CLIMATE FINANCE TERMS AND TALKING POINTS

Global climate finance can seem opaque, but you don't need to be an economist to understand key concepts and levers of change. This resource was designed to help advocates break down the jargon and foster an understanding of this topic in order to clearly communicate about it, not only how climate finance works today, but how to advocate for transparency and equity both internationally and in your own community. We hope you utilize this guide for your own education and to improve climate finance literacy in your network, sharing facts and statistics that help you illustrate clearly why increasing climate finance is imperative to solving the climate crisis.

GENERAL CLIMATE FINANCE TALKING POINTS

- Wealthier nations have been failing to keep up with a pledge made in 2009 to provide $100 billion USD in climate finance to developing countries per year by 2020, which was later extended for the period of 2020 to 2025, and adding a goal to set a new target in 2025. While it's possible that the pledge may be met for the first time in 2023, developing countries, including the most vulnerable to climate and economic shocks, were at a climate finance deficit of $381.6 billion from 2013 to 2020 and continue to fall well short of what is needed.

- Developing countries, especially those in Africa, often borrow at a rate up to eight times higher than developed countries. The affordability of the clean energy transition will depend on reducing the cost and increasing the availability of capital.

- The world is projected to invest a record $1.8 trillion USD in clean energy by the end of 2023. In order to at least triple renewable energy capacity by 2030 – a vital action to keeping the goals of the Paris Agreement within reach – global clean energy investment will need to climb to around $4.5 trillion USD per year by the early 2030s.

- More than 80% of clean energy investment today is occurring in advanced economies and China. More is needed in emerging and developing economies – clean energy investment required to help achieve net zero emissions by 2050 in these economies is estimated to be about $2 trillion USD annually by 2030.

- Developing countries are estimated to require up to $300 billion a year by 2030 in climate finance to adapt agriculture, infrastructure, water supplies, and other aspects of their economies to properly adapt to the impacts of climate change.

- Rising temperatures have very likely made poor countries even poorer and rich countries richer, exacerbating economic inequality. Greenhouse gas emissions today can be linked to a nation's wealth – the richest countries represent only 16% of the global population, but around 40% of emissions. The world's poorest countries also have large populations depending directly on activities impacted by climate change, such as agriculture, forestry, and fishing.

- The world's poorest countries are disproportionately burdened by climate impacts, despite contributing the least to climate change – while historically high emitters continue to fall short on providing their fair share of climate finance. Developing countries, especially in the Global South, often lack resources to sufficiently adapt to climate change, which increases the risks of greater economic loss and human misery.

- The majority of climate finance provided to developing countries has been in the form of loans, many with high interest rates, forcing these countries to prioritize servicing their debts rather than investing in sustainable development. A country struggling to pay its debt may look to exploit its natural resources – including fossil fuels – in order to generate revenue, further contributing to climate change.

- G20 countries and major multilateral development banks are estimated to have provided at least $55 billion USD per year in finance for fossil fuel projects from 2019 to 2021, almost double that of clean energy investments.

- Developing economies are projected to account for the bulk of greenhouse gas emissions growth in the coming decades unless stronger action – and an associated increase in financing – is implemented to transform their energy systems. An unprecedented increase in clean energy financing to over $1 trillion USD by the end of the 2020s is required to put countries on a pathway to achieve net zero by midcentury.

- While the amount of financing needed for the global energy transition is profound, the average cost of reducing emissions in developing economies is expected to be half the cost required for emissions reductions in advanced economies. Energy transitions often bring new economic opportunities – decarbonization strategies are expected to create new employment opportunities throughout the world.

- The Green Climate Fund (GCF), the world's largest fund dedicated to helping developing countries respond to climate change, has yet to reach its full potential. While its portfolio of projects has increased since its formation in 2010, research suggests that nearly half of the 37 most climate vulnerable nations (including 13 of the 30 least developed countries in Africa) did not receive GCF funding during the first round of disbursement.

- Thirty-nine countries and institutions pledged to end international public finance for fossil fuels by the end of 2022 and focus investments on clean energy instead. As of

March 2023, eight countries have adopted policies toward these goals, transitioning an estimated $5.7 billion USD annually from fossil fuels to clean energy.

