ROADMAP OF THE CLIMATE FINANCE COALITION

February 2017

The International Climate Chance Summit, held in Nantes from 26 to 28 September 2016, brought together non-state actors involved in the fight against climate change. A number of partners took this opportunity to meet in thematic coalitions with the aim of seeking a synergy of action in their work at local level.

One of these coalitions brought together local authorities with civil society and private sector actors all particularly interested in the issue of financing local climate change actions and regional resilience. By sharing their visions, expertise and innovations, this coalition aims to produce a joint reflection and shared advocacy that will enable progress on this issue through:

- <u>The gradual creation of a common culture</u> of financial accountability that values, over and above the usual criteria of financial performance, positive and longer-term externalities that are in the local people's general interest, particularly those most vulnerable to and affected by climate change but also those most able to provide appropriate responses;
- <u>The development and structuring of an exchange of experiences</u> that can help to build the capacities of non-state actors. To this end, the coalition wishes to produce an *inventory* of local experiences that encompasses the diversity of contexts, actors, financing methods, projects and their impacts and co-benefits.

The coalition also envisages bringing its members together around joint reflections that respond and feed into the main challenges identified in advocacy work:

- the production of indicators that will enable an overview of climate finance to be produced and its performance to be measured;
- a sharing of experience on the demand for finance and capacity building among non-state actors;
- identification of financing needs according to the specific features of non-state actors.

These three working groups should feed into the coalition's central reflection on the conditions for a rapprochement between climate finance and the actions being undertaken by local governments, the different areas of civil society, and the private sector on the ground.

1. Background and advocacy

The current challenges of rapid urbanisation and climate change cannot be faced without a mass mobilisation of non-state actors. Whilst in no way minimising the key role that states play in promoting proactive pro-climate policies, a change in practices - and in production and consumption models - requires a commitment from us all.

Between 4,900 and 6,500 billion US dollars of investment will be needed every year for the coming 15 years if we are to catch up the investment lag, respond to the transition of rural and urban areas, and guide infrastructure along a climate-compatible path.[1] A substantial proportion of this investment will fall to local governments, which currently provide some 40% of the public investment effort[2] even though their financing systems are suffering from enormous weaknesses, particularly in the developing world. Public Development Aid, for its part, still focuses very little on the subnational level or on the adaptation problems encountered locally, as most climate finance is allocated to mitigation projects.[3]

Some actors have clearly mobilised to develop an innovative finance offer, adapted to the wide range of projects being implemented by non-state actors. Some states have also made a commitment to facilitate access to climate finance on the part of local actors and populations affected by climate change; however, disincentives to investment persist and non-state actors the world over are suffering from a crucial lack of information on the available funding tools and mechanisms. Moreover, the complexity of technical, legal and financial arrangements requires skills to which they do not always have access.

In fact, when it is obtained, funding for climate change adaptation and mitigation generally only enables support for large-scale national projects and bodies, ignoring the local level, which is considered a higher risk. Fund managers largely remain caught in a financial logic that prioritises short-term performance and yield. The economic models in place therefore need to be challenged, along with modern financing's capacity to reconcile the high demands for short-term yield with longer-term investments the performance of which must also be measured in the long-term positive externalities they produce.

In fact, current climate, regional resilience and social inclusion actions are not accounted for at their true value when calculating a project's economic return. It is therefore essential to incorporate a number of qualitative criteria into the very framework of global finance, criteria that refer particularly to human rights and global public assets, to climate justice with a focus on gender equality and the most vulnerable groups.

Escaping from this "short-term vision" in which we are currently caught involves putting different public regulation mechanisms in place in terms of tax incentives (carbon tax, for example), and this would thus encourage different actors to cooperate, develop and finance projects that follow the climate path sought in the longer term.

