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Fifth biennial high-level ministerial dialogue on climate finance

Note by the President

Summary

This document contains a summary of the fifth biennial high-level ministerial dialogue on climate finance under the Conference of the Parties, held during its twenty-seventh session. It has been prepared by the President of that session with the support of the secretariat. The dialogue was informed by the fifth Biennial Assessment and Overview of Climate Finance Flows and the report on progress towards developed country Parties' goal of mobilizing jointly USD 100 billion per year, both prepared by the Standing Committee on Finance.

Abbreviations and acronyms

COP	Conference of the Parties
LDC	least developed country
MDB	multilateral development bank
NDC	nationally determined contribution
SCF	Standing Committee on Finance
SIDS	small island developing State(s)

I. Introduction

A. Mandate

1. The COP decided to convene a biennial high-level ministerial dialogue on climate finance starting in 2014 and ending in 2020 and requested the Presidency of the COP at the relevant session to summarize the deliberations at the dialogue.[1] The first dialogue was held during COP 20, the second during COP 22, the third during COP 24 and the fourth during COP 26.[2]

2. COP 26 decided that continued discussions on long-term climate finance will conclude in 2027. The COP also decided to convene biennial high-level ministerial dialogues on climate finance in 2022, 2024 and 2026, invited the Presidency of COP 27 to organize the fifth high-level ministerial dialogue, in 2022, on progress towards fulfilment of the goal of mobilizing jointly USD 100 billion per year by 2020, and requested the Presidency to summarize the deliberations at the dialogue for consideration at COP 28.[3]

3. COP 27 welcomed the deliberations at the fifth high-level ministerial dialogue and looked forward to the summary to be prepared by the Presidency for consideration at COP 28.[4]

B. Scope of the note

4. The key messages from the fifth high-level ministerial dialogue are presented in chapter II below, followed by information on the proceedings of the dialogue in chapter III below. Chapter IV below summarizes the presentations and discussions during the dialogue.

C. Possible action by the Conference of the Parties

5. COP 28 may wish to consider this summary as input to its deliberations on long-term climate finance.

II. Key messages

6. Despite the efforts of developed country Parties, there remained a significant gap to reaching the goal of mobilizing jointly USD 100 billion per year by 2020, and a significant financing gap still needs to be closed if the goal is to be achieved by 2025. Climate finance is critical to increasing climate ambition and action in developing countries and building trust between developed and developing countries. Therefore, it is imperative to accelerate the provision and mobilization of climate finance to developing countries with a view to achieving the USD 100 billion goal as soon as possible.

7. Developing countries continue to face challenges in accessing climate finance, the mobilization and provision of which remains inadequate, unpredictable and imbalanced between support for mitigation and for adaptation. Harmonizing and simplifying access procedures, including by facilitating direct access, should be a priority to support effective delivery and use of climate finance.

8. There is a pressing need for a substantial increase in grant-based adaptation finance, particularly from public sources, with a view to achieving a balance between adaptation and mitigation finance in order to effectively address the impacts of climate change. Furthermore, funding arrangements for addressing loss and damage must urgently be established to ensure that developing countries receive the relevant support and resources required.

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[1] Decision 3/CP.19, para. 13.
[2] See https://unfccc.int/topics/climate-finance/workstreams/long-term-climate-finance-ltf.
[3] Decision 4/CP.26, paras. 18, 20 and 21.
[4] Decision 13/CP.27, para. 19.

9. MDBs have a crucial role to play in enhancing the availability of and accessibility to concessional finance, particularly for adaptation, as well as in achieving the USD 100 billion goals and doubling the provision of adaptation finance from the 2019 level by 2025. MDBs must urgently reform their business models to deliver on a larger scale, facilitating access to finance and concessional finance instruments.

10. The private sector, too, plays a crucial role in mobilizing climate investment at the scale required to advance the transformation to low-carbon and climate-resilient economies. However, it is important to acknowledge the challenges in this regard and that expectations regarding the scale of private sector investment have not so far been met.

11. Addressing challenges related to tracking and reporting climate finance is important for accountability, transparency and informed decision-making. Comprehensive reporting on climate finance under the enhanced transparency framework will be crucial to ensuring accountability of Parties and effective monitoring. Burden-sharing criteria would also contribute to enhancing transparency. Furthermore, clarity and consensus are needed on a common definition of climate finance to enable accurate assessment of climate finance flows.

