Making Finance Work for Climate

A contribution from major groups and coalitions of public and private financial actors **to the UNFCCC post-2025 climate finance processes: the New Collective Quantified Goal & Sharm el Sheikh dialogue**

November 2024

We, a group of major coalitions of financial stakeholders, public and private, from developing and developed countries across the world,

- Representing the:
  - International Development Finance Club (IDFC), the leading group of 27 national and regional Public Development Banks (PDBs) from all over the world, representing the largest provider of public development and climate finance globally, with USD 4 trillion in combined assets and annual commitments above USD 800 billion, including an average of more than USD 200 billion per year of climate finance,
  - UNEP Finance Initiative (UNEP FI), with a membership of more than 500 largely private sector financial institutions, from developed and developing countries worldwide, representing more than USD 170 trillion in financial assets, including over 45% of global banking assets,
  - Mainstreaming Climate in Financial Institutions initiative, a coalition of 55 public and private financial institutions from around the globe, aiming to systematically integrate climate change considerations across their strategies, programs, and operations,
  - Principles for Responsible Investment (PRI), the world's leading independent proponent of responsible investment, representing the largest international network of investors with over 5,000 signatories and over US$ 121 trillion in assets under management.

- joining efforts for climate-consistent sustainable development and the full implementation of the Paris Agreement and the UAE Consensus;

- recognising the magnitude of the climate mitigation, adaptation and loss and damage challenges, and the urgency to act;

- recognising that meeting the climate needs and priorities of developing countries, particularly the most vulnerable, is imperative for the attainment of climate change objectives globally;

- joining forces, in a whole-of-financial-system approach, for the reorientation of all financial capital and flows in line with our common climate, biodiversity, resilience and sustainable development objectives, in support and as an enabling condition of the corresponding transformation of the global economy and societies;

present today a series of elements for consideration by the current climate finance deliberations under the UNFCCC (New Collective Quantified Goal on Climate Finance - NCQG, and Sharm el-Sheikh dialogue – SeS), aiming at supporting a new, scaled up and impactful post-2025 financial regime for climate action, on par with the challenges before us.

These elements are the following:

1. **The NCQG and Sharm el-Sheikh dialogue (SeS) outcomes must deliver on the ultimate goals of the Paris Agreement**

We consider the design and implementation of this future financial regime as vital for transforming finance to enable an effective global response to the threat of climate change, in the context of sustainable development and the eradication of poverty. The features of the NCQG and the outcomes of the SeS must be commensurate with the challenge at hand, i.e. a systemic mobilisation of public and private finance towards the implementation of the Paris Agreement and the UAE Consensus. The current negotiations represent a unique opportunity to incentivise substantially more impactful public and private climate funding. They must lead to the effective mobilisation of climate finance to address the scale and urgency of climate challenges, especially in the most vulnerable, high emission and/or high transition risk contexts, as well as the irrevocable alignment of the entire financial and economic systems with the Paris Agreement.

2. **The NCQG and the SeS can achieve this by developing a comprehensive quantitative and qualitative approach based on existing good practices,[1] and on countries' differentiated contexts, priorities, ambitious policies and long-term strategies.**

Making finance work for climate implies embracing the interconnected and complementary challenges of:

i. **addressing vulnerable contexts and other unserved or underserved climate mitigation, adaptation and loss and damage priorities and solutions**, by substantially increasing adequate financial volumes targeting them and facilitating access to such finance; while
ii. **avoiding action with negative climate effects**, by fostering the alignment of all capital and financial flows, including for technical assistance, with both countries' differentiated low-carbon and resilient development pathways and the goals of the Paris Agreement; as of today, these flows remain largely inconsistent with such pathways and goals; and
iii. **acting at a systemic level for whole-of-economy shifts, beyond specific projects and investments' direct impacts**, by fostering finance that is effective in enabling or enhancing positive transformations, including - but not limited to - the scaling up and reorientation of private finance volumes for climate mitigation, adaptation and resilience. This requires among others, beyond seeking large direct impacts through projects and investments, acting on systemic levers and making, in a structural manner, Paris-aligned investments more financially attractive than non-aligned or misaligned investments.

