



LESSONS IN MULTILATERAL EFFECTIVENESS

Pulling Together: The Multilateral Response to Climate Change

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BRIEF

CLIMATE CHANGE IS THE DEFINING CHALLENGE OF OUR TIME

The world is not currently on track to limit global warming to under 2 degrees Celsius and even further off track for the 1.5 degree Celsius goal. The international community adopted the Paris Agreement in 2015 at COP 21 and governments signed the 2030 Agenda for Sustainable Development with its 17 Sustainable Development Goals (SDGs), including SDG 13 on Climate Change that same year. The current path of emissions is, however, largely off track for delivering on the Paris goals. The COVID-19 pandemic led to a temporary reduction in global GHG emissions but carbon emissions are already rebounding as a result of the short-term crisis response¹. John Kerry, the United States Special Presidential Envoy for Climate, sees COP 26 as the world's "last, best opportunity to get real" on climate change.

MOPAN EXAMINED THE CLIMATE RESPONSE OF MULTILATERAL ORGANISATIONS

The global response to climate change needs to be on a scale commensurate with the challenge. Multilateral Organisations (MOs) and the Multilateral System (MS) are key partners in the response. The purpose of this study is to review how MOs and the MS more generally are responding to climate change within the context of the Paris Agreement and SDG 13, and the upcoming COP 26. More precisely, this study provides insights into the "direction of travel" of MOs and, through them, the MS, showing how selected MOs work with countries to address the challenge of climate change. This study provides key lessons and policy options for accelerating climate action, as the international community prepares for COP 26.

This study is a learning exercise addressing the constraints and opportunities in addressing climate change that MOs, countries, and the broader MS are facing. **It is not an evaluation.** It does not specifically assess the effectiveness of individual MOs with respect to Paris alignment nor does it compare the performance of MOs. It builds on 11 MO analyses² and 5 country analyses³, complemented by global perspectives⁴. A reference group of MOPAN members from Denmark, Germany, and Sweden guided and advised the study.

¹See, for example, <https://www.nature.com/articles/s41558-020-0797-x>

²African Development Bank Group, Asian Development Bank, European Investment Bank, Green Climate Fund, Global Environment Facility, Inter-American Development Bank Group, International Fund for Agricultural Development, International Monetary Fund, United Nations Development Programme, United Nations Environment Programme, World Bank Group, including the International Finance Corporation.

³Brazil, Ethiopia, India, Indonesia, Jamaica.

⁴Interviews with experts from the Organisation for Economic Co-operation and Development and the Subsidiary Body for Scientific and Technical Advice of the UNFCCC, as well as from global partnerships and think tanks, the Institute for Sustainable Development and International Relations, the NDC-Partnership, and the World Resources Institute.

THE RESPONSE HAS MANY POSITIVE FACETS

MOs have broadly integrated climate change into their strategies and programmes. All MOs studied have adopted goals consistent with the mandates of SDG 13 and the Paris Agreement. Most have incorporated climate change explicitly into their development strategies, policies, and safeguards. They no longer support new investments in coal-powered energy, and most will only support investments in gas, under limited conditions. The MO response in every country considers country development and climate priorities. All MOs are prioritising climate change action increasingly in their country strategies, including by co-operating on large-scale programmes.

Since 2015, MOs have increased substantially the share of climate finance in their operations as well as the proportion dedicated to adaptation. Climate finance as a share of Multilateral Development Bank (MDB) operations has risen from an average of around 20% in 2015 to roughly 33% in 2019, for a total of USD 50 billion⁵. The share for adaptation in climate finance has risen substantially for some MDBs, reaching 40% for the Inter-American Development Bank Group (IDBG) and the World Bank Group (WBG) in 2019 and over 50% for the African Development Bank Group (AfDB). The three largest dedicated climate funds – the Global Environment Facility (GEF), the Climate Investment Funds (CIFs) and the Green Climate Fund (GCF) – have played a key role in leveraging investment for the other MOs studied. Some MOs have noted that as climate finance targets have become increasingly demanding in a resource-constrained environment, resource allocations may have been skewed towards them at the expense of other development priorities.

All MOs studied also support and disseminate climate-related analysis and other knowledge products that can help build consensus for climate-friendly policy reforms. The focus of these knowledge outputs, often prepared through partnerships with countries and/or scientific institutions, varies by MO and is very broad. Good practices are shared through a multitude of partnerships, learning events, investment and technical assistance operations, and MOs' knowledge work and policy dialogue.