1.1. Create an environment favourable to local and subnational climate action financing

- With regard to the local and regional authorities, there is an urgent need to complete their financial decentralisation so that local skills can be effectively financed. Enable local governments to respond to growing needs by transferring dynamic resources to them, consolidating their tax

[1] The State of Cities Climate Finance - CCFLA report - 2015: between 4,500 and 5,400 billion US dollars per year on the "business as usual" path + 400 to 1,100 billion US dollars to direct the current path towards climate-compatible investments.

[2] UCLG/ global observatory for local financing: study "subnational governments around the world: structure and finance" OECD (2016)

[3] According to the 2015 report of the Standing Committee on Finance, only 25% of global climate finance contributes to adaptation.

base and enabling them to create a return on investment by capturing part of the added value produced in their region with the local investments made;

- Encourage access on the part of local governments, private actors and civil society to external financing through loans (primarily bonds) and balanced public/private partnerships (PPP). Public Development Aid and climate funds should, in this regard, have a catalytic effect on the amounts invested by reassuring investors and developing guarantee mechanisms for non-state actors;

- Develop and simplify allocation criteria, the economic and regulatory requirements of international and domestic climate funds, with a view to adapting them to the specific features and needs of local actors, including rural, vulnerable or marginalised populations, and bearing in mind existing gender inequalities;

- Promote multi-level and multi-actor governance around sustainable development and the financing of resilient local regions:
  - Encourage the coordination of public policies between the different levels of government and sectors of intervention (vertical and horizontal integration) with a view to facilitating the transition of economic and financial systems to a sustainable model, connecting the tools to the needs and enabling them to develop;[4]
  - Produce local development projects in a participatory manner, provide local facilitation of actions and joint implementation of the sustainable development strategy.

1.2. Identify, structure and plan investment needs, design appropriate climate-compatible projects

- Establish a systematic, participatory and inclusive regional planning and programming similar to the Regional Energy Climate Plan (PCET), identifying the co-benefits of the envisaged developments and investments. In the context of the comprehensive decentralisation that is taking place in several African countries, local development plans should systematically incorporate climate finance as well as clear mobilisation strategies. Define priorities that incorporate the challenges of regional cooperation and focus on the major role rural regions play in economic development, gender equality and women's participation, in access to drinking water and sanitation for all, access to training and to technology transfer. It is also a question of having a better understanding of different people's needs, particularly those who are disproportionately discriminated or affected, such as women, the disabled, migrants and youth, defining a common framework for identifying needs;[5]

- Facilitate the emergence of quality projects through a better understanding of their environmental, economic, social and gender impacts, as well as their full costs (taking into account the additional costs related to compliance with environmental standards, cost per tonne of carbon by sector, etc.). Along the same line of thinking, promoting quality labels that include social and performance indicators would be likely to improve the impact of local projects and facilitate their access to climate finance;

[4] For example: solidarity-based savings funds, SRI, the inclusion of social and environmental clauses in local public procurement contracts, etc.

[5] Better appreciation of the TAP, the SuRe standard for sustainable infrastructure, regional emissions inventory systems, result-based finance, of the "gender" strategies of certain climate funds...

- Building the capacity of non-state actors to formulate a climate-compatible development strategy, as well as their technical and financial capacities to prepare and manage projects. Training, networking and sharing of experiences all contribute to building the capacity of local project developers in this regard. There is consequently a need to support the creation and/or running of national and international platforms for peer-to-peer exchange of practices, and to guarantee that these have better access to information with a view to facilitating dialogue between project developers and investors, including public climate fund representatives and managers.

