CLIMATE VULNERABLE FORUM (CVF) LEADERS DECLARATION

25 September 2024

TOWARDS THE FOURTH INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT

As leaders of the Climate Vulnerable Forum (CVF) and its V20 Group of Finance Ministers, we stand united in our call for transformative change in the global financial system. We bear witness to the lack of collective voice and representation of climate vulnerable states in global financial decision-making. Policy is dominated by rich and/or large countries who ignore the fact that the increasingly dire impacts of climate change worsen our debt situation, increase the cost of capital, and devastate our infrastructure. The toll of inaction is such that it is pushing our nations towards a tipping point, where our economic, social, and ecological stability is at risk. The international financial architecture and regulatory frameworks must be urgently revamped to protect the 1.5C Paris Agreement limit. Mere survival is not enough. Together, we affirm the goal of climate justice, Common but Differentiated Responsibilities and Respective Capabilities (CBDRRC), which we will realize through climate prosperity for our nations and peoples together, and to heighten global sensitivity to the challenges we face and the need to protect the planet and peoples.

1. THE RULES OF THE GAME MUST CHANGE

To build a more responsive, fairer, and inclusive global financial system, we call for:

1.1 <u>A Stronger Voice in the Global Financial System:</u> The international financial reform agenda must amplify the voice and participation of climate-vulnerable developing countries. We call for recognition of the CVF in the United Nations and the V20 as an Official Intergovernmental Group in the Bretton Woods Institutions by the IMF and World Bank Annual Meetings in October 2024, without prejudice to the right of each member country of the CVF to participate in its national capacity. We also call for the V20 to become an observer to the G20's International Financial Architecture Working Group.

1.2 <u>A More Representative IMF:</u> A new quota formula for the IMF must incorporate the needs of climate vulnerable economies by the end of the 17th General Review of Quotas. The 2025 World Bank shareholding review is an important opportunity to increase the voice and representation of developing economies as a group in the World Bank board to appropriately reflect their increased role in the global economic landscape and we call on World Bank shareholders to make its governance more representative.

We are determined to work together to see the fruition of key changes in, among many items:

1.3 Concessionality Frameworks and Financing Eligibility: Updated concessionality frameworks must go beyond per capita Gross National Income (GNI) and must consider climate vulnerability, natural capital, and biodiversity conservation for the architecture to become truly fit-for-climate.

1.4 Accurate Valuations: The international financial community, especially credit rating agencies and the reinsurance industry, must cease issuing unfair risk premiums and provide instead accurate valuations by increasing their transparency about methodologies and data.

1.5 Protecting Climate Vulnerable Countries from the Procyclicality of Credit Rating Changes: We call on G20 to provide a pathway to counter the risk of credit downgrades that often occur during macroeconomic difficulties that exacerbate an already worsening situation.

1.6 Climate Prosperity Plans (CPPs): We call on the international community to provide resources so we can fully support and implement CPPs as investment pipelines for resilient, low-carbon, and net-zero projects in V20 member states. Our climate prosperity agenda demonstrates that there need not be tradeoffs between climate stability and achieving sustainable development goals.

1.7 Valuation of Natural Capital: We must rapidly commence the valuation of natural capital and biodiversity as assets on national balance sheets in order to recognize the intrinsic financial and ecological importance of such assets and capital to economic well-being and their links to reduced debt service due to lower physical risk and the more robust economic opportunities they provide.

1.8 Carbon Finance and MDBs: We highlight the role of carbon finance as a tool for net-zero development, and we propose MDBs to ensure transparent carbon price discovery and carbon market integrity to protect 1.5C.

1.9 Composition of Finance, Not Just Quantification: As we call for the urgent, predictable delivery of far greater finance, we likewise call on V20 Finance Ministers to advance and accelerate where possible the delivery of finance mobilization strategies responsive to particular domestic investment needs imposed by the combined climate and debt crisis.

1.10 The New Collective Quantified Goal (NCQG): The NCQG represents a pivotal opportunity to correct past shortcomings of the $100 billion target. The NCQG must be ambitious, trackable, and actionable, prioritizing investments in resilience and transformative change. The NCQG must directly connect with ongoing reforms, enhance accountability in the international financial system, and address cost of capital, debt instability, and loss and damage comprehensively. Specifically, in order to incentivize lower-cost capital, the NCQG must stipulate that finance counted towards the goal must be differentiated based on its cost, such as on a grant-equivalent basis, avoiding the $100 billion goal's flawed system of counting all grants and loans equally. To ensure that the NCQG generates new and genuine climate finance rather than a diversion or double counting of development assistance, the NCQG should define or set in motion a process to define climate finance, including distinguishing it from revenue generated from carbon markets. Further, the NCQG should mandate sufficient transparency and disaggregation to ensure independent verification of reported climate finance.