12. There is a shared sense of urgency among stakeholders of the need to increase ambition and efforts and make tangible progress in implementing action towards tackling climate change. Lessons learned in relation to the USD 100 billion goal should inform the ongoing work on establishing the new collective quantified goal on climate finance.

13. While positive trends can be observed in terms of increased ambition, updated NDCs and improved aggregate emission levels compared with those reported in the initial NDCs, finance flows are still misaligned with the needs of developing countries.

14. There are serious concerns about both the debt burden on developing countries resulting from climate finance and the need to strike a balance between supporting mitigation and adaptation efforts as well as addressing loss and damage.

15. Furthermore, it is important that Party and non-Party stakeholders, including women, youth and marginalized communities, be meaningfully included in formulating the new collective quantified goal on climate finance.

III. Proceedings

16. The fifth high-level ministerial dialogue was convened on 14 November 2022 during COP 27 by Sameh Shoukry, President of COP 27, who, with the support of the secretariat, prepared a programme for the dialogue and invited ministers and representatives of national and regional government, officials of the United Nations, representatives of the operating entities of the Financial Mechanism, senior representatives of MDBs and climate finance experts from civil society, academia and the private sector to participate. The programme, webcast and other information relevant to the dialogue are available on the UNFCCC website.[5]

17. The dialogue was co-moderated by Aminath Shauna, Minister of Environment, Climate Change and Technology of Maldives, and Maria Ohisalo, then Minister of the Environment and Climate Change of Finland.

18. Simon Stiell, UNFCCC Executive Secretary, and Wael Aboulmagd, Special Representative of the COP 27 President, delivered opening remarks.

19. Two scene-setting presentations were delivered by members of the SCF: Diann Black-Layne presented findings from the fifth Biennial Assessment and Overview of Finance Flows,[6] and Gabriela Blatter and Richard Muyungi presented findings from the report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address

[5] https://unfccc.int/event/5th-high-level-ministerial-dialogue-on-climate-finance.

[6] See https://unfccc.int/topics/climate-finance/resources/biennial-assessment-and-overview-of-climate-finance-flows and document FCCC/CP/2022/8/Add.1–FCCC/PA/CMA/2022/7/Add.1.

the needs of developing countries in the context of meaningful mitigation actions and transparency of implementation.[7]

20. Subsequently, the following high-level participants made interventions:

(a) Franz Tattenbach Capra, Minister of Environment and Energy of Costa Rica;

(b) Steven Guilbeault, Minister of Environment and Climate Change of Canada;

(c) Saber Hossain Chowdhury, Minister in the Ministry of Environment, Forest and Climate Change of Bangladesh;

(d) Jennifer Lee Morgan, State Secretary and Special Envoy for International Climate Action of Germany;

(e) Nafkote Dabi, Head of Climate Policy at Oxfam International;

(f) Ambroise Fayolle, Vice-President of the European Investment Bank.

21. Finally, an open discussion was held among ministers, senior officials and heads of organization, including representatives of government, multilateral organizations and observer organizations, guided by the following questions:

(a) Recognizing that the USD 100 billion goal has yet to be fulfilled, what are the key areas of progress, challenges and lessons learned, particularly in the areas of adaptation finance and concessional finance?

(b) How can the goal be best delivered at the latest in 2023 despite the current challenges?

(c) What specific actions can be taken to enhance and simplify access to climate finance from concessional sources and international investment flows?

(d) How can transparency in the delivery of the goal be further enhanced? What steps should be taken to improve the transparency of information on climate finance provided, mobilized and received in order to build a common understanding?

(e) What lessons can be derived from the delivery of the goal and considered in the context of the deliberations on the new collective quantified goal on climate finance?

IV. Summary of presentations and discussions

A. Fifth Biennial Assessment and Overview of Climate Finance Flows

22. The fifth Biennial Assessment found that global climate finance flows were 12 per cent higher in 2019–2020 than in 2017–2018, reaching an average of USD 803 billion per year. This increase was driven mainly by investments in mitigation, particularly in buildings and infrastructure; sustainable transport; and adaptation.

23. Climate finance flows from developed to developing countries were also higher in 2019–2020, by between 6 and 21 per cent depending on the source, than in 2017–2018. This includes 6 per cent growth in climate-specific finance provided by Parties included in Annex II to the Convention, a 17 per cent increase in funds from MDBs and a 21 per cent rise in finance from multilateral climate funds. However, the combination of climate finance flowing through bilateral and multilateral channels and private finance mobilized through public interventions was not enough to meet the USD 100 billion goal by 2020.