1.3. Develop a wide range of financing that responds to the diversity of development actors, needs and contexts

- In addition to funding "bankable" projects, take into account: i) the particular features of the different regional levels, different development contexts and different actors; ii) the long-term effects and impacts which, in addition to short-term economic profitability, contribute to improving people's living conditions, achieving the SDGs, and to a greater inclusion of citizens in defining local and national policies;
- Encourage innovation through the use of a public and private finance tool box[6] (at different levels, including the grassroots level) that will enable the wide range of capacities and needs to be met, particularly in rural regions and among the poorest and most affected populations, women and small peasant farmers, artisans. Such products would encourage a transition to "zero carbon" regions, models of sustainable entrepreneurialism and responsible behaviour on the part of individuals;
- Develop products and systems that enable global savings, currently inexpensive (low interest rates) and with excess liquidity, to be channelled to the regions where the needs are greatest. Financial intermediation institutions can, when they are efficient, facilitate a matching up of the supply and demand for funds in this regard. Where such institutions do not exist, financial guarantee mechanisms should be established for non-state actors in order to provide investor security and to encourage them to channel their financing to regional actors;
- Capitalise on the different forms of financial engineering that produce a measurable impact,[7] increase the mobilisation of local endogenous resources,[8] or leverage financing for local investment. Harmonise the methods of accounting for climate finance internationally and contribute to the roll-out of a common climate finance culture, particularly with regard to the criteria for accessing the different financial mechanisms, which need to evolve towards an integrated and qualitative approach to the regions, to mitigation and to adaptation projects.

[6] Gifts, grants, climate allowances, access to markets via green bonds, carbon offsetting mechanisms for company emissions (e.g.: La Poste/French postal system), crowdfunding-lending…

[7] Tools identified: 1% water/waste provisions, decentralised cooperation financing, performance-based impact investment, taxes and incentives, local green bonds, citizen savings funds to start up projects that require patient capital, guarantee funds devoted to the creation of women's activities, hybrid financing models (blended finance),...

[8] Tools identified: royalties mechanism, crowdfunding and mobile application, participation in cooperatives, microcredit, in order to support income-generating activities and ensure land security,...;

2. Functioning, governance and modus operandi

The "climate finance" coalition of non-state actors for climate brings together partners with different backgrounds[9] who are mobilising to develop an expertise on local-level climate finance and to shed light on the conditions needed for a rapprochement between project developers and potential funders. From this perspective, its members are proposing to share the information they have available to the maximum, to seek out complementarities and synergies both in relation to international advocacy, conducted in particular during the COP, and each of their programmes of action and reflection.

As a crosscutting theme, the Finance Coalition is working in close cooperation with Climate Chance's other thematic coalitions and, more particularly,[10] with those related to governance, planning, access to water, energy and decentralised cooperation. There will also be a need to ensure ways of coordinating the coalition's activities with other coalitions of regional actors already existing in relation to climate (particularly those involved in the GCAA).

Joint steering of the Coalition is provided by organisations that are representative of the members' diversity: UCLG and FMDV represent local, metropolitan and regional governments; GERES and WECF represent civil society - including networks of women and rural populations - and the CCFLA is a pre-existing coalition that groups together networks of local authorities, central governments, private and public donors, NGOs, research centres and UN agencies.

Initially, its operational running would rely on a voluntary desire to share information and ensure monitoring and follow-up of members' activities. In fact, the coalition wants to identify innovative and structuring initiatives that will encourage cooperation, the integration of marginalised sectors or which offer local-level solutions but which are currently excluded from funding, in addition to changing the scale of climate finance. To do this, the joint framework enabling information sharing, common reflection and synergies of action is being organised around three working groups:

1. The first focuses particularly on monitoring the finance granted to regional climate actions, and will critically review this. It will work on the relevant indicators to be promoted in order to feed into a climate finance overview. It will thus be in line with Climate Chance's more global objective of developing an observatory for non-state action on climate;
2. The second working group will bring together different members of the coalition around issues of capacity building and project definition. It is a question of encouraging a more diversified but better structured demand and thus being more able to meet the expectations of potential funders;
3. The third working group will, for its part, focus on the finance offer and on the emergence or standardisation of financial mechanisms adapted to the specific needs of non-state actors and which are likely to create a leverage effect on the amounts actually granted to the sustainable development of the regions.

