Strengthening Climate Finance Delivery: The Path from Brazil's G20 Presidency to COP30

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Acknowledgments

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Event Summary

In December 2023, Brazil assumed the G20 presidency. With this came several opportunities to strengthen climate finance delivery and advance important international discussions on major climate finance issues, such as the reform of the international financial architecture, country-level action, and other emerging issues including taxation, trade, and nature finance.

As a result, on March 1st, 2024, the Institute for Climate and Society (iCS), Climate Policy Initiative (CPI), the Brazilian Center for International Relations (CEBRI), and CONCITO convened a high-level roundtable to establish an international dialogue agenda with international policy makers and key leaders in this space to assess progress and discuss challenges and innovative solutions to promote the enhancement of climate finance.

Participants set the scene by presenting the finance and investment challenge for climate and development. The dialogue then focused on identifying what needs to happen to finance objectives for climate and development, with particular attention on what Brazil's role should be to make real impact on the climate finance agenda.

The following summary provides key insights from the discussions. Comments are not attributed to participants as discussions took place under Chatham House Rules.

From G20 to COP30: Recommendations for a Climate Finance Roadmap

With Brazil assuming leadership positions in prominent international platforms, there is a potential to play a pivotal role in combatting climate change and advancing the transition to a more resilient, inclusive, and sustainable economy. What needs to happen is clear: the Brazilian government, in its leadership of the G20, can build on existing work and lead by example on country platforms and mobilizing the private sector.

Diagnostic

The urgency to modify the carbon emission trajectory to limit global temperature rise and mitigate its detrimental effects is increasingly pressing, highlighting the need for effective resource mobilization. Delay in meeting total climate investment needs only escalates costs in mitigation and adaptation efforts as well as increases the social and economic costs incurred from global temperature rise, such as lost productivity, increased health costs, and damages to assets and capital.

Developing countries are the most affected by the impacts of the climate crisis yet receive the least amount of climate finance. Foreign finance and domestic mobilization of resources are failing, particularly in Emerging Markets and Developing Economies (EMDEs). Developing countries face debt and fiscal crises which constrain the fiscal space and the ability to leverage private capital in the ways developed countries can.

Although climate finance has increased in recent years, it currently only represents 1% of global GDP with the biggest share in developed economies and China. Climate finance remains insufficient, inefficient, and unfairly distributed, posing significant challenges to global efforts for decarbonization, especially for EMDEs.

Brazil's Unique Opportunity

For the next three years, Brazil has assumed a central role in shaping global climate action. The country has a unique opportunity to leverage its leadership within international forums through its 2024 G20 and 2025 BRICS and COP30 presidencies. COP30 is also when countries will need to submit their new Nationally Determined Contributions (NDCs), which allows Brazil to provide relevant leadership in shaping a shared understanding that the next round of NDCs must be resilient, economic transition plans that are economy-wide, aligned with the 1.5ºC goal, engines for sustainable development and growth, and implemented through a country platform approach.[1]

The G20 landscape is changing. It has become clear that climate and development are intrinsically linked and must be addressed together taking a systems approach, a reality that is being reflected in the work in both sherpa and finance tracks, including the Task Force for the Global Mobilization against Climate Change (TF CLIMA). In addition, Brazil has put social justice at the top of the G20 climate conversation, creating the opportunity to discuss people-centered climate finance. This perspective has helped break down silos between development finance and climate finance, furthering a holistic approach without diluting responsibilities. By fostering dialogue and collaboration, Brazil can drive momentum towards more equitable and effective climate finance solutions, setting the stage for a successful COP30 and meaningful progress towards a sustainable future.

Key Climate Finance Issues for Brazil

Financial Architecture Reform

The two preceding G20 presidencies, hosted by Indonesia and India, focused on reform of the Multilateral Development Banks (MDBs). Now, it is time to implement specific MDB reform recommendations. The new MDB roadmap should demonstrate how reforms will create bolder organization that can significantly scale up climate change adaptation and mitigation investments in an equitable manner. Furthermore, with the continued debt and liquidity crises, especially affecting lower income countries that are particularly vulnerable to climate change impacts, and the continued urgency for increasing climate finance, the financial architecture reform should also include a reflection of the role of the International Monetary Fund (IMF) and needed reforms. Brazil could focus on the performance of the IMF, suggesting revisions to the role it could have in supporting and assessing fiscal exposure and reforms, as well as rapid response measures and support needed for vulnerable countries. It could also play a more significant role in the dialogue with overall financial system regulation for broadening understanding and signals for international and domestic investments to be mobilized and integrate cost of capital climate risks, carbon pricing, as well as reviewing ratings standards according to countries' efforts. The IMF reform should also include changes to its operating model to reinforce a larger scale of financial support and faster disbursement timelines. Additionally, the G20 can use its leadership position across international finance institutions to foster collaboration from G20 members to further action on par with the urgency of the climate crisis.

1 A country platform is an approach, led by a country's government, to systematically organize various parts of the government, finance institutions for international development, Non-Governmental Organizations (NGOs), Civil Society Organizations (CSOs), philanthropies, private-sector investors, and other development and community actors into collaborative approaches that support action towards a common development goal, such as climate action or sustainable economic development.

The Role of Country Platforms as Development and Investment Plans

Country platforms can result in a more cohesive vision with long-term impacts, combining ambition and support to create transformational change. They can foster project development and aggregation, risk management, collaboration, coordination, and adaptability among governments and partners, thereby mobilizing domestic resources and creating a more efficient environment for collective action. They can also be a solution to foster the creation of new bankable projects and the connection between International Financial Architecture (IFA) issues and domestic capital mobilization. Viewing the NDC through an economic development perspective lens, and as an investment plan aligned with the Paris Agreement, could inspire other G20 countries to follow this lead.

