Chatham House COP26
Diplomatic Briefing Series:
Climate Finance and the COP

Event date: 20 April 2020
Introduction

The fourth event in the Chatham House COP26 Diplomatic Briefing Series – ‘Climate Finance and the COP’ – took place on Monday 20 April 2020. Due to COVID-19, it took the form of a webinar. Kirsty Hamilton, Associate Fellow in the Energy, Environment and Resources Programme of Chatham House, chaired the briefing, and the panel consisted of:

- Mattias Frumerie, Director at the Swedish Ministry for Foreign Affairs;
- Tenzin Wangmo, Lead Negotiator of the Least Developed Countries (LDC) Group;
- Iseoluwa Akintunde, Mo Ibrahim Foundation Academy Fellow in the Energy, Environment and Resources Programme of Chatham House; and
- Rachel Ward, Programme Director and Head of Policy at the Institutional Investors Group on Climate Change (IIGCC).

The attendees primarily consisted of members of the London-based diplomatic community and representatives of the UK government.

Key messages

- Climate finance has strong links to other parts of the UN climate negotiations, like adaptation, loss and damage, and Article 6 of the Paris Agreement (international carbon markets). The most important climate-finance-related agenda item at the 26th Session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP26) is likely to be the start of the discussions on a new climate finance goal, which is set to replace the current goal in 2025.1 Another important element will be the presentation of a report outlining the needs of developing countries in terms of finance, technology transfer and capacity-building.

- The LDC Group regards climate finance as essential for raising climate ambition and enabling developing countries to implement their Nationally Determined Contributions (NDCs). Achieving the current finance goal, closing the existing funding gap, agreeing on a clear and common definition of climate finance, extending the long-term finance mandate beyond 2020, and improving developing-country access to climate finance are key priorities for the LDCs. They also call on developed countries to report on their climate-finance-related efforts under the UNFCCC2 long-term finance work programme, and to achieve a balance between mitigation finance and finance for adaptation, loss and damage, and resilience-building.

- Investors care about climate change both because it presents risks to their existing investments, and because the net-zero emissions transition is associated with important new investment opportunities. As such, investors are taking a wide range of actions. These efforts could, however, be accelerated with the right policies in place. There is strong pressure to scale up private finance in developing countries, but multiple factors impact negatively on investor confidence in these settings.

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1 Under current arrangements, developed countries have pledged to mobilize $100 billion per year by 2020 to finance climate action in developing countries.
2 UN Framework Convention on Climate Change.
• Actions taken to recover from the economic impacts of the COVID-19 pandemic should be aligned with the goals of the Paris Agreement.

Climate finance at COP25 and COP26

Mattias Frumerie initiated the discussion by reflecting on how COP25 had handled climate-finance-related issues. The discrepancy between public expectations for the conference and its actual outcome had been stark, as had the disconnect between what climate science demands in terms of mitigation action and what COP25 had delivered. There had, however, been a third – potentially more encouraging – gap. While the negotiations had under-delivered, the business community – and especially the financial sector – had presented solutions and were pushing the climate agenda forward.

Frumerie emphasized that climate finance has strong connections to other parts of the COP negotiations. Adaptation, loss and damage, and the negotiations on Article 6 had been prominent features of COP25, and all these issues include a climate finance component. He highlighted that the most significant climate-finance-related agenda item at COP26 is likely to be the start of the deliberations on a new climate finance goal, which is set to replace the current goal in 2025. Another important feature of the conference will be the presentation of a report outlining the needs of developing countries in terms of finance, technology transfer and capacity-building – a workstream led by the UNFCCC Standing Committee on Finance.

In his closing remarks, Frumerie highlighted that strengthening the links between the climate and development agendas is likely to have a positive impact on climate action. The Paris Agreement, the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda should be implemented jointly.

The priorities and perspectives of the Least Developed Countries

Tenzin Wangmo conveyed the perspectives and priorities of the LDC Group in relation to climate finance. She emphasized that finance is key to raising climate ambition, to enabling the implementation of the NDCs, and to reaching the goals of the Paris Agreement. In this context, she mentioned specifically that the NDCs of many developing countries are conditional on the availability of finance. Wangmo further underscored that the current finance goal must be fulfilled, that there are significant funding gaps at all levels, and that closing this gap is a central priority for the LDC Group. She also stressed that the long-term finance mandate should be extended beyond 2020, that it should be linked to a new and more ambitious climate finance goal, and that the process must reflect the priorities and needs of developing countries. Wangmo further conveyed the point that reaching an agreement on a common and clear definition of climate finance is key to building trust. She also stressed that the LDC Group calls on developed countries to report on their efforts under the long-term finance work programme, and that it is essential to achieve a balance between mitigation finance on the one hand, and finance for climate adaptation, loss and damage, and resilience on the other hand.

