



**DELIVERING ON THE \$100 BILLION
CLIMATE FINANCE COMMITMENT
AND TRANSFORMING CLIMATE FINANCE**

INDEPENDENT EXPERT GROUP ON CLIMATE FINANCE
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**The views expressed are those of the expert group in their individual capacities, not of the institutions or organizations they represent and nor of the United Nations. Leonardo Martinez Diaz contributed to the report until 9 November 2020, after which he recused himself from further engagement given new official responsibilities.*

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LIST OF ACRONYMS

AF	Adaptation Fund	GIF	Global Infrastructure Facility
AfDF	African Development Fund	GNI	Gross National Income
AsDF	Asian Development Fund	ILO	International Labour Organisation
AUM	Assets Under Management	IMF	International Monetary Fund
BAs	Biennial Assessments and Overviews of Climate Finance Flows	IDA	International Development Association
BRs	Biennial Reports	IDFC	International Development Finance Club
CBD	Convention on Biological Diversity	IRENA	International Renewable Energy Agency
CIFs	Climate Investment Funds	LDCs	Least Developed Countries
COP	Conference of the Parties	LLDCs	Landlocked Developing Countries
CPI	Climate Policy Initiative	LT-LEDS	Long-Term Low GHG Emission Development Strategies
CRS	Creditor Reporting System (of the OECD)	MDBs	Multilateral Development Banks
CSOs	Civil Society Organizations	NDCs	Nationally Determined Contributions
CTFs	Common Tabular Formats	ODA	Official Development Assistance
DAC	Development Assistance Committee	OECD	Organisation for Economic Co-operation and Development
DFIs	Development Finance Institutions	OOF	Other Official Flows
DSSI	Debt Service Suspension Initiative	PACTA	Paris Agreement Capital Transition Assessment
ECAs	Export Credit Agencies	PSF	GCF's Private Sector Facility
ECLAC	Economic Commission for Latin America and the Caribbean	SCF	Standing Committee on Finance
EDFI	European Development Finance Institutions	SDGs	Sustainable Development Goals
EMDEs	Emerging Market and Developing Economies	SDR	Special Drawing Rights
ESG	Environmental, Social and Governance	SIDS	Small Islands Developing States
ETFs	Exchange Trade Funds	SOEs	State-Owned Enterprises
EU	European Union	TCFD	Taskforce on Climate-Related Financial Disclosures
FI	Foreign direct investment	UNCTAD	United Nations Conference on Trade and Development
G20	Group of 20	UNCCD	UN Convention to Combat Desertification
GCF	Green Climate Fund	UNFCCC	UN Framework Convention on Climate Change
GDP	Gross Domestic Product	WTO	World Trade Organization
GEF	Global Environment Facility		
GHGs	Greenhouse Gas Emissions		

SYNOPSIS

Our starting point is the COP16 Accord, which states that: “developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries”.

This commitment has been central to the climate accords since 2009 and is an important symbol of trust. Developing countries rightly consider it essential for securing progress and meeting the goals of the Paris Agreement. It is the bedrock of international climate finance, underpinning international agreement and co-operation on climate action.

In highlighting the deepening climate emergency at the UN Climate Action Summit in September 2019, the UN Secretary General underscored the pivotal importance of scaling up and accelerating the delivery of international public finance.

The COVID-19 pandemic has drastically altered the context for international climate finance. It has resulted in the most damaging humanitarian and economic crisis since the Second World War and its impacts have been particularly severe on emerging markets and developing economies (EMDEs). They have suffered large losses of revenue with knock-on effects on their fiscal and debt positions. 54% of low-income countries are deemed to be in debt distress or at high risk of debt distress as of September 2020, a trend likely to continue into 2021.

The pandemic has also exacerbated the debt pressures on many climate-vulnerable middle-income countries.

The world needs to simultaneously tackle the COVID-19 and climate crises. The pandemic has highlighted that the old normal was deeply fragile and dangerous. Should the world fail to act now, the harm caused by climate change and biodiversity loss will be much greater and longer-lasting than the damage inflicted by COVID-19. The immediate imperative in recovery is to “build back better”, placing the world on a path of sustainable, inclusive, and resilient growth.

The crisis presents an enormous threat but also a one-off, last-chance opportunity - to restructure economies at the pace and scale that climate science requires by integrating climate action into the economic recovery from COVID-19.

For EMDEs, the challenge of putting in place ambitious and sustainable recovery packages is daunting. In contrast to the rich countries, they are much more constrained in their ability to respond due to lack of fiscal space and reduced access to external finance. No African country has been able to access the sovereign debt market since February and there have been more downgrades in credit ratings in 2020 than in any other previous year in history.

If EMDEs are unable to put in place recovery packages that are strong and sustainable, it will not only be deeply damaging for their own growth prospects but will put the climate goals irrevocably beyond reach. EMDEs already account for two-thirds of global emissions and many are also the most vulnerable in the face of climate change.

A strong program of support to tackle their debt and financing needs is a win-win proposition for the global economy and for the climate.

International public climate finance will have a crucial role to play in supporting a better recovery and transformation to low-carbon and climate-resilient growth. As the bedrock of international public finance, the \$100 billion commitment can work in concert with all pools of finance, including the large and untapped pools of private finance.

WILL THE \$100 BILLION TARGET BE MET?

The basis for counting remains the subject of some contention. The language of the climate accords starting with COP16 makes it clear that the \$100 billion may include finance from public and private sources. The accords do not specify the proportions of financing from these different sources, nor indicate how different financial instruments, such as grants and loans, should be counted.

The guidance from the climate accords has been reflected in the official reporting on climate finance under the UNFCCC and in the Biennial Assessments and Overviews of Climate Finance Flows (BA) issued by the Standing Committee on Finance. It has also been reflected in the regular assessments of progress towards the \$100 billion target produced by the OECD.

Two other assessments have been made on the delivery of the \$100 billion commitment - from Oxfam and the Government of India - using different methodological approaches that have excluded non-grant equivalent public finance and/or finance mobilized from private sources.

Modalities established for UNFCCC Parties to report climate finance under the Convention, and for OECD DAC members to report climate-related development finance into the DAC statistical system, provide a reasonable basis for reporting on international climate finance and the delivery of the \$100 billion.

However, despite steps taken to date for improving consistency, comparability, and overall transparency of reporting on climate-specific finance, two methodological problems have persisted:

- First, the methodology used to determine climate-specific finance when reporting under the UNFCCC is not applied on a consistent basis across reporting countries and is not fully transparent for both bilateral and multilateral providers. Consequently, climate finance provided by some bilaterals is over-reported, in our view in the order of \$3-4 billion.
- Second, as several assessments, including by the OECD, have pointed out, it is important that consistent methodologies are applied to account for mobilized private finance, both by Multilateral Development Banks (MDBs) and by bilateral agencies. In this regard, it is important that MDBs continue to provide disaggregated data to the DAC Creditor Reporting System (CRS).

As several critiques have underlined, there have been a number of important shortfalls in the quality and composition of climate finance flows - in the low levels and declining share of grant finance, the underfunding of adaptation, the lack of adequate finance for LDCs and SIDS, and obstacles to expeditious access by developing countries to climate finance. In addition, there is a need to increase predictability and trust in future climate finance flows, strengthen country ownership and effectiveness, enhance gender responsiveness and tackle loss and damage.

Based on the data up to 2018, climate finance counting towards the \$100 billion had been on an upward trajectory, but still falling short of the \$100 billion per year by 2020 target. While the data for 2019 and 2020 will come later, our assessment of the possible scenarios, based additionally on various consultations that we have held, leads us to conclude that the only realistic scenarios are those in which the \$100 billion target is not reached this year.

As implementation of the Paris Agreement moves into its first five-year cycle, the focus must immediately pivot to ensuring that there is a major collective boost of climate finance to support strong and green recovery packages and enhanced ambition of Nationally Determined Contributions (NDCs).

The next five years are crucial, starting with 2021.

The collective goal must be to more than surpass the \$100 billion per year target in 2021 and to scale up international public finance in the period thereafter to accelerate the drive to net zero carbon and climate-resilient growth.

The \$100 billion target therefore needs to be seen as a floor and not as a ceiling.

2021 will, thus, be a critical year – to sustain trust between developed and developing countries, maintain momentum in the run-up to COP26, and to forge a new consensus about the necessary climate action and ambition to achieve global carbon neutrality by mid-Century.

The immediate and urgent need for ambition in 2021 so as to recover lost ground does not end in 2021. It only starts then. There is a need for a significant ramping up of climate finance from here on in, *and it will have to be mobilized from all sources.*

These steps will also lay the foundation for a more robust climate finance architecture in the period leading up to 2025 when an ambitious new collective target must be set.

To mobilize resources commensurate with the quantum of needs will effectively require a coordinated effort to make all financial flows, public and private, “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”, as stipulated in Article 2.1c of the Paris Agreement.

The Climate Finance Framework as illustrated by *Figure 1* represents the key channels through which the \$100bn per year by 2020 commitment can help transform the climate finance system. In particular, the Framework underlines the relative scarcity of public concessional resources, and hence the need to deploy these for maximum impact. The key elements of this system include:

- The \$100bn per year by 2020 commitment is the bedrock of the entire international climate finance system. It not only represents the climate finance mobilized by developed countries for climate action in developing countries, but also constitutes the bulk of international public finance.
- Bilateral climate finance is the source of almost all concessional climate finance and is vital to shore up the integrity, solidity and predictability of finance flows for adaptation and mitigation action to support developing countries, and to help scale up other sources of finance. All bilateral donors must live up to their climate finance commitments and set more ambitious targets for the period ahead.
- The current figure of just over \$12 billion in grants for climate action falls far short of what is needed. By 2025, this figure needs to at least double, and ideally treble.
- Multilateral vehicles of concessional finance – such as the Green Climate Fund (GCF), Global Environment Facility (GEF), Adaptation Fund (AF) and Climate Investment Funds (CIFs); as well as non-dedicated funds such as the International Development Association (IDA), African Development Fund (AfDF) or Asian Development Fund (AsDF) – the concessional windows of MDBs – and the Global Innovation Fund (GIF) – play an important role in providing direct and catalytic support

to developing countries. Ambitious replenishments for these funds will be critical over the coming five years given their importance for boosting mitigation and adaptation finance and enabling the MDBs and Development Finance Institutions (DFI) system more broadly to mobilize private investment.

- The DFI system, including the MDBs and the IDFC (International Development Finance Club), are the most effective international means to support enhanced climate action in developing countries and mobilizing and leveraging climate finance at scale. The DFI system is also the principal interface between the public and the private sectors. It will be essential for DFIs to align their operations with the goals of the Paris Accord, to work better as a system, seek to better leverage their balance sheets, and enhance their private sector multipliers through strategic partnerships and better instruments.
- Given the volume of emergency rescue and stabilization finance that MDBs will be providing, and the magnitude of finance that will be needed for recovery and transformation, it is critical for shareholders to consider additional and substantial infusions of capital with urgency, taking individual MDBs' circumstances into account. There is also a strong case for an extraordinary replenishment of IDA in 2021, and possibly the African Development Fund, given the 'front-loading' of resources that has occurred in response to COVID-19.

The international community under the leadership of the UN should explore all options to enhance the envelope of international public finance including through innovative and alternative sources of finance. One promising option would be large additional SDR (Special Drawing Right) allocations and revised allocation mechanisms to enable poor and vulnerable countries to access low cost finance.

It will also be critical to tackle debt distress and excessive debt overhang especially in poor and climate vulnerable countries. COVID-19 has greatly exacerbated debt vulnerabilities in both low and middle-income countries at a time when they urgently need to scale up investment. The DSSI program and its extension have provided temporary relief to a targeted set of countries. But a more comprehensive approach is needed and must be a priority for multilateral discussions in 2021. A promising systemic approach, with direct links to climate, would be to expand debt-for-climate and debt-for-nature swaps through augmented support from the donor community.

Whilst the greatest responsibility lies with developed countries to end their own fossil fuel subsidies worldwide, developing countries must also transform their development pathways and create the enabling conditions for both public and private finance to invest consistently in sustainable, inclusive, resilient and transformational infrastructure and socio-economic growth, in line with the collective long-term goals of the Paris Accords.

Lastly, meeting the commitments in the Paris Agreement will require a vast and fundamental shift in private finance and in the financial system as a whole; without this, the goals of net zero carbon by 2050 and those of the Paris Agreement cannot be met.

Private finance is by far the biggest and largely untapped pool of capital. If sufficient international public climate finance resources are deployed to mobilize this pool, it will be possible to move from billions to the trillions required. While there is a new momentum in the engagement of the private sector in climate action, private capital is not flowing fast enough to finance the low-carbon and climate-resilient transition, and is often not Paris-aligned - with a large volume of investment still flowing into high-carbon sectors. And private finance for climate action remains highly concentrated sectorally and geographically; most of the current stock of private sector climate investment is in advanced economies.

There can be only one way forward: to fully integrate climate-aligned structural change - in particular by accelerating the transition to low-carbon and climate resilient infrastructure - with a strong post-COVID economic recovery. This will require a fundamental shift in the whole finance system and a massive increase in private finance to get the world from the billions to the trillions that are urgently needed - as set out in the COP26 private finance agenda.

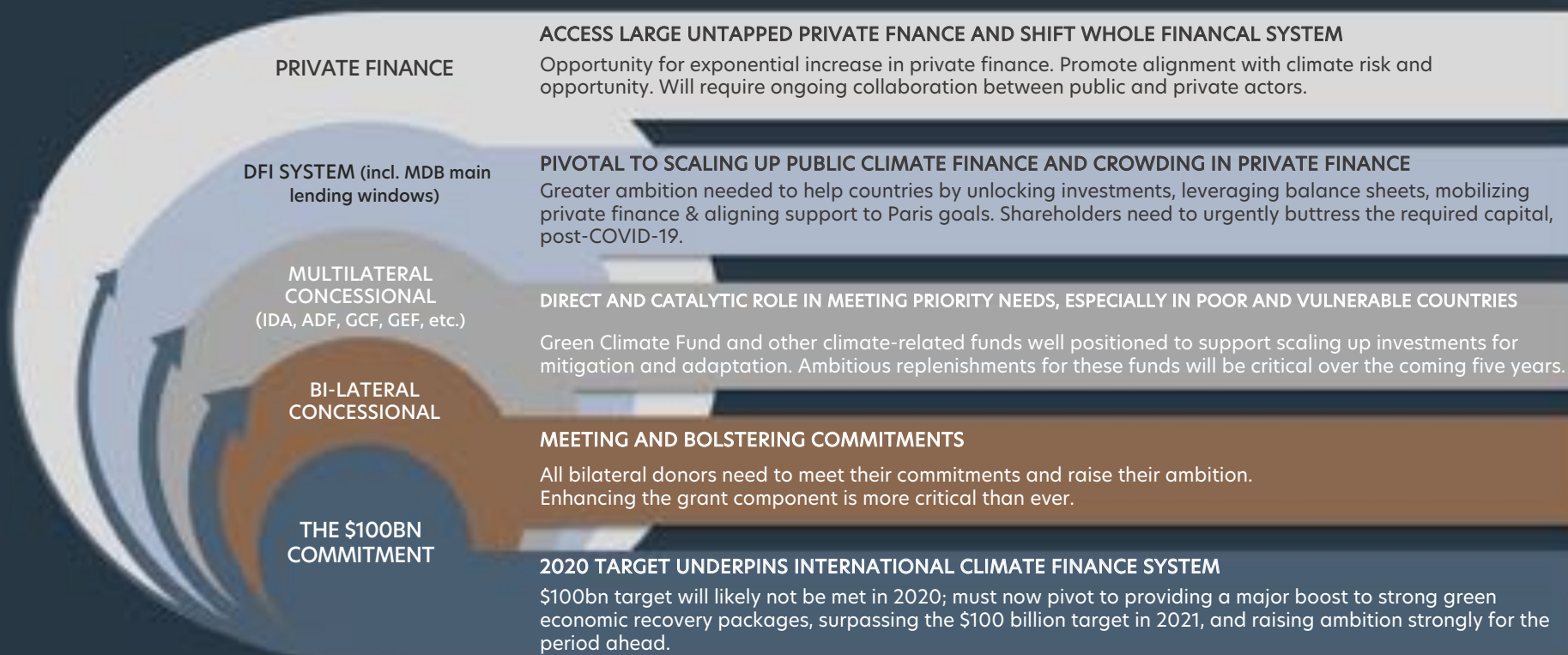
Every financial decision should take climate risk into account.