Country development and climate priorities underlie the MO response in all countries. All MOs support member countries in fulfilling their Nationally Determined Contributions (NDCs) and broader Paris Agreement commitments. MOs support a variety of climate-related operations ranging from multi-country initiatives that have been scaled up over time to large-scale, single-country programmes, pilot projects, and climate-related research. The examples reviewed in the study – in landscape resilience, clean energy,

⁵MDB Climate Finance Annual Reports.

and climate-smart cities – show that commitment for the long term, and a willingness to learn and take risks, are common key ingredients for successful results. Other common themes include scaling up new technologies and mobilising finance from a variety of sources, including the private sector. Most MOs studied also support member country capacity building in NDC formulation and in meeting reporting requirements⁶. They provide support through multiple channels, primarily dedicated grant funding – NDC Advance, Africa NDC Hub, NDC Invest, NDC Support Facility, NDC Partnership Climate Promise, NDC Action Project, NDC Partnership, Initiative for Climate Transparency, Capacity Building Initiative for Transparency. MOs can be powerful advocates for climate-action advocacy. To maximise their effectiveness, they should strengthen their co-operation with multiple stakeholders, including local and national governments, civil society and local communities, non-governmental organisations (NGOs), think tanks and private corporations.

⁶The IMF and IFC do not do so directly.



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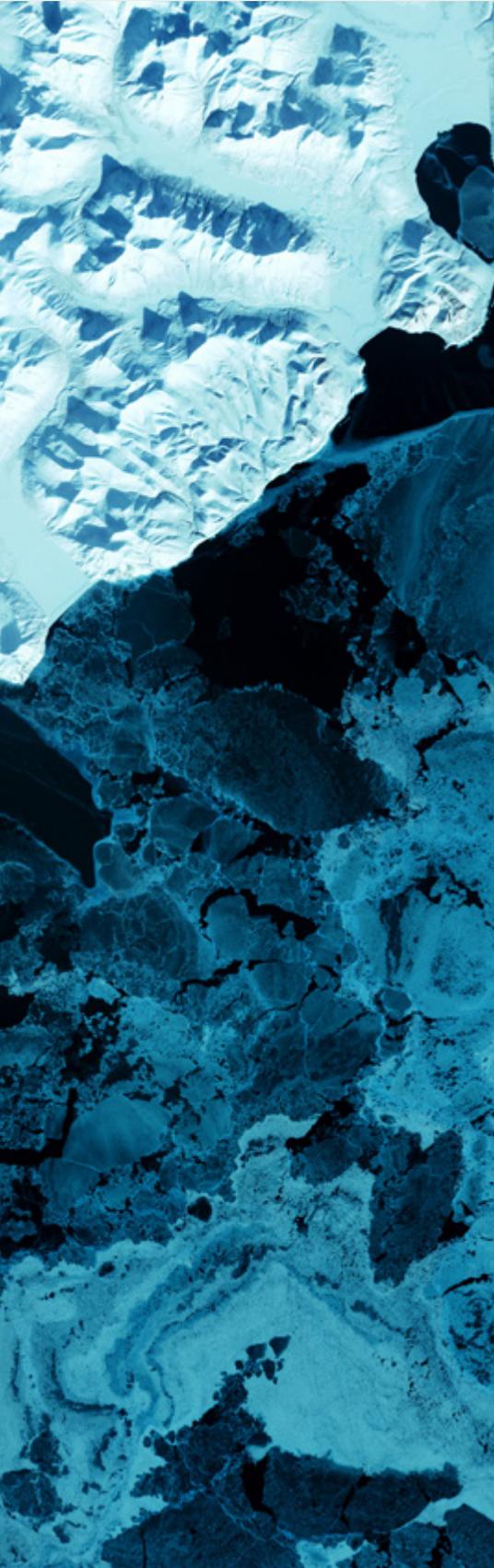


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THE RESPONSE DOES NOT, HOWEVER, MEET THE SCALE OF THE CHALLENGE: SOME AREAS FOR ACCELERATION

Ongoing efforts notwithstanding, the challenge of slowing and reversing climate change remains greater than ever. **Meeting Paris goals requires a significant acceleration of the current pace of country engagement on climate change.** The needs for climate financing, which change over time, present major challenges. Views diverge on how to count the commitment to deliver USD 100 billion of climate finance annually to developing countries, as the independent expert group on climate finance pointed out in their recent report⁷. The enabling policy environment also affects costs. Estimated needs for global annual climate financing currently range between USD 1 and USD 4 trillion, whereas the current annual provision of MO climate finance is USD 55 billion and of climate funds, USD 3 billion⁸.

