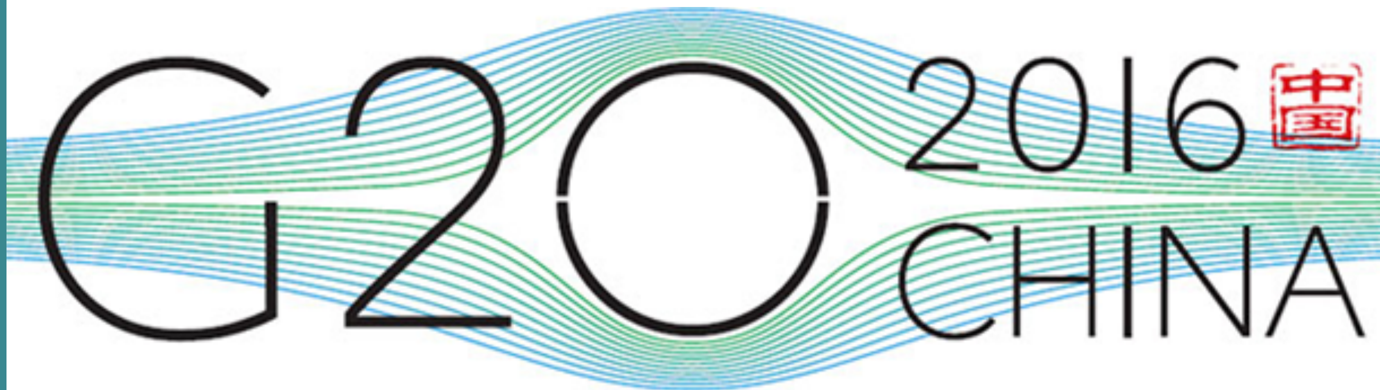

Climate Finance Study Group

G20 Outlook

on

Mainstreaming Climate Change Considerations into Development Assistance and Climate Finance Programs

June, 2016

EXECUTIVE SUMMARY

The G20 Climate Finance Study Group – CFSG decided in 2016 to share experiences on the topic of *Mainstreaming climate change considerations into international public finance with a view to maximizing sustainable development & climate co-benefits*. In this context, the Group invited CFSG country members to present their views and experiences on the following key issues identified by the CFSG on this topic:

- *Climate action should be in line with development priorities consistent with the Sustainable Development Goals (SDGs) and Nationally Determined Contributions (NDCs);*
- *Support should be client driven and focused on helping countries achieve their NDCs;*
- *Provision and mobilization of concessional resources is necessary – GCF and GEF and other funds, such as the Climate Investment Funds, play a key role to bridge the viability gap, support innovative approaches and scale up of nascent technologies;*
- *The different contexts and scopes of operation of institutions should be taken into account. Mainstreaming climate change should respect the mandate of each institution and how it contributes to its core objectives;*
- *Relevant experiences should be acknowledged and analyzed, to evaluate impacts on operations and gather lessons learned;*
- *Need for clear strategies and plans to address climate change, providing transparency in the provision and mobilization of climate finance for stakeholders and a mandate for management;*
- *Manage climate risks, considering appropriate measures to build resilience to climate change - thereby contributing to poverty reduction.*

Climate change presents significant challenges and opportunities for development, in particular in the context of sustainable development. International, regional and national financial institutions are increasingly considering climate change as an important factor in their operations, recognizing opportunities for investments that contribute to sustainable development and promote mitigation and adaptation to climate change.

Furthermore, the Paris Agreement states as one of its objectives making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development[1]. It is also provided in the Agreement 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; other

[1] FCCC/CP/2015/L.9/Rev.1, Paris Agreement, Article 2.

Parties are encouraged to provide or continue to provide such support voluntarily; and as part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds. The decision accompanying the Agreement invites all relevant United Nations agencies and international, regional and national financial institutions to provide information to Parties through the secretariat on how their development assistance and climate finance programmes incorporate climate-proofing and climate resilience measures[2] and invites non-Party stakeholders to inform on opportunities to build resilience and decrease vulnerability to the adverse effects of climate change[3].