The pooling of information and joint reflection that will take place in these groups is aimed at improving the expertise of their members and developing local-level climate finance practices and standards for projects of high socio-environmental potential.

[9] Cf Appendix 1.

[10] Cf Appendix 2.

Through its work, the coalition is promoting a multi-actor and multi-level model of governance, incorporating a gender dimension and enhancing international exchange and capacity building networks through practical exchanges between peers.

3. Work programmes for 2017

Three working groups will be established within the coalition, each coordinated by one or more volunteers.

3.1. Working group on obtaining an overview of climate finance

Reflections could take place on the basis of the "Overview of Climate Finance in France", the objective of which was to identify climate investment expenditure and analyse how it is financed. The idea would be, on the one hand, to extend the data on investments undertaken by non-state actors and, on the other, to begin to invest in the topic in another country, which would in some way form a "pilot" that could feasibly be used in order, finally, to obtain a global inventory.

There will therefore be a need to work on the relevant climate finance indicators at local level, and to seek out partners with whom to work on the "pilot". The case of Morocco could form an interesting example on several counts: firstly, since the next Climate Chance summit will take place in Morocco; and, since the Moroccan General Directorate for Local Authorities (DGCL), which is extremely favourable to obtaining this overview, can contribute substantial data collection support.

The proposal for 2017 is therefore to produce a local climate finance data collection and analysis grid and to test it in Morocco. Several other countries could be added to this overview in 2018, particularly by seeking synergies between this "exercise" and the UCLG's global observatory of local financing.

3.2. Working group on capacity building and project definition

This working group will draw on: i) the recommendations of the report on climate finance for towns,[11] and the report "Filling the gap between urban climate finance and action",[12] which examine the "investment gap" and highlight the need to develop local capacities to facilitate capital flows to local shock-resistant projects; and ii) the analysis of different cases in which local authorities or civil society organisations, particularly in rural areas, are developing climate action plans that they are unable to implement for lack of the necessary fundraising capacity. This is because, in all cases, filling these funding gaps also requires creating favourable conditions in which project developers can come up with appropriate actions and have access to sources of financing.

In coordination with the CCFLA's working group on project preparation,[13] this is a question of **identifying and facilitating the establishment of favourable political, legal and legislative**

[11] http://www.citiesclimatefinance.org/2015/12/the-state-of-city-climate-finance-2015-2/

[12] http://www.iclei.org/details/article/how-to-close-the-gap-between-finance-and-urban-climate-action.html

[13] The Working Group on Project Preparation (PPF) was launched in July 2016. Its members are ICLEI, C40, FMDV, GIB, R20, AFD, GIZ, ODI, WWF Goldstandard. For 2017, the PPF working group anticipates identifying, through case studies, the conditions of success for a selection of urban project preparation facilities and developing a "fund finder" for project preparation.

environments (institutional, fiscal and budgetary arrangements) as well as **capacity and autonomy building programmes** (dedicated and targeted courses crossing sectors and actors, project preparation facilities, information dissemination, technical assistance…) that will **enable the diverse range of local urban and rural actors to have access to sustainable resources** (human, institutional, regulatory, financial) with which to **design, finance and establish inclusive, coordinated and coherent climate-compatible strategies and projects in their regions.**

By **producing a detailed mapping or study of these countries and/or projects** it will, for example, be possible **to analyse the political and regulatory context of the decentralisation, reforms and innovations in the banking and investment system** and entrepreneurship as well as the tax incentive schemes and level of transfers from the central state, plus methods of redistribution of national wealth (carbon taxes and transfers, equalisation incentive, company carbon offsetting schemes, systems to fight tax avoidance, national or local climate/local development/responsible productive investment funds, etc.).