Numerous developing country governments, especially subnational entities, face challenges in generating high-quality investable projects. Collaborative country platforms, established with support from international partners (including G20 nations), could expedite this process and link potential investors with diverse funding sources, including the private sector, impact investors, philanthropies, and MDBs. The G20 could provide valuable recommendations and agree on criteria and commitments for country platforms that could give more certainty and make actionable the implementation of more ambitious NDCs. Brazil could, in particular, lead by example having its NDC and other climate plans (like the Ecological Transformation Plan) structured and implemented through a country platform and making it fully functional by the beginning of 2025.

Risk Management

The cost of capital in EMDEs makes otherwise bankable projects unviable. Sharing risks, such as credit risk, currency risk, off-taker risk, political risk, and liquidity risk, plays a key role in mobilizing private investment. Several risk management instruments can be used, including guarantees that are an important, but underutilized, tool for leveraging private capital into climate finance. The G20 enables an environment for emerging markets to lead the action reducing risks for developing countries, particularly with regards to mainstreaming climate risks into portfolios and ensuring that rating agencies adequately consider it, without penalizing countries that prioritize climate action and fossil fuel phaseout.

International Taxation

International taxation has the potential to raise new financing for development and climate action at scale, as highlighted by a new Task Force launched by France, Kenya, and Barbados during COP28. Brazil should continue taking the lead and facilitating the inclusion of international taxation in the G20 agenda, suggesting a set of concrete options to correct inequalities in international taxation and combating tax evasion.

Quantifiable Finance Goal

COP29 is deemed the "Finance COP". The G20 can help advance discussions on the New Collective Quantified Goal on Climate Finance (NCQG) by focusing on implementable components that can be tracked. This transparency will foster trust in the system between the G20 members, which in turn is expected to enable more capital in the system.

Nonetheless, without progress on the debt and liquidity crises and significant outcomes in terms of reforms and tangible steps on the scaling of resources for climate change as part of the G20 discussions as well as decisions around MDBs and elsewhere, it will be very difficult to get to an agreement on the NCQG at COP29.

Nature Finance

The value of nature is unquantifiable. Nature is the heart of human wellbeing and prosperity, it underpins our economy, our society, our very existence. Protecting nature therefore has huge economic, environmental, and social benefits, including for climate mitigation and adaptation. Brazil, given its specific characteristics including its position in the Brazilian Amazon biome, and enormous potential to significantly raise removals by sinks with land restoration and reforestation, has an implied interest in furthering nature finance and the bioeconomy. Potential approaches to explore include nature-based solutions, carbon markets, and harnessing advanced carbon capture technologies that can both contribute to environmental sustainability but also stimulate economic revitalization, ultimately improving the livelihoods of communities.

Adaptation Finance

The global adaptation funding gap is widening. Adaptation finance is currently insufficient, representing only a small fraction of the total climate finance flows and of actual needs. Adaptation finance is also with regards to the source of finance, with the public sector providing the large of resources. There is a need for more innovative mechanisms and incentives to mobilize private finance for adaptation, such as blended finance, green bonds, and insurance. There is also a need for more technical and knowledge-based support, as well as institutional and governance reforms, to enhance the accessibility and effectiveness of adaptation finance. More so, measurable findings on the impacts that climate change will have in G20 countries are needed. As the G20 has never focused on adaption, Brazil has a concrete opportunity to include the topic in the agenda and lead action.

Cost of Inaction

Delaying climate action and failing to keep the world on a 1.5°C trajectory will result in significant costs. Climate change impacts, such as increasing temperatures, rising sea levels, and more frequent extreme weather events, will result in labor losses, reduced agricultural yields, and decreased global tourism, as well as damages to assets, capital, and productive land. Rising temperatures and worsening air quality will also increase rates of mortality, climate-related illness, and overall healthcare spending. Brazil could champion an analysis of the cost of inaction, to understand the impact that the climate crisis could have on G20 countries' economies. The G20 could support better understanding of cost of capital and fiscal stability vulnerabilities relating to climate impacts, quantifying actual economic losses of climate disasters over the previous years, estimating further potential losses if the needed adaptative and mitigation measures are not taken (cost of inaction), and thus recommend budget, fiscal, and financial management measures. This, in turn, could drive a conversation on the importance of mobilizing resources to counteract environmental impacts and the role of international forums.

Conclusion

The G20 holds significant potential to increase attention to the development and climate action agenda, including by scaling and accelerating climate finance. Brazil stands at the epicenter of global climate action, with significant opportunities to shape the discourse within the G20, promoting continuity of the existing agenda, such as the international financial architecture reform. The implementation of the IMF and MDBs reforms and the development of an ambitious NDC through a Brazil-tailored country platform should feature amongst the priorities of the Brazil G20 Presidency. By fostering dialogue and collaboration while also leading by example, Brazil can drive momentum towards more equitable and effective climate finance solutions, setting the stage for COP30.

Advancing sustainable finance goals within the G20 necessitates coordinated action from a multitude of actors spanning finance ministries, central banks, MDBs, Public Development Banks (PDBs), and non-state actors and civil society. Each entity brings unique expertise and resources to the table, allowing for comprehensive strategies and effective implementation. Collaboration among these diverse stakeholders is crucial to align incentives, drive innovation towards sustainable economic growth and development, and ultimately increase pressure for concrete action that addresses pressing environmental and social challenges.

There are several entry points for action, including the Spring Meetings of the World Bank and IMF and the G20/Finance in Common System (FiCS) Meeting in May, where this dialogue will continue to focus on the actions in which we can, and must, all be involved to ramp up progress on sustainable finance.