongside the work set out by Mark Carney, as the UN Special Envoy on Climate Action and Finance and the Prime Minister's Finance Adviser for COP26,¹¹ the incoming Presidency calls on public and private institutions to take actions including: building capability in recipient countries to integrate climate considerations into investment planning and improve upstream policy environments; building investment pipelines; implementing consistent standards and taxonomies; increasing MDB and DFI efforts to de-risk private sector investment; and ensuring markets are developed to support action to protect critical ecosystems.
 - The incoming Presidency further calls on climate finance providers to renew their focus on unlocking private sector investment particularly for new low carbon technologies, adaptation and resilience solutions and regions which attract less private capital.
 - The incoming Presidency will work with MDBs, DFIs and the private sector windows of multilateral climate funds to overcome barriers and catalyse private finance quickly. We will also collaborate with private investor coalitions, global campaigns (e.g. Race to Zero) and development banks to test how they can support developing countries, including the most climate vulnerable, to scale the private finance available to fund NDCs and adaptation plans.
- 5. Wider fiscal challenges.** The combination of higher spending to fight COVID-19 and lower revenues triggered by necessary responses have left many countries facing extremely challenging fiscal pressures, and in many cases mounting debt crises. Emerging markets and developing countries experienced very large capital outflows in March/April 2020, which then plateaued. There are positive signs of strong inflows since November 2020, but uncertainty remains over recovery. Sovereign debt was downgraded sharply in 2020, with more credit rating downgrades for emerging markets and developing countries than in all previous crises over the past 40 years.¹² The lack of fiscal space means that governments are struggling to make the investments needed to respond to the increasingly urgent and evident challenges of climate change and biodiversity loss. G20 Finance Ministers agreed to extend the Debt Service Suspension Initiative until June 2021 and this will provide vital breathing space for eligible countries, freeing up resources to respond to the pandemic. The G20 – Paris Club Common Framework will be crucial to ensure coordinated debt treatments, with fair burden sharing between all official and private creditors. The Common Framework will allow low income countries to benefit from a more efficient, transparent, and responsive approach to seeking debt treatment. It will be important to find long-term sustainable solutions to debt vulnerabilities, including for those countries most vulnerable to climate change.
- As hosts of the G7, we will continue ongoing work with our partners, including convening conversations about current and emerging debt challenges, and their impact on sustainable development and climate change outcomes. This will involve close engagement with the G20 led by our COP partners Italy, IMF, World Bank and

¹¹https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf

¹²Volz et al., 2020: <https://drgr.org/files/2020/11/DRGR-report.pdf>

other international organisations to help set direction ahead of COP26. These key financial institutions and networks have a pivotal role to play in detailing the impact of climate change and biodiversity loss; identifying opportunities for how to recover through low carbon growth as well as tackle the fiscal constraints faced by the most vulnerable countries.

6. Allocation of climate finance, and in particular grants, for the poorest and most vulnerable.

This is a particular concern in debt distressed contexts. The OECD estimates that in 2018, LDCs and SIDS received only 14% and 2% respectively of total public climate finance provided and mobilised by developed countries, and that the proportion of this total made up of grants has dropped since 2013.¹³

- The incoming COP Presidency calls on all developed countries and climate finance providers to increase levels of grant finance to support the most vulnerable.
- In March 2021, we will convene climate vulnerable and donor countries to address the connected challenges of climate change and development. Working to co-develop the event with vulnerable country partners, it will focus on tangible problem-solving for priority issues.

7. Access to climate finance. Processes are often complex, differ from provider to provider, can take too long, and demand resources not present in the poorest and most vulnerable countries. While efforts are being made across climate finance channels

to address access issues (e.g. the Green Climate Fund's direct access modality), more needs to be done to address this. Furthermore, there is a recognition that there are structural issues that go beyond the design of individual funds, for example relating to enabling environments or credit ratings.

- The incoming Presidency will convene a coalition of climate finance recipients, donors and other providers from the multilateral development banks and funds to identify practical solutions to tackle access issues and to work with a wider group of Parties to push for progress in the lead up to COP26.
- The Presidency will also engage directly with key climate funds to improve access and increase the volume of finance reaching the local level, including through wider participation of local finance institutions. The UK's Climate and Development event in March 2021 will provide a specific opportunity to focus on access issues.