24. More public finance was committed to mitigation than to adaptation in 2019–2020, as in previous years. However, a positive trend can be observed: adaptation finance increased by 39 per cent through bilateral channels and by 48 per cent through MDBs in 2019–2020

[7] SCF. 2022. *Report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation*. Bonn: UNFCCC. Available at https://unfccc.int/process-and-meetings/bodies/constituted-bodies/standing-committee-on-finance-scf/progress-report.

compared with 2017–2018. Adaptation finance is predominantly delivered to developing countries through grants, which accounted for 57 per cent of bilateral flows and 99 per cent of multilateral climate funds in 2019–2020, whereas mitigation finance is primarily in the form of loans.

25. At the regional level, Asia and Africa received the largest amounts of public climate finance in 2019–2020. The proportion of overall public climate finance that flowed to the LDCs remained relatively stable at 20–25 per cent, while SIDS received in the range of 2–7 per cent.

26. Global climate finance flows in 2019–2020 amounted to 31–32 per cent of the annual investment required to limit global temperature rise to well below 2 °C or 1.5 °C.

B. Report on progress towards the USD 100 billion goal

27. The first technical report by the SCF on progress towards the USD 100 billion goal examines progress in terms of finance flows, addressing the needs of developing countries, and implementing mitigation actions and enhancing transparency thereof.

28. The report indicates that the goal was not achieved by 2020 according to historical data, but that forward-looking estimations suggest that it might be achieved by 2023 within a range of USD 101 billion to USD 106 billion. The report highlights the mismatch between the time frame of overall climate finance flows pertaining to 2019–2020 and the longer time frame of needs, mostly for 2020–2030, in the first report by the SCF on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement.[8]

29. In 2016–2020, 46 per cent of climate finance flowed to meet needs in the energy and transport sectors, despite developing countries identifying greater funding needs in sectors such as agriculture, forestry and water. In terms of regional percentage distribution of both finance flows and identified needs, these aligned in Asia (42 versus 39 per cent) and Latin America (17 versus 18 per cent), but in Africa the finance needed was much higher than the finance received (36 versus 26 per cent).

30. Positive trends can be observed in terms of increased ambition, with 194 Parties reporting on their mitigation ambition in the NDCs in 2021 compared with 88 Parties in the initial NDCs in 2010.

31. Challenges in reaching the USD 100 billion goal include the mobilization of up to 60 per cent less private climate finance for and within developing countries in 2020 than was set out in the 2016 *Roadmap to US$100 Billion*.[9] Lack of private sector involvement and the economic shocks and debt burdens faced by developing countries have led to the need for more concessional public climate finance. In addition, simplified access modalities and innovative financial instruments are needed to increase access to capital.

32. Significant knowledge gaps hindered the assessment in the report of progress towards the USD 100 billion goal, such as lack of detailed guidance on how to measure and track progress on the goal, as well as gaps in the availability and issues of consistency of relevant and robust data and information on climate finance flows. The report emphasizes the importance of setting a robust goal from the outset with clear metrics and methods to guide effective implementation and tracking of progress.

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[8] SCF. 2021. *First report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement*. Bonn: UNFCCC. Available at https://unfccc.int/topics/climate-finance/workstreams/determination-of-the-needs-of-developing-country-parties/first-report-on-the-determination-of-the-needs-of-developing-country-parties-related-to-implementing.

[9] Available at https://unfccc.int/documents/195853.

C. Summary of the discussions based on the guiding questions

1. Progress, challenges and lessons learned in relation to the USD 100 billion goal, particularly in the areas of adaptation finance and concessional finance

33. Participants acknowledged the efforts of developed country Parties to enhance delivery of climate finance and appreciated the work on the *Climate Finance Delivery Plan: Meeting the US$100 Billion Goal*.[10] However, serious concerns were raised about the USD 100 billion goal not having been met by 2020, leading to calls for urgent achievement of the goal considering the needs in developing countries to enhance their climate ambition. Concerns were also expressed about the financial gap that still needs to be closed to reach the goal and the challenges faced by developing countries in accessing finance, as well as their increasing debt burden.

34. While some developed country Party representatives acknowledged the disappointment of not meeting the goal so far, the commitment of developed country Parties to fulfilling their financial obligations in 2023 was asserted, with several expressing their commitment to contributing their share in the USD 100 billion goal by allocating funds to assisting developing countries, with a particular focus on the LDCs and SIDS. Some highlighted efforts to mobilize funds beyond the USD 100 billion goal, with an emphasis on diversifying funding sources and actively engaging both the public and the private sector.

