Regional Roundtables

"Towards COP27:
Catalyzing climate finance and investment flows to ramp up climate action and advance the SDGs"

Concept Note

2-4h August 2022

Context

Ahead of COP27, scheduled to take place in November 2022, the UN system, leveraging its convening power, network of experts and influencers at regional levels, seeks to organise a series of roundtables bringing together key stakeholders from public and private sectors, to address financing bottlenecks and to showcase both the success stories of private sector investments in climate areas and investment-ready climate initiatives in Member States. Public and private climate finance must flow at the necessary scale and pace and ensure the already stretched fiscal space of most developing countries to invest in climate action and sustainable development is not further overburdened. With a focus on SDGs 7, 9, 13 and 17 as vehicles for change, the roundtables aim at taking a holistic approach towards financing the 2030 Agenda for Sustainable Development in the new global environment.

Trillions of dollars' worth of investments are needed each year to achieve the rapid, far-reaching transformations required to address the impact of the climate crisis from the perspectives of mitigation and adaptation. Developed countries and private sector investors have yet to deliver on the annual $100-billion commitment of climate finance agreed to in 2009, which was to be reached by 2020 and has been extended to 2025, to address the needs of developing countries to mitigate and adapt to the effects of climate change. It is unclear when the goal will be met. Lack of access to finance and investments aligned with climate ambitions, lack of pre-feasibility and/or feasibility studies, increased cost of borrowing for countries due to methodologies applied by credit rating agencies as well as reduced fiscal space remain at the root of significant delays in transforming sectors of the economy from transport to agriculture to manufacturing to energy, to reduce emissions at the pace required to limit global warming to 1.5 degrees.

There has been considerable growth in green and sustainable debt financing instruments, such as green, blue, and sustainability-linked bonds, in the last five years. Similarly, innovative financing mechanisms like debt for climate swaps are also gaining traction. However, given the enormous financing requirements, the scale that is needed to ramp up climate action and advance the SDGs is not there. This is because an effective change requires a holistic and cross-sectoral approach. This means changes in investor priorities, banking and lending priorities and principles, disclosure requirements for public companies, etc. The regional roundtables will focus on bringing development cooperation partners and private sector representatives to create systemic changes needed to enable countries raise capital and investments towards climate action.

Objectives

In the lead-up to UNFCCC COP27, the world now stands at the precipice of triple crises brought on by the ongoing COVID-19 crisis, the evolving War in Ukraine, and the global climate emergency. Against this backdrop, the five regional roundtables will focus on access to finance, channelling of investments, and the linkage between climate and debt to support a just transition for all as well as a holistic approach to sustainable development, including critical areas around energy transition, food security, and digital transformations and the transition to a circular economy.

Key objectives for the roundtables include:

- **Facilitate** engagement with a broad set of partners and stakeholders[1], to accelerate public and private investment mobilization around concrete initiatives and policy actions that correspond to the distinct needs of the five different regions in addressing climate change in a holistic manner and narrowing the current gap in climate-oriented financial flows.
- **Identify** synergies and entry-points for climate finance and investments to support the acceleration of access to clean energy, food security, and digital transformations, which remain key catalysts for the attainment of the Sustainable Development Goals (SDGs).
- **Highlight** examples of countries leveraging investment opportunities for climate action as well as financial institutions and investors acting on climate change through investment commitments.
- **Connect** representative groups of development partners, governments, and private sector investors to take a cohesive approach to linking debt and climate and propose concrete instruments and initiatives that support the goals of the Paris Agreement on Climate Action and the 2030 Agenda for Sustainable Development.
- **Advocate for the** review and improvement of CRA methodologies, transparent process that allows developing countries to showcase their investments on climate action, responsible use of raw materials for green growth, and for measures of progress complementary to the GDP.

[1] Link with DESA SDG Investment Fair and UNDP SDG Investment Platform

Format and organization

The regional roundtables will be organised by each of the five UN Regional Commissions (Asia-Pacific in Bangkok, Africa in Addis Ababa, Latin America and the Caribbean in Santiago, Europe in Geneva, Western Asia in Beirut) in collaboration with the Special Envoy on Financing the 2030 Agenda for Sustainable Development, the Special Adviser to the SG on Climate Action and Just Transition, the Special Representative for Sustainable Energy for All, the UN Global Compact, the UN Development Programme and the UNFCCC.

Participants will include representatives of: Governments, Intergovernmental Regional Organizations', Regional and National Development Banks, Investment Banks, Multilateral Development Banks (MDBs), International Financial Institutions, Private Sector Investors, pension funds, local project proponents/developers, Coalition of finance ministers for climate action, GFANZ, bilateral, multilateral and philanthropic climate finance providers, Global Investors for Sustainable Development (GISD) Alliance, global rating agencies, Green Grids Initiative (GGI) and private philanthropic organizations etc.

Tentative timeline for regional roundtables

To the extent possible, the regional roundtables will be organized capitalizing on planned events:

- **Latin America and the Caribbean (LAC) region (ECLAC):** Roundtable on climate finance and the energy transition (late August 2022, TBC)

- **Asia Pacific region (ESCAP):** Asia Pacific Climate Week (UNFCCC Secretariat has not yet identified a host country for Climate Week in Asia Pacific but indicate September as potential date) or back-to-back with Asia Pacific Business Forum (with roundtable on 25 August 2022).

