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Clarity and predictability of climate finance needed for national planning in developing countries

Katowice, 14 Dec (Evelyn Teh) - Having clarity and predictability on the sources of climate finance is key for decision-makers in developing countries to ensure that climate considerations are mainstreamed into national development plans and policies.

This was stated by developing country ministers, from Egypt, China and Uruguay at the high- level ministerial dialogue on finance held on Monday, 10 Dec at the climate talks under the UNFCCC in Katowice, Poland.

Dr Yasmine Fouad, the **Minister of Environment** of **Egypt** called for the of the words of the Paris Agreement (PA) to be made clear for decision makers so that is clarity and predictability of finance, referring to the on-going negotiations on the need for developed countries to provide the ex ante information on the levels of public financing available under Article 9.5 of the Paris Agreement (PA). She explained further that all countries had challenges and upfront information on finance is a prerequisite for actions and for building trust to walk the journey. Similar sentiments were expressed by ministers from China and Uruguay. (See further details below).

The high-level climate finance dialogue was on "Translating Climate Finance into Action" and was moderated by Manuel Pulgar-Vidal, WWF International. The four-hour session which was conducted in segments was to enable an open discussion between the ministers and experts on the way forward on climate finance.

At the opening of the session, **Michal Kurtyka**, the President of COP 24 said that the overall goal was to speed up the mobilisation of climate finance. Referring to Article 9 of the PA, he iterated on the importance that "Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention". He continued to emphasize that "as part of the global effort, developed countries should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels".

The COP 24 President also mentioned that the findings of the 2018 Biennial Assessment (BA) by the Standing Committee on Finance (SCF) revealed that on a comparable basis, the climate finance flow had increased by 17% in the period 2015-2016, compared to the period 2013 - 2014.

Lord Nicholas Stern, Chair of the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE) said that the finance ministry in countries holds the most of the power and called the 'shots' but environment ministers have ideas, enlightenment, a sense of purpose and direction. "If we put the two together, we can achieve great things," he added.

Stern said the next decade was critical in the type of choices made on infrastructure and capital flow which will either unlock us in high emissions or set us on low carbon growth path which can be sustainable and inclusive. Sustainable infrastructure was in the core of both the PA and the Sustainable Development Goals (SDGs) and therefore the scale and nature of infrastructure demand over the next decades will be the big elements of investment over the next two decades – with a focus on energy, transport, water and sanitation, and telecommunication.

He highlighted that actions in these 5 key sectors can unlock investment growth and sustainable development – that which is able to generate over

65 million additional low carbon jobs, make available USD2.8 trillion from carbon pricing revenues and removal of fossil fuel subsidies – all these while avoiding 700,000 premature deaths from air pollution. This, he said is an extremely attractive growth story if we get it right. Given the scale of investment required for sustainable infrastructure and development, a generally significant scaling up of financing is required from all sources of domestic, public and international – including the links between them to make them stronger and to drive them up to scale, said Stern.

Progress towards reaching the target of climate finance commitment has been slow, he added but said that the multilateral development banks were now moving more strongly. He called for an enhanced partnership based on a new understanding of climate action is much needed as development banks can play a key role in moving from billions to trillions to finance the new global agenda. Lord Stern ended by noting that, "there is no long run carbon growth story, it is self – destruction".

Seyni Nafo (Mali) from the Standing Committee on Finance (SCF)**,** then presented key findings from the 2018 BA for the period between 2015 and 2016. He said while there has been an increase of global climate finance flows by 17% in the period of 2015-16 compared to 2013 to 2014, funds under the UNFCCC and other multilateral funds such as the Adaptation Fund are quite small compared with global estimates. Nafo said that the challenges in global climate finance lay in the methodology and metrics used, especially in making finance and the overall investment consistent with mitigation and adaptation. He added that SCF hoped to identify opportunities and interventions taking place to ensure that we move rapidly in bringing about more consistency between the pathway to the PA targets and what happens in the real finance world. Among some of the recommendations for the way forward include rectifying the methodological issues directed at data collection and tracking at large, from both developing and developed country.

'Mobilising finance and investment to translate climate finance needs into action'

The opening was followed by a moderated discussion centred on mobilising finance and investment to translate climate finance into action. Moderated by Lord Stern, the questions presented to the panellists was on how countries ensure climate considerations are mainstreamed into national development plans and policies and inform financial decision-making and accountability. Among the speakers included the following:

Minister Fouad of **Egypt** stated that the challenge lay with the link between the finance and environment ministries. Translating the words of the PA is key so that it is clear to the decision makers at national level as to the clarity and predictability of the sources of finance such as how much is there as this will help policy makers to realistically plan accordingly. Building of mutual trust needs to be in place, that is the developing countries need to ensure accountability as well on their projects, added the minister further. She also said that the form of the financial instrument is another important factor to avoid an increasing debt (if the instrument is a loan), as otherwise, the development process will be hit by a high financial costs.