Wangmo emphasized that it is not just the availability of climate finance that matters but that accessibility is very important too, not least for the communities and people who need it most. At present, it is estimated that the LDCs receive only 18 per cent of global climate finance, and that less than 10 per cent of resources reach the local level. According to Wangmo, the procedures of the various climate funds need to be simplified and streamlined to make climate finance more accessible to developing countries. The importance of increasing accessibility was echoed by Iseoluwa Akintunde. He emphasized that improving direct access to climate finance for institutions in developing countries may help to ensure that climate projects are tailored to the local context. Since 2008, efforts have been made to increase direct
access to climate finance for developing countries, but challenges remain. Many institutions in developing countries are unable to meet the standards and requirements of the climate funds, and in cases where they can, they might not be able to design actual projects that match the funding criteria of the climate fund in question. According to Akintunde, understanding the requirements of the various climate funds imposes severe strains on the capacity of developing countries. Similarly to Wangmo, he recommended increased collaboration, coherence and complementarity across the multilateral climate funds, and referred to the role of the COP in pushing this agenda forward. In his closing remarks, Akintunde noted the importance of ensuring that the proliferation in different partners seeking to improve climate finance readiness in developing countries does not over-stretch the capacity of these countries and thereby possibly undermine their ability to receive climate finance. He also emphasized that there is a lack of awareness in developing countries about the availability of climate finance, and that this problem is particularly acute at the local level.

Investors and the Paris Agreement

Rachel Ward focused on the role of investors in achieving the goals of the Paris Agreement. She emphasized that investors care about climate change both because it poses risks to their existing investments and because the net-zero emissions transition offers significant new investment opportunities. Investors are already taking a wide range of measures to address climate change. They increasingly invest in low-carbon development and resilience, make net-zero commitments, and seek to align their portfolios and funds with the goals of the Paris Agreement. Moreover, investors integrate climate change in their governance, strategies and risk management approaches, and report publicly on these efforts. They also use their power as shareholders to try to steer high-emitting companies on to a more sustainable path. Ward noted that the activities could be accelerated and scaled up if the right policies were in place, given the strong signals these would send to investors. The importance of policy for investment decisions is one critical reason why many investors advocate for stronger climate action and engage in the COP process. This year, a level of ambition consistent with 1.5°C in the new, or updated, NDCs is a central area of focus for investors, according to Ward.

In her final remarks, Ward addressed the important, but difficult, issue of scaling up private finance for climate action in developing countries. She said that there is strong pressure on investors to engage more in these countries, but that multiple factors can impact negatively on investor confidence. Political stability, conflict, governance, a predominance of micro-projects, and risks directly associated with climate change are some examples. According to Ward, investors recognize that increased dialogue with national governments, donor countries and the multilateral development banks is a possible way forward.

Green recovery

The speakers underlined the importance of ensuring that actions taken to recover from the economic impacts of COVID-19 are aligned with the goals of the Paris Agreement. In this context, Frumerie welcomed the statement by the members of the European Council from 26 March, which calls for the integration of green transition considerations in recovery efforts; and the statement from the meeting of the G20 Finance Ministers on 15 April, which notes that the G20 shall work towards delivering an

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3 Historically, both climate and development finance have primarily been channelled through the multilateral development banks.
4 One of the goals of the Paris Agreement is to keep the rise in global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.
environmentally sustainable and inclusive recovery. He also emphasized that if climate change considerations are adequately incorporated in recovery efforts, the world might arrive at a better place than where it was before the COVID-19 outbreak. Wangmo emphasized the need to support developing countries, especially LDCs, in order to enhance their resilience to both health and climate crises. She underscored that future discussions on climate finance should strengthen the response to climate change in the context of poverty eradication and sustainable development. Wangmo further stressed that the window of opportunity provided by COVID-19 must be used to build a climate-friendly economy, and that economic stimulus packages must be aligned with the goals of the Paris Agreement. Ward highlighted that the IIGCC and partners are developing an investor statement on a sustainable recovery, which would be published in the following weeks. In the Q&A session, held under the Chatham House Rule, one of the panellists raised the point that it is unclear whether ‘green recovery’ support provided by developed countries to developing countries will be classified as ‘new and additional’ resources, and that this lack of clarity might lead to controversy further down the line.

Discussion

The issue of increasing awareness about the availability of climate finance was raised again in the Q&A session. One speaker highlighted that development finance institutions, like the World Bank, should request that governments that apply for loans or grants explain the climate rationale behind the development projects for which they are seeking funding, and that this might be an effective way of raising awareness. Another speaker emphasized the critical role of finance ministries in increasing awareness of climate finance availability, and stressed the need to incorporate climate change considerations in to national budgets and development plans. A third speaker highlighted the point that ensuring that local stakeholders in developing countries can participate in workshops, and other forms of capacity-building efforts, could be another way forward.

The Q&A session also addressed the issue of how to enhance coordination among the plethora of development partners seeking to help build climate finance readiness in developing countries. In this context, one speaker suggested that it would be helpful if there were one sole entity to which national and subnational governments, as well as companies, could turn when seeking this kind of support. Another solution might be to let private stakeholders in a given country apply for support from one specific institution, the national government from another institution, and subnational stakeholders from a third.

Finally, the discussion reverted to the needs assessment being developed by the UNFCCC Standing Committee on Finance, and how that assessment is to be used. One speaker highlighted that the report should feed into the deliberations on a new finance goal. Another speaker underlined that the assessment might lead to increased standardization when it comes to determining financing needs, and that this might improve the system through which those needs are funded.