Heads of Delegations informal consultations on Climate Finance

Alexandria, Egypt, 14-15 October 2022

Chair's summary

Introduction

On 14-15 October 2022, we convened the Chairs of Party Groupings, Heads of Delegation and active delegations in an informal and in-person setting to give impetus in support of further progress on climate finance matters, including implementation of commitments and pledges made at the previous COPs, with the aim of delivering an ambitious finance package at COP27, CMA4 and CMP17.

The first day of the informal consultations focused on discussions on the big picture of Climate Finance, addressing the gaps and ensuring predictability and clarity in the provision of, and mobilization of climate finance. On Day 2, participants discussed delivering on the Paris Agreement climate finance elements and expectations from COP27 and the outcomes.

We would like to thank all participants for the constructive atmosphere and for effectively exchanging views throughout the two-day meeting. We believe that the productive discourses have helped to advance the work towards a successful outcome.

The following intends to summarize the conversations held over the two days, with a focus on proposed ways towards a successful COP 27, aiming to facilitate an agreement on the steps forward in aligning finance with the goals of the Convention and Paris Agreement.

The Big Picture

Where we are and where we want to be on climate finance?

How do we address the gaps, and ensure predictability and clarity, in the provision of and mobilisation and delivery of climate finance?

- All participants acknowledged the failure of the developed countries to meet the USD 100bn mobilization goal and many referred to this as an important symbol of trust that urgently needs to be addressed in Sharm El Sheikh. Developed country participants expressed their steadfast commitment to reach the goal as soon as possible and referred to the updated delivery plan to be issued in time for COP27.
- Some participants argued that climate finance is a crucial facilitator of implementation and would determine the extent to which many developing countries can respond to the threats of climate change.
- Many agreed on the need for an ambitious support from developed countries with significant scaling up of public finance. Developing country participants reiterated that CBDRRC is the foundation to all finance discussions.
- The adaptation finance pledge made in Glasgow was recalled by many and that it is based on the OECD adaptation finance of 2019 of USD 20bn and reaching USD 40bn by 2025. Some participants mentioned the setting up of a formal tracking process of this pledge with clear timelines as an important outcome in COP27.
- Several participants from developing countries mentioned the high debt burden and high cost of capital as a severe challenge to implementing climate action. One participant proposed that a USD 500bn fund be established under the UNFCCC to finance high mitigation potential projects.

- In this context, the international financial system must be made fit-for purpose, especially the roles of MDBs and IFIs, and called on significant reforms on lending terms and instruments, quality, and effective delivery with modalities of direct access. Developed country participants mentioned enabling environments as necessary for reducing cost of capital and stressed that public finance, particularly grant financing for adaptation, would be made available for the most vulnerable countries.
- Several participants agreed on the need to discuss a multilateral process to provide Loss and Damage finance, to address post-climate event recovery and regeneration, including innovative sources of finance. Some participants also referred to having discussions on L&D broadly under the new finance goal and Article 2.1c of the Paris Agreement.
- Some participants cited that a global climate finance definition is key to moving forward on financing the implementation of the Convention and that definitions could alleviate barriers to assessing progress and minimizing issues of double-counting. Some raised the issue of the status of loan repayments when counting climate finance.
- Some participants highlighted that increased institutional capacity and stronger policies are required to generate the actions that in turn will mobilize finance. Addressing the finance gap is possible by including private resources and south-south cooperation to shift investments towards low greenhouse gas development pathways.
- The importance of adopting a comprehensive NDC and country-driven approach to climate finance was emphasized by many participants including finding ways to fully fund NAPs and NAPAs.
- On the new collective quantified goal, several developing country participants mentioned the importance of setting a clear time frame for predictability as well as measuring the progress to ensure credibility of the process. They called for an impact-based process and a quantum that responds to the needs and priorities of developing countries. In this vein, a goal of USD 1.3 trillion per year was mentioned by a participant representing a group of countries. Few developing country participants argued for a legally binding new goal.
- Developing country participants raised the issue of provision of predictable and long-term finance for projects with long-term objectives and in this context, timely communications in 2022 on projected levels of public financial resources to be provided would enable developing countries to plan appropriate actions. Communication of projected finance under Art. 9.5 of the Paris Agreement was also acknowledged by developed country participants as tools to enhance transparency and clarity around how climate finance is flowing.