- **Africa region**[2]**:** Roundtable to coincide with the Meeting of the African Group of Negotiators between the 2nd and 4th August 2022

- **UNECE region (UNECE):** Ministerial Roundtable on 'Regional cooperation on enhancing sustainable management and financing for the critical raw materials required for low-carbon transitions' (September?)

- **Western Asia (ESCWA):**

Suggested activities and focus of the regional roundtables

Work closely with high level champions from member States as well as international and regional financial institutions to:

- Engage a representative group of public and private creditors with developing countries in each region and ask them to discuss and propose concrete instruments and initiatives, such as:
    - Debt for climate swaps, with a focus on practical ways to address barriers preventing scale and pace
    - Practical alternatives to support debt restructuring linked with climate and sustainability goals
    - Climate-linked sovereign bonds, lessons from the field (e.g. Chile and Uruguay), opportunities to scale and replicate, and the opportunity for increased harmonisation on Environmental Social and Governance (ESG) criteria associated with climate resilience.
    - Use of Special Drawing Rights (SDRs) for climate action beyond the Resilience and Sustainability Trust, building on the proposal by Prime Minister Mia Mottley of an annual increase of SDRs of $500 billion to provide the catalyst to leverage private investment
    - The development of high integrity regional carbon markets to increase the opportunity for investment in mitigation and adaptation initiatives
    - Investments in electromobility, especially in public transport, to make access to transport more equitable and sustainable while generating infrastructure improvements across the board.
    - Management of natural resources that are critical to the energy transition.
- Deliberate on the role of Credit Rating Agencies in assessing climate-related debt vis-à-vis other type of debt and how this affects sovereign credit ratings of developing countries, and potential alternatives.

African Roundtable

Catalysing climate finance and investment flows towards building climate resilience in Africa as well as advancing Agenda 2063 & the 2030 Agenda

- The African Roundtable will deliberate on catalytic mechanisms to mobilise climate finance investments and crowd-in the private sector towards building climate resilience as well as advancing Agenda 2063 & the 2030 Agenda. It is imperative that all available tools for green growth pathways be leveraged to increase resilience and sustainability. Notably, there is need to mobilize new financial resources in the face of multiple crises, including through amplifying the role of private capital markets in the development financing landscape of the continent by supplementing scarce concessional financing. Crucially, Africa will require investments of over $3 trillion in mitigation and adaptation by 2030 in order to implement its NDCs. This will be contingent upon access to significant, accessible and predictable inflows of conditional finance as well as strengthened domestic resource mobilization efforts. In this vein, Africa will need to considerably improve the efficiency of public expenditures and project investments. Accordingly, the Roundtable will gather key stakeholders from the public and private realm to showcase both the success stories of private sector investments in climate areas and investment-ready climate initiatives transpiring in Member states. As such, the deliberations will focus on channels and means to catalyze and scale up financing around concrete initiatives, investment opportunities and policy measures in climate action areas outlined below:
- ***Just transition finance*** - Building resilience and a green transition for African requires significant financial investments. A successful green transition will be built on new models of resource mobilisation with a focus on how these resources are channelled into the most critical sectors. This will necessitate a reset of some of the development architecture available to African countries. Moreover, a deepening of Africa's internal capital markets and increasing the tools available for investing in green sectors are imperative. The overwhelming majority of the global deficit in electricity access is in Africa, hence investing in energy will be pivotal for stimulating all sectors of the economy. Further, the continent's oil and gas exporting nations are also at risk from significant long-term revenue and job losses, and it is essential that a just energy transition is defined with the role of transition energy sources such as natural gas clearly mapped out with a view that such investments ought to leverage the switch to clean energy technologies. Clearly costed just transition investment plans will be pivotal for galvanizing private investments. Crucially, country platforms for a just energy transition need to be linked directly to identified resources for investment.
- **This session will explore** how to leverage institutional investors, private equity managers, development partners and other financing institutions to support African countries in their green transitions; how public finance can leverage private finance; identify key bottlenecks hampering private sector investments and required actions to better promote such investments into renewable energy and grid modernization; and enhance capacity for project transactions and PPP promotion to help mobilize private sector financing for infrastructural development. Further, it will highlight the ambitious

International Just Energy Transition Partnership launched to support South Africa's decarbonisation efforts [3] at COP26 as a model for other country platforms on the continent.