2. COST OF CAPITAL AND INCREASED CAPITALIZATION

To ensure finance flows fast to where it is needed most, we emphasize:

2.1. <u>Concessional Terms for Climate Financing</u>: New climate action financing must be on highly concessional terms, taking into account a range of concessional needs, with the overall weighted average cost of capital not exceeding medium-term GDP growth rates, including through 25- to 50-year loans, local currency financing, as well as first-loss capital, and guarantees to enable domestic capital participation.

2.2. <u>Carbon & Biodiversity Finance</u>: A credible and progressive framework of rules and mechanisms is needed, related to financing a just transition, including through the development of carbon market infrastructure, non-market approaches, the valuing of biodiversity and the implementation of principles for financial regulation that must be implemented to reduce the cost of capital and support climate action.

2.3. <u>Development Finance Institutions (DFIs)</u>: Recognizing climate vulnerable nations' lack of historical responsibility for climate change, DFIs must take on more risk instead of passing it to vulnerable nations through high-interest rates and government guarantees. DFIs must rapidly support the scale up of renewable energy investments across developing economies[1]. They must also accelerate their support to countries to transition away from fossil fuels in a manner that promotes economic diversification and a just transition for local communities, including coal power plant retirement.

2.4. <u>Implement G20 CAF Recommendations</u>: MDBs should fully implement the recommendations in the report of the Independent Review of MDBs Capital Adequacy Frameworks' to optimize their balance sheets. This includes enhancing risk management, callable capital, portfolio guarantees and hybrid capital to boost lending.

2.5. <u>Multilateral Development Banks (MDBs)</u>: MDB shareholders must rapidly provide capital injections to scale up lending, including concessional finance, as recommended by the G20 Independent Expert Group on Strengthening MDBs, and achieve full implementation of capital adequacy reform measures, unlocking at least $357 billion in lending capacity over ten years. Alongside these balance sheet optimization measures,

[1] *With more than 90 percent of the increase in renewable/clean energy investments going into advanced economies and China: https://www.iea.org/reports/world-energy-investment-2023/overview-and-key-findings*

capital increases are also urgently required to achieve an additional $300 billion annually in affordable long-term finance across MDBs for SDGs and climate action.

2.6. Replenish IDA21: An immediate increase in contributions to expand grant and concessional IDA finance levels is needed. IDA allocation should prioritize opportunities to reduce climate vulnerability, build resilience and expand economic opportunity.

2.7. Climate Special Drawing Rights (SDRs): The urgent requirement for an IMF member agreement on a new $650 billion issuance of Climate SDRs to provide dedicated financial resources for climate-vulnerable countries to invest in resilience and sustainable development, recognizing that the sooner we achieve resilience, the greater our contribution to global decarbonization. We also encourage IMF members to pursue regular issuances of SDRs allocated in line with needs-based criteria. Ease of access to and accessibility of SDRs should be pursued.

2.8. Resilience and Sustainability Trust (RST): The need for wide access to the RST and call on the IMF to remove the requirement to have a concurrent IMF program. We also urge further contributions to the RST to ensure that the RST can meet the high demand for its resources. To maximize the impact of the RST, we call on the RST's resources to be used to back new bonds following debt restructuring negotiations.

2.9. Sustainable Capital Markets: The IMF and MDBs must support the development of well-regulated sustainable capital markets to attract long-term investments and savings.

2.10. New Sources of Public Finance: The need for the establishment of coordinated solidarity levies on fossil fuel profits, financial transactions, and emissions, and request that these revenues are used to fund efforts to reduce climate vulnerability and protect biodiversity.

2.11. Mobilize Private Capital: MDBs should more effectively catalyze private financing of $500 billion annually and channel this towards low-carbon transformation and adaptation, the removal of barriers, and the scaling of project support.

3. REDIRECT INTERNATIONAL FINANCIAL FLOWS TOWARDS FAIRER IMPLEMENTATION ARRANGEMENTS

To ensure fairer implementation arrangements~~:~~

3.1. Green Industrial Policy: Trade partners must support greater opportunities for regional cooperation to unlock the full potential of integrating green industrial policy to harness collective strengths—pooling resources, sharing technology, and aligning fiscal approaches and development policies—to consolidate renewable energy wealth and scale up renewable energy projects and accelerate the transition to sustainable and resilient economies.

3.2. Locally-Led Finance: We must ensure financial flows are directed towards national and regional institutions, supported by deal-teams through country platforms that strengthen local capacity and ensure improved delivery mechanisms. Country platforms should consider the best starting point to ensure that we strengthen rather than undermine the existing bureaucracy and that we build lasting capacity and strong national systems.