35. Participants underscored the need to increase adaptation finance, particularly in the form of grants from public finance, referring to the substantial requirement for enhanced funding, estimated by the United Nations Environment Programme in its *Adaptation Gap Report 2022*[11] to be 5–10 times higher than the present level, to adequately address the challenges posed by climate change. Increased international finance is needed, as well as more focus on adaptation funding, as key measures to bridge the financing gap and effectively support developing countries in their adaptation efforts. Additionally, an implementation plan was called for in the context of the decision adopted at COP 26 urging developed country Parties to at least double their collective provision of climate finance for adaptation to developing country Parties from the 2019 level by 2025.[12]

36. Participants emphasized the urgency of accelerating progress in climate finance provision while maintaining a balance between adaptation and mitigation funding and encouraging adaptation finance to be based primarily on grants and public sources to avoid adding to the debt burden of developing countries. Involving local-level stakeholders such as local governments and banks in climate finance discussions and enhancing the relevant capacity of local communities were deemed crucial for effective adaptation. Furthermore, participants highlighted the importance of long-term predictable finance, calling for financing systems that can provide continuous funding to support climate action. They stressed the need for predictable and expedited financial flows from both public and private sources, at the domestic and international level, for effectively implementing NDCs and national adaptation plans.

37. Participants supported the inclusion of the item on funding for addressing loss and damage in the agenda for COP 27, highlighting the significance of addressing this matter, particularly for SIDS that are particularly vulnerable to climate impacts. In their interventions, some participants emphasized the importance of drawing lessons from past experience when establishing a fund for loss and damage, as well as the immediate need to establish a fund dedicated to addressing loss and damage caused by climate change, calling for tangible action and the allocation of new and additional public grant-based finance to support developing countries.

[10] Available at https://ukcop26.org/wp-content/uploads/2021/10/Climate-Finance-Delivery-Plan-1.pdf.

[11] United Nations Environment Programme. 2022. *Adaptation Gap Report 2022: Too Little, Too Slow – Climate adaptation failure puts world at risk*. Nairobi: United Nations Environment Programme. Available at https://www.unep.org/resources/adaptation-gap-report-2022.

[12] Decision 1/CMA.3, para. 18.

2. Achieving the USD 100 billion goal in 2023 at the latest despite current challenges

38. Participants recognized the crucial role of MDBs in meeting the USD 100 billion goal and doubling adaptation finance. However, they highlighted the need for MDBs to contribute a greater share of climate finance and fundamentally reform their business models. This includes improving analysis of the economic costs of climate change, considering the Group of 20's review of MDBs' capital adequacy frameworks,[13] increasing climate-dedicated capital, incentivizing countries to borrow funds for climate action, and increasing concessionality in the context of the global debt burden. It was acknowledged that MDBs and international financial institutions cannot meet climate investment needs alone but should work in partnership to explore synergies, bridge knowledge gaps and deliver climate finance effectively. Aligning climate finance with development goals, improving access to concessional finance, reducing bureaucracy and harmonizing approval processes between UNFCCC funds and MDBs were emphasized as needs. A representative of the European Investment Bank highlighted the importance of establishing a long-term strategy facility funded by high-income countries for responding to the increasing demand for implementing long-term strategies for low-carbon and climate-resilient development and addressing climate adaptation and mitigation financing needs.

39. Participants called for countries to be accountable in facilitating the transition to sustainable financing, and underlined the importance of ensuring that climate finance does not support any fossil fuel projects and of prioritizing effective financing for adaptation measures. The successful implementation of fossil fuel tax regulations in Costa Rica was highlighted, as was the use of green subsidies to fund emission reduction initiatives in the areas of agro-industry, land and forestry. Additionally, a representative of Timor-Leste expressed the country's willingness to reduce its dependence on fossil fuels and transition from its fossil fuel reliant economy contingent upon viable financing opportunities to support this shift.

40. The discussions emphasized the need for just transition in the allocation of climate finance, prioritizing the well-being of all individuals and promoting equality and inclusivity in decision-making processes. The transition to low-carbon and climate-resilient economies should likewise prioritize fairness, taking into account the health and well-being of all individuals. Some participants stressed the importance of directing climate finance to priority areas, especially for adaptation efforts in vulnerable countries; and some the significance of ensuring equitable contributions based on Parties' historical emissions and common but differentiated responsibilities.