Starting with the \$100 billion per year by 2020, the whole climate finance system must scale up, urgently. A step change is needed.

This is not the time to retreat. It is the time for far greater ambition.

Figure 1: Conceptual framework on scaling up and transforming climate finance

OUR CLIMATE FINANCE FRAMEWORK: A FORWARD-LOOKING AMBITIOUS AGENDA



1. THE CHANGING CONTEXT: THE IMPACT OF THE COVID-19 PANDEMIC AND THE TRANSFORMATIVE IMPERATIVE OF CLIMATE FINANCE

OUR STARTING POINT:

The commitment by developed countries to jointly mobilize \$100 billion per year by 2020 in support of climate action in developing countries has been central to the climate accords since 2009 and is an important symbol of trust. Developing countries rightly consider it essential for securing progress and meeting the goals of the Paris Agreement.

THE CHANGING CONTEXT: SUMMARY OF KEY FINDINGS & MESSAGES

The context has changed greatly in the past year and this has huge significance for climate finance:

- Prior to the COVID-19 pandemic the world was 'off-track' to meet the collective target set by the UN Secretary-General of a global net zero by 2050 building on the long-term goals of the Paris Agreement, and to maintain hope that global warming can be kept at around the 1.5 degree increase. Now, the COVID-19 and climate crises must be tackled simultaneously - both are inherently global in nature and will require coordinated global responses. This represents an enormous challenge but also a one-off, last-chance opportunity to restructure economies at the pace and scale that the climate crisis requires.
- A new climate economy must be urgently built - one that escapes a 20th century growth model based on fossil fuel dependence and the degradation of natural capital and of eco-system services - that can deliver a net zero carbon world by 2050. To achieve this a major global boost in investment is needed, notably for addressing infrastructure deficits, supporting energy transitions, and building climate resilience in emerging markets and developing economies (EMDEs).
- The \$100 billion per year by 2020 commitment plays an essential role in maintaining commitment and encouraging greater ambition among many EMDEs. It must be deployed so as to pave the way for massive scaling up of climate finance from all sources, in particular from the largest pools of capital.
- Article 2.1c of the Paris Agreement is of huge consequence. In it, Parties commit to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." Now is the time to deliver on this commitment, by converging post-COVID economic recovery programs with the transition to a low carbon climate resilient global economy.
- COVID-19 has caused untold harm - to lives and livelihoods. The economic depression is likely to be deep and prolonged. Developing countries have been particularly hard hit, and many are facing fiscal and financial pressures, and in many cases a mounting debt crisis. The economic repercussions are likely to be deeper and more prolonged for them, increasing their vulnerability to future shocks.
- The implication is that public climate finance needs to be ramped up, and increasingly targeted towards the mobilization of much larger volumes of private investment. At this historical juncture, this is the moment for greater ambition in climate finance, not less.

- A fundamental shift in the whole finance system will be required to get the world from the billions to the trillions that are urgently needed. Every financial decision should take climate risk into account.

1.1 RESPONDING TO THE CLIMATE CRISIS IN THE AFTERMATH OF THE COVID-19 PANDEMIC

The context has changed greatly in the past year and this has huge significance for climate finance.

The climate crisis had been deepening even before the COVID-19 pandemic. The time horizon for attaining a global warming target of well below 2 degrees is very short and is shrinking, and devastating climate change is already upon us, with more and more people directly impacted by extreme weather events every year (54 million so far in 2020¹), imperiling the future prosperity and security of everyone - especially the poorest and most vulnerable, millions of whom will suffer greatly if global warming exceeds even 1.5 degrees.² As the UN Secretary-General has emphasized, the world must collectively tackle and achieve three related goals: reach net zero emissions by 2050; build resilience and adapt to accelerating climate change; and arrest the degradation and restore natural capital including biodiversity. This agenda has gained significant traction since the UN Climate Action Summit of September 2019, with many major countries now committing to the net zero target including Europe, China, and most recently Japan and the Republic of Korea - despite the arrival of the pandemic, momentum towards a net zero world has been maintained through 2020 and there are now 120 countries aiming at carbon neutrality. Against this backdrop, there has been a growing recognition of the need to align long-term strategies, policy frameworks and finance.³

The world needs to simultaneously tackle the COVID-19 and climate crises. The causes underlying both crises overlap and the paths to tackling them are also intrinsically linked. A recent report for the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services concluded that COVID-19 is at least the sixth global health pandemic since the Great Influenza Pandemic of 1918, and although it has its origins in microbes carried by animals, like all pandemics its emergence has been largely driven by human activities - it estimated that another 1.7 million currently 'undiscovered' viruses exist in mammals and birds - of which up to 827,000 could have the ability to infect people.⁴

Both crises are inherently global in nature and will require coordinated global responses. The responses to the two must be coherent, coordinated, and mutually reinforcing. While the immediate focus must be on controlling the pandemic and ameliorating its social impacts, countries need to prepare recovery plans that can restart growth and boost employment. The quality of recovery programs will be crucial for the strength and the durability of the economic rebound, but also for re-setting the world on a path that can put the climate and sustainable development goals within reach. Enhancing synergies among different international agendas will promote greater effectiveness and impact in the use of limited financial resources. Strategies that aim at multiplying the benefits while reducing duplication must be pursued. In the context of the Decade of Action, launched by the UN this year, improved coordination is also required to implement the Paris Agreement and further advance the Addis Ababa Action Agenda.

The COVID-19 crisis threatens progress as it saps scarce financial resources, drives debt upwards, complicates public policy planning, and exacerbates existing inequalities within and between countries. EMDEs need help with debt and access to finance as they are suffering particular economic harm from the pandemic, due to a sharp drop in commodity prices, a massive contraction in export volumes, loss of remittances, and unprecedented capital outflows. The implications for climate finance are immense, which is why it is important to set out the most critical dimensions of the changed context and to explain how these impact on the climate finance landscape.

The economic recovery from COVID-19 must "build back better", in a way that can tackle underlying sys-

temic weaknesses and set a course for long-term transformation to a new form of growth and development that includes climate alignment, recognizing that the dangers posed by climate change are greater than those caused by the system-level shock of the COVID-19 pandemic. The UN Secretary-General's six climate-positive actions⁵ provides a valuable framework:

- First: Invest in sustainable jobs and businesses through a clean and just transition. Investments must accelerate the decarbonization of all aspects of our economy.
- Second: Do not bailout polluting industries unless these industries commit to become Paris aligned.
- Third: Fossil fuel subsidies must end, carbon must have a price to deliver a market-driven shift to a decarbonized economy and polluters must start paying for their pollution that is harming communities, employees, and consumers.
- Fourth: Take climate risks and opportunities into account in all financial and policy decisions.
- Fifth: Work together to recover better.
- Sixth: The transition to a carbon neutral economy must be fair and inclusive. We must leave no one behind. And we must ensure that more women are in decision-making positions.

This framework invites a fundamental and far-reaching re-calibration of the global economy with public investment and subsidies directed or re-directed towards clean, green, low carbon enterprise.

A new climate economy must be urgently built - one that escapes a 20th century growth model based on fossil fuel dependence and degradation of natural capital and of eco-system services. A large part of the world's capital stock will need to be re-purposed, by, for example, divesting from coal investments and channeling funding towards the urgent infrastructure needs of EMDEs. A major boost in investment is needed in order to meet the climate goals set by the Paris Agreement - to accelerate the replacement of aging and polluting capital, respond to infrastructure deficits and structural change in EMDEs, and adapt to the already evident impacts of climate change.

A new normal is both possible and essential.⁶ At a time of grave, existential vulnerability it is natural that many people will yearn for a return to life as it was before. But, the world was on a fundamentally unstable and unsustainable path prior to the sudden arrival of COVID-19. As humanity faces a momentous fork-in-the-road 'historical moment', going back to the old normal would be the far riskier option. As economies shut down during the COVID-19 lockdown there was a glimpse of what a different, low carbon world might look like. Pollution levels dropped along with Greenhouse Gas Emissions (GHG), as millions of people across the world drastically changed the way they work, travel, communicate and socialize.

A combined global fiscal response to the crisis of close to \$12 trillion⁷ begs the question: if a pandemic can provoke such a rapid and far-reaching response, at scale, surely the world can muster the necessary will to act with similar decisiveness and urgency in response to the climate crisis?

1.2 WHAT IS THE ROLE OF CLIMATE FINANCE?

The commitment by developed countries to jointly mobilize \$100 billion in climate finance by 2020 is a central element of the "grand bargain" at the heart of the Paris Agreement. International climate finance and the \$100 billion commitment have been an integral part of the climate accords since 2009 and play an essential role in maintaining commitment and encouraging greater ambition among many emerging

markets and developing countries. As such, delivering on this commitment is an important symbol of trust - that is the starting point. Delivery of the \$100 billion commitment is foundational; as section 3, below, expounds, the \$100bn per year by 2020 is a floor and not a ceiling. Although it is not tied explicitly to the "billions to trillions" MDB agenda, it needs to prompt a massive scaling up and transformation of all pools of climate finance - bilateral, multilateral, and private finance.

Article 2.1c of the Paris Agreement is very short, yet of enormous consequence. In it, Parties commit to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." Deep decarbonization of the economies and strengthening resilience to the impacts of climate change will require alignment with climate objectives of all "financial" or capital flows, both public and private - including those that follow purely a commercial logic, those that flow across borders, as well as those that stay within national economies. This represents arguably one of the most important issues for the effectiveness of international climate finance.

However, Article 2.1c will be at the heart of COP26, thanks in part to the "COP26 Private Finance Agenda to Drive Whole Economy Transition" with its five components: (1) disclosure of climate-related financial risks by private companies, (2) better management of climate risk by financial regulators and institutions and companies, (3) aligning investment portfolios with net zero commitments and disclosing progress, (4) encouraging MDBs to align their plans with Paris Agreement and disclose their climate risk, and (5) promote private-sector financial innovation.

The financial sector must embody sustainability and climate in all financial actions and institutions. The three 'Rs' that UN Special Envoy on Climate Action and Finance Mark Carney has set out⁸ - reporting, risk management and returns - aim to ensure that every company, bank, insurer or investor develops credible plans for the transition and implements them. All firms and financial institutions should have a credible strategy for reaching net zero carbon by 2050.

Now is the time to deliver on the Paris commitment. COVID-19 has also impacted the negotiations under the UNFCCC. This year marked the transition into the full implementation of the Paris Agreement and COP26 was expected to, on the one hand, finalize pending elements of the Paris Agreement Rulebook, and on the other hand, launch new processes as per mandates included in decisions adopted in Katowice, in 2018⁹. Due to the postponement and delays in the technical work conducted by the Subsidiary and Constituted Bodies of the Convention, 2021 will be a year of great significance to ensure that the first implementation cycle of commitments under the Paris Agreement is on track.

1.3 THE CHANGING CONTEXT: THE IMPACT OF COVID-19 ON THE CLIMATE FINANCE LANDSCAPE

The impact of the COVID-19 pandemic on climate change and climate finance is mixed:

A. The Threat - COVID-19 poses risks to immediate recovery and future ambition:

The socio-economic impact of COVID-19 is severe, especially for EMDEs:

- With poverty increasing for the first time in more than two decades, and levels of food insecurity likely to have doubled as a result of the deep economic consequences of COVID-19 (with as many as 265 million people pushed to the brink of starvation)¹⁰, people need their governments more than ever, but in many countries public services are contracting drastically. More than 100 million additional people will be pushed into extreme poverty¹¹ - some say nearly twice this amount¹² - with the World Bank¹³ identifying the '3 Cs' as the cause, namely: COVID-19, conflict and climate change.

In addition, as ILO analysis shows,¹⁴ the rate of relative poverty, which is defined as the proportion of workers with monthly earnings that fall below 50 per cent of the median earnings in the population, is expected to increase by almost 34 percentage points globally for informal workers, ranging from 21 percentage points in upper-middle-income countries to 56 percentage points in lower-middle-income economies.

- The ILO warns that 1.6 billion workers in the informal economy – almost half the global workforce – could be ‘at risk’ from lock down measures/longer terms impacts on the sectors in which they are employed. The estimated total working-hour losses in the second quarter of 2020 (relative to the fourth quarter of 2019) are now 17.3 per cent, or 495 million full-time equivalent (FTE) jobs, revised upward from the estimate of 14.0 per cent (400 million FTE jobs) reported in the fifth edition of the ILO Monitor.¹⁵
- In Africa, for example, estimates suggest that seven years of development will be lost, meaning that it is unlikely that the SDGs can be achieved by 2030. Nearly 20 million jobs, in both the formal and informal sectors, are at risk.¹⁶ And reversing years of progress, analysis shows that the number of people without access to electricity in sub-Saharan Africa is set to rise in 2020.¹⁷ No African country has been able to access the sovereign debt market since February.¹⁸
- Nine out of 10 emerging market countries could see contractions in GDP, after driving global growth for two decades.¹⁹ In South Africa, for example, newly published figures indicate that while 543 000 people have returned to employment in the last quarter, this is only a small proportion of the 2.2m who have lost employment during the same period as a result of the contraction of the economy (with the official unemployment rate increasing by 7.5% to 30.8%).²⁰ Small island economies are fighting pandemic and multiple climate shocks, haemorrhaging financial flows and tourism revenues. The Inter-American Development bank projects that Latin America’s economy will, in the mildest scenario, contract by 6.3% 2020-22. In the most extreme case, the cumulative contraction reaches 14.4% – not too different from what the region experienced in the Great Depression.²¹
- Debt is mounting and represents a grave concern: debt vulnerability increased, essentially because of loss of revenues and contractions of GDP. The impact of COVID-19, accompanied by numerous sovereign debt downgrades, builds on the pre-existing debt wave that commenced in 2010 to deliver what the IMF coins as a ‘debt pandemic’.²² 54% of low-income countries were deemed to be in debt distress or at high risk of debt distress as of September 2020.²³
- Foreign direct investment (FDI) flows to the 83 structurally weak, vulnerable and small economies (SWEs) will be particularly exposed to the negative effects of the coronavirus pandemic, accentuating the marginalization of these countries in global flows, according to UNCTAD. The inflows of the least developed countries (LDCs), the landlocked developing countries (LLDCs) and the small island developing States (SIDS) combined accounted for only 2.5% of the world total – now that share is expected to erode further. Without a push by the international community, these countries will remain on the margins of the structural changes of the global economy and FDI.²⁴ There has been a record number of downgrades by credit ratings agencies in 2020.²⁵
- As the Financing for Sustainable Development Report 2020 records, there has been “substantial backsliding” in key action areas.²⁶ EMDEs are understandably in crisis mode, in need of urgent, new development finance, but anxious not to add to mounting debt, prompting a critical debate about what alternative or innovative financial instruments can be developed and deployed to alleviate the crisis.²⁷

The macro-fiscal context has worsened substantially in the past year, especially in the developing world, and fiscal and financing/debt constraints will be daunting. The excruciating paradox is that just as greater finance for transformational action is urgently needed, so there is less money available to respond to the imperative. Many countries, especially in the developing world, have enormous fiscal holes to fill and face sovereign debt crises. Inevitably, there have been drastic short-term re-configurations of national budgets to meet the exigencies of the public health crisis and to soften the harm caused to livelihoods and businesses by the lockdown. In a similar vein, the 'front-loading' of multilateral loans will have a negative impact on MDB capacity to finance climate action in the middle term.

