Mobilizing Finance to Meet Our Climate & Development Goals

A Synthesis of the IHLEG's 2nd Summary Report

February 2024

Preface

This paper is a distillation of the policy actions found in the Second Summary report of the Independent High-Level Expert Group on Climate Finance launched in Dubai at COP28. A final extended version of that report is due to be published soon.

This note aims to distil some of the statistics and figures in the report in order to be a resource for organisations working on financial architecture reform. Unless footnoted, all information, data and recommendations come from this report.

Acknowledgements

Authored by:

Céline Mulrean, Policy Consultant, Project Everyone

With support from:

- **Amy Agnew**, Campaigns Consultant, Project Everyone
- **Jamie Drummond**, Founder, Sharing Strategies
- **Dorothy Masara**, Program Associate, Sharing Strategies
- **David McNair**, Executive Director Global Policy, ONE Campaign
- **Anna Strobl**, Campaigns Manager, Climate Emergency Collaboration Group (CECG)
- **Meghna Abraham**, Executive Director, Center for Economic and Social Rights (CESR)
- **Matthew Forgette**, Research Fellow, Center for Economic and Social Rights (CESR)
- **Dileimy Orozco**, Senior Policy Advisor, E3G
- **Jwala Rambarran**, Senior Policy Advisor, Caribbean Policy Development Centre (CPDC)