Alongside this, there will also be a need to **analyse, support and/or develop actions,** at different levels, through networking, information sharing, training, and **capacity and autonomy building of local project developers and financial intermediaries in climate finance engineering and in support for project formulation**, giving them the means to test their ideas and to develop (project preparation facilities and other support arrangements for feasibility studies, market studies, the establishment of expert platforms to support project developers, peer exchanges, women's networks, etc.).

This reflection will be able to draw on case studies from four rural areas and intermediary towns in Benin, Cambodia, Mongolia and Morocco that are being supported by GERES in a local climate planning approach aimed at identifying climate-compatible projects eligible for dedicated funding. The approach developed by GERES relies both on the provision of expertise to analyse climate change vulnerabilities and incorporate these challenges into the development strategies and plans, and consultation mechanisms appropriate to each region. The case studies and information, training and decision-support materials developed through the CEMAATERR programme will feed into an analysis of the conditions that rural areas and intermediary towns face when accessing finance. The working group will thus be able to capitalise on the methodological achievements developed within the context of the programme. This work could particularly draw on national and local plans that include the new international agreements, such as the Paris Agreement and Agenda 2030.

The proposal for 2017 is therefore to identify, through case studies and an analysis of project sustainability standards and certifications, the conditions of success for a selection of project preparation facilities in rural and urban areas and to develop a "fund finder" for project preparation that is supported by the NDC Partnership's online database.

From 2017 to 2020, the group also intends to work on training and support of trainers in "Gender, Climate and SDGs", the objective of which is to build civil society capacity to be able to influence the integration of gender issues into climate and sustainable development policies at the local and national level. This action is being undertaken by WECF and its Women 2030 Programme partners[14] in

[14] Women2030, programme to monitor and evaluate SGD implementation (Agenda 2030), conducted by WECF in partnership with Asian-Pacific Women's Forum for Law and Development (APWLD), Gender and Water Alliance (GWA), Global Forest Coalition (GFC), and Women's Environmental Programme (WEP)

50 countries, including Morocco, where WECF's partner is the National Human Rights Council (CNDH). It consists of establishing a core of more than 60 trainers and 200 civil society organisations who will monitor and evaluate the implementation of the SDGs, including SDG 13 on climate, through data collection and analysis, the production of parallel reports and gender audits on local and/or national policies, local and national consultations, awareness raising campaigns and advocacy. The training of trainers will focus particularly on gender budgeting, and on access to local-level climate finance on the part of women's networks. A training session on this subject, as well as a workshop, will be organised during the 2017 Climate Chance Summit in Agadir.

The analysis produced on the basis of these examples will feed into the coalition's advocacy work and will enable a framework of actions to be proposed that are capable of improving the autonomy of regions and project developers with a view to establishing actions that best respond to locally-expressed needs.

3.3. Working group on finance mechanisms appropriate to non-state actors

Based on the observation that finance offers do not always match the finance needs of local projects and actors, this working group proposes **identifying and improving the use of financial engineering** which will enable:

- **A measurable impact to be produced**, particularly in the rural environment and among marginalised or non-integrated populations: **quality labels incorporating social indicators, including gender and performance,** in order to encourage investment, expand access to climate finance on the part of sustainable and inclusive local projects and improve their impacts (certifications for sustainable infrastructure, regional emissions inventory systems, result-based finance initiatives, performance-based/impact investment, taxes and incentives, local green bonds, enhanced gender action strategies and plans in some climate funds, guarantee funds dedicated to the creation of women's activities…);
- Local resource mobilisation to be increased and the endogenous resource base strengthened through a leverage effect (revenues, creditworthiness...) in order to finance regional resilience, including rural regions, through hybrid financing models (royalties system in France, crowdfunding, mini-bonds, citizen saving funds to start up projects needing patient capital, mobile applications, participation in cooperatives, microcredit, in order to support income-generating activities and guarantee land security...)
- **The savings made on expenditure to be measured** (e.g. energy efficiency, smart tech) so that they can be earmarked for other areas (cross-subsidisation), avoided costs and inaction to be measured, and new indicators of wealth to be included in the accounting (cf. ECObudget, for example).
- **The methods of accounting for international-level financing to be harmonised** and themes to be included in the investment priorities: partnerships between regions; gender equality, access to energy, drinking water and sanitation as well as access to water for family agriculture, short local food production channels, access to training and technology transfer, in particular for women, etc...