There is a real need, therefore, to ramp up delivery of public climate finance from both multilateral and bilateral sources, and much greater emphasis on the mobilization of private climate finance - which is why section 4 of this report focuses on private sector finance and shifting the whole of the financial system.

The volume of fiscal stimulus has been unevenly distributed worldwide, especially when compared to the huge needs of the EMDEs. Japan's economic recovery stimulus, for example, has the highest proportion of GDP (42.7%), whereas Indonesia has the lowest proportion (2.1%).²⁸ The most recent ILO report states that the estimated fiscal stimulus gap is around US\$982 billion in low-income and lower-middle-income countries (US\$45 billion and US\$937 billion, respectively).²⁹ This gap represents the amount of resources that these countries would need to match the average level of stimulus relative to working-hour losses in high income countries. Significantly, the estimated stimulus gap for low-income countries is less than 1 per cent of the total value of the fiscal stimulus packages announced by high-income countries.

The \$100 billion in climate finance is but a fraction of more than \$11 trillion that advanced economies have deployed so far in response to the COVID pandemic, highlighting the immense opportunity if the latter can be aligned with climate objectives, and a great risk if they are not. As McKinsey reports: "Governments' economic response to the crisis is unprecedented: \$10 trillion announced just in the first two months, which is three times more than the response to the 2008-09 financial crisis. Western European countries alone have allocated close to \$4 trillion, an amount almost 30 times larger than today's value of the Marshall Plan."³⁰

Many low and some middle-income countries face a mounting debt crisis³¹, forcing dozens of nations to make devastating cuts in public services at a time when they are most needed. As developed countries also face difficult economic conditions, living up to climate finance commitments will require strong political will. Significant chunks of development finance will likely be deployed towards the immediate-term task of coping with the pandemic and the public health consequences.

B. The Opportunity - the COVID-19 pandemic could be a positive game-change:

The socio-economic impact of COVID-19 is severe, especially for EMDEs:

- A wake-up call for many, highlighting that the old normal was deeply fragile and dangerous.
- A recognition of the flaws of the previous growth model, propelling a switch towards one that is far more climate-aligned.
- A unique opportunity to "Build Back Better" by shifting to sustainable, inclusive and resilient development that tackles the underlying structural causes of inequality, poverty and unemployment.
- Accelerating the transition in private sector investment away from risky, harmful and potentially stranded assets towards low carbon and climate-resilient destinations.

The economic recovery from COVID-19 must be climate-aligned. But, as the tracking of recovery pack-

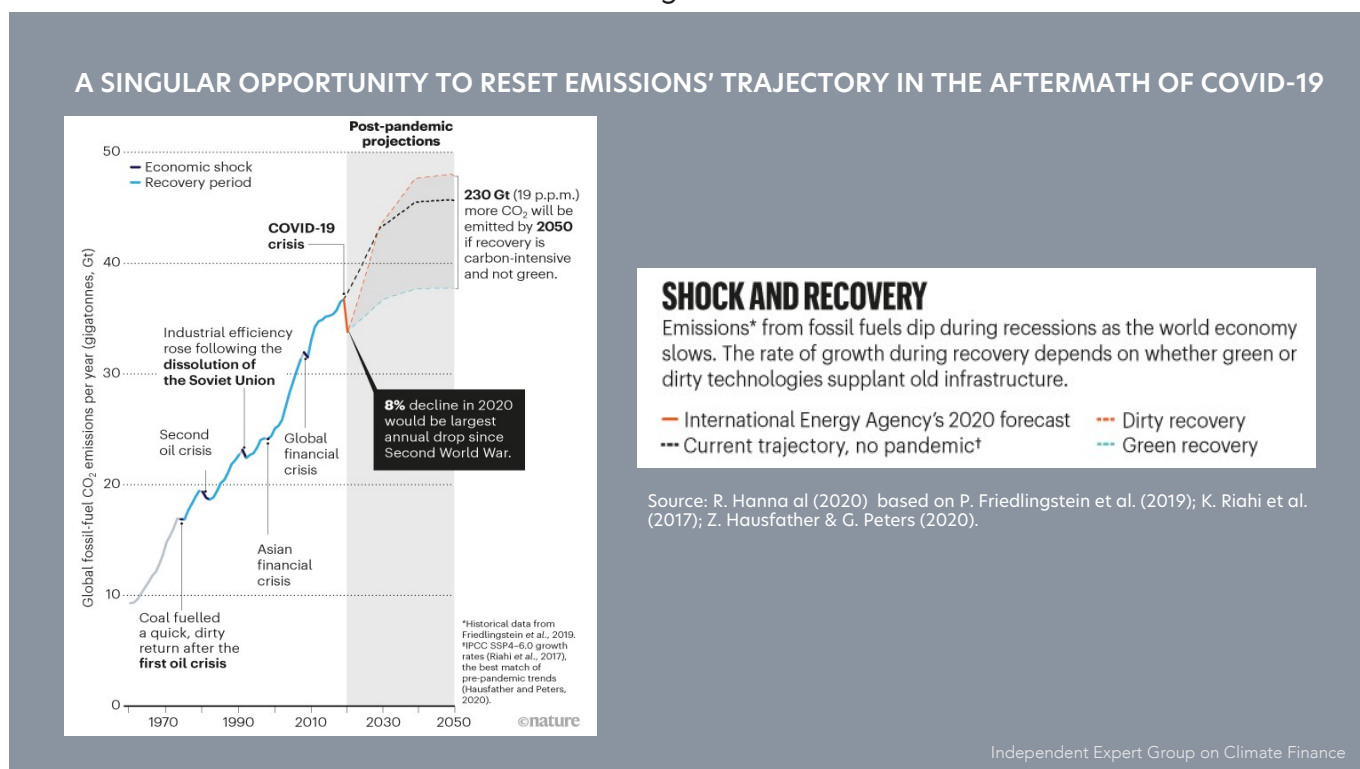
ages to date shows³², the immediate-term recovery packages of many countries have not been green: “stimulus to date will have a net negative environmental impact in 16 of the G20 countries and economies.”; and, in G20 countries \$250bn has been directed to fossil fuels as opposed to only \$146bn to clean energy.³³ Yet, the general public supports a ‘green recovery’.³⁴

Some countries and regions have taken steps in the right direction. The EU has committed 30% of its €750bn recovery package towards climate-friendly measures (including €17.5bn for a Just Transition Fund); \$4bn of Colombia’s \$26bn stimulus package will be used to accelerate 27 renewable energy and energy transmission projects³⁵; South Korea plans to spend \$95bn on green projects to boost its economy and has increased rooftop solar subsidies since the COVID-19 crisis began³⁶; in Pakistan, 60,000 unemployed laborers are being paid to set up tree nurseries and monitor forests through the country’s 10 Billion Tree Tsunami program³⁷. The challenge for much of the world’s countries is to develop strong green deals in daunting circumstances. Consequently, the challenge for the international climate finance system is to mobilize finance adequate to meaningfully support climate action-aligned economic recovery, such as enabling a just energy transition away from fossil fuels, in the context of Nationally Determined Contributions (NDCs) and Long-term low greenhouse gas emission development strategies (LT-LEDS).

1.4 THE URGENT IMPERATIVE FOR TRANSFORMATIVE CLIMATE FINANCE

The recovery pathway must avoid structural damage while fostering structural change.

Figure 2:



The world faces a fork in the roads. As the drop in GHG emissions during the “great lockdown” in Q2 2020 illustrated, another emissions pathway is possible. Placing the world on such a pathway requires converging the post-COVID economic recovery with the transition to a low carbon global economy. There is a singular opportunity to reset the emissions trajectory, and position the global economy to achieve the goal of a carbon neutral world by mid-Century - the world must choose the ‘green recovery’ rather than the ‘dirty recovery’ (see Figure 2, above).

Hence, economic recovery programs that necessarily seek to rescue and stabilize economies must also pave the way for accelerated and sustained transformation to low-carbon climate-resilient growth. Sustainable investments to boost recovery and long-term transformation have good short and long-term features. In the short run, they should be labor intensive but not import intensive, and have strong economic multipliers. In the long run, they can boost productivity and generate powerful co-benefits such as protection of ecosystems and biodiversity. There is overwhelming evidence of how investment in sustainable projects will yield enormous social, economic and environmental benefits.³⁸

Economic decision makers have a unique opportunity to design and implement comprehensive stimulus packages that can drive a strong recovery and build a better future. This imperative has been underscored by the UN Secretary General, and by the Coalition of Finance Ministers for Climate Action.³⁹ Interventions will need to have a clear sense of direction, such as can be seen in the EU Green Deal, and include investing in: skills and training; built infrastructure; and, nature-based solutions.

All components of climate finance must align with this imperative - bi-lateral, multilateral climate funds, MDBs, DFIs, as well as domestic and private finance. Now is the moment to seize what may be a last opportunity to set the global economy on a new climate-aligned development pathway.

The world needs to simultaneously tackle the COVID-19 and climate crises. The pandemic has highlighted that the old normal was deeply fragile and dangerous. Should the world fail to act now, the harm caused by climate change and biodiversity loss will be much greater and longer-lasting than the damage inflicted by COVID-19. The immediate imperative in recovery is to “build back better”, placing the world on a path of sustainable, inclusive, and resilient growth.

Coordinated green investments must be at the center of global cooperation in “building back better” and the “drive to net zero”. The world needs to scale up investments in all forms of capital - human, social, physical, and natural - and at the scale needed. There is a tremendous opportunity to harness advances in technology and private sector dynamism and innovation. A sustainable recovery can boost productivity through discovery and innovation, learning by doing and economies of scale. It can boost employment in areas that need it most and create the jobs of the future. And it can generate strong multipliers for economic recovery and growth and can be accompanied by powerful co-benefits including reduced congestion and pollution.

Climate finance is now critical to financing this ‘green recovery’ - and will have to be deployed even more smartly, with focused rigor in terms of the climate benefits whilst also maximizing socio-economic co-benefits, such as enhanced public health capacity as well as employment. In turn, this will require a deft alignment of monetary and fiscal policy with regulatory and competition policy. New opportunities must be seized. For example, falling fossil fuel prices provide an opportunity for carbon pricing and inefficient subsidy reform, which can provide a source of much-needed revenues, and can be part of wider fiscal reforms to restore fiscal sustainability.

There can be only one way forward: to fully integrate climate-aligned structural change - in particular by accelerating the shift to low-carbon and resilient infrastructure - with a strong post-COVID economic recovery. This will require a fundamental shift in the whole finance system and a massive increase in private finance to get us from the billions to the trillions that are urgently needed. Every financial decision should take climate risk into account. Climate finance is integral to this transformational process. Although the volume of climate finance needed is far greater, our starting point remains that the \$100 billion by 2020 commitment made by developed countries in 2009 is the bedrock of the international public climate finance eco-system.

2. PROGRESS TOWARDS THE \$100 BILLION TARGET - WHAT IS THE CURRENT STATE OF CLIMATE FINANCE

SUMMARY OF KEY MESSAGES & RECOMMENDATIONS

The nature of the target:

- The commitment by developed countries to mobilize jointly \$100 billion per year in climate finance by 2020 has been central to the climate accords since 2009. As such, delivering on this commitment is an important symbol of trust. It is also essential for securing progress and meeting the goals of the Paris Agreement, including to support the delivery of the enhanced Nationally Determined Contributions (NDCs).
- The language of the climate accords starting with COP16 makes it clear that the \$100 billion may include finance from public and private sources. The accords do not specify the proportions of financing from these different sources and do not indicate how different financial instruments, such as grants and loans, should be counted.
- The guidance from the climate accords has been reflected in the official reporting on climate finance under the UNFCCC and in the Biennial Assessments and Overviews of Climate Finance Flows (BA) issued by the Standing Committee on Finance under the Convention. It has also been reflected in the regular assessments of progress towards the \$100 target produced by the OECD. Two other assessments—by Oxfam and the Government of India—have been made on the delivery of the \$100 billion commitment, using different methodological approaches that have excluded non-grant equivalent public finance and/or finance mobilized from private sources.

Basis for counting climate finance:

- The modalities established for Parties to the UNFCCC to report climate finance under the Convention, and for OECD DAC members to report climate-related development finance into the DAC statistical system, provide the basis for reporting on climate finance and the delivery of the \$100 billion goal.
- First, the methodology used to determine climate-specific finance when reporting under the UNFCCC, is not applied on a consistent basis across reporting countries and is not fully transparent for both bilateral and multilateral providers. The “Rio markers” developed under the OECD DAC for monitoring climate-related development finance provide a reasonable basis to determine climate relevance in the provision of bilateral and multilateral finance and provide a useful way to distinguish between activities that have climate action as a “principal” versus a “significant” objective. Parties to the UNFCCC report climate finance using the Common Tabular Formats and specific guidance which has evolved over time, but still allows for interpretation by individual Parties on how to report core/general versus climate specific support, with a few counting all support as climate-specific. Consequently, climate finance provided by some bilaterals is over-reported, in our view in the order of \$3-4 billion.¹
- Second, as several assessments, including the OECD and ongoing negotiations of the Enhanced Transparency Framework under UNFCCC, have pointed out, it is important that consistent methodologies are applied to account for mobilized private finance, both by MDBs and by bilateral

¹ This assessment is based on a survey carried out of DAC donors on how they report climate-specific finance. A few base their assessment on activity level information, others on taking account of the climate-specific part of their support, and only a few count all climate-relevant assistance as climate-specific.

agencies. In this regard, it is important that MDBs continue to provide disaggregated data to the DAC Creditor Reporting System (CRS).

- Private finance mobilized by public interventions is a core component of the \$100 billion that must be accounted for in a clear, transparent, and credible way. The approach taken by the OECD in its 2019 report is a step forward towards greater transparency and a more robust estimation of mobilized private finance. Further progress on assessing mobilized private finance will require working out appropriate modalities for sharing commercially sensitive data, which can be tackled.
- The OECD's DAC system for reporting on climate-related finance can complement countries' reporting of climate finance to the UNFCCC. In particular, it is important to increase transparency by Parties at project level on how they go from climate-related (under the DAC) to climate-specific finance (under the Convention). Additional columns could be inserted in the DAC system to facilitate activity-level transparency in that regard.
- The Biennial Assessment (BA) under the UNFCCC and the OECD's periodic assessments on climate finance use the same underlying data (see Table 1). The OECD makes additional adjustments to exclude coal financing, flows from the MDBs to countries that are not included in the category 'developing', and to quantify the contribution of developed countries to the MDBs to minimize double counting. The periodic OECD assessments provide the latest comparable data available for assessing progress on the delivery of the \$100 billion commitment.