When carrying out development aid activities, relevant institutions are therefore encouraged to consider climate elements, to increase climate resilience of development aid activities, and achieve co-benefits of development and climate change. This could help developing countries maximize the synergy effects of development and address climate change while further improving the quality and benefits of development and poverty reduction activities. In this context, the consideration of climate change is not to result in the reduction of the support of international public funds to sustainable development of developing countries, while new and additional climate finance remains a necessary factor for improving the resiliency of development efforts.

According to article 9 of the Paris Agreement:

"1. Developed countries shall provide financial resources to assist developing countries with respect to both mitigation and adaptation in continuation of their existing obligations under the UNFCCC.

2. Other countries are encouraged to provide or continue to provide such support voluntarily.

3. As part of a global effort, developed countries should continue to take the lead in mobilizing climate finance from a variety of sources, instruments and channels, noting the significant role of public funds".

Provision and mobilization of new and additional financial resources, on a grant or concessional basis, is important to bridge financing gaps for mainstreaming climate change in international public finance. The consideration of climate change should contribute to the enhancement of the support of international public funds for the sustainable development of developing countries, and reduce the imposition of additional costs on developing countries.

The following issues are highlighted as relevant points of attention on the outlook for mainstreaming climate change considerations in international public finance, and notably within financial institutions, without hampering the fundamental development mandate of these institutions.

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[2] FCCC/CP/2015/L.9/Rev.1, Paris Agreement, Decision paragraph 44.
[3] FCCC/CP/2015/L.9/Rev.1, Paris Agreement, Decision paragraphs 126 and 133.

KEY ISSUES ON MAINSTREAMING CLIMATE CHANGE CONSIDERATIONS INTO DEVELOPMENT ASSISTANCE AND CLIMATE FINANCE PROGRAMS

1. CLIMATE ACTION SHOULD BE IN LINE WITH DEVELOPMENT PRIORITIES CONSISTENT WITH THE SUSTAINABLE DEVELOPMENT GOALS (SDGS) AND NATIONALLY DETERMINED CONTRIBUTIONS (NDCS)

Under the United Nations Framework Convention on Climate Change (UNFCCC), the Paris Agreement clearly requires that the actions addressing climate change should be guided by the Convention's principles, including "the principle of equity and common but differentiated responsibilities and respective capabilities, in the light of different national circumstances"[4], and undertaken "in the context of sustainable development and efforts to eradicate poverty"[5]. The actions on mitigation and adaptation to climate change under Nationally Determined Contributions may contribute to the overall goal of 2030 Agenda for Sustainable Development.

One of the salient feature of the Paris Agreement is that it reflects a country-driven approach to climate change actions. Countries' Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), National Adaptation Programmes of Action (NAPAs) and other commitments under the Paris Agreement take into account different national priorities, circumstances and capabilities, thus taking into account their development imperatives. In parallel, the Sustainable Development Goals (SDGs) involve not only traditional survival issues such as poverty reduction, education and health, but also issues in the field of environment such as climate change and disaster reduction. These frameworks represent a transformative and ambitious approach to national and global development efforts that can help build an inclusive and sustainable future for all. Development assistance and climate finance programs should be guided by this approach.

More specifically, the 13th SDG aims at taking urgent actions to tackle climate change and its impacts, acknowledging that the United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change. Efforts to mitigate and adapt to climate change should be in line with the Paris Agreement as well as the targets of SDG13, which are as follows:

"13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

13.2 Integrate climate change measures into national policies, strategies and planning

[4] FCCC/CP/2015/L.9/Rev.1, Paris Agreement, introduction.
[5] FCCC/CP/2015/L.9/Rev.1, Paris Agreement, Article 2.

13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning

13.a Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly $100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible

13.b Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities."

To ensure that countries can respond to climate change in accordance with the development goals and their voluntary contribution targets set under their NDCs, NAPAs, NAPs, and / or other strategic frameworks, development agencies and project implementing organizations of donor and recipient countries have to work closely together to develop climate change response. While sharing any strategies that get developed by each organization, efforts need to be made to select the most optimal option for achieving the two goals. In addition, institutional measures such as exchange of personnel and information between the organizations could also contribute in this effort.

2. Support should be client driven and focused on helping countries achieve their NDCs

In order to ensure that climate action is in line with development priorities, country ownership should be ensured for all projects and programmes supported through development assistance and climate finance programmes. Developing countries are facing arduous development tasks. They should identify the orientation and plan for utilization of international funds based on their development priorities and the most fundamental and urgent needs.

