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Matters relating to finance

Long-term climate finance

Fourth biennial high-level ministerial dialogue on climate finance

Note by the President

Summary

This document, prepared by the President of the Conference of the Parties (COP) with the support of the secretariat, contains a summary of the fourth biennial high-level ministerial dialogue on climate finance held during COP 26 in Glasgow, which, in accordance with decision 3/CP.24, paragraph 13, was informed by the reports on the in-session workshops on long-term climate finance and the 2020 Biennial Assessment and Overview of Climate Finance Flows.

Abbreviations and acronyms

BA	Biennial Assessment and Overview of Climate Finance Flows
COP	Conference of the Parties
GCF	Green Climate Fund
HLMD	high-level ministerial dialogue
MDB	multilateral development bank
NDC	nationally determined contribution
OECD	Organisation for Economic Co-operation and Development

I. Introduction

A. Mandate

1. COP 19 decided to convene an HLMD starting in 2014 and ending in 2020.¹ The COP, in the same decision, requested the Presidency of the COP to summarize the deliberations of the dialogue. The first HLMD was held during COP 20, the second during COP 22, the third during COP 24 and the fourth during COP 26.²

2. COP 24 decided that the fourth HLMD should be informed by the reports of the in-session workshops on long-term climate finance that took place virtually during the UNFCCC Climate Dialogues 2020 and during the May–June 2021 sessions of the subsidiary bodies, and by the 2020 BA.³ COP 26 welcomed the deliberations during the fourth HLMD and looked forward to the summary note to be prepared by the Presidency.⁴

B. Scope of the note

3. The key messages emerging from the dialogue are presented in chapter II below, followed by information on the preparatory activities and proceedings of the fourth HLMD in chapter III below. The note concludes with a summary of the discussions that took place during the dialogue in chapter IV below.

C. Possible action by the Conference of the Parties

4. The COP may wish to consider this summary as an input to the long-term climate finance deliberations.

II. Key messages

5. Reported public finance provided and mobilized through bilateral and multilateral channels has increased to an unprecedented level, but still falls short of the amount required to meet the goal of jointly mobilizing USD 100 billion annually for climate finance by 2020. Efforts to meet the goal need to be ramped up, transparency on the matter enhanced, and predictability ensured in order to maintain the public's trust. The *Climate Finance Delivery Plan: Meeting the US\$100 Billion Goal*⁵ is the first step on the path towards delivery.

6. Efforts to enhance access to climate finance, including through the simplified approval process and project preparation facility of the GCF, are positive trends, but more needs to be done to accelerate project implementation, such as reducing significant delays between project conception, approval of funding and disbursement of funds.

7. Finance for adaptation, particularly in the form of grants, needs to be increased significantly and urgently to support developing countries in adapting to the increasing impacts of extreme weather events. Grants in particular are a vital source of finance for developing countries with high levels of indebtedness, for which loans would increase their debt burden.

8. A substantial increase in finance is needed to facilitate the implementation of actions set out in NDCs and long-term strategies. Notable progress in this regard has been observed in the financial sector recently, with portfolios adjusted to support the transition to a net zero economy, but more needs to be done to leverage the trillions required to implement low-emission, climate-resilient development pathways. Governments, in particular finance

¹ Decision 3/CP.19, para. 13.

² Available at <https://unfccc.int/topics/climate-finance/workstreams/long-term-climate-finance-ltf>.

³ Decision 3/CP.24, para 13.

⁴ Decision 4/CP.26, para. 17.

⁵ See <https://ukcop26.org/wp-content/uploads/2021/10/Climate-Finance-Delivery-Plan-1.pdf>.

ministries, and regulators have a key role to play in creating the frameworks and taxonomies needed to align the incentives of financial institutions with climate objectives.

9. With trillions expected to be needed to meet the climate finance needs of developing countries, efforts need to be made to scale up this finance across all sources, including bilateral and multilateral sources, philanthropic sources, and private finance and alternative sources, as well as domestic sources where feasible.

III. Proceedings

A. Preparatory activities

10. The fourth HLMD was convened by the President of the COP, Alok Sharma. The President, with the support of the secretariat, invited high-level panellists, including ministers and representatives of national and regional governments, officials of the United Nations, representatives of the operating entities of the Financial Mechanism of the Convention, senior representatives of MDBs, and climate finance experts from civil society, academia and the private sector, to moderate and participate in the sessions.

11. The dialogue consisted of sessions on enhancing support for developing countries and realizing the goal of jointly mobilizing USD 100 billion annually for climate finance by 2020; supporting a financial system for a net zero and resilient future; and scaling up climate finance to mobilize the trillions needed in developing countries.