Progress towards the target:

- There has been an upward trajectory in climate finance from both bilateral providers and MDBs. Altogether, climate finance mobilized by developed countries, as defined by the climate accords, increased from \$52.2 billion in 2013 to \$58.6 billion in 2016 to \$78.9 billion in 2018, according to the OECD, which is broadly consistent with the trends of the Biennial Assessments and the underlying BRs. The upward trajectory appears to have continued in 2019 but at a pace not sufficient to reach the \$100 billion in 2020.
- As ongoing deliberations, expert assessments reflected in the BA produced by the SCF, and some critiques, including by Oxfam and other researchers⁴⁰, have underlined, there have been a number of important shortfalls in the quality and composition of climate finance flows—in the scaling up of grant finance instead of other financial instruments, the underfunding of adaptation, the lack of adequate finance for LDCs and SIDS, and obstacles to expeditious access of developing countries to climate finance. In addition, there is a need to increase predictability and trust in future climate finance flows, strengthen country ownership and effectiveness, enhance gender responsiveness and tackle loss and damage.
- As implementation of the Paris Agreement moves into its first 5-year cycle, the focus must immediately pivot to ensuring that there is a major collective boost of climate finance to support strong and green recovery packages and investment needs to deliver on more ambitious NDCs. The collective goal must be to surpass the \$100 billion target in 2021 and to further support the acceleration of climate investments for developing countries.
- These steps will also lay the foundation for a more robust climate finance architecture for the period leading up to 2025 when an ambitious new collective target must be set.

2.1 UNDERSTANDING THE NATURE OF THE \$100 BILLION COMMITMENT

The recovery pathway must avoid structural damage while fostering structural change.

The \$100 billion commitment is a central part of the “grand bargain” at the heart of the Paris Agreement. As such, delivering on this commitment is an important symbol of trust. The commitment came out of the Copenhagen Accord in 2009, was formalized in the Cancun Agreements in 2010, and was reaffirmed as a key element of the Paris Agreement in 2015.

Box 1. Commitment on Climate Finance (From COP16 Cancun Agreements, Decision 1/CP.16)

Decides that, in accordance with the relevant provisions of the Convention, scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change;

Recognizes that developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries;

Agrees that, in accordance with paragraph 1(e) of the Bali Action Plan, funds provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources;

Decides to establish a Green Climate Fund, to be designated as an operating entity of the financial mechanism of the Convention [...]

Decides that a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund [...]

The nature of the \$100 billion commitment is set out in the COP16 Cancun Agreements (see Box 1) and reconfirmed in the Paris Agreement. While there have been various interpretations over time of what the types of finance should compose the \$100 billion, the key relevant decisions under the UNFCCC provide overarching guidance. At COP16, informed by the Report of the Secretary-General's High Level Advisory Group on Climate Change Financing, the Parties affirmed the commitment on the \$100 billion expressed in the Copenhagen Accord and agreed that “funds provided to developing country Parties may come from **a wide variety of sources, public and private, bilateral and multilateral, including alternative sources**”⁴¹ (our emphasis).

The Paris Agreement reiterated that “developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation” (Article 9.1) and that “developed country Parties should **continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels**, noting the significant role of public funds” (our emphasis) (Article 9.3).

The Paris Rulebook, adopted in 2018, specifies detailed modalities, procedures and guidelines for the transparency framework for support (Decision 18/CMA.1), which cover a variety of sources, instruments and channels. According to these modalities, finance to be reported by developed countries should include

funds provided through bilateral, regional and other channels, multilateral channels and mobilized through public interventions, and include reporting by financial instrument, e.g. grant, concessional loan, non-concessional loan, equity, guarantee, insurance, other.

What is not specified in the agreements are the proportions of financing from these different sources and how grants and loans should be counted. The modalities for the transparency framework request developed countries to report finance at face value and to provide the grant-equivalent value on voluntary basis. Countries are also asked to provide information on the methodologies for how they have determined finance to be concessional and/or ODA.

At COP21 in 2015, the Parties identified priorities for improving composition of finance, including scaling-up provision of public resources; significantly **increasing finance for adaptation**; and supporting **enhanced access, capacity building, and investment readiness** (Decision 1/CP21). Article 9 of the Paris Agreement further recognized special needs of those countries that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States.

2.2 UNDERSTANDING COUNTING CLIMATE FINANCE AND ASSESSING PROGRESS ON DELIVERY OF THE \$100 BILLION

Since the Copenhagen Accord, a system for tracking and accounting for climate finance has emerged, with three key components:

- Biennial Reports. Developed countries self-report their provision of climate finance through bilateral and multilateral channels to the UNFCCC every two years, via Common Tabular Formats (CTFs) agreed to by all countries in the UNFCCC process. Most have been doing so in a standardized way since 2014, when they reported on finance in the years 2011-12.⁴² In 2020, 39 Parties reported climate finance information in their BRs, including Annex I Parties that report on a voluntary basis with varying degree of detail.⁴³
- The Standing Committee on Finance (SCF), established in 2010 at COP16 in Cancun, prepares a Biennial Assessment and Overview of Climate Finance Flows (BA) drawing on many sources, including self-reports from national governments, MDBs, and specialized climate finance providers such as the Green Climate Fund and the multilateral climate funds, as well as other international organizations. The ten developed and ten developing country Parties that compose the SCF oversee these assessments and prepare a summary and recommendations based on the technical report. Publication of the fourth assessment is expected in 2021 due to COVID-19 related delays.
- Multilateral development banks (MDBs) created a joint working group that currently includes eight institutions.⁴⁴ These institutions developed a common methodology for measuring the climate finance they provide and have published annual reports on MDB climate finance flows since 2011. The MDBs also report on the finance that they mobilize through their operations, both private and other public. In the latest report the MDBs changed the country classification of their reporting to include all countries rather than the UNFCCC classification, so it makes it difficult from that report to assess their contribution to the \$100 billion goal.⁴⁵ However they do provide the data in the UNFCCC classification both for the Biennial Assessment and to the OECD for their assessments of progress on the \$100 billion.

The Development Assistance Committee (DAC) of the OECD has also been strengthening its statistical system to monitor official development finance (including official development assistance [ODA]),

and within that, to capture climate-related flows. The DAC has a long-standing reporting system on development assistance, which constitutes the most comprehensive, disaggregated, comparable and transparent system for reporting on ODA (and more generally official development finance) by both DAC member countries⁴⁶ and multilateral institutions. For each activity, DAC members indicate whether it targets the objectives of the Rio Conventions as a “principal” or “significant” objective. Activities marked “principal” would not have been funded but for that policy objective; activities marked “significant” have other prime objectives but have been formulated or adjusted to help meet the policy objective.

Since 2013, several large Multilateral Development Banks (MDBs) have reported project-level data on their climate-related development finance to the DAC through the identification of climate components within projects, based on a joint MDB methodology. Data on Rio-marked climate finance from a few climate-specific funds and programs is also available. All this reporting has given the DAC a valuable trove of data that it can use to prepare and publish consolidated activity-level data for bilateral and multilateral climate-related development finance, which it has since 2013.

The Biennial Assessment and Overview of Climate Finance Flows (BA) has been produced by the Standing Committee on Finance (SCF) since 2014, as per decisions adopted under the UNFCCC, for the consideration of the Conference of the Parties (COP). The BA comprises the technical report and a summary and recommendations, negotiated by the SCF. The assessment draws on available sources of information relevant to provide an overview of the global, multilateral and bilateral flows. The BA has evolved through its three past iterations, taking into account the guidance provided by the COP, as well as emerging topics related to the measurement, reporting and verification of the support provided to developing countries. The BA considers information on thematic and geographic balance and aims to address matters of relevance regarding international efforts, composition and purposes, effectiveness, access, ownership and alignment.⁴⁷ In this regard, the fourth edition will incorporate for the first time a chapter related to information relevant to Article 2, paragraph 1c of the Paris Agreement.⁴⁸

The Biennial Reports (BRs) submitted by developed countries are one of the key building blocks of the reporting and transparency system under the UNFCCC. Due to internal processing systems and availability of data, the BRs from developed countries usually have a lag of 2 years. This means that the fourth BRs submitted in 2020 cover data for the period 2017-18. Parties follow the reporting guidelines approved by COP18 in 2012 that also established the Common Tabular Formats (CTFs). These guidelines were further revised at COP21, in 2015. Nonetheless, it is important to note that different Parties have interpreted the guidelines in different ways and sometimes these have led to reporting errors and inconsistencies. The UNFCCC Secretariat prepares every two years a compilation and synthesis of the BRs. The report on the fourth BRs, considering submissions received until October 2020, summarizes the self-reported climate finance from Annex II Parties using further refined analytical approaches.⁴⁹ The BA compiles data from the BRs and provides an overview for the corresponding period.

While it does not provide an aggregate figure for the evaluation of progress towards meeting the \$100 billion target, the 2018 BA assesses the key climate finance components, including bilateral public climate finance from developed countries and multilateral public climate finance attributed to developed countries and private climate finance mobilized by developed countries.

The OECD has prepared periodic assessments of progress on the delivery of the \$100 billion using the same underlying sources as the Biennial Assessments. The first report was issued in 2015; the third report, published in 2019, has undertaken a reassessment of mobilized private finance based on a revised methodology with its interim version published in 2018 covering only public flows for 2013-2017; the third report published in 2020 assessed public flows up to and including 2018.⁵⁰ In its latest reports, the OECD is applying methodologies developed under the Research Collaborative on Tracking Finance for Climate

Action as well as by a Technical Working Group of donor countries to probe the data provided and to eliminate double counting. The latest OECD report provides useful disaggregated analysis by climate focus, instrument, and sector; geographic breakdown; and characteristics of private finance mobilized.

The data used by the OECD is broadly consistent with that of the Biennial Assessment (see Table 1). Bilateral public finance is based on biennial reports to the UNFCCC, supplemented by detailed data submissions to the OECD. In particular, the OECD assessments are based on the biennial reports to the UNFCCC (Table 7 (b) of the Common Tabular Format) supplemented by data submissions to the OECD for bilateral public;⁵¹ from the OECD database and biennial reports to the UNFCCC (Table 7 (a)) for multilateral public; data on officially-supported export credits reported to the OECD⁵² and estimates of the mobilization of private finance attributable to developed countries. Multilateral public finance is also based on the biennial reports to the UNFCCC and detailed submissions to the OECD DAC database. The OECD undertakes consistency checks with complementary or more specific information, excludes any coal-related financing that is still sometimes included in the BRs, excludes export credit financing as they are reported separately, and development guarantees to avoid double counting with private mobilization. The OECD also adjusts MDB's own estimates (provided through annual reporting to the OECD DAC based on a common methodology for defining the scope of climate mitigation and adaptation activities) to exclude flows to countries that are not included within the UNFCCC "developing country" category.

They also reduce the amount that can be attributed to developed countries by providing methods to quantify the contribution of developed countries to the financial resources at the disposal of the MDBs. To minimize the risk of double counting for mobilized private finance, the OECD bases its assessments of mobilized private finance on detailed data submissions by both the MDBs and bilateral providers at the project level. As indicated in its 2019 report, the OECD has adjusted its methodology to estimate private mobilization. As a result, the estimates for mobilized private finance for 2016-2017 are not comparable to the previous estimates for 2013-2014. No estimates could be made for 2015 due to only partial data availability and the change in methodology.

As shown in Table 1, there have also been other estimates made on climate finance. The Climate Policy Initiative (CPI) makes annual assessments of all climate finance flows that draw on the same data sources for the components included in the Biennial Assessments and the OECD assessments. Oxfam and the Ministry of Finance, India, have also made assessments of climate finance. They have used the same data as the Biennial Assessments and the OECD, but as discussed below have made adjustments for coverage and what they believe are flaws in underlying methodologies (see Table 1 and Annex 1 for the overview of the scope and the underlying source of data for the assessments).

The Ministry of Finance of India published a discussion note in 2015 critiquing the OECD's approach to assessing progress towards the \$100bn target. The paper argued that that there was substantial over-reporting of climate finance, that flows should be counted on a grant equivalent basis, that only new and additional finance should be counted, and that flows should be measured on a disbursement rather than commitment basis. It then 'discounts' the OECD estimate for 2014 from \$62 billion to just \$1 billion as new and additional climate finance flows.

Oxfam has published climate finance shadow reports biennially since 2016. The 2020 report is the third edition and presents data for 2017-18. The focus is on public finance. Through the concept of 'climate-specific net assistance', the report raises concerns on accounting methodologies used by different stakeholders, and covers issues related to thematic areas, financial instruments, geographic distribution, ODA and consideration of gender criteria and finance for loss and damage. The report argues that publicly available information on private finance mobilized is inconsistent and incomplete.

Table 1: Comparison of the key data sources that track and assess progress towards \$100 billion target

Assessment	Bilateral public climate finance from developed countries		Multilateral public climate finance attributed to developed countries		Officially supported export credits from developed countries	Private climate finance mobilized by developed countries
	Grant-equivalent	Concessional lending	Grant-equivalent	Concessional lending		
BRs 2020	Climate-specific, status, funding source (ODA, OOF, other), financial instrument (including grants and concessional loans), type of support, sector and additional information		Core/general, climate-specific, status, funding source (ODA, OOF, other), financial instrument (including grants and concessional loans), type of support and sector		Parties can include under Other Official Flows (OOF)	Parties have reported in narrative form, increasingly including information on public investments and estimates in the resulting private sector leveraged
BA 2018	BRs to the UNFCCC		Fund financial reports, CFU; MDB joint report		Included under bilateral	MDB joint report; OECD for bilateral & regional
OECD 2020	BRs to the UNFCCC and complementary data submissions		OECD DAC statistics on development finance (activity-level data)		OECD export credit statistics	OECD DAC statistics (activity-level data)
CPI 2019	OECD DAC		Surveys of DFIs; OECD DAC; Climate Funds Update; ODI/HBF; BNEF; IEA		n/a	Primary capital flows: BNEF; Climate Bonds Initiative; IEA; REN-21; IJ Global
Oxfam 2020 (Climate specific net assistance)	BRs, Climate-related finance OECD DAC	n/a	BRs, Climate-related finance OECD DAC	n/a		
MoF India (2015)	Disbursed; 'new and additional'	n/a	Disbursed; 'new and additional'	n/a	n/a	n/a

2.3 CRITIQUES OF ASSESSMENTS OF PROGRESS TOWARDS MEETING THE \$100 BILLION GOAL

Efforts to measure and report on progress towards the \$100 billion have been subjected to a wide variety of critiques that can be consolidated in four types:

- Counting private and non-grant finance, which some have argued should not be counted;
- Counting finance that is not climate-relevant;
- Applying non-transparent and inconsistent methodologies to count mobilized private finance, resulting in overstating finance volumes; and
- Shortfalls in the quality and composition of finance from what is suggested by the accords.

a. Counting private and non-grant finance

Some critics have argued that only public finance should be counted towards the \$100 billion, and that private finance mobilized through public finance and export credits should be excluded because of their commercial orientation. **Other critiques argue that only grant finance should be counted as part of the \$100 billion commitment.** Oxfam, for example, in its 2020 report has argued that: “only [the loans, guarantees and other non-grant instruments’] grant equivalent counts, [since] anything outside of this does not constitute assistance (in terms of a net transfer of resources) to developing countries.”⁵³ The Indian Ministry of Finance has made a similar argument.⁵⁴

These critiques respond to the diverging interpretations of the legal and political considerations underlying the climate accords. As cited above, Parties agreed that: “funds provided to developing country Parties may come from a wide variety of sources, public and private.” Moreover, excluding non-grant finance would understate the value that non-grant instruments, such as loans and equity, contribute to making climate investments possible. The fact that these instruments involve an expectation that a portion of the value generated by the investment will flow back to the investor does not render the instrument’s contribution valueless. Counting only grant finance runs contrary to the collective understanding of the \$100 billion under COP decisions. Parties decided that private sector finance that is mobilized by public finance provided by developed countries is to be included as a valid source, and since the private sector does not typically provide finance on concessional terms, excluding non-concessional finance necessarily entails excluding private sector finance from the calculation.