Table of Contents

Introduction 1

Tackling Debt and Fostering Investment in EMDCs 2

Strategies for Enhancing Climate Finance 2

1. The Role of Multilateral Development Banks 3

2. Expanding Concessional Finance 3

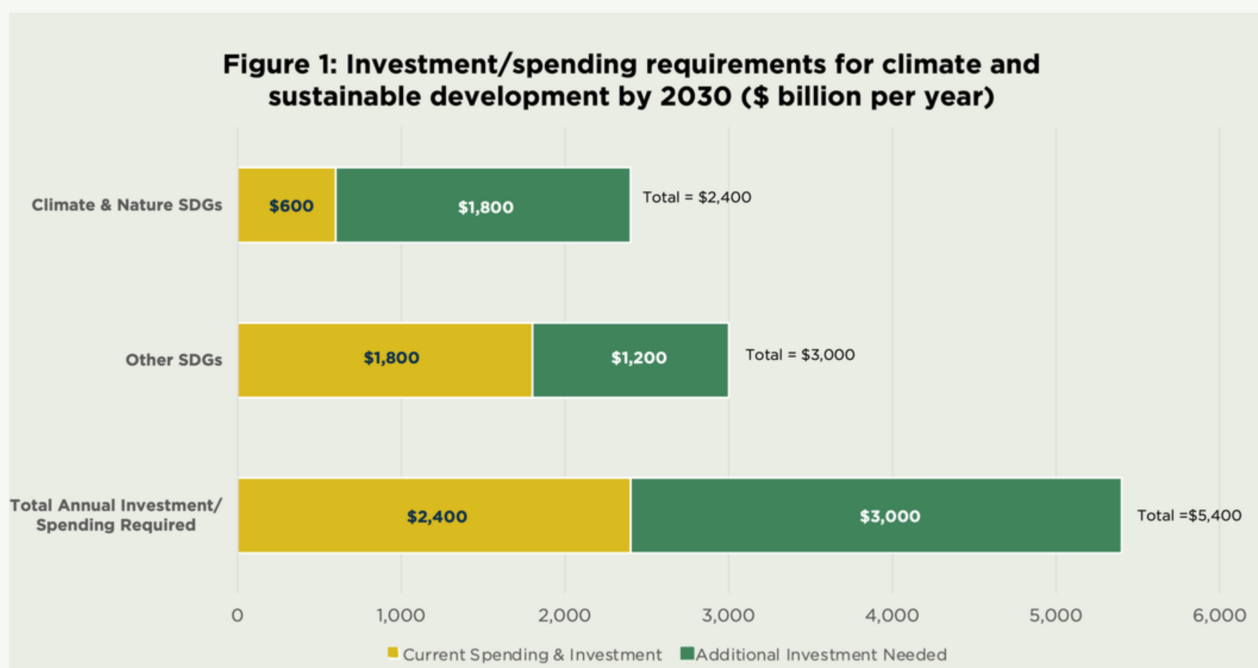
3. Domestic Resource Mobilization 4

4. Private Sector Engagement and Investment 4

The Road Ahead: Implementing the Framework 5

Introduction

The world is at a pivotal point for action with only 15% of the Sustainable Development Goals (SDGs) on track[1] and the effects of climate change worsening every day. While a recent surge in investments in renewables and technological breakthroughs offer new hope for transformative progress, this will only be made possible with quality, well-governed financing. The Second Report of the Independent High-Level Expert Group on Climate Finance estimates that at least $5.4 trillion will be needed annually to achieve all of the SDGs by 2030, including on climate and nature goals. However, there is a current $3 trillion shortfall - about $1.8 trillion of which is required for climate and nature SDGs, and an additional $1.2 trillion for the rest of the SDGs. This is why an increasing number of partners are coming together for an increase in global investment in emerging and developing countries equivalent to an additional 2-3% of Global GDP by 2030.



While investment is happening on both development, climate and nature agendas, without a substantial and immediate financing boost, the promise of our shared goals will be lost. While other calculations of investment needs exist and include high-income countries and China, this memo focuses solely on Emerging Markets and Developing Countries (EMDCs), where the effects of climate change are often more severe, and financial resources are comparatively limited. For example, while global investment in renewable energy has reached new heights, the distribution is skewed, with EMDCs receiving just 7% of investment compared to developed nations and China. This disparity underscores the need for a major influx in financing in these nations – far beyond the $1.27 trillion achieved in 2021/2022 – to ensure EMDCs can transition to low-carbon economies, adapt to the changing climate and achieve the SDGs.

The following sections outline key practical steps that must be taken in order to bridge the financing gap for development, climate and nature.

[1] SDG Progress Report, 2023

Tackling Debt and Fostering Investment in EMDCs

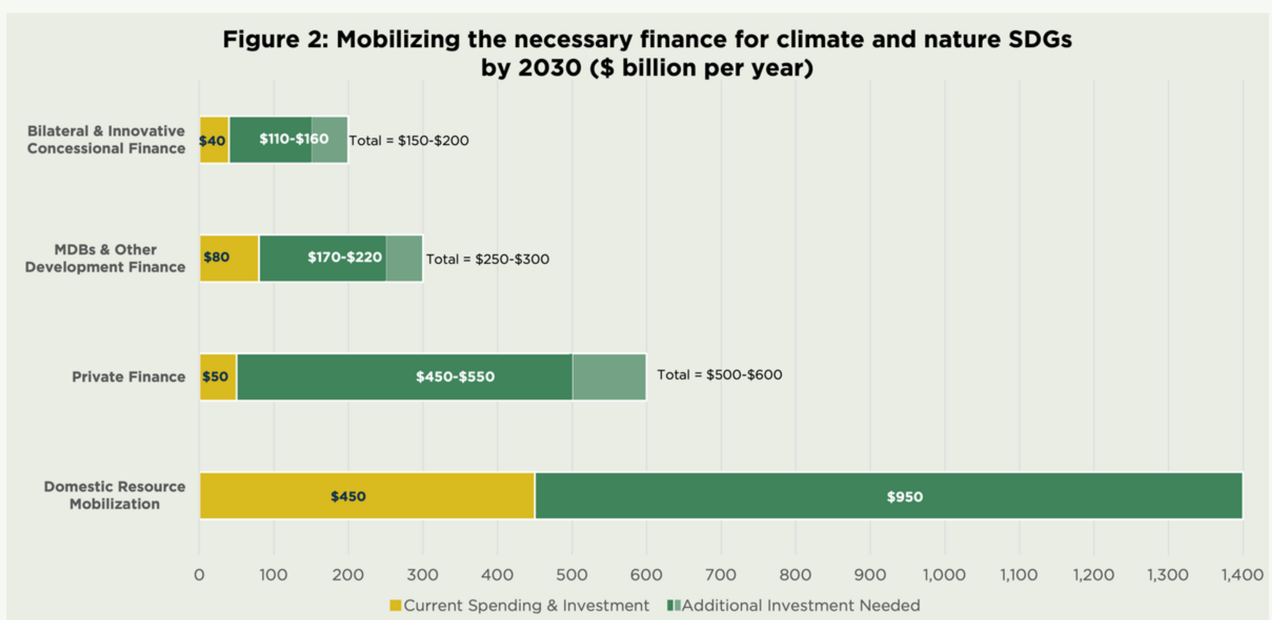
EMDCs face high public debt which has been heavily exacerbated by the polycrisis (COVID, conflicts and climate change). On average, lower income countries spend 5 times more on debt than on dealing with climate change[2] and 4 times more than on health[3]. These also happen to be the countries that are at the greatest risk of loss and damages from climate change, and which are furthest behind on health and education goals. Additionally, the high cost of borrowing for these countries not only limits their ability to invest in the SDGs and climate action but can also lead to a vicious cycle of destruction and debt accumulation, especially in the face of recurring natural disasters.