8. Finance for adaptation and resilience.

While some of the multilateral climate funds and Multilateral Development Banks are making progress in targeting adaptation spend, for example, the Green Climate Fund and the African Development Bank's 50:50 allocation targets, we recognise there is further to go. At the same time, whilst acknowledging and promoting a strong, continued role for grant finance in support of adaptation and resilience measures, the private sector must dramatically increase adaptation and resilience investment, which lags well behind mitigation. Recent findings suggest that \$1.8 trillion of investment in

¹³ OECD, 2020: <http://www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-18-f0773d55-en.htm>

adaptation measures such as resilient infrastructure or protecting mangroves could generate \$7.1 trillion in total net benefits between 2020 and 2030.¹⁴

- The incoming Presidency calls on all developed countries and climate finance providers to commit to increase climate finance for adaptation and resilience. We also call for renewed focus on unlocking private sector investment in adaptation and resilience, including increasing local private sector adaptation solutions.
- The IMF and World Bank Spring and Annual meetings, as well as the UN General Assembly in September offer further platforms to track and accelerate progress.

9. Finance for nature and nature-based solutions

is a small share of overall climate finance despite the critical role of nature in building resilience to climate shocks and providing cost effective mitigation solutions. By investing in nature, we support more resilient, prosperous economies and help to avert and reduce the impacts of natural disasters. Many countries have outlined nature actions within their NDCs, with some developing countries calling on the international community for financial support to realise these ambitions.¹⁵

- The incoming Presidency calls on all developed countries and climate finance providers, public and private, to increase their financing of nature and nature-based solutions, and for countries to set ambitious targets for protecting and restoring nature in their national strategies and action plans.

- We will work closely with China, as hosts of CBD COP15, to maximise the synergies across finance for climate and nature from all sources, and to share common messages that can be delivered at both COPs.

- We also look forward to working with the MDBs on how they can mainstream nature across their portfolios and support countries to implement the outcomes of both biodiversity and climate COPs.

10. Coherent approach to climate impacts.

The impacts of climate change and the threat of loss and damage are real, affect all countries, and are likely to grow. We all need to respond to the COP decision (2/CMA.2)¹⁶ calling for greater attention to avert, minimise and address loss and damage. Effective action depends on a number of factors, including the ability of finance from inside and outside of the UNFCCC to be made available in a way that provides coherent support to adaptation, disaster preparedness and disaster risk reduction as well as disaster response. This requires finance and expertise from both the public and private sectors. For example, there could be greater use of insurance and other forms of risk finance where appropriate, grants for the most vulnerable, as well as efforts to find long-term sustainable solutions to debt vulnerabilities.

- We look forward to operationalising the Santiago Network on loss and damage as a way of pooling and directing expertise from across the UNFCCC and elsewhere to step up activities that will deliver practical assistance to the most vulnerable to avert, minimise and address loss and damage.

¹⁴ GCA, 2019: https://cdn.gca.org/assets/2019-09/GlobalCommission_Report_FINAL.pdf

¹⁵ IUCN, 2020: <https://portals.iucn.org/library/sites/library/files/documents/2019-030-Fn.pdf>

¹⁶ UN, 2020: https://unfccc.int/sites/default/files/resource/cma2019_06a01E.pdf

- We call on providers of finance to integrate adaptation, disaster risk reduction, preparedness and response into scaled up action and support.

11. Improving the gender-responsiveness of climate finance.

Climate change is not gender neutral: it has a disproportionate impact on women and girls. Addressing this means not only developing and implementing gender-responsive climate policies, plans, strategies and actions, but also taking steps to enable the full, equal and meaningful participation of women in national and local level climate policy and action. Developing a gender-responsive approach to climate finance is vital to achieving long term climate goals. But we know there is far to go: only a small proportion of bilateral climate finance has gender equality as either a primary (3% in 2014) or secondary indicator (28% in 2014);¹⁷ climate finance often struggles to reach locally-led grassroots initiatives which are more likely to be led by women or marginalised groups.

- In line with the UNFCCC Lima Work Programme on Gender and its Gender Action Plan, the incoming COP Presidency will work to address gaps, calling on others - multilateral climate funds, MDBs, DFIs and other major donors - to do the same.
- We look forward to further articulating our vision and look to use opportunities such as International Women's Day on 8 March 2021 to take stock and drive international action.

These are the principal concerns we have heard through our engagement with Parties, constituencies and stakeholders over the past year. **We recognise that the initial actions and calls outlined above do not contain all the answers; however, as the incoming COP Presidency, we commit to working with the international community to identify further practical and meaningful solutions.**

This is a collective endeavour - requiring collaboration across borders, institutions, sectors and communities. As we look to COP26, we are committed to using our platform as hosts to convene and facilitate effective engagement with developed and developing country Parties, institutions and constituencies. We look forward to using the busy international calendar in 2021 - including but not limited to UNFCCC consultations and negotiations, the G7 and G20, the Spring and Annual Meetings and UNGA - to make progress on these critical issues.

¹⁷ OECD DAC Network on Gender Equality, 2016: <https://www.oecd.org/dac/gender-development/Making%20Climate%20Finance%20Work%20for%20Women%20-%20Copy.pdf>