Delivering on the Paris Agreement

What are the three main challenges in the mobilization and delivery of climate finance? What is a bankable project?

What is the role of Operating Entities of the Financial Mechanism vs the MDBs vs philanthropies?

- Predictability, inadequacy, and accessibility were reflected upon as being the most significant challenges around mobilization and delivery of climate finance.
- Developing country participants underscored the need for highly concessional loans, equities and guarantees.

- Many cited problems of misalignment of priorities between providers and recipients and the need to guarantee a balance in the allocation of funds to mitigation and adaptation.
- Some developing country participants referred to the specific challenge of accessing finance due to the high-income status despite their special circumstances and high vulnerability.
- One participant raised the issue of fragmentation in the donor landscape and imposition of additional conditions as a specific barrier to accessing finance while another participant pointed to the high level of efforts needed from recipients to be able to access even short-term funding.
- There was broad recognition of the recurrent issues faced by recipient countries around accessibility and heavy procedures and the need for inclusivity and making finance accessible at the sub-national level. Some provider country participants referred to successful models of partnerships and collaborations that have been instrumental for improving access.
- Developing country participants emphasized the foremost role of the operating entities to serve both the Convention and the Paris Agreement. Some concerns were raised on the decreasing climate focus of the GEF and its vulnerability index while suggestions were made on improving the working modalities of the GCF to strengthen support for vulnerable countries.
- Regarding the issue of bankability of projects, a range of views were expressed on its interpretation and application. Most developing country participants argued that bankability is intended as profitability, which is not feasible for many climate activities, in particular, adaptation activities. Perceived risks of investment and expected returns impose a structural barrier to accessing finance for countries who are facing the double crisis of increasing climate impacts and debt burden.
- As climate risks can render many countries unattractive for investment, greater discussion is needed around safeguarding and de-risking as a measure to attract finance. In this sense, many developed and developing country participants converged around re-thinking the notion of bankability as a requirement to obtain finance and added that projects instead need to be fundable and impactful with well-designed parameters and reliable monitoring.
- Several participants mentioned the key role played by MDBs in energy, infrastructure and development projects. MDBs bring expertise in development finance and can support in de-risking portfolios, green investments, knowledge sharing and alignment among actors.
- However, some developing country participants also highlighted the need to bring in reforms and lessen the challenges faced in accessing MDB finance. Still others noted that MDBs and the private sector did not exist in many least developed countries. On the question of Philanthropies, views pointed to their complementary role to public finance and in mobilizing private finance.

What steps and actions are needed to ensure consistency of finance flows with pathways towards low greenhouse gas emissions and climate-resilient development?

How can we define the operationalization of Article 2, paragraph 1(c), and Article 9 of the Paris Agreement, within the context of just transition, national circumstances and capacities?

- Developed country participants emphasized that the aim of the agenda item on Article 2.1c is to create a space to have a common understanding on implementation including on methodologies and approaches, enabling policies and conditions. The discussions on this agenda item are not intended to be linked to or replace Article 9, rather support the achievement of Article 2.1 a and b. It was added that achievement of Article 2.1c is critical to implement Article 9.
- The relationship between Article 2.1c and Article 9 was elaborated by many participants. Notably, one view is that Article 2.1c does not equal or substitute Article 9 as well as the new finance goal.
- Some participants also view this agenda item as a space for sharing national and regional initiatives to learn from each other.
- Some developing country participants reiterated the role of NDCs as the vehicle to achieve the 1.5-degree Celsius temperature goal and the need to discuss Article 2.1c in line with the CBDR principle.
- Almost all participants mentioned the challenges related to tracking implementation and quantitative assessment of progress on mobilization of climate finance, especially in relationship to Article 2.1c. It was mentioned that currently there is no instrument under the Enhanced Transparency Framework for collectively tracking progress towards Article 2.1c.
- Enhanced transparency of Article 2.1c implementation and alignment were deemed important by developing countries in particular initiatives by the private sector, philanthropies, and other actors. As a way forward, some participants stated the need to anchor such initiatives in the Paris Agreement by have a guiding framework with benchmarks for making investment decisions and aligning portfolios and disclosing climate related risks and opportunities.
- It was also stated by some participants that they would like to have discussions on other alignments issues such as inefficient subsidies, carbon pricing, technology diffusion, stranded assets and tracking of private finance.
- Developing country participants expressly stated considerations of Just Transition and national circumstances as vital issues in the discussions on implementation and achievement of Article 2.1c.

