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# SURPASSING THE $100BN
## ACHIEVING A CLIMATE FINANCE PLAN AT SCALE TO REBUILD TRUST

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## SUMMARY

Surpassing the $100bn in climate finance will be vital for rebuilding trust and raising international ambition by COP26, including for action by major emitters. Vulnerable countries have called for, and developed countries are now committed to developing, a plan for delivering on the commitment of $100bn per year in climate finance from 2020-2025. The following criteria are requirements to ensure success of the forthcoming multi-year plan:

> **Timeliness:** to actually regain trust and give space to ambition politics, the plan must land sufficiently ahead of Glasgow, ideally around UNGA.
> **Scope:** the plan must include immediate actions for delivering the $100bn in 2021 as well as a multi-year roadmap.
> **Quality:** the plan must offer collective sub-targets for adaptation finance, grant-based and concessional finance, and other components.
> **Quantity:** to make amends politically for prior shortfalls in quanta, the plan must aim to deliver larger sums in 2022-2025 above $100bn

Achieving each of the criteria above in a climate finance plan will require contributor countries to undertake swift, higher-level diplomacy in a whole-of-government approach. In particular, the following policy considerations will be key to determining whether the climate finance plan will achieve sufficient scale:

i. **Specific national climate finance pledges**

ii. **The role of reallocated IMF Special Drawing Rights**

iii. **Increasing financial capacity of international finance institutions**

iv. **Wider ambition on development assistance, including "B3W"**

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## CONTEXT

Meeting the $100bn promise is a core deliverable for COP26—to set up the decade of delivery, allowing developing countries to raise ambitions for coping with climate impacts and reducing emissions by 2030. The agreed deadline for mobilising of $100bn per year was 2020, and, while official mobilisation figures will not become available until subsequent years, it is generally assumed that the climate finance gap has not yet been met. OECD figures for 2018, released in 2020, suggested a climate finance gap of around $20bn[1]. In June, the G7 attempted to close the gap but did not conclusively assure delivery of the $100bn.

At the COP26 July Ministerial in London, Germany and Canada stepped forward to co-lead a process for developed countries to formulate a multi-year collective climate finance plan. This responded to calls for contributor countries to develop a climate finance plan through to 2025, when a new finance goal is mandated by the Paris Agreement to come into effect. Calls came from, inter alia, the V20 group of climate-vulnerable countries, UN Secretary General Antonio Guterres[2], and COP26 President-Designate Alok Sharma[3]. The V20 called for a floor of $500 billion over a five-year period, implying a higher sum in the final years to balance prior shortfalls and annually average over $100bn.[4] Consistent with this, the economist Nicholas Stern has said it would be feasible for developed countries to mobilise $150bn by 2025.[5] Beyond quantity, the quality of finance will be another factor considered by stakeholders when assessing the new climate finance plan. The V20, COP26 Presidency, and UN Secretary General are also calling for the plan to include an increased share of finance for climate adaptation, and many developing countries support calls for an increased share of grant-based finance.

The COP-mandated 2016 finance roadmap to 2020, produced by the UK and Australia, offers some precedent for a 5-year roadmap in 2021, but with some key distinctions. The new roadmap is a voluntary initiative rather than mandated by the COP, yet would need to go further in several respects, as a matter not of legal obligation but of political necessity. To show good faith and give confidence, the plan would need to announce both immediate measures for meeting the $100bn as soon as possible, as well as longer-term measures for targets well above $100bn. This briefing examines four considerations for maximal ambition on scale.

[1] See: **https://www.oecd-ilibrary.org/docserver/f0773d55-en.pdf**

[2] See: **https://www.benarnews.org/english/news/bengali/climate-concerns-07092021162503.html**

[3] See: **https://news.trust.org/item/20210708090413-r7w5b/**

[4] See: **https://www.v-20.org/activities/ministerial/1st-climate-vulnerables-finance-summit-communique**