However, analysis of the composition of climate finance provided and mobilized is important for assessing progress. Reporting of detailed information by developed countries as specified in the modalities on the transparency framework for support (discussed earlier) - including voluntary reporting on grant-equivalent finance - is central for generating comprehensive and consistent data in this context.

b. Counting finance that is not climate-relevant

Another critique is that some finance is inaccurately reported as climate finance, which inflates the numbers. As noted above, the OECD DAC has set out the so-called “Rio markers” to monitor the mainstreaming of climate into development finance. The markers help determine the climate relevance of the official development assistance by identifying projects where the “principal” objective is climate-related, and those that only have a “significant” climate-relevant objective. It is then Parties to the UNFCCC who decide how much of that they report to the Convention.

The problem is that this principle is applied inconsistently. Parties to the UNFCCC have different methods and approaches for defining “climate specific”, which in many cases implies making adjustments to the climate-related data that they (as DAC members) reported to the DAC. A limited number of countries

(including for example the UK and the United States) currently undertake ad-hoc assessments for each project, whereas a number of countries use a range of fixed coefficients (e.g., 30%, 40%, 100%) that apply by default depending on whether climate change was the only, primary, or secondary objective pursued by the project. According to the OECD, based on responses received by 19 out of 30 DAC members, the results of the 2020 survey (forthcoming) show that in most cases, countries apply fixed coefficients to any activity marked principal or significant with the Rio markers on climate change.

The MDBs typically also conduct activity-by-activity analysis and make judgements about what to count as climate finance based on their own methodology, which is more detailed than the Rio markers, although the underlying activity data is usually not disclosed. Going forward, greater transparency in how the data they report to the UNFCCC is linked to the data they report to the DAC can help address this issue.

Given the approach taken, Oxfam has asserted that bilateral climate finance specifically targeting climate action could be \$10.5-13.5bn lower than reported figures for 2017-2018 suggest⁵⁵ (compared to Oxfam's assessment of over-reporting in the order of \$11-15 billion for 2015-2016⁵⁶ and India's Ministry of Finance assumes two-fold over-reporting by agencies in its 2015 analysis). Our assessment is that there is some over-reporting and the magnitude based on the OECD surveys is likely to be in the order of \$3-4 billion.⁵⁷

The accounting methodology should be addressed as part of the ongoing improvements to enhance transparency of support under the Paris Agreement. The modalities for the transparency framework for support (Decision 18/CMA.1) provide a solid basis for improving reporting on climate finance. Going forward it will be important that contributor countries (1) adopt activity-by-activity analysis of climate relevance and (2) adopt a common methodology for counting climate-specific assistance based on climate relevance but apply it differently. The long-term goal should be to reach a common framework of reporting by all countries under the Enhanced Transparency Framework (ETF).

Specifically, all bilateral donors should indicate in the data that they report to DAC what proportion of the finance of an activity is reported as climate-specific finance to the UNFCCC. When there are divergences between what is reported to the DAC and what is reported to the UNFCCC, they should systematically explain and account for these differences. Given the cross-checking of data in the DAC system, this will also address the criticisms of reliability and accuracy based on a system of self-reporting, particularly for bilateral public finance.

c. Improving methodologies to count mobilized private finance

Private-sector flows that are mobilized by public finance are an agreed component of the \$100 billion, but counting these flows is not straightforward. At issue is whether the private flow was "mobilized" by a public intervention - i.e. the transaction or financial flow would not have materialized in the absence of the policy action or public money. In other words, the public intervention should have created the conditions necessary for private investors or institutions to make an investment that otherwise would have been regarded as not commercially viable or otherwise too risky.

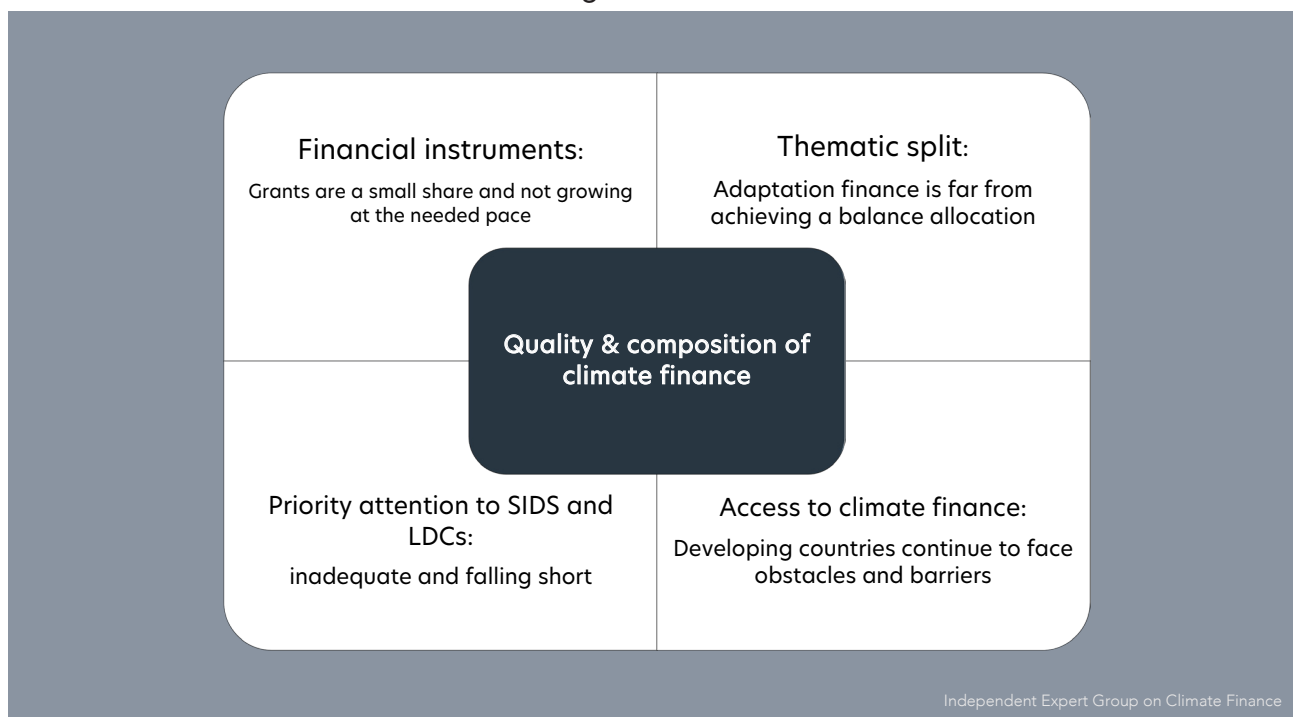
"Proving" that private money was mobilized is difficult because it requires proving a counterfactual, and so it is challenging to make the case compellingly. The MDBs, for example, distinguish between "direct" and "indirect" mobilization.⁵⁸ Direct mobilization is financing by a private entity that results from "active and direct" involvement by an MDB; there must be "auditable evidence" of the MDB's role leading to the private commitment. Indirect mobilization, on the other hand, requires showing that the private actor provided financing "in connection" with a specific activity in which the MDB is investing, even if the MDB did not play an active role in pursuing the commitment.

As several stakeholders have noted, however, there are a number of problems with the current system of accounting for mobilized private finance:

- Counting public money provided on commercial terms. In the past, money provided in the context of a commercial transaction by public entities from developing countries, such as government-owned development or investment banks, has been reported and counted as mobilized private investment. This is not accurate, as the money is coming directly from public sources from a developing country, and it therefore should not be counted toward the \$100 billion. Clearer guidelines are needed on how to treat quasi-public entities, such as banks whose ownership structure is part-government, part-private.
- Lack of project-level data. The availability and release of project level data would enhance transparency and consistency on what is counted as climate finance and as discussed below on attribution among different providers of finance. All MDBs should therefore provide project level data to the OECD while finding modalities to ensure the confidentiality of private sector transactions.
- Attribution among investors. Investments that mobilize private finance typically involve multiple public actors. For example, two MDBs and a national development bank may participate in an investment along with private investors. Key to avoiding double- and triple-counting is to ensure that the multiple public investors do not claim to each have mobilized the same private dollar. That would lead to over-reporting of private finance mobilized. The total private finance mobilized must be shared among all the public actors involved in a transaction, to avoid double counting. The OECD has applied this approach in its 2019 and 2020 reports.

Developed countries and MDBs have raised some concerns about how to overcome these barriers. Some institutions have argued that sharing project-level data runs into confidentiality barriers related to commercially sensitive information. We believe that these barriers are not insurmountable and can be addressed through more investment in data reporting arrangements that allow for the sharing of data while anonymizing private sector parties to a transaction.

Figure 3



d. Shortfalls in Quality and Composition of Finance

Beyond the numerical target of \$100 billion, there have been shortfalls in four aspects of the quality and composition of climate finance that had been underlined in the Paris agreement (Figure 3, above). First, that grant finance is too low and rising too slowly.⁵⁹ Second, that finance for adaptation has been neglected and is inadequate.⁶⁰ Third, there has not been adequate focus on the needs of LDCs and SIDS. Fourth, many countries and entities within countries face obstacles in accessing climate finance. In addition to these four concerns, there is a need to increase predictability and trust in future climate finance flows to enable developing countries to plan climate investments with certainty. All bilateral donors should therefore present their Article 9.5 biennial communications by the end of 2020. The effectiveness of climate finance also requires due attention to country ownership and engagement, speeding up disbursements and ensuring impact on the ground. Greater attention must also be given to gender responsiveness and tackling loss and damage.

The latest compilation and synthesis of the fourth biennial reports by the UNFCCC and the latest OECD report indicate that the share of grants in climate finance has decreased and is now a small proportion of overall public finance. According to the OECD figures, the share of loans increased from 52 percent in 2013 to 74 percent in total public finance and the share of grants has fallen from 27 percent in 2013 to 20 percent in 2018. The low level (\$12 billion) and the slow pace of growth of grant finance has been rightly underlined by Oxfam in its latest shadow report.⁶¹ The use of guarantees and equity has remained very limited, while risk reduction and insurance have emerged as a new form of climate finance.⁶²

In terms of the thematic split, finance for adaptation has been relatively neglected, remains inadequate and is far from reaching the aim of balanced allocation.⁶³ Although adaptation finance increased more rapidly between 2016-2018 (29 percent per year compared to 15 percent for mitigation), its overall share in total public finance was only 21 percent in 2020.⁶⁴

Third, the share of SIDS and LDCs in total climate finance remains small. Climate finance to LDCs and SIDS doubled between 2016 and 2018 but from low levels reaching \$12 billion and \$2 billion respectively in 2018. The share of adaptation finance is higher for both groups (around 40 percent). Grants account for 66 percent of total climate finance for LDCs and 50 percent for SIDS.⁶⁵

Fourth, many developing countries, and a wide range of stakeholders within these countries, face considerable obstacles and barriers to access climate finance. A 2016 OECD report⁶⁶ on international climate finance in the context of development cooperation found that both recipients and providers interviewed agreed that ease of access to climate funds was among the important pre-conditions for ensuring the effectiveness climate finance. A number of interviewees observed that, owing to complexity of requirements, accessing international climate finance is often a resource and time-consuming process stretching beyond the length of election cycles, presenting an additional challenge for elected governments.

At Africa Climate Week in March 2019, President of Ghana Nana Akufo-Addo observed: "One major issue of concern to us is the need to streamline access to international climate finance to complement national funding." A 2014 paper by ODI⁶⁷ highlights that whilst there are inevitably fiduciary risks associated with directly disbursing funds to national organizations in countries where financial management capacity is weak, the experiences of global health funds demonstrate these can be effectively contained through enhancing risk management frameworks and establishing capacity building programs. Both the GAVI Alliance and the Global Fund (to Fight AIDS Tuberculosis and Malaria) have transferred funding at scale (and comparatively rapidly) into the national systems of several sub-Saharan African countries without significant incidents. In a recent paper by SAIIA⁶⁸, whilst recognizing the limitations arising from capacity constraints in recipient countries, the authors point out that barriers to access also arise from institutional,

administrative, systemic and process deficiencies on the donor side.

Another issue relates to calls that the \$100 billion in climate finance should be “new and additional. Although legally the concept of “new and additional” is not directly linked to the \$100 billion commitment, past COP decisions have referred to the need for new and additional finance to be provided to developing countries. This notion refers to the need for climate finance to be added on top of existing development aid flows and ensure that development finance does not decline as climate finance increases. Analysis by the OECD⁶⁹ for 2014-2017 did not find evidence for causality between the changes in the sectoral composition of development finance and climate-related allocations: aggregate ODA trends in climate sensitive sectors (e.g. energy, transport) and social sectors (e.g. education and health) displayed similar patterns.

The share of climate-related ODA reported to the DAC between 2014 and 2017, remained stable at around 20-21%, while the share of multilateral climate finance in total multilateral outflows to ODA-eligible countries grew from 18% in 2013 to 28% in 2017. Over time the overlap between climate and development finance has increased given that climate investments serve both climate and development needs and the other way around. In particular, the efforts to scale up support for sustainable infrastructure by multilateral development banks and many providers of bilateral finance mean that a growing proportion of finance serves both climate and development objectives. On the other hand, the compilation and synthesis report of the BR4s points to a trend of donors channeling more climate finance towards climate-dedicated initiatives rather than to other type of broader environmental and development funds.⁷⁰

Further clarity on what counts towards the climate finance goal in the UNFCCC and increased transparency on reporting remain crucial. This would require, among others, increased granularity and further harmonization on how to classify, label, track and report climate finance under the Enhanced Transparency Framework of the Paris Agreement. In order to significantly improve the reporting system under the UNFCCC, greater accuracy, consistency and comparability is needed. In addition, there are outstanding issues regarding the characteristics of climate finance, such as what constitutes “new and additional”, if and how to account in grant-equivalent terms and pending matters related to the measurement, reporting and verification of support, including the lack of agreed definitions on what is climate finance provided and mobilized, as well as how to improve the granularity of information at project level.

While the overlap between climate-related and development finance is inevitable, and indeed to be welcomed, transparency and rigor in accounting of climate finance is important to maintaining confidence and trust going forward. Therefore, countries contributing both development aid and climate finance should endeavor to be as transparent as possible when reporting on both kinds of financial flows. Academic institutions and civil society organizations can contribute by conducting additional analysis to monitor finance levels of both types over time and provide recommendations to achieve further enhancements.

Critiques on composition and impact of climate finance provided by developed countries have been widely acknowledged and are also recognized in Article 9 of the Paris Agreement. They are addressed in Part 3 of this report, where the agenda on how to strengthen the climate finance architecture is considered.

2.4 WHERE ARE WE ON THE PATH TO THE \$100 BILLION?

Table 29 (below) compares the estimates of climate flows from the BA assessments and the BRs under the UNFCCC and the OECD. While the 2018 BA does not provide the total figure on the finance mobilized towards \$100 billion target, it provides assessments of the public finance provided and private finance mobilized, which have been aggregated as ranges. The BRs are compiled and synthesized by the UNFCCC

Secretariat to provide an overview of the self-reported figures by Annex II Parties of the Convention. The OECD estimates for public finance track those of the BA assessments (based on the BRs and data reported by climate funds and the MDBs) and are a little lower because of the adjustments made discussed above.⁷¹

The CPI estimates of climate finance are much larger because they encompass all capital flows directed toward low-carbon and climate-resilient development interventions with direct or indirect greenhouse gas mitigation or adaptation benefits beyond the scope of \$100 target and hence not included. The Oxfam and Ministry of Finance, India estimates exclude concessional, mobilized private finance and other types of finance (as per Table 1) resulting in much lower ranges. For example, Oxfam (2020) assesses climate specific net public assistance provided to be in the range of \$15-19.5 billion in 2015-2016, and \$22.5 billion in 2017-2018.