Delivering on the Glasgow outcomes

How can we ensure transparency and create trust in the delivery of doubling of adaptation finance by 2025 from the 2019 baseline? What is needed to deliver on climate finance to allow for enhanced ambition on mitigation as envisaged in Glasgow outcomes?

How can COP/ CMA build on Glasgow outcome to address MDBs in relation to supporting adaptation and review their risk policies? How can we respond to paragraphs 47–48 of decision 1/CMA.3?

What needs to be done to demonstrate substantial progress on the new collective quantified goal on climate finance? What are the key elements?

What are the general expectations for the Seventh Review of the Financial Mechanism, fifth review of the Adaptation Fund, and the second review of the functions of the Standing Committee on finance, and what is the role of the different governing bodies?

- Fulfilment of obligations under Article 9 will be critical for restoring trust.

- There was a strong support for demonstration of doubling of adaptation finance and a predictable funding process for the Adaptation Fund.
- Developing country participants would like to see greater visibility on the delivery of finance and facilitation of easier access to the operating entities. This includes improved efficiency in communications and feedback, and accreditation within set timeframes.
- Some developed country participants would like to capture progress made on increasing Adaptation finance and give clear signals for the 1.5 temperature goal and resilience.
- Several participants mentioned the critical importance of the new goal discussions and expect to focus on the quantity of the goal with a view to achieving real progress on determination of the quantity. Many developing country participants mentioned the importance of TED as a technical space for discussions and specified the need for a roadmap agreed topics for future dialogues.
- Developing country participants also expect a strong call made to the MDBs for accelerating processes and reviewing current criteria and social and environmental standards for financing. It was highlighted that strong leadership from developed countries would be instrumental in achieving the provisions in the Glasgow Pact.
- Finance for loss and damage is viewed as an integral part of the finance package.
- On the issue of the reviews of the Financial Mechanism and functions of the SCF, some participants mentioned a role for the CMA in the review processes.

The COP 27 outcome

What is your vision of the climate finance outcomes/package for COP 27 and what are its key elements?

High level expectations from the consultations have been summarized as follows:

Mobilization

- Coherent and strong political messages around commitment and ambition.
- A substantial finance package to set into motion in 2023.
- Significant levels of GCF replenishment.
- Confirmation of commitment to address gap in 100B delivery.

New goal

- Transparency and inclusivity in the new goal.
- A structured roadmap for the new finance goal with topics for TEDs to allow full participation and predictability.
- Substantive outcomes on quality, stakeholders, access features, instruments, tracking and a process for setting up the quantum.

Tracking progress

- Effective delivery mechanism and tracking progress of pledges on doubling Adaptation finance.
- Progress report focusing on doubling Adaptation finance.

Delivery

- Signals for delivery of resources through the GCF.
- Stronger coherence across operating entities.
- Guidelines to the GEF on its climate change focal area for GEF 9.

Loss and Damage

- Establishment of a common understanding on advancing discussions on L&D finance and clear efforts for a deliberate financial arrangement.

Reviews

- Agreement on the reviews and a role for the CMA.

Alignment

- Acceleration towards wider efforts needed for low GHG emissions economies involving different actors to achieve the objectives of the Paris Agreement.

***