It is critical, therefore, to prioritize debt restructuring for these vulnerable countries. This includes negotiating with all creditors for debt haircuts and securing new financing to enable investments. Countries frequently hit by natural disasters need targeted “debt pause clauses" and disaster relief measures. Creditors and debtors must be more transparent in reporting new loans and their terms to citizens and the international community. International Financial Institutions (IFIs) have a pivotal role to play here by providing concessional loans, grants and technical assistance to help EMDCs manage their debt.

Once the issue of debt has been tackled, scaling up finance will require EMDCs to have well-articulated strategies and transition plans to guide investment. The report suggests creating country platforms focused on system transformation in key sectors as a means to consolidate efforts, involving stakeholders in purposeful change. Key actions should be taken, including setting ambitious climate and development goals, and implementing strong policy reforms to create a conducive investment climate.

Strategies for Enhancing Climate Finance

Mobilizing the scale and quality of finance to achieve the Paris Agreement will require an integrated approach across 4 sources of financing.



[2] Brookings, 2023
[3] Development Finance International, 2023

1. The Role of Multilateral Development Banks

The report emphasizes the critical role of Multilateral Development Banks (MDBs) in driving investment and financing for climate and development. Per the G20-mandated Independent Expert Group, MDBs will need to triple sustainable annual lending levels to $390 billion by 2030: by increasing lending at the IBRD from $100 billion to $300 billion and through IDA from around $30 billion to $90 billion per year. Priority should be given to increasing the financial capabilities of MDBs through more efficient use of existing capital (especially callable capital), new contributions and shareholder commitment to regular capital increases.

In order for MDBs to effectively meet their increased lending goals, significant attention must be brought to transparency and accountability in reporting and monitoring progress. It is also crucial that MDBs work together and move away from a project-led approach to a collective, country-centric strategy. This will not only require the development of collective targets and scorecards, but also a radical acceleration of approval times. Finally, the report advocates for MDBs to build stronger partnerships with the private sector, increasing private investment and finance in emerging markets.

2. Expanding Concessional Finance

The report recognizes that concessional finance is vital for climate action in EMDCs, where projects often lack immediate profits or carry high risks. To meet our pressing needs, these funds need a substantial increase to $150–200 billion annually by 2030 – or a fourfold increase from current levels. This goal calls for a combined effort from developed countries, international taxation, and contributions from corporations and philanthropy.

The slow pace of increase in bilateral climate finance has prompted a call for transparency and alignment with country-led processes to build trust in the climate financing architecture. The International Development Association (IDA) is key in this area, and the 2024 replenishment will be a decisive moment – with a view to tripling the IDA's annual lending by 2030. Despite a rise in contributions from climate funds like the Green Climate Fund (GCF), their effectiveness and the stability of their financing remain in question, requiring clearer criteria for funds allocation and improved impact.