[5] See: **https://www.ft.com/content/5072b2be-17ed-4c20-a0e5-e631f17a8d5b**

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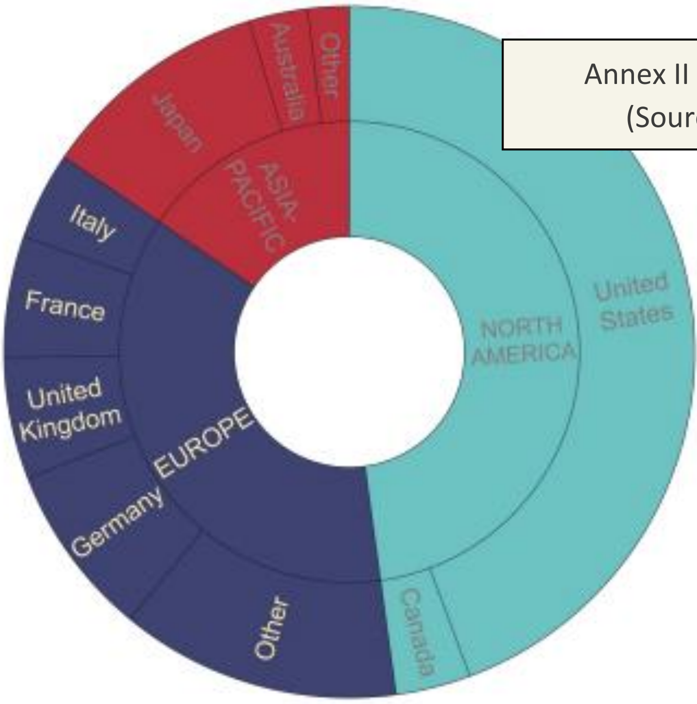
# KEY CONSIDERATIONS

### 1. Specific national climate finance pledges

Specific national climate finance pledges by contributor countries will be vital to the plan, both for closing the gap to $100bn this year as well as for achieving higher targets in the final years. In particular, those countries who are perceived to be lagging in climate finance in terms of quantity (e.g. the United States, Italy, or Australia) should offer increased pledges, alongside others. The higher collective targets above the $100bn for 2022-2025 would need to be clarified by Canada and Germany early in the process, so that national climate finance pledges can aim for shares of those higher targets, rather than of $100bn.

Setting expectations for different national pledges is complicated by a lack of common reporting standards and the absence of frameworks for dividing




Annex II countries by GNI
(Source: ODI, 2021)

responsibility for the $100bn between countries. The plan should aim for both to be addressed.[6] However, despite these challenges, it is possible to draw some conclusions on responsibilities. The visualization above from ODI illustrates the breakdown of Annex II countries according to Gross National Income (GNI).[7] Apportioning "fair shares" on the basis of GNI, the US appears to have the largest

[6] As a matter of fostering trust not only with recipients but also amongst donors, donors should aim to develop and agree an improved framework for climate finance reporting standards which is fit for purpose.

[7] See: **https://odi.org/en/publications/a-fair-share-of-climate-finance-an-initial-effort-to-apportion-responsibility-for-the-100-billion-climate-finance-goal/**

gap in absolute terms between its climate finance and its share within the $100bn – roughly half, which also corresponds to its share as apportioned based on cumulative $CO_2$ emissions of Annex II countries.[8]

The US could deliver its estimated fair share of a climate finance target by combining climate funds replenishment, bilateral finance, imputed MDB climate finance, and leveraged private finance.[9] Whereas the US is currently planning to mobilize approximately $15bn[10] per annum in climate finance—including private finance, imputed MDB finance as well as the core $5.7bn pledge—delivering 40% of the $100bn would entail $40bn, which (if we assume for the sake of argument the same ratio of contributions) would require $15.2bn in core climate finance pledges with the remaining $24.8bn coming from private finance and imputed MDB finance. However, collective targets above $100bn between 2022-2025, as implied by the V20, would entail proportionally larger sums from the US in 2025.

**Summary of recommendations: specific national climate finance pledges**

- Improve general consensus on apportioning responsibility (or "fair shares") for the 100bn, with greater effort by the US and other lagging donors reflected in new pledges by UNGA e.g. US commits to $40.5bn per year; Australia, $2.85bn; Italy, $4.85bn; Canada, $4.15bn; etc
- Consistent with new 2022-2025 targets above $100bn (e.g. $150bn in 2025 suggested by Lord Stern), which Germany and Canada must clarify as early as possible, all country pledges should increase in annual finance beyond the above/existing, in proportion
- Commit to developing common climate finance reporting standards

## 2. The role of reallocated IMF Special Drawing Rights

Reallocation of IMF-issued Special Drawing Rights (SDRs) could represent an unconventional option to close the climate finance gap to $100bn in 2021. G7 countries alone are expected to receive approximately $218bn in SDRs in the new allocation, but the G7 is only aiming for USD 100 billion to be provided, globally, in COVID recovery support for vulnerable countries, including via SDR reallocation to support the IMF's Poverty Reduction and Growth Trust (PRGT). However, the IMF is also pursuing the creation of a Resilience and Sustainability Trust (RST),

[8] Ibid.