The overall trajectory of climate finance has been in an ascending direction. Total climate finance mobilized by developed countries increased by 51 percent between 2013 and 2018 (*Table 2*). This push upward has been driven mostly by significant increases in MDB finance that has almost doubled over the period. This push has no doubt been assisted by 2020 climate finance targets adopted by the banks in the lead up to the Paris Agreement and enabled by recent capital increases and strengthening and restructuring of concessional windows, especially of the AsDF Fund and IDA. There has also been an upward trajectory in bilateral public climate finance, with a noteworthy increase in 2018.

According to the OECD, public climate finance from developed to developing economies has increased by 63 percent, from \$39.6 billion in 2013 to \$62.2 billion in 2018. The largest increase has come from multilateral institutions (using the share of flows attributable to developed countries), which increased from \$15.5 billion in 2013 to \$29.6 billion in 2018. Bilateral public climate finance from developed to developing countries has increased at a more modest pace, rising from \$22.5 billion in 2013 to \$27 billion in 2017⁷²; and then increasing to \$32.7 billion in 2018. Most of the increase has been in the form of concessional and semi-concessional loans. Around 20 percent of public climate finance is estimated to be in the form of grants, a small share in the form of guarantees (less than 5 percent for MDBs) and the rest in the form of concessional and semi-concessional loans.⁷³

Private climate finance mobilized by public finance was previously estimated at \$16.7 billion in 2014 and \$15.7 billion for 2016 from MDBs alone.⁷⁴ Based on the improved methodology to eliminate double counting starting with the 2019 report, the OECD estimates private finance mobilized to be \$10.1 billion in 2016, \$14.5 billion in 2017 and \$14.6 billion in 2018.

Based on the most recent OECD assessment, total climate finance counting towards the \$100 billion reached \$78.9 billion in 2018 compared to \$71.2 billion in 2017. Although the Biennial Assessment of the UNFCCC will only be released in 2021, it will likely reflect similar trends given the commonality of the underlying data.

In 2016, the OECD had projected that public finance from developed countries could reach \$67 billion in 2020 (approximately \$37 billion of bilateral public finance and \$30 billion of multilateral public finance) based on the pledges at the time.⁷⁵ The data from 2018 suggests that bilateral public was on track to meet that projected level and multilateral public finance were on a trajectory to surpass those projections. Private sector mobilization has however been much lower than had been estimated at the time.⁷⁶ Although the trends for bilateral and multilateral climate finance have done better than the pledges in 2016, they are still short of the \$100 billion target.

Reaching the \$100 billion target would require an average annual increase of 13 percent in 2019 and 2020. A simple extrapolation of the trends in bilateral and multilateral public finance between 2013 and 2018

suggests that total public finance could have been on the order of \$77-80 billion by 2020, and private finance mobilization on the order of \$16-18 billion on the basis of the revised OECD assessment methodology. Hence, on a purely trend basis, total climate finance counting towards the \$100 billion could have reached \$93-98 billion by 2020. Preliminary data available for two major components of public finance in 2019 suggests that the upward trajectory of public finance continued in 2019 but at a slower growth rate. MDB climate finance attributed to developed countries increased from \$29.6 billion in 2018 to \$31.5-32.5 billion in 2019 based on the latest joint MDB climate finance report.⁷⁷ Climate finance from the European Union, which accounts for the largest share of bilateral climate finance, increased from €21.9 billion in 2018 to €23.2 billion in 2019⁷⁸, but was flat in dollar terms (\$25.9 and \$26.0 billion).

Nevertheless, with concerted efforts, there was a reasonable prospect for reaching the \$100 billion target in 2020. In the lead up to and at the UN Climate Action Summit both MDBs and some major bilateral providers committed to stepping up their support for climate finance. In particular, the MDBs committed to a substantial scaling up of climate finance and were well positioned to do so on the basis of recent capital increases and replenishment of the concessional windows. The replenishment of the Green Climate Fund also positioned it for a major expansion of climate support in 2020.

The impact of COVID19 has negatively affected both the demand and the delivery of climate finance in 2020. On the demand side, priority needs have shifted to tackling the public health emergency, and towards the stabilization of the economy and the protection of livelihoods; investment has decelerated - and so, consequently, has climate-related investment in many countries. On the supply side, donors and MDBs have had to respond to these new circumstances. The announcements made by the MDBs⁷⁹, and consultations with selected donors, suggest that there has been a major scaling up of financial support to developing countries to help them to respond to the pandemic and it appears to have become more challenging to sustain and expand support for climate-related investment.

Altogether MDBs have committed a resource envelope of around \$230 billion in response to the COVID19 pandemic, although this has not yet translated into lending increases for all institutions. In this context of shifting priorities, donors and MDBs, as well as other climate funds, have continued to make conscious efforts to deliver on their climate finance commitments in 2020 but their ability to do so appear to be constrained by current circumstances. While the effects of the pandemic on climate finance will vary by geography and institution, the overall impact is likely to be significant.

Despite the continued year-on-year progress during the 2015-18 period, it is unlikely that the \$100bn target will be met in 2020. The range of outcomes for 2020 is subject to considerable uncertainty both for bilateral and multilateral public finance as well as for the mobilization of private finance. Developing countries will need to put in place ambitious recovery packages in the coming months. There will be a great need and an opportunity therefore for a major bolstering of climate finance in 2021. A concerted push is required on shoring up the commitment to a 'green' economic recovery and supporting country efforts to build back better and lay the basis for long-term transformation consistent with more ambitious NDCs. In the next section, the steps that would be needed to go beyond the \$100 billion target are described to enable countries to achieve the transition to a low-carbon, climate-resilient path that is envisioned in the Paris Agreement.

Table 2: Assessments on finance provided and mobilized by developed countries for climate action in developing countries (USD billion)

	2013	2014	2015	2016	2017	2018
Public finance from developed countries provided via bilateral, regional and other channels						
BA, 2016 and 2018¹	23.1	23.9	29.9	33.6	n/a	
BRs, 2016, 2018 and 2020²	23.1	23.9	29.9	33.6	32.3	32.3
OECD, 2020 (Excluding export credits, including finance by bilateral providers via multilateral channels)	22.5	23.1	25.9	28	27	32.7
Officially supported export credits from developed countries						
BA, 2016 and 2018	Not reported separately				n/a	
OECD, 2020	1.6	1.6	2.5	1.5	2.1	2.1
Public climate finance attributed to developed countries provided via multilateral channels						
BA, 2018³					n/a	
<i>Multilateral climate funds</i> (Including UNFCCC funds)	1.9	2.5	1.4	2.4		
<i>MDB climate finance⁴</i>	14.9	16.6	17.4	19.7		
BRs, 2016, 2018 and 2020⁵	14.3	16.4	12.8	13.1	16.4	16.4
OECD, 2020 (MDBs climate finance and multilateral climate funds)	15.5	20.4	16.2	18.9	27.5	29.6

1 Sources: Table 2.6 page 64 of the 2018 BA Technical report for the whole period 2013-2016. The same data is reported in Figure 1, page 5 of the 2016 BA's Summary and Recommendations for 2013-2014, and Figure 1, page 6 in the 2018 BA's Summary and Recommendations for 2015-2016. These figures include climate-specific finance provided by Annex II Parties to developing countries, as reported in their BRs via bilateral, regional and other channels.

2 Sources: Figure 21, page 66 of the compilation and synthesis report of BR2s for 2013 and 2014; Figure 29, page 57 of the compilation and synthesis report of BR3s for 2015 and 2016; and paragraph 222, page 71 of the compilation and synthesis report of BR4s for 2017 and 2018, of Parties included in Annex I to the Convention. October 2016, November 2018 and November 2020. The compilation and synthesis report of BR4s gives an average for 2017 and 2018. Annex II Parties reported figures including climate specific and core/general support.

3 Source: Figure 1, page 5 of the 2016 BA's Summary and Recommendations for 2013-2014, and Figure 1, page 6 in the 2018 BA's Summary and Recommendations for 2015-2016.

4 This includes climate finance commitments by MDBs from their own resources attributed to the members of the OECD DAC, minus the Republic of Korea, to OECD-DAC recipients eligible for official development assistance. Table 2.9 page 67 of the 2018 BA Technical report presents figures for the whole period 2013-2016, providing an upper and lower range due to the variation in the assessed share attributable to the Annex II Parties. The lower ranges use the approach based on the ownership shares held by developed countries and suggests about 65 per cent in 2013 and 2014, 74 and 77 per cent of the finance to developing countries in 2015 and 2016 respectively can be attributed to OECD member countries. The upper range is calculated based on the developed and published in OECD (2015d) that captures the mobilization effect through MDBs. Given that both the 2016 and 2018 BA's Summary and recommendations reports only present the upper range based on the OECD methodology, the same figures are presented here.

5 Source: Table 11, page 65 of the compilation and synthesis report of BR2s for 2013 and 2014; Figure 28 and table 6, page 56 of the compilation and synthesis report of BR3s for 2015 and 2016; and table 4, page 70 of the compilation and synthesis report of BR4s for 2017 and 2018, of Parties included in Annex I to the Convention. October 2016, November 2018 and November 2020. Annex II Parties reported contributions through multilateral channels, including climate specific and core/general support to MDBs.

	2013	2014	2015	2016	2017	2018
Total public climate finance provided by developed countries						
BA (Aggregated based on data reported in the BA as above) ¹	39.9	41.8 - 45.7	49.6 - 51.3	55.9 - 58.3	n/a	
BRs, 2016, 2018 and 2020² (Excluding own resources contributed by the MDBs)	40.5	43.2	45.4	49.4	48.7	48.7
OECD, 2020	39.5	45.1	44.6	48.5	56.7	64.3
Private climate finance mobilized by developed countries						
BA, 2016 and 2018³	12.8	16.7	13.2 ⁴	15.6	n/a	
BRs, 2016, 2018 and 2020⁵	n/a					
OECD, 2020	12.8	16.7	n/a	10.1	14.5	14.6
Total climate finance mobilized by developed countries						
BA (Aggregated based on data reported in the BA as above) ⁶	52.7	59.7	61.9	71.3	n/a	
OECD, 2020	52.2	61.8	n/a	58.6	71.2	78.9

1 Based on aggregation by authors of the components of public finance based on the BA, 2016 and 2018 data as detailed in the rows above.

2 Source: Figure 26, page 68 in the compilation and synthesis of fourth biennial reports of Parties included in Annex I to the Convention for 2017 and 2018. November 2020. Figure 27, page 55 in the compilation and synthesis report of the third biennial reports of Parties included in Annex I to the Convention for 2015 and 2016. November 2018. And Figure 19, page 63 in the compilation and synthesis report of the second biennial reports of Parties included in Annex I to the Convention for 2013 and 2014. October 2016. Figures include financial contributions of Annex II Parties through bilateral, regional, and other channels, as well as multi-lateral channels. These figures include climate specific and core/general support. Comparability with BR3s total climate finance is limited since two Annex II Parties have not submitted BR4s.

3 Sources: Figure 1, page 5 of the 2016 BA's Summary and Recommendations for 2013-2014 (from Annex II Parties as well as the Czechia, Poland, Slovakia and Slovenia); and Figure 1, page 6 in the 2018 BA's Summary and Recommendations for 2015-2016.

4 Includes mobilized private climate finance by the MDBs and by bilateral, regional institutions (of \$10.9 billion and \$2.3 billion respectively) as per Figure 1, page 6 in the 2018 BA's Summary and Recommendations.

5 The compilation and synthesis of the biennial reports of Parties included in Annex I to the Convention do not provide an aggregate of the private finance mobilized. However, each iteration has included an overview of reporting trends from Annex II countries, as they enhance the information on public investments provided and the estimates of the resulting private sector finance leveraged. As more countries improve their reporting on private finance flows mobilized by public bilateral climate finance, a fuller picture of quantitative and qualitative elements has been developing in the compilation and synthesis reports prepared by the UNFCCC Secretariat. See Table 5, page 76 in the compilation and synthesis report of BR4s of Parties included in Annex I to the Convention. November 2020.

6 Authors, based on aggregation of the individual components of public finance provided and private finance mobilized based on the 2016 and 2018 BA data as detailed in the rows above.

3. TURNING THE BILLIONS INTO TRILLIONS: HOW CAN WE GET MORE MONEY TO FLOW TOWARDS CLIMATE-RELATED INVESTMENTS IN DEVELOPING COUNTRIES?

SUMMARY OF KEY FINDINGS & MESSAGES

- Even prior to the COVID-19 pandemic, it was clear that a major scaling up of international climate finance would be needed to enable developing countries to adopt more ambitious NDCs and the sustainable development goals.
- The COVID-19 pandemic has made the delivery of international climate finance even more urgent. Developing countries need to put in place ambitious and sustainable recovery packages that can enable them to respond simultaneously to the COVID-19 and climate crises. But they must do so against a much more difficult debt and financing context. Beyond the recovery phase, a sustained scaling up of investments in green and resilient infrastructure will be required to enable them to transform their economies to meet their climate and development goals.
- The \$100 billion commitment should play a key role in enabling developing countries secure a strong and sustainable recovery and can be a foundation for the scaling up of climate finance in the 2021-25 period needed for sustained transformation. Although the \$100 billion commitment constitutes the dominant part of international public climate finance, given the scale of the needs, all pools of international finance will have to be bolstered and used more effectively - individually and collectively: bilateral and multilateral, concessional and non-concessional, and especially private finance.
- All countries will need to unlock opportunities for low carbon climate resilient infrastructure and other climate-related investments to support recovery and transformation. Domestic policy must play its part and should include a decisive phasing out of fossil fuel subsidies and the equitable pricing of carbon. This will also help boost progress on the SDGs.
- All bilateral donors must live up to their climate finance commitments and set more ambitious targets. The need for the grant component of climate finance is even greater than before; given its critical role in the climate finance architecture, grant finance should be at least doubled from its very low level of around \$12 billion in 2018.
- Multilateral climate funds, while modest in overall volumes, can play an important catalytic role in scaling up investments and leveraging other sources of finance including the MDBs. The international community under the leadership of the UN must seek to bolster and make more coherent the concessional climate finance architecture encompassing the Green Climate Fund, the Global Environment Facility, the Climate Investment Funds, the Adaptation Fund as well as the concessional windows of the multilateral development banks and the Global Infrastructure Facility.
- The MDBs occupy a key position within the international climate finance delivery system. Because of their mandates, instruments, and financial structures, they are the most effective international means to support enhanced climate action in developing countries and for mobilizing and leveraging climate finance at scale. In the immediate context, they are uniquely positioned to help developing countries prepare, implement and finance comprehensive stimulus packages that can lead to a sustainable recovery.