3.3. Climate Finance Access: We must scale up direct access to climate finance by national (e.g. National Development Banks) and subnational institutions. We call on multilateral climate funds to significantly up direct and enhanced direct access modalities, further devolve decision-making to national and sub-national entities, and streamline accreditation processes.

3.4. Track and Improve Funding Performance: The G20 must mandate the annual accounting, tracking, analyzing, and improving the performance of funds flowing into climate-vulnerable nations through their institutions

3.5. Loss & Damage Resources: The Fund for responding to Loss and Damage must outline time-bound, cost-effective, and measurable access to ensure pre-arranged and predictable resources at scale for climate vulnerable governments and affected communities are delivered rapidly. This includes rapid response to the emergencies created by extreme weather and slow onset events, building and bolstering regional and global safety nets that are easily accessible. The Fund should also have a capitalization plan matching current and future levels of global warming impacts, and to increase all institutions' delivery potential for reconstruction and development.

3.6 Equitable Decarbonization of International Shipping: We welcome the work undertaken at the International Maritime Organization to deliver a basket of mid-term measures for adoption in 2025, as agreed by the IMO, including a maritime GHG emission pricing mechanism that ensures a 1.5°C transition and these should ensure and mobilize sufficient resources to ensure a just and equitable transition for CVF Members, whose special needs are taken into account.

4. MAKE DEBT WORK FOR THE CLIMATE

To integrate climate considerations into debt solutions and debt management:

4.1. IMF Debt Sustainability Analysis (DSA): The IMF must incorporate real climate and development investment needs, natural capital, and climate risks into DSA, moving away from fiscal consolidation towards growth-generating climate and development investments.

4.2. Inclusive Debt Solutions: There must be inclusive participation of all creditor classes and debtor governments in the overhaul of the sovereign debt architecture through the United Nations. Moreover, climate vulnerable country access to the Common Framework should be expanded.

4.3. Climate Action and Debt Cancellation: We are prepared to further increase our climate ambition, in light of the new round of Nationally Determined Contributions. This ambition must be met with corresponding support by the international community to free up fiscal space by reducing our debt burdens. Conditional targets in NDCs could be supported through debt reductions when and if needed. Freed up resources could be channeled directly towards CPP implementation thus further enhancing our ambition and mitigation capacity.

4.4. Debt-for-Climate Swaps: Bilateral partners and the private sector are encouraged to engage in debt-for-climate swaps, offering debt cancellation in exchange for investments in green initiatives such as forest management, renewable energy, and biodiversity conservation.

4.5. Guarantee Facility: We call on the MDBs to support the creation of a guarantee facility that can provide credit enhancements and issue bonds directly linked to the implementation of CPPs, especially to attract domestic private capital as a priority.

4.6. Climate Resilient Debt Clauses: We urge all institutions, including the IMF, to normalize the inclusion of these clauses in all lending instruments and to provide debt relief during climate shocks. Eligibility to CRDCs should extend to all climate vulnerable economies. The range of triggers also should reflect material climate risks faced by climate vulnerable economies.

4.7. Overhaul of surcharges: We urge the IMF to eliminate surcharges, which are procyclical and exacerbate debt vulnerabilities.

4.8. Independent Review of the Sovereign Debt Architecture: We request the UN Secretary-General, in collaboration with the IMF, to initiate an independent review of the sovereign debt architecture, building on the Global Sovereign Debt Roundtable, with a view to making concrete recommendations for reform to the Fourth International Conference on Financing for Development in 2025.

5. SHOCK PROOF ECONOMIES WITH LIQUIDITY SUPPORT AND RISK MANAGEMENT

To build resilience against climate shocks:

5.1. Central Bank Partnerships: We must develop new partnerships among central banks with a greater sense of urgency in order to offer, with unparalleled expertise, liquidity facilities, including climate contingent swap lines for climate-fueled risks. As climate vulnerable economies, we are particularly subject to transboundary climate risks and close collaboration between central banks will support coordinated action.

5.2. Global Shield Against Climate Risks: We call for immediately upscaled pre-arranged and trigger-based financing and funding through the G7-V20 Global Shield against Climate Risks from USD 500 million to USD 1 billion by the end of 2024.

5.3. IMF's Catastrophe Containment and Relief Trust (CCRT): We urge the international community to immediately replenish the CCRT, which currently stands at only 124 million SDRs, so as to address loss and damage effectively.

5.4. A Transformed IMF: We call on the IMF to further accelerate its work on climate change. Achieving the Paris Agreement's objective requires a stepwise mobilization in resources. The IMF must be central to this transformation to enable a fiscally sound and financially stable transition. The IMF's policy advice needs to recognize the benefits of climate investments through enhanced growth, stronger resilience and reduced sovereign risk. It needs to shift from austerity-focused advice to investment mobilization.

