COP26

must transform the paradigm of climate finance*

We call on the British government, as COP 26 Presidency, and on all countries of the world to begin a new era of true transformation. A new era in which the vices of the past are overcome and cooperation and solidarity between nations prevails to address the stark realities that the Intergovernmental Panel on Climate Change and the United Nations Framework Convention on Climate Change (UNFCCC) have shown us about the insufficiency of the Nationally Determined Contributions (NDCs) to stabilise emissions and safeguard the 1.5 centigrade limit of the Paris Agreement. An era with the common goal of accelerating adaptation to the adverse impacts of climate change, giving it as much importance as mitigation, and redoubling resources to support the most vulnerable nations build resilience and prosperity.

Addressing the climate emergency requires all sectors and actors, however, it is critical that on the path towards COP 26 there is a clear signal from all nations of the world to accelerate the alignment and to make financial flows consistent with a low emissions and climate resilient development trajectory. The costs of responding to climate change are growing, as are the losses and damages. In response to the urgency, COP 26 needs to deliver a transformative agenda for financing climate action across developing countries that need it most.

This agenda must address the challenges of delivering on the Paris Agreement, the growing vulnerabilities due to systemic shocks such as COVID-19 and the imminent impacts on biodiversity and ecosystems around the world. Time has run out for long and uncertain processes. The financial mechanisms of the UNFCCC, the financial sector and the private sector at large must partner in a unified spirit to address current needs. Finance can be an enabler, but also an obstacle to urgent action required to deal with the growing climate and resulting social strife unfolding. Therefore, finance must be pragmatically transformed into urgent and essential flows to developing countries, without hesitation or burdensome obstacles.

The goal of transferring 100 billion dollars a year from 2020 onwards from developed to developing countries has not been fully met, but meeting it is essential to rebuild trust in the multilateral process. However, it is an insufficient and wholly inadequate target to deal with the acceleration of climate-fueled impacts and the growing needs of developing countries. Moreover, beyond the numbers, the delivery of resources has been ineffective and far from the principles of climate justice, with consequences such as increased debt pressure on developing countries that further limits their fiscal capacity, already heavily affected by the pandemic. In this sense, COP 26 must help shift the climate finance paradigm towards more effective and fairer forms of cooperation, coordination and collaboration.

The Compilation of 2021-2025 Climate Finance Commitments recently published by the COP 26 Presidency is evidence of the lack of clarity regarding the size, timing and form of delivery of resources, generating a level of uncertainty that does not allow for the consolidation of bonds of trust. Delivering on the 100 billion goal is not only a moral obligation of developed countries, it is part of their responsibility and a basic starting point for developing countries to be able respond to the growing social and developmental impacts of climate change they have to face, and to contribute to global financial stability. Inaction will also affect developed countries in today's highly interconnected world. Therefore, the $100 billion is the starting point for mobilising more investment and eventually transforming all financial flows.

In this context, to ensure considerable progress on climate finance at COP 26 and for future processes, significant results must be achieved on at least the following issues:

1. Financing aligned with climate justice:

Climate finance must ensure respect for human rights, the rights of indigenous communities, intergenerational rights, ensure gender equality and succeed in bridging the gaps and inequalities among countries. COP 26 must mark a turning point for cooperation and financing, moving from a condescending vision to a vision of solidarity, based on justice for all, and in particular for the most vulnerable populations.

2. Delivering and surpassing the $100 billion goal:

It is critical to fulfil the Joint Delivery Plan of the $100 billion per year, which must be delivered from 2020 to 2024. Such a plan must provide clarity on the amount, means and timing of disbursement and ensure that a minimum transfer of $500 billion is achieved for the 2020-2024 period, as requested by the V20 nations.

3. Global stocktake and 50/50 finance balance:

Ensure that the outstanding $100 billion, bilateral and multilateral operations, and the new climate finance goal achieve a 50/50 balance for mitigation and adaptation finance, or even a higher share for adaptation for the most vulnerable nations, and that its distribution and effectiveness are measurable, reportable and verifiable.

4. Increased and predictable adaptation finance:

COP 26 must set a milestone for adaptation finance by increasing bilateral and multilateral commitments that remain disproportionately directed towards mitigation. In the framework of COP 26, it is imperative that the market mechanisms included in Article 6 of the Paris Agreement aim to allocate a minimum of 5-10% of benefits to adaptation efforts. This requires strengthening the operation and provision of resources (including resources from Article 6, but not exclusively) for all multilateral climate funds, but for the Adaptation Fund in particular.

5. Financing for loss and damage:

A financial mechanism to address loss and damage from climate change impacts must be consolidated, in particular for the most vulnerable countries. COP26 should provide precise guidance to the UNFCCC's financial mechanisms to also develop and accelerate support mechanisms in this regard.
6. Improved direct and local access: COP 26 should mandate multilateral financial mechanisms to make it more efficient, easier, and faster for local actors to access resources, creating emergency windows for crises such as the COVID-19 pandemic. Funds such as the Green Climate Fund cannot continue to operate as a bottleneck, benefiting only Multilateral Development Banks, with minimal local benefits.

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7. Decarbonisation of public finances:

Developing countries, like developed countries, must accelerate the decarbonisation of their public finances, for which they need to reduce their dependence on carbon-intensive revenues, such as those from mining and oil concessions and petrol and diesel exports. A key step towards this objective is to enable access to transition financing in order to diversify revenues by promoting domestic investments to support an economic transition that generates new jobs and thus new revenues to invest in national and local priorities.

8. Debt restructuring and debt-for-life swaps:

Developing countries are under great pressure to repay external debt that has substantially increased in recent years, particularly in the context of the pandemic. International financial institutions and developed countries must enable debt restructuring including debt-for-climate swaps and guarantee facilities that allow developing countries to invest these resources in reducing emissions and building resilience, protecting biodiversity, ecosystems and all livelihoods for global benefit.

9. A new needs-based climate finance goal:

The real needs of developing countries, informed by the latest IPCC report and comprehensive national processes to estimate and characterise the costs of action, should be the basis for the definition of the new climate finance goal towards 2025 or prior, taking into consideration NDCs, Climate Prosperity Plans, long-term strategies, and other national plans. COP 26 should establish the roadmap and principles under which the new goal will be defined, which should be multidimensional, and consider the economic and social costs of delivering on the Paris Agreement. The goal should consider public and private resource needs, as well as needs for mitigation, adaptation, resilience, and loss and damage. The number will be important, but just as important is to have a comprehensive and transparent process that ultimately translates into access by climate vulnerable countries and communities at speed and scale.