By **analysing existing resources through a detailed mapping and case studies,** it will be possible to **understand the logic that underpins access to funding and its mobilisation, the kinds of actors and/or projects and issues targeted, the kinds of financing**, particularly hybrid, proposed (gifts, subsidies, transfers, provisions, sovereign or partial guarantees, different loans, blended finance systems, etc.), and thus to identify the gaps that need to be filled (rural areas, unprofitable investment projects, excluded population segments, sectors that are not "bankable"/cross-subsidisation…) and to ensure that each innovative resource is strengthened (innovative local environmental taxes, local carbon markets, solidarity-based investment tools, carbon currencies, local climate funds, community investment banks, green banks, etc.).

In order to respond to the massive local investment needs in the countries of the South, which cannot be covered by existing self-financing or banking arrangements, the proposal in 2017 is to explore support for local actor financing through the provision of guarantees, by holding a workshop and, possibly, producing a publication.

Appendix 1: List of potential partners and contributors identified (to be completed)

- <u>Local and Regional Government</u>: dedicated networks and coalitions
  - UCLG
  - C40
  - ICLEI
  - Climate Group/Climate Alliance
  - FMDV
  - R20
  - Global Covenant of Mayors
  - CCFLA
- <u>Public Finance</u>: Multi- and bilateral development banks, special climate funds, sovereign funds, intermediary financial institutions
  - CCFLA
  - Agence française de développement (French Development Agency / AFD)
  - IDFC
  - GCF
  - GEF
  - WB
  - LTIA
  - UNEP FI
  - UNCDF
  - UNEP
- <u>Private finance</u>: banks, microfinance, participatory financing, ethical and cooperative banks, private investors and insurers
  - LPAA's private finance working group + Moroccan joint committee
  - European Crowdfunding Network
  - Carbon Pricing Leadership
  - Global Alliance for Banking on Values (GABV)
  - Climate Bond initiative
  - We do good
  - GABV
- <u>Companies</u> (Multinationals, SME, Cooperatives):
  - La Poste (French postal system)
  - European Association of Small and Medium-sized Enterprises (UEAPME)
  - Medef
- <u>Organised civil society</u> and social movements

- WECF / WEP (Women Environmental Program)
- Women and Gender Constituency (WGC)
- ROPPA
- Open team
- WWF
- Climate Action Network (CAN)
- GERES
- OPENTEAM

- Research
  - Novethic
  - IDDRI
  - I4CE
  - Eurodad
  - True Costs
  - Explicit-Everimpact
- Unions
  - International Trade Union Confederation (ITUC)
- Foundations
  - Bloomberg Philanthropies
  - Heinrich Böll Foundation
- Representatives of other Climate Chance coalitions

Appendix 2 - Links with other coalitions

- Decentralised cooperation: to ensure that decentralised cooperation can continue to serve Agenda 2030 and help achieve the objectives of the Global Climate Action Agenda and SDGs, the authorities must have access to adequate finance.
- Water & Sanitation: adaptation finance generally remains well below the needs in developing countries, particularly with regard to water (municipal and industrial distribution of water, protection from flooding, expansion and improvement of effective agricultural irrigation). Moreover, finance comes mainly in the form of loans for mitigation projects, thus overlooking the most disadvantaged populations.
- Planning: the major challenge in terms of the urban and regional planning of sustainable towns lies in implementing the energy transition and adapting the regions to climate change. This implementation requires financial instruments that are adapted to the different local contexts, and which will enable the necessary public policies to be financed.