12. These sessions were followed by a presentation on the key findings of the 2020 BA by the Standing Committee on Finance, and then an open plenary session with statements by ministers, State representatives and high-level representatives of observer organizations, which noted that their climate finance commitments have increased in recent years and that pledges and initiatives are planned to facilitate the mobilization of climate finance (see chap. III.E below). The panel discussions and the final plenary session were guided by questions in the agenda.

B. Opening

13. The fourth HLMD was held on 3 November 2021 in conjunction with COP 26. The event was open to all Parties and observers attending the sessions. The programme, video recording and other documents are available on the UNFCCC website.⁶

14. The first session was moderated by Gillian Tett, Chair of the Editorial Board and Editor-at-large of the *Financial Times*;

15. The first panel discussion was facilitated by Jochen Flasbarth, State Secretary in the German Federal Ministry for the Environment, and consisted of the following panellists:

(a) Akinwumi Adesina, President of the African Development Bank Group, who highlighted the potential for MDBs to use public finance to leverage finance at scale through mechanisms such as guarantees, as well as the urgent need to scale up finance for adaptation;

(b) Yannick Glemarec, Executive Director of the GCF, who showcased the Fund's efforts to scale up climate finance following its initial capitalization, emphasizing the importance of using public finance to de-risk investments and increase private finance to mobilize finance at scale;

(c) Annika Saarikko, Minister of Finance of Finland and Chair of the Coalition of Finance Ministers for Climate Action, who emphasized the key role of finance ministers in mainstreaming climate considerations in economic policy, including through their roles in financial institutions and by enhancing transparency on finance flows;

⁶ Available at <https://unfccc.int/event/4th-high-level-ministerial-dialogue-on-climate-finance>.

(d) Nigel Clarke, Minister of Finance and the Public Service of Jamaica, who highlighted the urgency of mobilizing finance to address climate disasters, including through a range of financial instruments.

16. The second panel discussion was moderated by Rishi Sunak, previously appointed Chancellor of the Exchequer of the United Kingdom of Great Britain and Northern Ireland, and consisted of the following panellists:

(a) Carlos Dominguez, Secretary of Finance of the Philippines, who highlighted the benefits of pursuing a broad-based approach to mobilizing climate finance and the role grants, investments and subsidies can play in this;

(b) Azucena Arbeleche, Minister of Economy and Finance of Uruguay, who emphasized the need to align the incentives of financial institutions with sustainability objectives and discussed the role of finance ministers in climate action;

(c) Alison Rose, Chief Executive Officer of the NatWest Group, who highlighted the key role of governments and regulators in creating sustainability frameworks and confidence for increasing the deployment of capital to achieve net zero carbon future;

(d) Mathias Cormann, Secretary-General of the OECD, who emphasized the need to transform the financial system to better incorporate financial opportunities, including by removing subsidies that divert investments away from net zero objectives;

17. The third panel was moderated by Nicholas Stern, Chair of the Grantham Research Institute on Climate Change and the Environment, and consisted of the following panellists:

(a) Sri Mulyani Indrawati, Minister of Finance of Indonesia, who noted that the goal of jointly mobilizing USD 100 billion annually for climate finance by 2020 has not yet been delivered, that additional support from all sources is critical to support implementation of NDCs and that policy and regulatory frameworks are needed to provide better access to finance;

(b) Makhtar Diop, Managing Director of the International Finance Corporation, who highlighted the importance of introducing regulatory frameworks, reducing the cost of capital for project development and using blended finance;

(c) Rémy Rioux, Chief Executive Officer of the French Development Agency, who noted the importance of involving the public sector in developing a post-2025 framework and facilitating cooperation between development banks to achieve climate objectives and the Sustainable Development Goals.

IV. Outcomes of the discussions

18. The fourth HLMD was informed by rich discussions among a diverse range of parties: around 30 ministers, senior officials and heads of organizations. The following subchapters summarize the outcomes of the discussions held during the dialogue.

A. Presentation on the 2020 Biennial Assessment and Overview of Climate Finance Flows by the Standing Committee on Finance

19. Seyni Nafu, a member of the Standing Committee on Finance, presented the findings from the 2020 BA. Global climate finance flows increased by 16 per cent to USD 775 billion annually in 2017–2018 compared with 2015–2016. Climate finance provided by Parties included in Annex II to the Convention increased by 13 per cent/year, to USD 36.3 billion/year, in the same period. Climate finance channelled through UNFCCC funds and other multilateral climate funds increased by 39 per cent in 2017–2018 compared with 2015–2016. However, pledges to the replenishment of the GCF and the Global Environment Facility fell during that period. MDBs increased their financial flows to developing countries by 50 per cent since 2015–2016 and approximately USD 25 billion/year is now channelled to developing countries from developed countries.

