GCF leadership dialogue:

Tipping point or turning point: Global solidarity for an inclusive, resilient recovery

His Excellency, President of Colombia, **Ivan Duque Marquez** ;

Her Excellency, Prime Minister of Barbados, **Mia Mottley**;

Honorable Ministers;

Dear colleague and friend, Executive Secretary of the UNFCCC, **Patricia Espinosa**;

Ladies and Gentlemen.

On behalf of the Green Climate Fund, it is an honour to welcome you today to our Leadership Dialogue in the margins of the 75th United Nations General Assembly. I would like to deeply thank you for joining us.

Why is today's Leadership Dialogue so important?

At a time when the effects of climate change are already putting development outcomes at risk, the COVID-19 pandemic is creating a humanitarian tragedy and the broadest economic collapse since the second world war.

In response to this crisis, OECD countries are undertaking expansionary fiscal and monetary measures at an unprecedented scale. However, much of their estimated 12 trillion dollars of stimulus funding does not currently optimize the medium or long-term contribution to sustainable development and climate resilience.

Developing countries on the other hand - already the most vulnerable to the impacts of climate change – do not have the same monetary and fiscal space to roll out ambitious recovery packages. The massive outflow of capital from investors, the precipitous drop in remittances and foreign direct investment, and developing countries' debt burden - have added huge stress on public balance sheets and threaten to wipe out decades of socio-economic gains.

The COVID-19 pandemic has brought the world to either a tipping point or a turning point. Decisions taken by leaders today to revive their economies will either tip us towards entrenching our dependence on fossil fuels or turn us towards low emission climate resilient pathways to achieve the Paris Agreement and the Sustainable Development Goals.

Whether the COVID-19 crisis proves a turning point to achieve the Paris Agreement and SDGs is to depend on global solidary and leadership.

How can global solidarity and leadership ensure that we maintain climate ambition in the era of COVID-19?

First, climate action and COVID-19 recovery measures must be mutually supportive - climate action must help to revive economies and economic packages designed to overcome the COVID-19 crisis must be 'green'. Many investments can meet this dual objective. For example, investments in renewable energy, energy efficient climate resilient infrastructure, gender-responsive climate resilient agriculture and ecosystem-based approaches can create jobs while scaling up climate action.

Second, developing countries must be able to access adequate finance for their green economic recovery measures. COVID-19 exacerbates the existing 'climate finance paradox'. On the one hand, trillions of dollars of savings are earning negative interest rates in many OECD countries. On the other, there exists between 11 to 23 trillion dollars in attractive opportunities for climate-smart investments in emerging markets between now and 2030. But financial short-termism and the lack of consideration of climate risk into investment decision-making discriminate against climate investments.

Low emission climate-resilient investments tend to have high upfront capital requirements, long pay-back periods. They require policy stability and a shift in shareholder activism from quarterly returns to long-term sustainability.

The international and domestic financial systems will have to change rapidly and deeply if COVID-19 is not to push the world beyond a point of no return.

Over the past three decades, several actions have been taken to further align finance with low-emissions climate resilient pathways, including carbon pricing, climate-related financial disclosure, green taxonomies and standards, and blended finance to de-risk projects and create new markets.

However, only 15% of global emissions are covered by carbon pricing to date, often at a cost too low to substantially affect investment decision. Climate-related financial disclosure remains voluntary and its adoption is slow. Green standards have yet to be harmonized and the experience of blended finance in climate change is currently mixed.

The GCF is the world's largest dedicated climate fund and a partnership institution. It co-finances climate initiatives supported by close to 150 delivery partners, including national and international commercial and development banks, UN agencies and Civil Society Organizations at the forefront of climate action. A key task of the Fund is to accelerate the alignment of finance with low emission climate resilient development pathways in developing countries.

With our partners, this includes assisting in the establishment of conducive investment climates, supporting project pipeline development through financing project preparation, leveraging blended finance to de-risk private investment in nascent markets, mobilizing institutional investors and deepening national financial sectors and capital markets.

Building on on-going efforts, we would like to suggest a few concrete actions to accelerate the transformation of our financial systems.

First, in preparation for COP 26, countries will be raising the ambition of their Nationally Determined Contributions to meet the temperature goals of the Paris Agreement. They will be doing this during a devasting economic crisis. To maintain climate ambition in the era of COVID-19, NDCs must be translated into investment plans that revive developing country economies on a low emission climate resilient path without increasing debt burdens.

New funding sources and financing structures will be needed to make blended finance work better for climate action in developing countries, and particularly in LDCs and SIDS. In addition to concessional loans, a broader range of grant and non-grant instruments might be required, including first lost guarantees and equity.

This in turn might call for new financial instruments such as multi-country sovereign-backed guarantee funds – where highly rated ‘triple A’ countries can join forces to drastically increase the leverage effect of public funds in climate action with high SDG co-benefits.

Finally, we need to realize the full potential of National Development Banks. They account for investment of about 2 trillion dollars a year, about 10% of total investment worldwide. Doubling their investment capacity or leverage effect would be enough to bridge the climate investment gap. National Development Banks need to be given a clear ‘green’ mandate and develop the governance, skills and tools needed to assess the specific risks associated with investments in new climate technologies and business models.

Co-financing from international climate finance – like the Green Climate Fund – can help them take on early investment risks and build a pipeline of bankable climate projects.

These measures could contribute to the emergence of new assets classes backed by certified climate projects. This would reinforce the efficacy of carbon taxation, climate disclosure and taxonomy approaches to ‘green’ the behaviour of the financial systems. Such new asset classes will need to gain the trust of financial actors, which will require transparency on their climate impact and third-party verification. Digital technologies can dramatically reduce the transaction and search costs for information about green assets, helping to build this trust in a cost-effective manner.

Your excellencies, ladies and gentlemen – these are just a few suggestions to start our discussion on the different avenues explored by global leaders and development partners to foster an inclusive, climate resilient recovery based on global solidarity.