1 For instance, among others, work and principles and methodological publications of the MDBs: Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment (MDBs Working Group on Paris Alignment) and of the IDFC: Implementing Alignment with the Paris Agreement (Climate Policy Initiative, I4CE, IDFC); publications of groups of think tanks: Ambitious Alignment with the Paris Agreement in Public Development Banks (E3G, I4CE, NewClimate, Germanwatch); of the UNFCCC: PA-ALIGN, LEG Technical Brief, August 2021 (UNFCCC); and of public and private financial institutions' coalitions such as the 5 voluntary principles for Mainstreaming Climate in Financial Institutions.

3. **A more strategic, collaborative and qualitative use of public finance, contributing to the mobilisation and reorientation of public and in particular private financial flows towards climate action, is essential, and should be incentivised by the NCQG and SeS.**

A growing number of coalitions of financial actors highlight the imperative for a more collaborative global financial architecture bringing together the public and private financial sectors, from developing and developed countries, including policymakers, supervisors and regulators, credit rating agencies, philanthropy etc. This would contribute to a more strategic and efficient use of concessional resources to mobilise public and in particular private financing, which represents the largest share of flows, to achieve positive climate impacts.[2]

Public Development Banks (PDBs), in particular, are uniquely positioned to facilitate the conditions required by the private sector to scale investments, including in emerging and developing economies.[3] Beyond direct investment de-risking, which is a key and necessary element of the solution, albeit not sufficient for the required scale of action, PDBs can contribute in a more catalytic and systemic manner by supporting the elaboration and implementation of conducive financial and/or sectoral policies, regulations and corresponding systems. They can also accompany, engage in and provide support to strategic evolutions and transition plans of a wide range of relevant public or private entities (local authorities, public utilities, corporates, financial institutions, etc.), via technical assistance, capacity building, contributions to and facilitation of policy dialogues and other activities. In essence, PDBs can play a key role to help move from transaction-level impacts to more systemic, cross-sectoral, whole-of-society effects, by making a strategic use of public and concessional resources available.

Mobilising the full potential of all PDBs, from MDBs to regional, international, national and sub-national PDBs, in developing and developed countries, requires strengthening their mandates and business models and providing strong incentives for them to work as a system and ambitiously align with the SDGs, the Paris Agreement, the Kunming-Montreal Global Biodiversity Framework (KM-GBF), the Sendai Framework for Disaster Risk Reduction and other relevant frameworks, such as the United Nations Convention to Combat Desertification (UNCCD). It is also essential to enhance their capital base and facilitate their access to concessional resources and capacities, including for PDBs based in developing countries. The NCQG and SeS can send bold signals towards such objectives.[4]

2 cf. recommendations of major coalitions of financial actors, such as the Joint Declaration of All Public Development Banks of the World (Finance in Common), the Call To Action: Scaling Private Capital Mobilization supported by major coalitions of private financial institutions; the report on Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies (NGFS), the Open Letter in Support of an Ambitious New Collective Quantified Goal on Climate Finance published by IICGG for COP29, and others.

3 cf. for instance NZAOA: Scaling Blended Finance (UNEP FI)

4 cf. among others IDFC-Contribution-Post-2025-Climate-Finance

4. **The NCQG and the SeS can play a decisive role in developing global, system-wide coherent frameworks to guide action.**

Such frameworks would significantly incentivise the climate-consistency of all financial flows and foster collaboration among the different stakeholders of the system (Public Development Banks, private financial institutions, regulators and policy makers, rating agencies, etc.), towards the achievement of impact at the scale and pace required.

We hereby call for the development and adoption of a differentiated characterisation of financial flows, including those for technical assistance and capacity building, according to their qualitative contribution to addressing the three above-mentioned challenges: (i) move finance away from non-aligned and misaligned action; (ii) provide finance where it is not available for climate priorities; and (iii) shift the focus from project-level direct impacts to seek more system-level transformations. Such differentiated characterisations would be instrumental to address these challenges.

Specifically, **beyond the existing characterisations of**:

- **Climate finance**, i.e. finance that generates direct positive climate impacts (e.g. as jointly defined and tracked by the MDBs and IDFC for mitigation and adaptation, and/or as reported by the Standing Committee on Finance within the UNFCCC), and of
- **Paris-aligned finance**, i.e. finance that is consistent with countries' differentiated low GHG-emission and climate-resilient pathways, including corresponding transition processes and plans, and with the goals of the Paris Agreement, in the context of sustainable development,[5]

which need to be reinforced, the above considerations call for the **establishment of a systematic characterisation of**:

- **"Transformational finance for climate"**, i.e. finance aiming at the sustainable transformation of entire systems and/or catalytic effects on mobilising and reorienting larger financial flows (e.g. from the private but also the public sector), in line with country climate priorities and longer-term pathways.