- From 2020 to 2022, multilateral development banks provided an average of $3.3 billion USD per year to fossil fuel projects, while MDB support for clean energy was $20.3 billion USD per year during the same timeframe - with $26 billion USD provided in 2022 alone.

KEY TERMINOLOGY

Adaptation – actions that build resilience - and decrease risk - to impacts of climate change faced by communities, economies, environments, and infrastructure through changes and enhancements to structures, processes, and practices.

Adaptation Finance – finance for projects or actions that help communities (people, infrastructure, jobs) reduce the risks they face as a result of climate change. Examples can include financing to protect and expand a mangrove forest to buffer wave energy from ocean-based storms, and stronger and more resilient housing.

Adaptation Fund – a mechanism that finances projects and programs aiming to help vulnerable communities in developing countries as parties to the Kyoto Protocol and Paris Agreement adapt and become more resilient to climate change.

Capital – financial assets or resources, such as money, used to generate income, invest in projects, or support business or government operations. The amount of capital available to an individual, business, organization, or government often represents the ability of those entities to finance a project or pursue a goal.
*lack of capital can often represent one reason why developing countries or other entities seek financing assistance to advance projects elsewhere – like through a MDB – in the form of loans, bonds, or grants.

Climate Finance - the disbursement of money to projects that seek to address climate change through the support of adaptation and mitigation actions.

Climate Investment Funds – a multilateral climate fund working through six multilateral development banks to mobilize investments into climate solutions and innovation in middle- and low-income countries.

Concessional Finance – finance provided below market rate, provided by major financial institutions such as development banks, to accelerate development objectives in countries that could not complete the projects without specialized support.

Concessional Loan – a loan provided by an institution that typically has no or below market interest and an extended repayment schedule.

Non-concessional Loan – loans with a market-based interest rate and often less generous terms when compared to concessional loans.

Development Finance Institution – an institution that provides financial and often technical support for development activities in developing countries.

Grant – funds for projects that do not need to be repaid, with eligibility criteria defined by the donors.

Green Climate Fund (GCF) – the world's largest climate fund, created under the UNFCCC and serving the Paris Agreement, that is mandated to support developing countries in realizing their climate goals as outlined by their Nationally Determined Contributions. Developed countries and others pay into the fund, and the GCF also helps mobilize finance from the private sector into projects and programs across the globe.

International Financial Institutions – global organizations that provide financial assistance, advice, and expertise to member countries while working to promote economic cooperation.

Interest Rate – a percentage of an amount borrowed that must be paid back.

Loan – a lump-sum of money provided in exchange for future repayment with additional charges for interest or other finance charges.

Loss & Damage – impacts of climate change that are unavoidable - occurring despite, or in the absence of, adaptation and mitigation. (Impacts of climate change that communities cannot mitigate or adapt to.)

Mitigation – the key solution to combatting climate change; reducing greenhouse gas emissions released into the atmosphere through phasing out fossil fuels, transitioning to low or no-carbon energy sources, and enhancing "sinks" that can sequester carbon dioxide from the atmosphere (forests, mangroves, etc.).

Mitigation Finance – finance for projects that aim to reduce greenhouse gas emissions. Examples include finance for the energy transition, such as the construction of a solar or wind farm or the manufacturing of electric vehicles.

Multilateral Development Bank (MDB) – international financial institutions that provide financial (often in the form of loans, bonds, or grants) and technical assistance to support development projects and initiatives in multiple countries. The World Bank is an example of an MDB.

Private Finance – financing provided from the savings of individuals and corporations as opposed to government funds.

Public Finance – financing of goods, services, and projects that is issued by a government and generated through taxation or other means.

Public Finance Institution (PFI) – a financial institution that specializes in the public sector and is primarily responsible for supervising the financial activities of governments and public entities.

Financial Risk – potential financial loss due to uncertainties in markets, business operations, or outcomes of a project.

Subsidy – a form of financial aid or support typically given to an institution, business, or individual. There are two kinds of subsidies – direct (cash grants, interest-free loans) and indirect (tax breaks, insurance, low-interest loans, depreciation write-offs). Subsidy money is often generated through tax payments to the government by individuals.