To support countries in developing country-driven pipelines of transformational projects and programmes consistent with their NDCs, NAPs, other priority frameworks, developing countries may receive assistance to translate NDCs into specific investments and policy interventions. Synergies between climate action and development priorities should be exploited wherever possible and alignment with the overarching ambition of the Paris Agreement should be ensured.

Support provided to recipient countries therefore needs to build on the broad framework of the NDCs, NAPs, and other priority frameworks of the host country, and ensure through strong communication and partnership:

- Identification of areas for support through engagement with stakeholders at the country level, including local financial institutions, with a view to promoting country ownership and build capacities in the public and private sectors.
- Opportunities for direct participation of developing country implementing or executing entities, including through direct access to the Green Climate Fund and the Global Environment Facility.

3. Provision and mobilization of concessional resources is necessary – GCF and GEF and other funds, such as the Climate Investment Funds, play a key role to bridge the viability gap, support innovative approaches and scale up of nascent technologies

Access to financial resources on a grant or concessional basis remains a relevant factor in supporting mitigation and adaptation efforts in developing countries.

The Green Climate Fund and the Global Environment Facility, the entities entrusted with the operation of the Financial Mechanism of the UNFCCC, will play a central role in the provision and mobilization of concessional finance. Climate finance provided to these entities should be new and additional. The Climate Investment Funds, and other funds financing climate-related activities, have and may continue to complement the Financial Mechanism of the UNFCCC.

Concessional climate finance, making a balanced support to mitigation and adaptation, can facilitate technological development and transfer, focus on improving self-innovation capacity of developing countries in order to help them effectively address climate change and achieve sustainable development. It could be targeted at facilitating transformational impacts and shifting practices from business as usual, supporting efforts, including through higher risk appetite, to overcome investment barriers and redirect investment flows towards a low-GHG-emission and climate-resilient economy, while striving to minimize the required level of concessional finance. Indeed, investors may refrain from areas like technology development in the face of high risks. Concessional resources can lower the risk in return of the project and send a positive signal to private investors that the project receives policy support from credible institutions, thereby inducing private investment. However, concessional finance should not subsidize risk beyond the level needed to induce investment. Connecting the dots between different sources of concessional finance is important to promote an efficient use of resources.

The provision of concessional finance should take into account the needs of recipients and the vulnerability of countries and population groups to the effects of climate change.

Climate finance on a grant or concessional basis should be structured so that, in addition to resilience, priority is also given to investments that have high co-benefits. In other words, priority should be given to projects that pursue a synergy between development and climate goals. Relevant examples include:

- Renewable energy with an eye to employment, building new industries, as a driver for economic growth and for reducing air pollution
- Resilient land use practices, above all in agriculture: preserving biodiversity and reducing emissions, while securing food supplies
- Sustainable transport systems: enhancing accessibility and mobility, providing savings in travel time and fuel costs, reducing GHG emissions, air pollution, and lowering health risks.

4. THE DIFFERENT CONTEXTS AND SCOPES OF OPERATION OF INSTITUTIONS SHOULD BE TAKEN INTO ACCOUNT. MAINSTREAMING CLIMATE CHANGE SHOULD RESPECT THE MANDATE OF EACH INSTITUTION AND HOW IT CONTRIBUTES TO ITS CORE OBJECTIVES

Each Development Finance Institution has a mandate, aiming at addressing economic and social, and also environmental development issues in the developing countries where it operates. Consideration of climate elements should not hamper the mandate of these institutions on poverty reduction and development. In order to ensure that climate action is in line with development priorities, country ownership should be ensured for all projects and programmes supported through development assistance and climate finance programmes.

The objective of maximizing sustainable development and climate co-benefits should guide efforts to mainstream climate change.

The consistent mainstreaming of climate change considerations across development assistance and climate finance programmes is crucial. Mainstreaming, however, must not stop with the assessment of climate impacts, but must include the alignment of development assistance and climate finance programmes with the aim of holding the increase in the global average temperature to well below 2°C and pursuing efforts to limit the temperature increase to 1.5°C, as well as the aim of increasing the ability to adapt to the adverse impacts of climate change and the effects of response measures. Thus, an effective way of mainstreaming climate considerations into activities can be to integrate the necessary assessments into the appraisal cycle for decision making as a systematic procedure, both assessing the potential impacts of projects in terms of greenhouse gas emissions, and assessing climate-related risks to projects, based on their nature and location (sector, geography, vulnerability of population, type of intervention, economy…).