[9] If approved as ODA-eligible, the use of guarantees would also increase leveraged finance significantly.

[10] See: **https://twitter.com/Leonardo_MD1/status/1385266644705058820**

which would help countries with goals such as building climate resilience, covering both low- and middle-income countries.[11]

While not a solution to a multiyear crisis, a commitment by developed countries to reallocate SDRs to a new RST or other vehicle disbursing climate finance could in theory close the gap to $100bn on its own in 2021, if, for example, say $20bn of this was accounted for as climate finance. Reallocation of SDRs to support climate finance is something civil society has called for in the past[12]. However, the RST will also include aims like improving health care; its climate-related portion is unclear.

To ensure trust in the quantum, use of SDRs toward climate finance should be additional to prior commitments of ODA spending. One country appears to be using SDRs to reduce their development aid spending – and is being criticized accordingly.[13] To ensure use of SDRs is not displacing funds from poverty alleviation and crisis management, developed countries should explicitly agree that any climate finance from use of SDRs should be additional to the COVID-related 100 billion USD for poorer countries agreed at G7 this year.

| **Summary of recommendations: The role of reallocated IMF SDRs** |
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| ➢ Donors could reallocate say $20bn in SDRs for recovery purposes that may be accounted for as climate finance, such as via the RST or other vehicle, but must not compromise additionality to prior ODA pledges or to the 100 billion USD covering the PRGT. |

## 3. Increasing financial capacity of international finance institutions

International finance institutions, notably MDBs, will play a key role in the context of the plan—delivering climate finance on a predictable multi-year basis, whilst other finance may fluctuate due to politics. Some developed countries have noted the political infeasibility of their meeting a climate finance goal of $150bn (or higher) in the absence of a recapitalisation of the MDBs. With a view to mobilizing trillions in climate financing for developing countries, Mark Carney noted to the G20 that "additional capacity and capital will be required for MDBs".[14]

[11] See: **https://www.imf.org/en/News/Articles/2021/07/11/sp071121-md-on-global-policies-and-climate-change**

[12] See: **http://environmentportal.in/files/sdr_for_climate_finance.pdf**

[13] See: **https://www.bond.org.uk/news/2021/07/new-special-drawing-rights-should-tackle-covid-not-lead-to-aid-cuts-or-deepen-the-debt**

[14] See: **https://racetozero.unfccc.int/mark-carney-now-is-not-the-time-for-half-measures/**

To unlock higher ambition on the overall quantum, the plan should therefore make explicit assumptions for 2022-2025 on recapitalisation and replenishment of the MDBs, including climate-specific capitalisation windows, in addition to replenishment of international climate funds. This should come with fair expectations for increased adaptation finance and for leveraging of private finance, as well as operational reforms to ensure transformational MDB climate leadership. This would allow developed countries to safely aim for a more ambitious target for 2025, e.g. $150bn, in the climate finance plan. The G7 and G20 have sought to explore the scope for balance sheet optimisation and assessment of capital adequacy at the MDBs, which should support this agenda.

Developed countries should also aim for the plan to reflect the full potential for increased climate finance from their international public banks and development finance institutions, as part of an ecosystem approach working with recapitalised MDBs. The Finance in Common[15] architecture should help enable this.

| **Summary of recommendations: Increasing financial capacity of international financial institutions** |
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| ➢ In 2021, assume a broad MDB recapitalisation agenda for next 5 years, covering WB and regional MDBs, consistent with raised climate finance expectation and wider G7 enhanced development support ambitions, linked to the capital adequacy review.<br>➢ Recapitalise all the main MDBs and replenish international climate funds from now to 2025, to increase their contributions, whilst seeking broader reforms to ensure their climate leadership.<br>➢ Aim to maximize and reflect the climate leadership from other public banks and development finance institutions. |

### 4. Wider ambition on development assistance, including "B3W"

Last but not least, the climate finance plan should reflect the G7's signal in Carbis Bay of a higher-level ambition to "develop a new partnership to build back better for the world, through a step change in our approach to investment for infrastructure, including through an initiative for clean and green growth".[16] Of