Financing challenges include not only the need for scaled-up resource mobilisation (domestic, international, public and private), policy reforms for more investment in climate change, and a transformational change that includes using new technologies and techniques. They also speak to supporting countries with knowledge, capacity building and partnerships, which require consolidated action, integrated approaches, co-ordination, and collaboration within the MS – among member states and system shareholders, public and private actors, MOs, non-governmental actors, and academia.

This study identifies some critical areas in which the MS can accelerate its response.

Area 1: Better integrating climate change into broader national development and transformation agendas

This integration requires long-term transformational agendas at country level, including setting climate finance in a perspective broader than mitigation and adaptation and recognising the important role that domestic resources must play. Reducing support for fossil fuels while also recognising the challenges for transition – in particular in terms of major shift in pricing, regulation, competition, and investment climate – forms part of the same equation for the MS. “Good development” is about improving the enabling environment for climate action and needs to remain a priority. The COVID-19 recovery period also offers an opportunity for this greater integration of climate action and for the transition to greener, more resilient inclusive development paths into broader development strategies.

⁷ Sala, E., Mayorga, J., Bradley, D. et al. Protecting the global ocean for biodiversity, food and climate. *Nature* 592, 397–402 (2021). <https://doi.org/10.1038/s41586-021-03371-z>

⁸ Sala, E., Mayorga, J., Bradley, D. et al. Protecting the global ocean for biodiversity, food and climate. *Nature* 592, 397–402 (2021). <https://doi.org/10.1038/s41586-021-03371-z>

The overview below summarises the different features of the suggested paradigm change for climate finance.

Paradigm change for climate finance as part of broader development: implications for the MS

FROM

Translating NDC short-term oriented priorities into country operations

Focusing on MO climate finance targets that potentially trigger side effects such as “bean counting” behaviours and over-counting adaptation

Fragmenting climate finance in limited-scale projects rather than systemic interventions, and using a limited number of financial instruments

Focusing adaptation finance on lower-risk areas, such as climate-proofing infrastructure, to the detriment of overall resilience

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→ Programming according to long-term country strategies for low-carbon, resilient development.

→ Measuring results in terms of greater resilience or transition to carbon-neutral growth rather than measuring “inputs” (climate finance), and targeting MO support based on income level, GHG emission intensity and climate vulnerability.

→ Allocating public climate finance (including domestic resources) and MO resources to transformational projects/programmes with the greatest leverage of additional funds (including from the private sector), using a variety of financial instruments complemented by policy dialogue and strengthening enabling environments

→ Authorising “Safeguard risky” financing to capture synergies with other areas e.g., biodiversity, pollution, water, sustainable urban development

Transformational technology is key for moving towards a carbon neutral world. A challenge for MOs is that while greater public sector support is necessary for innovation in mitigation and adaptation, the required research and development often lie outside a MO's core mandate. MO lending and investment policies – and the risk profiles of such investments – are not conducive to investments in technological acceleration and transformation. Greater public sector support for innovation in both mitigation and adaptation requires using public sector resources, and partnerships with research organisations, academia, and private industry. There is also room for more engagement in well-designed, integrated, nature-based solutions, including in coastal and marine ecosystems⁹.

Area 2: Enhancing support and coordination to develop "whole-of-government" transformational LTS as the basis for effective NDCs

Countries drive the climate agenda and "whole-of-government" NDCs and Long-Term Strategies (LTSs) are pivotal for accelerating it. However, LTSs have attracted less attention and demand, despite their potential contribution to driving and shaping the short-term actions outlined in NDCs and in integrating climate action into broader development strategies. LTS can allow for developing Paris Agreement-aligned pathways based on sectoral plans that are fully embedded in broader national development agendas. They can help governments to: (i) plan for climate resiliency and net-zero carbon emissions informed by science; (ii) sequence and update their NDCs; (iii) anticipate and better manage trade-offs, and (iv) design the policy and investment roadmaps needed to make it possible to achieve their climate goals in line with the Paris Agreement objectives.