- ***Blended finance – Climate Bonds:*** African countries require fiscal space to finance SDG-linked investments towards sustainable and green recovery pathways, particularly since public finance alone cannot meet development imperatives. Investments from the private sector are well placed to fill in the financing gaps. Blended financing approaches are potentially catalytic as they could ensure that public resources leverage and de-risk private financing to support such development efforts. Yet, private finance mobilization has not increased significantly in Africa of late and continues to face multiple challenges[4]. Public finance mobilizes around $30 billion of private finance annually, with most of the resources destined for middle-income countries where projects are easier to realize. Notably, through the provision of credit guarantees, such as policy-based guarantees, and enhancements needed to lower perceived default risks, blended public and private financing can improve credit ratings.
- **This session aims to deliberate on** opportunities to scale and learn from countries that are leveraging investment opportunities for climate action as well as financial institutions and investors acting on climate private capital in Africa to support the development of renewable energy projects. It will also identify projects ready for implementation, scale-up and replication to be showcased at COP27. ECA's recently launched the Liquidity and Sustainability Facility (LSF) will be highlighted, which has the dual objective of supporting the liquidity of African Sovereigns Eurobonds and incentivizing green and SDG-related investments such as green bonds in the African Continent. Notably, the LSF can incentivize green bond issuances by offering preferred repurchase agreement rates to institutional investors that refinance their positions using African green bonds as collateral[5]. It will also explore ESG criteria, particularly its simplification, to make it more accessible for African countries. Finally, it will seek to look at challenges hindering the upscaling of climate bond issuance from the private sector and measures needed to attenuate such challenges.
- ***Debt swaps:*** Following the COVID19 pandemic and continued macro-economic instability linked to global events, 15 African countries are at risk of external and public debt distress, and 6 already facing debt distress. Despite these challenges, African countries have made significant strides to ensure the transparency of their operations on capital markets as well as provide reliable investment opportunities. As such, debt for climate adaptation swaps are primarily aimed as a tool to generate additional investment and liquidity for climate resilience, rather than a tool for restructuring.

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[3] An initial commitment of $8.5 billion was mobilized for the first phase of financing, through various mechanisms including grants, concessional loans and investments and risk sharing instruments, including to mobilise the private sector.

[4] During 2012-19, $257.6 billion was mobilised from the private sector by official development finance interventions, of which $13.8 billion was allocated to Africa

[5] As such, the LSF can mobilize capital investment towards key sustainable efforts and trigger green recovery for Africa.

- **This session will focus on** identifying a portfolio of investment areas and projects, such as the energy transition, where debt for climate swaps can be deployed, and then engage with countries to develop feasibility studies in collaboration with pertinent partners from the public and private sector. It will also delve into ways of tackling key barriers precluding large scale debt swaps.
- ***Nature based Solutions (NbS):*** Nature-based solutions have been garnering increased attention in recent years, emerging as an integrated approach that can help build climate resilience at relatively low-cost, as countries, companies and investors step up their efforts to cut carbon. They are essentially actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits. They do so in a holistic manner by combining efforts for emission reduction, increased carbon sink potential, cost-effective adaptation and improved resilience. Yet, to fulfil their potential, they require proper support and financing.
- **This session seeks to interrogate** the social, ecological and economic effectiveness of nature-based solutions. It will identify potential investment-ready projects, particularly in mangrove restoration, and showcase successful examples of NbS implementation developed in a selection of African countries. Notably, it will feature the Ethiopian Green Legacy Initiative, which seeks to build climate resilience of hydroelectric infrastructure through ecosystem management, supporting local livelihoods and generating employment through bettered management and improving women's health by reducing exposure to particulate pollution through clean cook-stoves. It will also hone in on opportunities upscale and galvanize private sector investments, as well as deliberate on the practical, financial and governance challenges to upscaling and how to increase bankability, with a view to inform those eager to invest.
- ***Carbon credits:*** Africa can gain substantial resources for investment and gain greater access to liquidity and affordable financing through innovative climate financing by harnessing the continent's natural capital, tapping into the market for carbon credits which is set to grow exponentially in the context of the implementation phase of the Paris Climate Agreement. Achieving reliable flows of capital associated with carbon credits can be used to leverage investment in key sectors such as agriculture and enhance the value of nature-based solutions. Currently, African countries remain on the periphery of this market development; yet, there is increasing political will to develop such opportunities as Africa possesses substantial natural endowments which are well suited to large scale carbon sequestration.
- **This session will examine** the importance of carbon markets in mobilizing private finance for Africa; how a carbon price can raise additional resources to meet Africa's needs; the development of a harmonised high integrity carbon registry for carbon sequestration in countries of the Congo Basin and development of a regional carbon certification mechanism. It will also underscore country case experiences from the Congo Basin to share lessons and best practices.

- ***Risk Insurance:*** Africa has the opportunity to mitigate residual risk and reduce the impact of loss and damage by transferring at least part of its climate risk to the international market through a risk pooling platform known as The African Risk Capacity Platform. Climate risk insurance provides financial resilience by generating a flow of capital to support societies in recovering from disaster. In the absence of adequate insurance, the burden of paying falls on citizens, governments or aid organisations. When disasters strike, insurance can provide significant financial protection and reduce large scale societal impacts.
- **This session aspired to explore** the means to upscale the significant protection already provided through the African Risk Capacity Mechanism and address existing gaps. It will identify synergies and entry-points for climate finance and investments by engaging countries to prioritize programs in the context of their national financing and policy frameworks, including proposals on how low-income countries can acquire more support, whilst also considering those with more developed markets. Moreover, it will also seek to enhance collaboration between public and private stakeholders to improve risk management and transfer across different layers of risk exposure.