- MDBs must better leverage their balance sheets, improve their private sector multipliers and work better as a system. However, given the volume of emergency rescue and stabilization finance they are providing, and the magnitude of funding that will be needed for recovery and transformation, it is critical that shareholders consider additional and substantial infusions of capital with urgency, taking individual MDBs' circumstances into account. There is also a strong case for an extraordinary replenishment of IDA in 2021, and possibly the African Development Fund, given the front-loading of resources in response to COVID-19.
- MDBs need to accelerate the alignment of their financial support and activities with the Paris Agreement building on the common framework set out at COP25.
- The broader development finance system, including bilateral and national development banks, can also make a huge contribution – their financing for climate could be increased by as much as ten-fold. They must also aggressively align their lending and portfolios with the Paris Agreement building on the joint statement at the recent Finance in Common Summit of all public development banks.
- Given the scale of climate finance needs in the coming years, the international community under the leadership of the UN should explore all options to enhance the envelope of international public finance including through innovative and alternative sources of finance. One promising option—that that has been highlighted in the high-level dialogue on financing for development in the era of Covid-19 and beyond—would be large additional SDR allocations and revised allocation mechanisms to enable poor and vulnerable countries to access low cost finance.
- It will also be critical to tackle debt distress and excessive debt overhang, especially in poor and climate vulnerable countries. COVID-19 has greatly exacerbated debt vulnerabilities in both low and middle-income countries at a time when they urgently need to scale up investment. The DSSI program and its extension have provided temporary relief to a targeted set of countries. But a more comprehensive approach is needed and must be a priority for multilateral discussions in 2021. A promising approach with direct links to climate are expanding debt-for-climate and debt-for-nature swaps through a systematic approach and augmented support from the donor community.
- Greater scale of action can be achieved by growing the capacities of cities as well as domestic private sector and non-profit entities in developing countries to elaborate and implement climate projects (grow the pipeline). For this to happen new mechanisms that significantly increase the flow of funds to them must be deployed.
- Developing countries also urgently need better financial tools to raise resources when climate-related disasters strike. New ways to channel concessional resources to this end, strengthening of existing disaster risk finance instruments, and potential for establishment of new ones should be explored.

3.1 THE NEED TO MOBILIZE

The need for scaled up investment in sustainable economic transformation, and especially in climate resilient and low carbon infrastructure, was already there before the pandemic. COVID-19 has made this need more urgent if countries are to integrate climate action in their recovery packages. The pandemic has, however, made the debt and financing context even more difficult. In EMDEs there is a hesitancy about 'green recovery' packages, based on a justified concern about how to access affordable finance and a suspicion that they may represent an attempt by developed countries to shift the burden to them.

Hence, there is an urgent need for large scale international public climate finance that can alleviate these concerns while providing a foundation for long-term transformation aimed net carbon neutrality and climate-resilient development.

The needs of developing countries are even greater in the aftermath of COVID19 as the economic consequences have been particularly severe for EMDEs, drastically reducing both their domestic and international financing options. The pandemic has resulted in historically unprecedented declines in commodity prices, tourism and remittances as well as large reversals in capital flows. Despite significant immediate financial support from the international community and the projected sizable medium-term domestic adjustment, the 54 countries in Africa are facing large external financing needs. For 2020-23, Africa is facing cumulative gross external financing needs of about \$1.2 trillion.⁸⁰ Current commitments from international financial institutions and official bilateral creditors are expected to fill less than a quarter of this need.

Most developing countries need significant external finance to mount an adequate crisis response due to limited fiscal space and high debt risks that have been exacerbated by the crisis. Advanced economies have provided substantially more fiscal support (averaging nearly 23 percent of GDP), than emerging market economies (6 percent of GDP), while low-income countries have been able to provide only limited support (3 percent of GDP).

Many low and some middle-income countries face a mounting debt crisis⁸¹, forcing dozens of nations to make devastating cuts in public services at a time when they are most needed. The pandemic arrived at the end of a decade that saw the largest, quickest and most broad-based rise of debt in these economies over the past 50 years⁸². Overall debt levels have reached a record high, with private sector debt in particular rising fast. Furthermore, over half of government debt in low-income countries is now non-concessional, and the proportion thereof raised from private sources via issuance of international bonds in 'hard' currencies is now very substantial in numerous countries.⁸³ Global public debt is projected to reach a record high level of 100% of GDP in 2021 (IMF, 2020). 54% of low-income countries were deemed to be in debt distress or at high risk of debt distress as of September 2020.⁸⁴ Developing countries will be asked to pay \$865 billion in debt service on medium and long-term debt in 2021 (of which \$346 billion is owed or guaranteed by governments).⁸⁵

While the G20 decision to extend the Debt Service Suspension Initiative (DSSI) until the end of 2021 with a clause to then reconsider for another six months is welcome, a permanent resolution of the debt issue, which hangs heavily over developing countries, is urgently required. Debt-for-nature swaps (DNS) – debt for climate/debt for SDG swaps – is one option with unrealized potential that could be deployed further.

The danger of backsliding: in a range of countries there is a risk governments will, under the pressures of the COVID-induced economic meltdown and of vested interest groups, resort to traditional or legacy 'dirty' economic growth levers, locking them into a higher emission trajectory with continued natural capital degradation. It is therefore critical that multilateral and bilateral financial support for their post-COVID economic recovery packages is climate-aligned and made available in sufficient volume to undergird a shift towards low-carbon climate-resilient development. The right investments will need to be fast, labor-intensive in the short run given the unemployment impact of the COVID19 recession, and have tangible high multipliers and co-benefits, including for air pollution, climate and resilience. Investments with these characteristics include clean physical infrastructure, such as in renewable energy assets and grid modernization, building energy efficiency investment in the form of renovations and retrofits, education and training in the skills of the future, research and development in clean technologies, rural support and investment in climate smart agriculture, and of great importance in light of COVID-19, natural capital investment to improve ecosystem resilience and restoration of degraded land and habitats.

Exceptional crisis-related expenditure needs will leave most EMDEs with limited choices and difficult policy tradeoffs. Economic activity will not recover immediately with negative implications for domestic revenue mobilization and foreign exchange earnings. Public sector financing needs will rise significantly above pre-crisis levels with unplanned expenditures on crisis recovery and higher debt service – all added to pre-crisis programs and services that will urgently need to be restarted. With domestic financing impaired, many EMDEs will likely seek increased foreign financing.

While multiple scenarios can be envisaged, financing prospects for many LMICs and LICs are likely to remain uncertain for a prolonged period. A substantial share of developing countries already showed signs of over-indebtedness before the crisis, and the pandemic is worsening the situation substantially. Government debt to GDP ratios are now projected to increase by about 9 percentage points for emerging market economies and 7 percentage points for IDA countries in 2020. Developing countries with large fiscal deficits or large debt burdens are particularly vulnerable to debt distress. New bouts of debt distress and/or financial instability are possible and will become more likely in the absence of stepped-up external support.

COVID19 has further weakened investment flows into developing countries. Prior to the coronavirus pandemic there was already a large shortfall of investment in the power sector of many developing countries, where SOEs account for well over half of energy investments (compared to less than 10% in advanced economies). The pandemic has further weakened SOEs' ability to invest in new capacity, particularly in emerging economies. There is thus likely to be a greater need for public financing in developing economies where SOEs play a central role.⁸⁶ The energy sector is a prime example.⁸⁷

Developing countries will need extensive additional resources to support the post-COVID recovery, adopting more ambitious NDCs consistent with the drive to net zero, and making up the lost ground towards achieving the SDGs. In particular, a substantive scaling up of investment in sustainable infrastructure is required if developing countries are to attain their climate and development goals – and they will need significant financial assistance to enable them to do so.⁸⁸ Alternative or innovative finance is needed to supplement existing instruments, to provide sustainable and affordable new sources of finance for developing countries. Africa, for example, needs more grant finance but also needs access to far larger levels of finance than grant-based climate finance can provide.

In the coming decades, investment needs and opportunities in sustainable infrastructure will be increasingly concentrated in EMDEs. They are forecast to account for about 80% of the growth in the world economy, and the predominant share of global infrastructure investment given their more rapid growth, large unmet needs and structural change especially urbanization.⁸⁹ In particular, from a climate perspective, they will account for roughly 70% of global energy demand in 2050 – driven by growing levels of prosperity and improving access to energy.⁹⁰ Almost all the increase in energy consumption by the buildings sector and in transport is anticipated to come from the developing world, where also the bulk of industrial energy demand growth is projected. In contrast, energy consumption across developed economies is likely to fall off as energy efficiency gains are expected to more than offset higher activity levels.⁹¹

Domestic financial capacities to meet energy sector investment requirements varied significantly among EMDEs before COVID19, and as previously mentioned, the crisis has had differentiated impacts across these countries. The ability of many SOEs in emerging economies to invest in new capacity has been further weakened by the crisis; and opportunities for newer sources of low-cost clean energy finance to enter the mix – for instance from institutional investors – which are currently concentrated in Europe and North America,⁹² will require time to develop more fully in EMDEs. In the near term, whilst the need for international public climate finance will differ substantially among EMDEs, in many cases it has now therefore become even more critical in helping set them on a path to sustainable, Paris-aligned development. In the

medium term, the associated growth in domestic financial capacities will reduce the need for international public assistance.

Achieving the transition to a net-zero-carbon future and meeting the Paris Agreement's temperature goals will necessarily require the sustained deployment of large volumes of capital. According to the International Renewable Energy Agency, for instance, limiting warming to well below two degrees Celsius will require \$110 trillion of cumulative worldwide investment in the energy sector until 2050.⁹³ This amounts to approximately two percent of average global GDP. In addition, hundreds of billions more will be needed annually to render buildings energy efficient, to deploy zero-carbon transportation systems, and to develop new energy storage and carbon capture and sequestration technologies.

Significant capital will also be needed to meet climate adaptation and resilience needs. UNEP assessments, for example, estimate adaptation costs developing countries face in a range of \$140 billion to \$300 billion per year by 2030, and \$280 billion to \$500 billion annually by 2050.⁹⁴ Another reference point comes from what countries are including in their Nationally Determined Contributions (NDCs). In their initial NDCs, 46 countries included estimates of their adaptation costs totaling cumulatively \$783 billion by 2030.⁹⁵ Overall, there are still significant gaps in financing volumes for enhanced adaptation and resilience.

Mobilizing finance on this scale will necessarily require private capital. Public money constitutes only a fraction of climate finance already being deployed worldwide. According to one influential estimate, climate finance provided by public actors accounted for 44% of the \$579 billion in total climate finance in 2017-18, with private actors providing the other 56%; that calculation likely underestimates significantly the share of private finance because of data gaps.⁹⁶ However the bulk of private finance is concentrated in the advanced economies. The role of private capital in climate finance will be even more important during and after the COVID pandemic, as the economic crisis is causing significant declines in fiscal revenue in almost every country while also multiplying public expenditure needs.

3.2 STRENGTHENING DOMESTIC POLICY FOUNDATIONS

While this report focuses on the central and critical role of international climate finance and especially international public climate finance, and within this eco-system the very significant role of the \$100bn by 2020 target, domestic policy foundations should not be neglected. All countries will need to put in place stimulus packages and investment programs that are guided by long-term strategies for decarbonization and resilience and more ambitious NDCs.

As noted, the macro-fiscal context will be difficult; fiscal expansion will be necessary but challenging for many countries. Concerns around limited fiscal-space must be addressed head-on. Investments are needed with high economic returns that can be sustained over the medium to long term. There are strong arguments, supported by mounting evidence⁹⁷, that fiscal multipliers from sustainable investments can outperform alternatives. These investments can create more and better jobs in the short run in growth industries such as renewable energy, compared to high-carbon alternatives with a high risk of asset and job stranding. But, being clear about the structural changes needed, and the incentives to transition to them and how each transition will be navigated - including the resources and technology - will be critical if the necessary political leadership is to be secured. All governments need to strengthen the supporting policies to bring forward these investments and the necessary finance. The policy framework for sustainable recovery includes four priorities: carbon prices, regulations, bailout conditions, and ensuring a just transition.

Carbon prices. A key priority for fiscal reform is environmental taxation; it can tilt incentives to support green recovery strategies and investments and generate valuable revenues to support investment and the

just transition. Carbon pricing, including subsidy reform, can be a critical component in the package of climate policies needed to restore growth and decarbonize the economic system. At last count, 78 countries, states, provinces, and cities worldwide have adopted carbon-pricing policies, but these initiatives together cover only about a fifth of global GHG emissions. Also, half of the emissions covered by carbon pricing initiatives are priced at or below \$10/tCO₂.⁹⁸ The High-Level Commission on Carbon Prices concluded that, to be consistent with Paris Agreement temperature targets, a carbon price in 2020 should be in the range of \$40 to \$80/tCO₂.⁹⁹ Carbon pricing inevitably has distributional impacts, which is why these policies must take into account equity issues and ensure that adequate resources are dedicated to a just transition. At the same time, significant subsidies for the fossil fuel industry in countries around the world further exacerbate the situation by artificially suppressing the price of carbon. Carbon pricing programs globally generated more than US\$45 billion in government revenues in 2019¹⁰⁰, with the potential to unlock further revenues through smart fiscal reform.

There may also be opportunities for governments to phase out harmful fossil fuel consumption subsidies in conjunction with targeted measures designed to protect low income groups from negative impacts, resulting in reduced overall budgetary cost. Globally, the estimated value of fossil fuel consumption subsidies amounted to more than US\$317 billion in 2019, and even more is provided through subsidies or tax breaks to fossil fuel exploration, development or production.¹⁰¹ Leadership from developed countries in this regard is important. It is estimated that on average during 2017-2019 G20 governments provided \$584 billion annually via direct budgetary transfers and tax expenditure, price support, public finance, and SOE investment for the production and consumption of fossil fuels at home and abroad. Furthermore, G20 countries allocated some \$170 billion in public money commitments to fossil fuel-intensive sectors in response to the COVID-19 crisis between January and August 2020.¹⁰²

Regulations and standards. These are an important complement to carbon pricing and fossil fuel subsidy reform that can be particularly effective in times of crisis. Green and Paris-aligned public procurement can also support a sustainable recovery. It is important to prevent rollback of regulations and standards in this crisis.

Bailout conditions. Given the magnitudes of support that are being extended, bailout conditions can help drive a green recovery. They can save jobs, ensure a just transition for workers, and accelerate low-carbon restructuring, particularly in polluting firms hit hard by the pandemic.

Ensuring a just transition for those experiencing dislocation is crucial. As noted, the COVID19 crisis has had a disproportionate impact on the poor and vulnerable, the young and women. The combination of social stress and environmental damage calls for a “new social contract” around health, education and skills, social mobility and sustainability.¹⁰³ National and local governments should incorporate “just transition strategies” into their recovery plans and transition to a low-carbon growth path. This would include supporting training, re-skilling, placements, and relocation where necessary.

Of particular importance will be managing the relatively rapid phase-out of coal in many parts of the world that is crucial to reaching the global target of net zero emissions. The European Union’s €750 billion Recovery Fund sets aside €17.5 billion for a targeted Just Transition fund. Many EMDEs will need substantial external support to enable them to execute just transition measures, especially in the pivotal energy sector.

