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First Technical Expert Dialogue under the Ad hoc Work Programme on the New Collective Quantified Goal on Climate Finance
24 – 25 March 2022
Kirstenbosch National Botanical Gardens, Cape Town, Republic of South Africa

SESSION 2: Lessons learned from mobilization of climate finance
24 March 2022
14:00 – 15:00 (GMT +2)

Description: This session aims at providing space for participants to share views and experience on the mobilization of climate finance, including from the goal of mobilizing jointly USD 100 billion per year in the context of meaningful mitigation actions and transparency on implementation, and how these can inform deliberations on the NCQG.

Scene-setting presentation: Sandra Guzman, Climate Policy Initiative

- CPI has been tracking climate finance flows for 10 years through its Global Landscape of Climate Finance.
- Definition: "primary capital flows directed toward low-carbon and climate-resilient development interventions with direct or indirect GHG mitigation or adaptation benefits"
- Key findings:
    - growing average 10% yearly since 2013 (including both public and private finance): $342 billion in 2013 to $640 billion in 2020
    - All international flows private and public accounted for USD 953 billion. 45% ($426 billion) were flows from OECD to non-OECD
    - However, increased unequally: mitigation finance increasing yearly 6%, AF 21%, cross-cutting (address both) 16%
    - Even though AF increasing, still an imbalance: in 2020, 57% for mitigation and 29% for AF ($21 billion)
    - Main instruments: for mitigation, project level market rate debt (38%) and low-cost project debt (27%); for AF, grants (31), low cost debt (23%), 32% through "unknown instruments". So a gap in financial flows and information provided
    - Climate finance growing but still behind estimated needs. Non annex I countries will need $589 billion yearly to implement NDCs. In 2020, OECD to non OECD climate finance was $79 billion. South-South cooperation, meanwhile, accounted for $29 billion, and domestic flows 302 billion.
    - Current investment levels are nowhere near enough to limit warming to 1.5c; by 2030, annual CF must increase by 590% to $4.35 trillion per year

1. Climate finance definition: climate finance flows are increasing, but need to define what counts as climate finance to improve tracking

2. Effectiveness: quantity is growing, but gap in understanding quality
3. Adaptation gap: quantity for AF is growing, but still a gap with mitigation finance
4. Transparency: climate finance information from public and private sectors is improving, but still limited access (especially from private sector)
5. Needs: current flows are nowhere near estimated needs, but developing countries need support to give best estimates
6. Interlinkages: more granular reporting to assess progress on indicators like SDGs
7. Alignment: need to accelerate reduction of fossil fuel investment in addition to finance in order to meet Paris 2.1.c

Moderator: Sonia Dunlop, E3G

Panelists:

Amal-Lee Amin, CDC Group

> The $100 billion goal has led us to chase big targets, but in the absence of available projects, there is actually a disincentive for MDBs to bring in private partners. We've had lots of focus on mobilization from countries such as India, but we also need expertise from banks and utilities and need to be able to refinance. In most countries the challenge is not mobilization but getting good projects and making sure public sector is incentivizing the right projects to bring in the private sector. We need concessional funding to reduce the coasts of higher technologies out there, but there are policy and political economy barriers preventing tech from coming forward. So there's lots of work to be done at the country level in this area. The finance goal creates an incentive for big projects, but many smaller projects are also important, especially for adaptation.

Abhishek Acharya, India

> $100 billion was a unilaterally set target, not an inclusive project. Further, it relied heavily on non-concessional and non-public finance. So, we need a new approach for development that would rely on public and concessional finance for developing countries. Their needs have increased over the years, and the number needed now runs in the trillions. The historical responsibility and polluter pays principle (CBDR) should inform the conditions of these flows.
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> There should also be study on how the $100 billion target was formed, and how specific climate actions under it have aligned with the needs of LDCs. The quantity and quality of climate finance are equally important, and the process must be transparent.

Norbert Gorissen, Deputy Special Envoy for International Climate Action, Federal Foreign Office

I have five points. One, there is a need for proper communication between finance provider and recipient. It is not always well coordinated—sometimes development ministers, sometimes environment—so what is needed, is the alignment of agendas and goals. Two, the debate on access is misunderstood. For providers, finance has to be accountable, avoid corruption, and be delivered with transparency. For recipients, this looks like bureaucracy and risk-aversion. So the MDBs could play a key role in bridging this gap (e.g., GCF) and creating direct access. Three, adaptation finance is more about grants, not leveraging public and private, which is why it's lower. It's also not always clear what AF means, so more clarity could help. Four, there's been lot of progress in private finance with new instruments, funds, actors to play a key role, but not always in ways beneficial for least developed countries, who are not the target of mobilized private finance as well as public AF. Five, we hear finance say the money is there, what we lack are projects. This is absolutely key. We need the development of project pipelines, which is a task for MDBs and others. This grant financing could be blended with private investment.

Eric Usher, UNEP Finance Initiative

I have three points. Coming from the view of private financial sector, this is what they'd say. One, we really need to clarify definitions [of climate finance, adaptation, etc]. It's otherwise very hard to get private sector on board, and they've had a tough time understanding what is climate finance, and what isn't. Two, we need to move from a transactional to a systemic level, one that aligns with developments post-Paris, and especially post-2019. Three, it's not only about getting more climate finance, but also moving capital away from high carbon areas.

Going forward for the NCQG, definition matters—it should be conclusive and granular—so that expectations are defined from the outset. This will allow for more clarity as well as science-based approaches. The financial sector knows more about the science today than they ever have. Finance is just an enabler for investments to occur, so that initial number [of $100 billion] is not as important. We know public finance can't do it on its own, so mobilizing and crowding in (versus "crowding out") should be the public sector's strategy. The race to zero, for instance, is something the private sector understands—both more green and less dirty. GFANZ is another example, where about 45% of the financial system now has a net-zero target. Transition finance is at the center of this, as Europe's energy needs following [Russia's invasion of Ukraine] make clear. The private sector is looking for clarity from politicians and processes to say, how can we be measured and rewarded for moving in the right direction? As Mark Carney said in Glasgow, it's now all about the plumbing.