5.5. Long-term Central Bank Swap Arrangements: We systematically encourage countries with the most traded currencies to create long-term central bank swap arrangements to provide stability and liquidity support in times of climate-induced financial stress.

5.6. Reevaluate Regulatory Frameworks: We call for a reevaluation, rethinking, and revamping of regulatory frameworks across capital markets to make them fit-for-purpose for the climate challenges of our times. Given the macro risks of climate change, the future is not only a matter of investments but also of risk management

5.7. Insurance Wrapper on Loans: We call for the leveraging of insurance wrappers on loans to facilitate debt relief in the event of a disaster while safeguarding countries' credit ratings.

5.8. IMF's Climate Resilient Debt Clauses: We urge the IMF to immediately integrate climate resilient debt clauses into its financing programs, and to use its influence to encourage their wide adoption, to establish a climate-relevant shock-resilient financial system.

5.9. Climate-Induced Disaster Clauses: All debtors and public and private creditors must introduce climate-induced disaster clauses and regular principal amortizations in all lending instruments by COP29, to make public debt stocks resilient to climate shocks and drastically reduce refinancing risk.

5.10. IMF as a Liquidity Provider of Last Resort: The IMF must be at the center of the Global Financial Safety Net, providing financing at below market rates and medium-term GDP growth rates.

6. LAUNCHING A SCIENCE AND HEALTH AGENDA FOR THE CVF-V20

We note that climate vulnerable countries currently risk being excluded from vital debates where investment decisions are made due to a lack of capacity to fully consider and formulate positions on major areas of scientific debate on climate issues, covering finance, infrastructure, health, long-term resilience, and energy transition opportunities. To address this we call on the international community to support the integration of a scientific agenda into the CVF/V20 via the engagement of experts and the provision of resources for meetings and research collaboration. There is a nexus between climate, debt and health – debt prevents investment in the SDGs and national development agendas; there are now more people who are climate refugees than at any time in history; and climate is now a serious cause ill-health ranging from post-disaster disease risks to rising incidences of zoonoses. Particular science topics urgently needing attention include:

- 1.5 alignment of NDCs,
- Tipping points in CVF-related geographies,
- Restoration and protection of frontline ecosystems such as mangroves and coral reefs,
- Scientific considerations of ‘climate vulnerability’ and ability to quantify vulnerability metrics with special attention to loss & damage and adaptation,
- Scientific collaboration to support and inform financial reform and international taxation options including the shipping levy.

For health there are specific considerations including:

- Extreme heat on human health,
- The changing burden of disease driven by climate change,
- Health adaptation measures.

7. CONCLUSION

We, the CVF/V20, stand united in our demand for urgent financial reform that better meets the needs of climate-vulnerable countries. The voices of 1.74 billion people as represented by our 68 member nations must not be ignored by the international community, and rich countries and big emitters must fully play their part in assisting us with funding, financing, capacity building, and technology transfer to meet our own mitigation ambitions, adaptation needs and addressing loss and damage. As we have said before, mere adequacy will not do; we demand climate prosperity as a positive vision for the future that can deliver better health, livelihoods and prospects for all our people.

Sources: *Accra-to-Marrakech Agenda (October 2023); V20 Ministerial Communique XII (April 2024); Antigua and Barbuda Agenda (May 2024); Bridgetown Initiative 3.0 (May 2024); SDG Stimulus (February 2023); and Nairobi Declaration (September 2023).*

Africa: Benin, Burkina Faso, Chad, Comoros, Côte d'Ivoire, Democratic Republic of the Congo, Eswatini, Ethiopia, The Gambia, Ghana (Chair), Guinea, Kenya, Liberia, Madagascar, Malawi, Morocco, Mozambique, Namibia, Niger, Rwanda, Senegal, Sierra Leone, South Sudan, Sudan, Tanzania, Togo, Tunisia, Uganda

Asia: Afghanistan, Bangladesh, Bhutan, Cambodia, Kyrgyzstan, Maldives. Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Timor-Leste, Vietnam

Caribbean: Barbados, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Saint Lucia, Trinidad and Tobago

Latin America: Colombia, Costa Rica, Guatemala, Honduras, Nicaragua, Paraguay
Middle East: Jordan*, Lebanon, Palestine**, Yemen

Pacific: Fiji, Kiribati, Marshall Islands, Palau, Papua New Guinea, Samoa, Tonga, Tuvalu, Vanuatu

Incoming Members: Suriname, Nauru

**Formalization pending further discussions*
***As a UN non-member observer state*

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