20. The 2020 BA noted that, while finance flows to developing countries have increased, financial support is primarily geared towards mitigation, with significant increases observed in investments in renewable energy and sustainable transport, as a result of which the related technology costs have fallen. Meanwhile, financial support for adaptation action continues to account for just 20–25 per cent of total support mobilized, with grants still a key instrument in this area.

21. The challenges of assessing the risks of greenwashing and its impact on the real economy were also identified. It was noted that promoting inclusivity and facilitating financing for implementing a just transition will be important in supporting vulnerable developing countries at risk of climate impacts in gaining access to capital to support their development.

B. Enhancing support for developing countries and realizing the USD 100 billion goal

22. The fourth HLMD identified possible actions for enhancing the scale of climate finance. Ministers welcomed the *Climate Finance Delivery Plan: Meeting the US\$100 Billion Goal*, preparation of which was co-led by Jochen Flasbarth and Jonathan Wilkinson, Minister of Environment and Climate Change of Canada, as a critical step towards enhancing transparency and predictability in the provision of financial support, but expressed concerns regarding delays in achieving the goal of jointly mobilizing USD 100 billion annually for climate finance by 2020. The Plan projects a new date for this goal of 2023, and includes a road map to assist developed countries in achieving it. Participants agreed that the goal must be reached and that climate finance should be accessible.

23. While participants appreciated the simplified approval process of the GCF, which has improved access to climate finance, they also expressed concerns about the significant delays between the conception and implementation of projects needed on the ground. The panellists emphasized the importance of project preparation facilities, which can aid developing countries in overcoming constraints faced in developing bankable projects and investment-ready projects.

24. Panellists highlighted that progress has been made in increasing finance for adaptation, which receives less support than mitigation, but that there is still work to be done, noting that adaptation finance should be predominantly grant-based so as to reduce the financial burden on low-income and vulnerable countries.

25. Ministers pointed out the importance of using public finance to de-risk investments and increase private finance to mobilize finance at scale. Innovative business models and financing instruments were identified as being key to de-risking private investment. An example of a financing instrument cited was the catastrophe bond issued by the World Bank that provides the Government of Jamaica protection against losses from tropical cyclones. Ministers also underlined the importance of developing a standard regulatory framework and creating an enabling environment so that developing countries can access capital using a public–private partnership or similar, thus benefiting both investors and governments.

26. Ministers underscored the need for evidence-based financing and enhanced transparency in the climate finance disbursement process, which would assist in scaling up climate finance. Ministers emphasized the role of finance ministers in mainstreaming climate aspects in economic policy, their roles in financial institutions and promoting transparency in finance flows, as well as their role in developing other forms of support, such as special drawing rights through MDBs.

C. Supporting a financial system for a net zero and resilient future

27. The fourth HLMD also took stock of progress in restructuring the financial system around objectives towards achieving a climate-resilient future. Discussions revolved around ways to mobilize the trillions required to finance the transition to low-emission and climate-resilient development pathways, including through private finance, and the critical role of

regulators in fostering harmonization of climate-related finance disclosure and reporting standards. One minister emphasized that grants, investments and subsidies, as well as a blend of all three, will be vital in this regard. Ministers also agreed on the importance of accountability and transparency for attracting funding providers.

28. Participants agreed that innovative financial instruments are imperative to achieving the goals of the Paris Agreement. These may range from government bonds to commercial loans linked to specific environmental indicators that can be tracked or measured. An example cited was sovereign bonds launched by Uruguay that are linked to climate targets, designed to be paid out for climate-related initiatives at a rate that varies on the basis of the extent to which NDC targets have been met.

29. Panellists noted with concern the lack of guidance and taxonomies for transition finance and the challenges resulting from a lack of a common definition of climate finance. They stressed the need for common definitions and clarity in order to build a market for transition finance that excludes market fragmentation and greenwashing. Ministers agreed on the need to find better ways of financing efforts to move away from investments in emission-intensive sectors, particularly in developing countries, and in this regard urged developing countries to develop standard policy and regulatory frameworks, including financing instruments to secure the potential pool of funds globally for implementing NDCs and net zero emission targets. One panellist highlighted the need to transform the financial system to better incorporate financial opportunities, removing subsidies that divert investments away from net zero objectives.

30. Panellists urged governments to align their policies and strategies to encourage funding providers to deploy increased capital for climate targets. They agreed that public-private partnerships, such as the Renewable Energy Independent Power Producer Programme in South Africa and a reforestation project in Costa Rica, are key to leveraging private financing.

D. Scaling climate finance to mobilize the trillions needed in developing countries

31. Participants also discussed the role of actors in scaling up finance in developing countries with a view to mobilizing the trillions needed in developing countries, including the need for multiple sources of finance, including bilateral and multilateral sources, concessional funds, as well as private and innovative sources ranging from special drawing rights and voluntary carbon markets to philanthropic sources. To advance efforts in this area, they noted that developed countries should move from pledges to action and be held accountable on their pledge to deliver on the USD 100 billion goal annually in 2022 and 2023.