She also emphasized that countries should have clear view on what are the eligibility criteria for projects financed to be financed. Having clarity on eligibility criteria is a pre-requisite in translating policies into planning – especially when they have to work across sectors. Also important is the need to assess what the needs of developing countries are and how much those needs can be met. This, Fouad said, is important for the replenishment of the Green Climate Fund (GCF), which must be ensured in order for the Fund to serve the developing countries.

The Egyptian Minister also stressed the importance of looking beyond the figures on finance, to have a clear vision of the journey, recognising that not everything can be done at one go and for there to be at least an assurance that we are on the correct trajectory to get to where we need to be.

French junior Environment Minister Brune Poirson, stated that her country is committing USD 15 million to the Adaptation Fund and USD 20 million to the Least Developed Countries Fund and will also contribute to the GCF, and called for the governance of the latter to be reformed as best as it can, to ensure the use of veto (in decision-making in the GCF Board) is not an obstacle. She said that France has the highest carbon tax within the European framework. Referring to recent demonstrations by the "yellow vests" movement in Paris, she said that there was need to respond to the questions raised by the people.

Laura Tuck, Vice President Sustainable Development of World Bank stated that there was need for various ministries in the government to be brought together and to have a shared vision to drive low carbon and resilient investment policies to create the reforms. The ministry of environment alone could not do this, she said.

Dr Vincent Biruta, Minister of Environment, Republic of Rwanda said that development goals require a governmental institutional capacity that could implement these policies. A clear vision by the government is required which transcends to the private sector and the civil society in order to be a climate resilient nation. He said that we cannot rely solely on public sector to finance climate action, but also need to green the global financial sector to attract private sectors.

Nick Bridge, UK Special Representative for Climate Change said that it had doubled its the climate finance since COP 21, and that the UK government has also collectively decided to align all its processes with the PA processes to demonstrate what public climate finance could bring to the COP and fight against climate change.

'Enhancing access to climate finance'

Moderated by Nick Robins from LSE, this session focused on the progress and remaining barriers in enhancing access to climate finance, focusing both on enhancing access to climate funds and to international and domestic private finance and investment.

Karolina Skog, Minister for the Environment of Sweden said that the country remained committed to mobilise its climate finance target and acknowledged the importance of increasing the predictability in climate finance flows. She stated that Sweden remained committed to the GCF and urged all potential contributors to make sure that a favourable outcome will be reached for a successful replenishment. The minister also announced that Sweden will provide an amount of Swedish 50 mil kr (approximately USD5.5 million) each to the Adaptation Fund and the LDC Fund.

Xie Zhenhua, Special Representative for Climate Change Affairs of China stated that the question we are addressing at the core of every COP is inevitably on climate finance. Referring to the negotiations and the need for transparency and predictability of climate finance, the minister said that although much has been announced in terms of climate finance going to developing countries, these resources are often not seen by countries. To ensure that financing would be scaled-up, there is a need for a predictable long-term goal on finance, with steps that are put in place.

To implement its nationally determined contribution (NDC), he said that a lot of resources was needed, where China is using public financing to leverage more than 90% of financing from private sector. The right policies needed to be in place, said the minister. In order to limit temperature rise, a change in lifestyle is needed on the way we consume, said Zhenhua. The minister also said that the USD100 billion per year climate finance commitment is a drop in the ocean and that enhanced support was needed.

Naoko Ishii, Chief Executive Officer, Global Environment Facility(GEF) said that urgent transformational change at an unprecedented speed in all aspects of society was needed. She said that the GEF has completed its fund replenishment. She said that now is a good time to think about new adaptation strategies that required in the longer term policies, adding that we need to find ways to leverage private sector in climate action.

Naina Lal Kidwai, Commissioner of the Global Commission on the Economy and Climate said that financing is needed at the grassroot level, stating examples from some places in India where microfinancing distribution has been channelled into solar pumps, cooking stove, and other projects related to the provision of energy. The projects have been successful and 99% of the loans are repaid; and this demonstrates the potential, as well as the need, for a bottom- up approach to be critical aside from the typical top-down approach in climate financing.

Eneida de León, Minister of Environment, Uruguay said that climate financing must be predictable and adequate. He said that a number of projects in developing countries could not be funded, acknowledging that the choice of financial mechanism is exclusively linked to the nature and the specific aspect of the project. He stressed the need for direct access to funds, in order to raise the level of investment in addition to simplifying, promoting and strengthening the accreditation process.

James Shaw, Minister for Climate Change of New Zealand stated that the country focuses its climate funds on the Pacific as they were on the frontline of climate change impacts. A quarter of the Pacific island's annual budget is climate change related, which otherwise should have been spent on their health, education and other public expenditures. He announced that New Zealand will contribute NZD 3 million to the Adaptation Fund.

Javier Manzanares, Executive Director ad interim of the GCF stated that in the last three years, the GCF has 93 projects worth USD 4.6 billion dollars, in 96 developing countries in mitigation and adaptation. He said that through the use of a variety of financial instruments such as grants, loans, equity and guarantee, the GCF is able to use public funds in a most catalytic way by taking higher risk positions to open new markets and innovation; which will benefit from improved and simplified approval processes.