41. There was recognition of the importance of mobilizing private sector funding alongside public finance to achieve significant climate impact. While some interventions have focused on unlocking private investment through effective strategies and institutional arrangements for, and conditions conducive to, engaging the private sector in collective efforts aligned with the goals of the Paris Agreement, concerns were expressed about shifting responsibilities to the private sector and developing countries as this is not in line with the commitments made by developed countries. It was emphasized that private investment should not replace public funding as both sources are crucial. Additionally, the need to differentiate between public sector funds, private finance from donor countries, and domestically mobilized finance within recipient countries in the context of international development was highlighted. Although the private sector plays a crucial role in mobilizing finance at scale, challenges and unmet expectations regarding its involvement were acknowledged. Use of innovative tools and collaboration with the private sector were considered essential, alongside public financial resources, to meeting climate finance needs.

3. Enhancing and simplifying access to climate finance from concessional sources and international investment flows

42. It was highlighted that accessing climate finance continues to pose a significant challenge, attributed to the limited capacity of developing countries in this regard and complex and lengthy access procedures. Navigating modalities, accreditation requirements and the disbursement process were highlighted as specific areas of difficulty, with the

[13] Available at https://cdn.gihub.org/umbraco/media/5094/caf-review-report.pdf.

complexity of the multilateral finance architecture compounding these challenges. High transaction costs, slow disbursement of funds, lack of flexibility of finance providers to adapt to changes in requirements and complex approval procedures were identified as additional barriers to accessing climate finance. Simplifying processes and reducing access requirements were emphasized as priority areas for expediting access to funds, as well as having diverse channels of delivery, including national development banks and climate funds, and ensuring transparency through clear access criteria and time limits on disbursement in order to provide equal access opportunities for all, particularly for the capacity-constrained and vulnerable countries.

43. Challenges faced by developing countries in accessing financial resources, including from the Green Climate Fund, were acknowledged, prompting calls for streamlined and harmonized access procedures, particularly through a direct access modality. The efforts of the Canadian Government to support capacity-building through the Climate Finance Access Network, which deploys financial advisors to vulnerable SIDS and Latin American countries, were highlighted.

44. Furthermore, improved capacity-building programmes were called for, with a suggestion to move beyond project-based interventions and focus on long-term capacity development to support countries in accessing and using climate finance effectively. It was highlighted that climate finance provision should prioritize a human-rights-based approach to and promote gender equality in climate action, ensuring the meaningful participation of women, diverse gender groups and marginalized communities in decision-making.

4. Enhancing transparency in relation the USD 100 billion goal

45. Participants underscored the criticality of transparency of climate finance provision to fostering trust between developed and developing countries and ensuring accountability. They recognized barriers that are hindering transparency efforts, such as use of different definitions of climate finance and complexities in accounting for and reporting on climate finance, and highlighted the need to address challenges related to tracking and reporting on climate finance, including developing indicators and metrics for measuring progress towards the USD 100 billion goal. In this regard they recommended establishing a new reporting system within the enhanced transparency framework to enhance the efficiency and effectiveness of reporting on private finance mobilized through public interventions, with developed countries reporting on support provided and developing countries reporting on climate finance received. Several participants emphasized the need for enhanced transparency and reporting, including through a common definition of climate finance, suggesting measures such as a commitment tracking dashboard and clear processes for accessing climate finance. Overall, transparency was deemed crucial for ensuring effective delivery of climate finance.

5. Lessons learned from the USD 100 billion goal for consideration in the context of the new collective quantified goal on climate finance

46. There is a crucial need to overcome barriers to accessing climate finance from both the supply and the demand side, as well as a need to establish a new goal that aligns with the present needs of developing countries and facilitates mobilizing resources at scale. Participants underlined that lessons learned from the USD 100 billion goal have demonstrated the importance of setting a new collective quantified goal on climate finance beyond 2025 through negotiations, ensuring scalability and responsiveness to growing needs, primarily relying on public sources. It was highlighted that the new goal should address concerns regarding the debt burden resulting from climate finance and strive to strike a balance between support for mitigation and adaptation as well as address loss and damage. Both Parties and non-Party stakeholders must be meaningfully involved in formulating the new goal, ensuring the inclusion of, inter alia, women, youth and marginalized communities. Furthermore, participants stressed that the new goal should go beyond being purely a numerical target, with political engagement required to ensure that it is structured effectively. In the context of establishing the new goal, some emphasized the need to expand the contributor base in order to scale up mobilization and provision of climate finance.