Such a characterisation, supported and incentivised by the NCQG and the SeS, would be instrumental in fostering the above effects delivered by PDBs in particular. Corresponding efforts can draw upon reflections already led by PDB groups,[6] dedicated Climate Finance windows and instruments (e.g. CIFs, GCF), UNEP FI and other groups of public and private financial institutions (e.g. Mainstreaming Climate in Financial Institutions initiative).

5 cf. for instance MDBs and IDFC work based on the Joint MDBs Declaration-Alignment Approach to Paris Agreement or the IDFC-Alignment with Paris Agreement Position Paper; work coordinated by UNEP FI such as How to Align with the Paris Agreement-Resource Note for Banking Associations and Banks; Climate Transition Finance Handbook by ICMA, Scaling Transition Finance and Real-Economy Decarbonization by GFANZ, ASEAN Transition Finance Guidebook, …

6 e.g. MDBs on-going work on outcome metrics and on transformational finance, efforts coordinated by IDFC and the Finance in Common coalition, …

Key attributes of *transformational finance for climate* may include its relevance vis-a-vis country contexts and pathways and the Paris agreement; the intended scale of effects such finance would contribute to - large or systemic by nature; and the sustainability of such effects, from financial, social, economic and environmental viewpoints.

Examples of such financial climate action with high transformational potential will pertain notably to: supporting capacities with regards to country-driven long-term strategies, policies, regulations or action plans; the elaboration of NDCs with higher ambition; reforms targeting market barriers; the elaboration of financeable investment projects pipelines; the introduction of needed technical innovation, including technology transfer; investments with direct benefits at scale; the alignment of value chains and actors, including among others supporting the design and implementation of climate strategies of companies, financial institutions, local authorities and other stakeholders; reinforcing the catalytic role of PDBs, in particular national and sub-national PDBs, and other local actors; supporting actions that are transformational with respect to the integration of both mitigation and adaptation, and/or nature based solutions and biodiversity, and/or just transitions; and more generally supporting the design and implementation of activities with systemic scope.

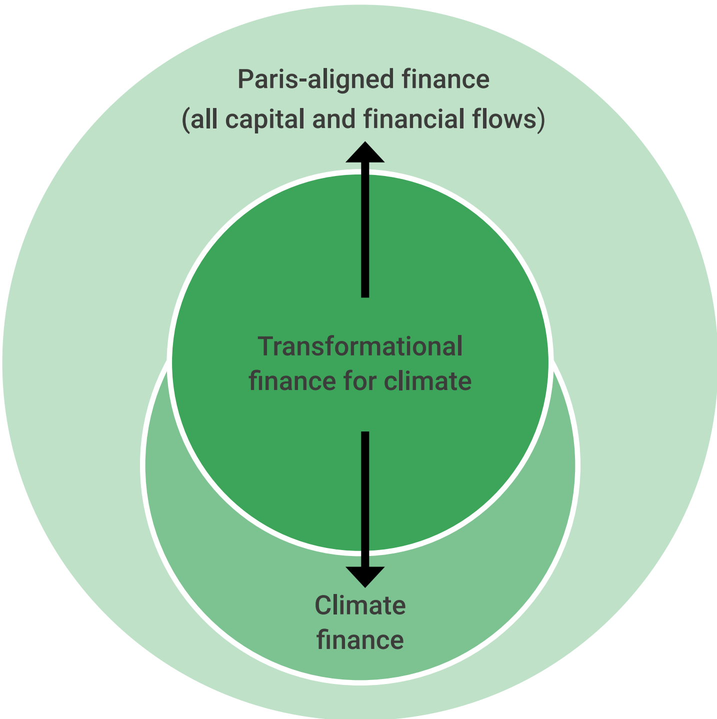

Figure 1: Transformational finance for climate, to ramp up the effects of climate finance and accelerate the Paris-alignment of finance

We invite other groups and coalitions of financial stakeholders (public, private, philanthropic, regulators and policymakers, …) to join us in facilitating the convergence of views from financial practitioners and promoting a whole-of-finance approach regarding the futures of financial action for climate. We also stand ready to continue providing concrete inputs and actionable proposals to the UNFCCC negotiations on the above elements.