More generally, mainstreaming climate change considerations throughout financial institutions' operations, notably MDBs, implies a shift from financing climate activities in incremental ways, to making climate change an important consideration through which institutions deploy capital. We take note of the Five Voluntary Principles[6] for mainstreaming climate change as they were proposed in the context of COP21 by a number of financial institutions[7] moving forward in the process of adapting to and promoting climate smart development:

- **Commit to climate strategies** when addressing climate change;
- **Manage climate risks** to determine appropriate measures for building resilience to climate impacts and improving the long-term sustainability of investments;
- **Promote climate smart objectives** to generating instruments, tools and knowledge on how best to overcome risks and barriers to investment in low GHG emissions and resilient investments;
- **Improve climate performance** through operational tools;
- **Account for climate action** by increasing transparency on the allocation of financing for climate-related activities and reporting on the climate footprint of the institutions' own investment portfolio.

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[6] http://www.worldbank.org/content/dam/Worldbank/document/Climate/5Principles.pdf

[7] The five voluntary Principles to Mainstream Climate Action within Financial Institutions were initially developed by a group of multilateral development banks (MDBs) and several members of the International Development Finance Club (IDFC), a network of national, regional and international development banks. This group was soon joined by several other public and private financial institutions worldwide.

5. Relevant experiences should be acknowledged and analyzed, to evaluate impacts on operations and gather lessons learned

It is important to summarize the experience of international public finance in supporting developing countries to take climate change action or take into account climate elements in development aid activities, and in contributing to the implementation of NDCs, NAPs and other priority frameworks and towards achieving more ambition in this matter.

The international community may consider how to extend relevant successful practices and cases, with particular attention to ways to effectively combine the objectives of international public finance with country specifics and needs, taking into account experiences as well as ongoing research on further developing mainstreaming practice.

Knowledge sharing among institutions should be encouraged, such as the engagement undertaken by Multilateral Development Banks, the International Development Finance Club – IDFC and other development partners.

The development of a platform for mutual exchange of experience among recipient countries would contribute to gather lessons learned. The decision by the Green Climate Fund to offer a platform for knowledge sharing, as proposed in its Strategic Plan, is welcome.

6. Need for clear strategies and plans to address climate change, providing transparency in the provision and mobilization of climate finance for stakeholders and a mandate for management

Development Finance Institutions should develop clear strategies and plans to address climate change comprehensively across their portfolios, working closely with each other in order to ensure complementarity, coherence and greater impact on the ground.

The establishment of a framework of priorities, goals and tools, at the institutional level, can facilitate the engagement of stakeholders and provide transparency in the process of mainstreaming climate change considerations into operations of institutions.

The provision of a mandate for management can improve coordination and promote accountability.

Improving transparency with respect to sources, deployment and use of climate finance can enhance cooperation between partner countries, which can in turn facilitate the mobilization of even more resources can be mobilized.

7. Manage climate risks, considering appropriate measures to build resilience to climate change - contribution of poverty reduction and development to promote resilience

Countries and institutions will have to tackle many climate related challenges and risks in the coming decades. Natural hazards and disasters such as droughts, floods, and storms contribute to ecological disturbance, economic damage, and social disruption.

Managing such risks is a major challenge and a key component of poverty reduction, particularly for developing and least developed countries, as climate change impacts and associated impacts are severely felt by poor and vulnerable people. Climate resilient poverty alleviation and development contribute to enhancing the resilience of these individuals to the adverse effects of climate change.

Strengthening climate risk management is an important approach to help developing countries improve their capacity in addressing and adapting to climate change and better meet development and poverty reduction goals. Particular attention is needed to addressing community resilience toward climate change, including through appropriate design of spatial planning and specific programs for food, water, infrastructure and energy resilience. Therefore, governments may consider setting priorities on climate change policies and simultaneously pursue capacity building of implementing entities for risk management.

Possible options include gradual establishment of climate risk monitoring and early warning systems at country, regional and global levels so as to reduce the threat posed by climate risks to development and poverty reduction.