[15] See: **https://financeincommon.org/sites/default/files/2021-06/FiCs%20-%20Joint%20declaration%20of%20Public%20Development%20Banks.pdf**

[16] See: **https://www.g7uk.org/wp-content/uploads/2021/06/Carbis-Bay-G7-Summit-Communique-PDF-430KB-25-pages-1-2.pdf**

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this "B3W" partnership, the last component refers to a G7 aspiration for a "Green Marshall Plan" to support clean and green projects in the developing world.[17]

This is a step-change in rhetoric befitting the current historical moment—the shortfall in the developing world's climate financing and COVID-related spending call for greater assistance as enlightened donor self-interest. The original Marshall Plan involved the US spending 2-3% of GDP per year on international aid; a contemporary approach could aim for spending beyond the 0.7% target for ODA. Under the Biden-Harris administration, the United States—the world's largest donor—is re-evaluating its offer to developing countries, with a view to matching investments from geopolitical rivals.

While not originating in the COP process, this new geopolitics of development assistance should unlock next-level financing ambition from the US and others to bring new ambition into the plan, supporting COP26. All possible efforts should be made to ensure that the B3W process is joined up with political imperatives ahead of Glasgow, translating broader ambition into higher goals for climate finance by 2025, to be featured in the climate finance plan. The G7 began a working-level process on B3W—upcoming meetings should include a focus on originating "announce-able" headline ambitions of next-level climate finance targets.

The donor space has also seen new ambition build around the concept of establishing country and thematic platforms for climate finance mobilisation (e.g. for energy investment in South Africa, or for aggregated adaptation investments in small island developing states). This concept was discussed at the G20 Venice climate conference, and any new or planned platforms which can be announced by UNGA should also be included as important elements of a financial plan.

| **Summary of recommendations: Wider ambition on development assistance** |
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| ➢ Announce pilot packages of climate finance to countries via climate finance mobilization platforms, e.g. energy transition in South Africa, adaptation/resilience in SIDS, etc—to be reflected in the plan<br>➢ Agree top-line numbers for a historic B3W for developing countries, e.g. $300bn mobilized p.a. in ODA by 2025—under which a collective aim for climate finance to 2025 could be $150bn p.a., to go in the plan |

[17]See: **https://www.thetimes.co.uk/article/boris-johnson-presses-g7-to-sign-climate-marshall-plan-9r86vn2z5**

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- Set a new special goal for apportioning responsibility for financing developing countries during the critical decade to 2030, e.g. minimum of 1.5% of GNI p.a. for ODA of which X% is climate finance

## CONCLUSION

Rebuilding trust and unlocking ambition at COP26 depends on the offer of a multi-dimensional financial package of serious scale. This in turn depends on the degree to which contributor countries can engage in high-level whole-of-government diplomacy to join up across silos with the different policy processes outlined above, in order to deliver the best possible climate finance plan. The plan should close the gap to $100bn in 2021 and increase above $100bn from 2022-2025. To achieve its desired effect, the plan should land in September, but key details should be announced in advance as and when available, to build trust.

While not exhaustive, this briefing examines different policy processes that must be converged to deliver a COP26 financial package at ambitious and meaningful scale. Other areas to explore include matters of quality and composition. A financial package cannot be successful politically by scale alone and will require visible support for specific types of finance, e.g. grant-based finance via specific UNFCCC funds, and thematic areas. This could include a greater share of finance for adaptation and resilience, e.g. a $50bn per annum goal – this would depend on likeminded contributor countries supporting better balance being in a position to make a commitment. Similarly, the plan to 2025 could include loss and damage finance commitments. The current debt crisis calls for donor countries to explore much wider conversations on the debt sustainability architecture for fiscal space, not examined here, although widespread global green debt relief could possibly be classed as a contribution to the $100bn given OECD ODA accounting.

Ultimately, it must be acknowledged that the opportunity to make amends for past shortfalls by surpassing the $100bn decisively is still within reach. Advanced economies spent almost $12 trillion in 2020 alone on COVID-19 fiscal measures, according to the IMF – powering past the $100bn is therefore a relatively small fiscal commitment by comparison. Whether the $100bn can be addressed by developed countries in time for COP26, to enter the critical decade with the necessary trust and ambition, remains a matter of aligning the politics.

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## About E3G

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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