The scale of financing required cannot be met with official development assistance alone. All options must be explored, including rechanneling of Special Drawing Rights (SDRs), international taxation and contributions from philanthropy must be explored and expanded. The use of SDRs by the IMF and its members can significantly improve the effectiveness of climate and development finance. Actions include addressing impediments to lending, modernizing the SDR framework, and discussing the next cycle of SDR issuance under IMF and G20 leadership.

The role of international taxation on high-emission sectors and private philanthropy in climate finance is increasingly recognized. Taxing sectors like maritime transport and aviation could generate significant funds for climate initiatives.

At the same time, private philanthropy, which currently plays a minor role in climate finance, has significant potential for growth. Engaging the private sector to contribute to climate-related public goods and the SDGs is equally important for tapping into these additional sources of income.

3. Domestic Resource Mobilization

The report identifies domestic resource mobilization (DRM) as pivotal to financing climate and SDG action, accounting for nearly 60% of the investment finance needed. Many EMDCs have significant potential to increase tax revenues by broadening their tax base and making tax collection more efficient. Additionally, they can introduce more progressive taxation on wealth and income, set a minimum corporate tax rate, reform subsidies, and implement carbon taxes, which serve the dual purpose of increasing revenue and incentivizing low-carbon practices. Deploying digital technologies in tax collection and administration can enhance efficiency and transparency, ultimately leading to higher revenue generation.

Implementing DRM strategies in EMDCs can be challenging where administrative capacities are limited, so international cooperation on tax is essential. Combating tax evasion and avoidance by strengthening international taxation arrangements, for example, can help EMDCs secure their rightful tax revenues. Bolstering national public development banks and finance institutions can also support domestic resource mobilisation. Finally, harmful subsidies for fossil fuels, unsustainable fisheries and agriculture are at least $8 trillion – more than 56 times the actual investments in nature and biodiversity. Redirecting these funds to sustainable development projects would free up substantial resources.

4. Private Sector Engagement and Investment

The report determines that engaging responsible actors in the private sector is also imperative and that EMDCs will need an estimated $450-550 billion in external private capital per year to meet climate goals. To mobilize this private finance effectively, several mechanisms are key. Policy and institutional reforms are necessary to create an environment that is conducive to responsible private investment, especially in areas like renewable energy and sustainable infrastructure. This requires the establishment of clear, accountable and stable regulatory frameworks.

Additionally, scaling up de-risking instruments, like guarantees and insurance products, is essential to attracting private investors. There is also a need to develop local financial markets in EMDCs to maximize the impact of private finance. Finally, poor data quality and availability in EMDCs make it hard to attract private investment. Addressing these issues would accelerate the green transition by fostering investor confidence and facilitating decision-making.

The Road Ahead: Implementing the Framework

A radical overhaul of the climate and development finance system is urgently needed. This requires an integrated, multi-source approach to financing the SDGs which can only be achieved through public and private cooperation, commitment to action and a focus on sustainable, inclusive growth.

Key recommendations from the FAIR Group in Q1-Q2 2024:

1. IMF-World Bank Spring meetings (April 10-16)

- Improved use of callable capital and overall enhanced implementation of the capital adequacy framework recommendations;
- Agreement of a very ambitious IDA increase, setting trajectory for a trebling;
- Enhanced solutions to countries in debt distress including exportation of the "debt bridge" proposal.

2. G20 Finance Ministers meeting (28-29 February; 18 April)

- Agreement on review MDBs implementation of rigorously; exploration of new taxes and fiscal reforms;
- Measures to increase EMDC voice and vote on governance of IFIs.

Overall: Our G20 and G7 finance ministers need to direct our global financial system to unlock at least 2-3% in additional public and private investment by 2030 for our climate and SDG goals.