32. Ministers highlighted the additional financial support required, with some suggesting that this should be excluded from the amounts issued through traditional development finance. Participants stressed the need to increase the proportion of grant-based and concessional finance, particularly for adaptation, highlighting that high levels of indebtedness in developing countries could make loans burdensome.

33. Panellists urged countries to adopt a standardized framework for blending public and private sources of finance, pointing out the challenges resulting from the 200 frameworks on grid financing currently in place across 40 countries. Panellists also highlighted that standardizing frameworks would reduce the unit costs of technologies and thus encourage investments, citing by way of example the solar scaling platform⁷ managed by the International Finance Corporation designed to develop the photovoltaics market in Africa.

34. Creating synergies between governments, development finance institutions and philanthropic funders would help to de-risk investments. Ministers urged Parties to take bold steps towards achieving the climate finance target, such as phasing out fossil and natural gas projects in favour of renewable energy projects, making available viability gap funding to

⁷ <https://www.scalingsolar.org>.

increase affordability and organizing the Finance in Common Summit for public development banks. Panellists highlighted the lack of a clear mandate for mobilizing private finance and suggested creating a target in this regard with a standard methodology and common definitions and initiating discussions on risk-sharing strategies with a view to scaling up climate finance mobilization.

35. Other ministers highlighted the importance of taking a holistic approach to climate finance by linking climate finance to biodiversity finance and committing to nature-positive investments, emphasizing the importance of involving different sectors and ensuring no one is left behind.

E. Initiatives for leveraging and catalysing public and private finance

36. Participants agreed that mobilizing additional resources is a significant component of achieving the Paris Agreement goals. In this respect, participants emphasized that higher levels of climate finance are needed to mitigate global emissions and adequately adapt to climate change. The following announcements were made on mobilizing climate finance and investment and facilitating capacity-building and technical support:

(a) The representative of the African Development Bank Group announced that the Group has doubled its climate finance target to USD 25 billion by 2025 and increased its adaptation finance by more than 50 per cent in recent years. He also reported on the Africa Adaptation Acceleration Program, led by the African Development Bank and the Global Centre on Adaptation, aimed at backing African-led plans to accelerate the building of resilience across Africa; and the flagship initiative Desert to Power, which seeks to harness the vast potential of solar power across the Sahel region;

(b) The Minister of Finance of Finland announced that Finland is pledging EUR 900 million until 2025 to support developing countries in implementing climate action. The Minister also announced that Finland has committed to the OECD Development Assistance Committee Declaration on a new approach to aligning development cooperation with the goals of the Paris Agreement;

(c) The representative of the International Finance Corporation announced the Corporation's plans to partner with other investors to create a USD 3 billion global platform for climate-smart investments aligned with the goals of the Paris Agreement. He also announced the launch of a USD 2 billion bond to support green, resilient and inclusive recovery, as well as the launch of the Global Energy Alliance for People and Planet, a project initiated together with the Rockefeller Foundation, aimed at mainstreaming philanthropic support in climate finance;

(d) The representative of the French Development Agency announced that the Agency is revising its energy policy and phasing out its involvement in fossil fuel and natural gas projects to focus on renewable energy. He also announced that the Agency is committed to linking climate finance to biodiversity finance to ensure that 30 per cent of its finance is nature-positive by 2025. He also announced that the International Development Finance Club aims to cease financing coal power generation by 2021;

(e) The representative of the Republic of Korea announced the country's continued intention to provide USD 300 million to the GCF and reaffirmed its commitment to triple the amount of its official development assistance for green projects by 2025; The representative of Japan announced an additional national pledge of USD 10 billion in climate finance from both public and private sources, bringing its total climate finance commitment for 2021–2025 to USD 70 billion. This amount includes a doubling of adaptation finance to USD 14.8 billion;

(f) The United States of America Secretary of State reaffirmed the announcement at the World Leaders Summit at the start of COP 26 that the United States will double its annual public climate finance to developing countries by 2024 to USD 11.4 billion, including USD 3 billion for adaptation, thereby tripling its annual provision of adaptation finance;

(g) The representative of the United Kingdom announced that the country is the first in the Group of 20 to mandate companies and financial institutions in the United Kingdom to introduce a Task Force on Climate-Related Financial Disclosures aligned

reporting requirement for the private sector. The representative also announced the launch of a financial centre aligned with achieving net zero objectives and steps it has taken to publish its plans to transition, as per its commitment at COP 26, the financial sector to net zero by 2050. Lastly, he announced that the country has embedded net zero objectives into financial regulations.