The engagement and buy-in of central ministries (e.g. ministries of finance) together with sector ministries (e.g. ministries of energy and infrastructure) in planning and implementing NDCs and LTS is essential yet often missing. Current MO leaders, several of whom have been effective in transforming the climate agenda in their organisations, could deepen the country dialogue with governments to raise the visibility of climate issues. This would include stressing the urgency of developing strategies and action plans to align the most energy-intensive and "climate-unfriendly" sectors of their economies with mitigation and adaptation pathways consistent with the Paris Agreement.

⁹ Sala, E., Mayorga, J., Bradley, D. et al. Protecting the global ocean for biodiversity, food and climate. *Nature* 592, 397-402 (2021). <https://doi.org/10.1038/s41586-021-03371-z>

The International Monetary Fund (IMF) in particular could be a powerful advocate for articulating the value and necessity of LTS. It is in an excellent position to lay out the economic impact of climate change to country leaders, ministers of finance, economics, and planning, and to central bank governors such that they foreground climate issues and build the commitment of core government agencies to LTS.

In addition, recognising that MOs have only a limited influence on countries, there is also scope for stronger partnerships between MOs, NGOs, and civil society at country level, including on such crosscutting issues as the public health and welfare impacts of climate change and different policy approaches.

Finally, multiple partnerships stretch administrative capacity at country and MO levels, making consolidation essential. For example, the number of NDCs coordination and support instruments can be consolidated, as each comes with its own administrative costs and reporting requirements. As climate considerations are being integrated into the mainstream development agenda, aid coordination mechanisms are becoming increasingly relevant for coordinating climate action. MDB coordination and harmonisation with respect to Paris alignment is a good model. The United Nations Framework Convention on Climate Change's 2023 Global Stock-take could provide political space to strengthen coordination and consolidation of climate-related partnerships going forward.

Area 3: Creating the conditions for the necessary, massive scale up of private sector-led investment in responding to climate change

Concessional public finance provided through a variety of mechanisms such as blended concessional finance, risk-sharing facilities and pre-investment financing, can play a significant role in unlocking private finance. At the same time, climate finance needs to be responsive to private sector investment criteria. Climate financing mechanisms must be agile, able to react quickly, willing to tolerate substantial risk, able to commit funds in substantial size blocks to drive market transformation, support a wide range of instruments, and feature transparent, predictable decision-making. The private sector's project cycle normally operates at a faster pace than most external public funding decision-making; most investments move from identification to approval in nine to 15 months. Finally, relatively straight-forward screening criteria and reporting requirements can help ensure that investments provided through financial intermediaries are climate-friendly.

More globally, effective private sector investment at scale also requires improvements in the enabling environment that go beyond what is typically addressed in NDCs. These include removing price subsidies for fossil fuels and full cost-reflective purchase tariffs as necessary to encourage investment in renewables, development of a robust banking sector, and a favourable environment for “doing business,” including clear regulations, property rights, and contract enforcement. By publicising green investors and funds and using scorecards to identify non-compliant actors, it may be possible to steer larger volumes of investment from the global savings pool toward emerging markets for sustainable energy, circular economy business models, and nature-based solutions. At the same time, NDC and LTS formulation should include more engagement with the private sector to identify and help alleviate key constraints to scaling up private investment in climate action, and to create a supportive policy environment for the private sector as well as public investments.

QUESTIONS FOR FURTHER ENQUIRY

As the international community looks to boost climate action and builds on the policy proposals presented thus far, many additional questions would merit further enquiry to provide insights and ideas in support of the policy discourse and agenda to accelerate climate action.

The following seven questions are presented for consideration and to be taken up by stakeholders going forward:

1. **How could MOs provide further support in getting to 1.5 degree Celsius, recognising that countries must make most of the effort?**
2. **How can MOs more effectively address the most difficult adaptation challenges, especially in urban areas?**
3. **How can MOs be more effectively engaged in country-level policy reform?**
4. **What does it mean, in practical terms, to “build back better” post COVID-19? How can MOs support the effort effectively?**
5. **How can MOs effectively align their metrics to get more fine-grained reporting on results in terms of adaptation, mitigation, and overall resilience, moving from inputs to outcomes and impact?**
6. **How can the MOs take advantage of the shift toward demands for greater transparency and accountability in corporate and investor asset holdings that are not aligned with the Paris Agreement? Can MOs provide some synergistic incentives to catalyse a further shift towards green investing?**
7. **How can SDGs, Paris and Addis (and other relevant normative agendas) be harmonised better for coherent action?**



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