3.3 THE FORWARD-LOOKING CLIMATE FINANCE AGENDA

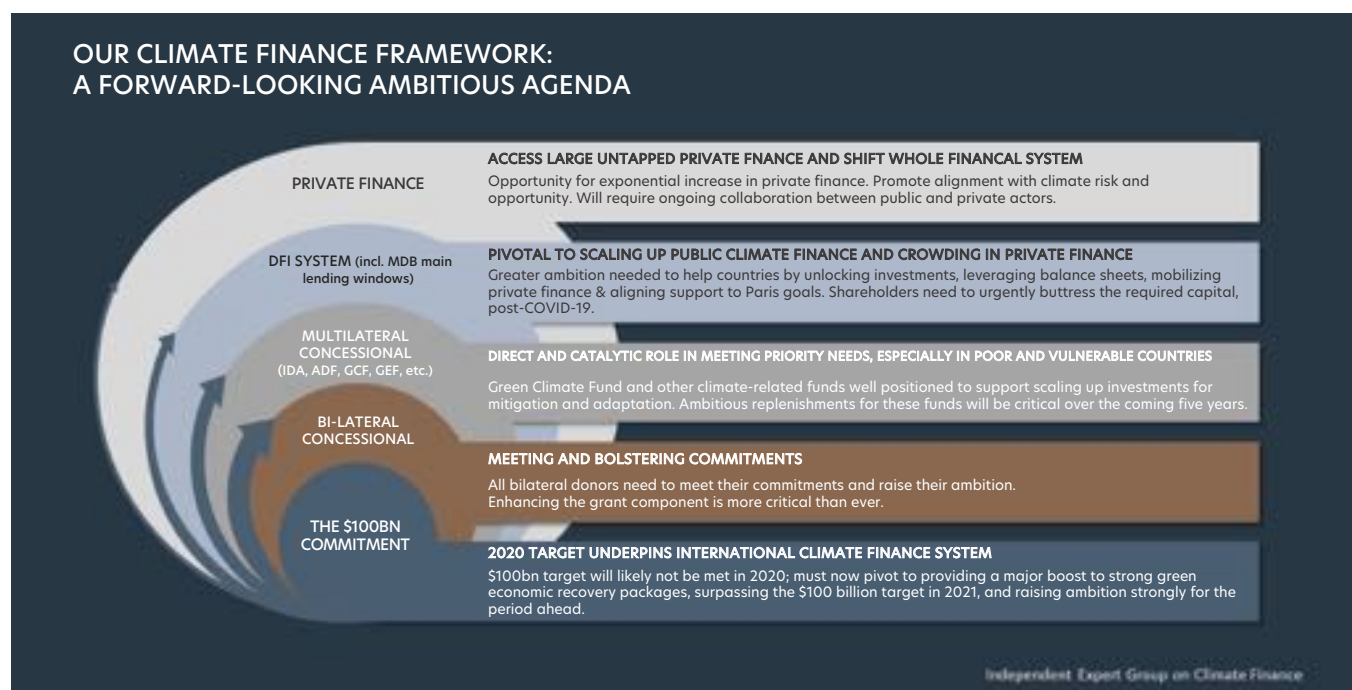
The \$100 billion by 2020 target included a commitment to maintain this level of climate finance until 2024, with a new target to be set in 2025. As already underlined, this target must at least be met by 2021, if not

surpassed, given the urgent need to support a climate-aligned recovery from the COVID-19 crisis. But we must also anticipate the substantial scaling up of sustainable investments that will be needed beyond recovery to enable developing countries implement more ambitious NDCs consistent with the drive to net zero and climate-resilient growth.

Hence, the \$100 billion target by 2020 should be seen as a floor, and not a ceiling. Developed countries must continue to lead the mobilization of substantial financial resources that will be needed by developing countries for mitigation and adaptation. While the \$100 billion commitment is the foundation and the dominant part of international public finance, it will be necessary to scale up all pools of finance if we are to go from the “billions to trillions” if developing countries are able to deliver on climate action at the pace and scale that is needed. Moving into the full implementation of the Paris Agreement, as established in its Article 9, paragraph 2, the voluntary contributions of other countries must be encouraged too. Given the critical need to accelerate action and investment in adaptation, especially in poor and vulnerable countries, the scale of finance for adaptation needs to be urgently bolstered.

To mobilize resources commensurate with the quantum of needs will effectively require a coordinated effort to make all financial flows, public and private, “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”, as stipulated in Article 2.1c of the Paris Agreement. Ensuring flows from all public financial institutions become so aligned will be especially important.

Figure 1: Conceptual framework on scaling up and transforming climate finance



The Climate Finance Framework above represents the key channels through which the \$100bn commitment by 2020 can help transform the climate finance system – underlining in particular the relative scarcity of public concessional resources, and hence the need to deploy these for maximum impact:

- The \$100bn per annum by 2020 commitment is the foundation of the entire international climate finance system. It not only represents the climate finance mobilized by developed countries for climate action in developing countries, but also constitutes the bulk of international public finance.

- Bi-lateral donors are the original source of almost all concessional climate finance, whether deployed via bi-lateral or multilateral vehicles. Concessional resources are necessary not only to support activities that cannot generate cashflows with which to repay debt including for investments in low-income and vulnerable countries, but also critical for mobilizing other much larger pools of non-concessional finance. Bi-lateral vehicles consist predominantly of developed country national official developed agencies.
- Multilateral concessional vehicles can target climate finance to high priority needs especially for low-income and vulnerable countries, and catalyze financing from other sources. These are composed of dedicated climate/environmental funds such as the GCF, GEF, AF and CIFs, as well as non-dedicated ones such as the IDA, AfDF or AsDF (the concessional windows of MDBs). Ambitious replenishments for these funds will be critical over the coming five years given their importance for boosting mitigation and adaptation finance and enabling the MDBs and DFI system more broadly to mobilize private investment.
- The DFI system, including the MDBs and the IDFC, is the most effective international means to support enhanced climate action in developing countries and mobilizing and leveraging climate finance at scale. The DFI system is also the principal interface between the public and the private sectors. It will be essential for DFIs to align their operations with the goals of the Paris Accord, to work better as a system, seek to better leverage their balance sheets, and enhance their private sector multipliers through strategic partnerships.
- Given the scale of climate finance needs in the coming years, the international community under the leadership of the UN should explore all options to enhance the envelope of international public finance including through innovative and alternative sources of finance. One promising option—that that has been highlighted in the high-level dialogue on financing for development in the era of Covid-19 and beyond—would be large additional SDR allocations and revised allocation mechanisms to enable poor and vulnerable countries to access low cost finance.
- Private finance is by far the biggest and largely untapped pool of capital. If sufficient international public climate finance resources are deployed to mobilize this pool, it will be possible to move from billions to the trillions required.

3.4 Bilateral Climate Finance

Bilateral climate finance is the foundation for meeting the commitment by developed countries to mobilize finance to support climate action in developing countries. It is the direct means for developed countries to provide climate finance to developing countries in partnership with others, including the private sector. Developed countries are also the primary source of funding for multilateral concessional funds that play a critical role in the climate finance architecture. And as major shareholders of MDBs, developed countries play a key role in enabling them to expand their capacity and enhance their effectiveness.

Developed countries' commitment to meeting the \$100 billion target and further expanding the provision of climate finance will be crucial especially in the challenging period ahead. Developing countries will need substantial additional resources to ensure that the recovery packages that they must now put in place are both strong and sustainable. This calls therefore for concerted efforts on the part of developed countries to step up climate finance in 2021 to support the immediate climate plans and greening of recovery packages. Given the imperative to scale up sustainable investments beyond recovery to enable all countries to deliver on more ambitious NDCs and to further support developing countries in their sustainable development goals, developed countries will need to continue to lead by further expanding their

support in the period before the next climate finance target is set prior to 2025.

While some countries have stepped up their climate finance commitments, all developed countries need to set more ambitious targets in the lead up to COP26. The UN Secretary General called on developed countries to raise their climate finance commitments in the lead up to and at the UN Climate Action Summit in 2019, and has reiterated the call for the Climate Ambition Summit taking place on December 2020. At the Summit, the United Kingdom announced that it would double its climate finance commitment (to £11.7 billion in the coming five years) and has reaffirmed that commitment notwithstanding the recently announced reduction in its ODA to GNI target. Germany and France also announced that they would double the delivery of climate finance by 2020 from its 2014 level. There have so far been no forward-looking commitments from most donors. Maintaining and strengthening climate finance commitments in the current fiscal circumstances will be challenging for developed countries and require political will, as well as improved coordination. The additional amounts that are called for are modest in relation to the scale of financing being deployed by developed countries on their own stimulus packages. Supporting strong climate action in developing countries at this juncture will enable developing countries to raise their ambition on climate action that will be critical to meeting the collective net zero target by 2050 and of benefit to the whole world economy.

Developed countries also need to raise the grant component of their climate finance, as they are the principal source of such finance in the climate finance eco-system. Grant finance is the most crucial component of public climate finance for two key reasons:

- First, they are necessary to finance climate activities in least-developed countries and for poor and vulnerable communities, and for risky investments, where commercial returns cannot realistically be expected. Most adaptation activities fall under this category, especially in low-income and vulnerable countries - where also some mitigation activities require high levels of concessionality. Absent a substantial increase of dedicated grant resources, it appears inevitable that adaptation will remain comparatively under-funded.
- Second, they represent a critical lever to mobilize private capital. Grant resources are required to enable MDBs and other multilateral financing entities to de-risk investments in developing countries the private sector would otherwise avoid and further scale up efforts on blended finance.

As the latest OECD report has highlighted, the grant component of public climate finance increased from \$10.2 billion in 2015 to only \$12.3 billion in 2018, whereas the loan component increased from \$30.7 billion to \$46.3 billion.

Given the critical role that grants play, the level of grants should be at least doubled in the period ahead to enable a scaling up of the whole climate finance system.

3.5 Multilateral Concessional Finance

The multilateral climate funds are important vehicles for mobilizing and channeling concessional climate finance. This includes the Green Climate Fund and the Global Environment Facility, both of which are designated operational entities of the financial mechanism under the Convention.¹⁰⁴ The Adaptation Fund, created under the Kyoto Protocol, also serves the Paris Agreement, but it is modest in scale and implementation capacity. The Climate Investment Funds, which were established in the aftermath of the Copenhagen COP, have evolved into an effective institutional mechanism for collaboration and scaling up amongst the MDBs. Although not designated as a climate fund, the Global Infrastructure Facility is also now playing an important role in catalyzing private finance for climate-related investments. In addition,

IDA and the African Development Fund are very important sources of concessional finance for poor and vulnerable countries.

The first replenishment of the GCF will enable it to increase its annual programming by more than 70 percent. The successful replenishment of the GCF hosted by the Government of France, in October 2019, mobilised \$9.78 billion from 27 countries. Eight contributors have made additional pledges since then with the total now in excess of \$10 billion.¹⁰⁵ Together with the replenishment, the Board of the GCF adopted important measures to improve governance arrangements.

Since the replenishment in October 2019, the GCF has made significant strides in strengthening its operational strategy and delivery of climate finance.¹⁰⁶ At its last meeting, the Board of the Green Climate Fund approved an Updated Strategic Plan for the Green Climate Fund 2020-2023, hopefully setting an ambitious direction for the GCF during its first replenishment period. Over USD 2 billion in new commitments was approved by the Board in 2020 despite the constraints imposed by the COVID19 pandemic, making it a record year for GCF programming.

The improved track record of the GCF provides a strong basis to expand its role with commensurate ambition on the scale of resources. The GCF has not only successfully expanded its own role in financing climate mitigation and adaptation, but has emerged as an important platform for cooperation on scaling up climate action with both the public and private sector.¹⁰⁷ Buttressing the resources of the GCF within this replenishment cycle and beyond can greatly contribute to enabling it to become a powerful driver of strong climate action in developing countries supported by a strong international network of public and private entities. In the immediate term, a commitment by the United States to honor its past commitments and join the new replenishment and additional contributions from others could provide a welcome boost to the resources needed by the GCF. There is also a need to anticipate and prepare for a much more ambitious second replenishment.

In addition, the GCF's Private Sector Facility is well placed to engage proactively with the private sector to achieve results at scale. It has achieved good results so far but will need substantial reforms to live up to its original expectations.¹⁰⁸ The GCF's Board should permit the PSF to directly finance projects¹⁰⁹ by making specific changes to the Fund's business model and by ring-fencing a specific amount for the PSF to pilot direct investment. This would allow the PSF to invest in opportunities other than those that accredited entities are putting forward to develop a better project pipeline, and invest with private sector entities that are not interested in going through the accreditation process. The GCF can then take a more proactive role in facilitating investments in lagging sectors such as urban¹¹⁰, disaster risk, and private sector adaptation investments, as well as contribute to paradigm shifting projects and programs in partner countries.¹¹¹

The Global Environment Facility (GEF), which serves as a financial mechanism to five conventions, including to the UN Framework Convention on Climate Change as well as Convention on Biological Diversity and UN Convention to Combat Desertification, has secured US\$ 4.1 billion for the 2018 - 2022 investment cycle. Since GEF resources are provided as grants, they play an important role in providing upstream support for capacity building and policy support and in leveraging other pools of finance. The GEF has been developing multi-stakeholder platforms such as a Food and Land use coalition, and one for sustainable cities, which are joined by national and local governments, business and finance, CSOs and academia. This has enabled it to enhance its scale and impact. The GEF is well positioned to play a direct and catalytic role in specialized areas of climate action and in non-climate aspects of the global commons. This will likely require a significant augmentation of its resources in the next replenishment cycle.

Building on its successful track record over the past 12 years, the Climate Investment Funds (CIF) can play an important role as a scaling up instrument for mitigation action and resilience through the MDBs.

The CIF is a group of two trust funds and three targeted programs¹¹² providing climate finance through MDBs to 72 countries.¹¹³ Working exclusively and collectively with six AAA-rated MDBs as implementing agencies, the CIF is the largest source of concessional climate finance for these MDBs and has provided a vital collaborative platform through which they have been able to accelerate investments into higher-risk, higher-impact sectors and regions for transformational outcomes. It has achieved a leverage ratio of 1:9.4 in its funding. In partnership with the MDBs, the CIF is proposing to support six new investment programs: (a) Global Energy Storage Program; (b) Accelerating Coal Transition Investment Program; (c) Integration of Renewable Energy into Power Systems Program; (d) Climate-Smart Urbanization Program; (e) Accelerating Low-Carbon, Climate-Resilient Transition in Industry Program and; (f) Nature, People and Climate Investment Program. In addition to using the reflows from past lending, the CIF will need minimum capitalization of \$3.5 billion over the next 2 years to deliver a sufficient level of ambition.

Although technically not a climate fund, **the Global Infrastructure Facility has emerged as an important instrument for scaling up private finance for climate-related investments.** Like the CIF, it works in partnership with the MDBs (currently nine MDBs), with the dedicated goal of preparing, structuring, and de-risking of high quality, bankable, sustainable infrastructure programs and projects in developing countries that are attractive to private capital. Through an Advisory Council with more than \$18 trillion in AUM, it has developed a strong partnership with the private sector and is working closely with two coalitions that are seeking to enhance private flows for climate action in developing countries—the Climate Finance Leadership Initiative and the Global Investors for Sustainable Development Alliance. With a successful five year track record, it well positioned to play an important catalytic role in scaling up private capital for climate finance in partnership with the MDBs and the private sector, but will need additional support.¹¹⁴

There appears to be a strong case for an extraordinary replenishment of IDA in 2021, and possibly the African Development Fund (AfDF), given the front-loading of resources to respond to the urgent short-term needs arising from COVID19. IDA and the AfDF are the largest sources of concessional climate finance for poor and vulnerable countries. The share of climate related investments for both have increased substantially with disaster response and adaptation as key priorities in the latest replenishments. COVID19 has required an extraordinary response from both IDA and AfDF with a significant frontloading of resources for amelioration of immediate impacts. Support for recovery programs and sustained transformation to respond to climate change will require a substantial and early buttressing of resources of both institutions.

3.6 Unleashing the Potential of the Multilateral Development Banks and the Development Finance Institution System

MDBs play a central role in the climate finance system and the delivery of the \$100 billion commitment. Development banks are uniquely positioned to support transformational change. They can help countries set out long-term strategies and NDCs consistent with the Paris Agreement, tackle policy and institutional impediments to unlock investments, support local capacity building, phase out carbon-intensive technologies and manage barriers that impede transition, and mobilise the volume of finance at affordable cost to deliver on the Paris Agreement and the 2030 Development Agenda. At the UN Climate Action Summit in September 2019, MDBs committed to increase their climate finance to USD 65 billion by 2025, up 50% from the 2018 level and 2.6 times the level in 2015 just before the Paris Agreement; and to double adaptation finance to USD 18 billion by 2025.¹¹⁵ They also aim to develop effective platforms to accelerate climate finance in areas with significant GHG reduction potential such as energy efficiency, urban infrastructure and services, buildings, hard to abate industrial sectors and transport decarbonization. They have also committed to align their activities and financing with the Paris Agreement and are moving on the implementation of a joint methodology based on six pillars.

The COVID19 pandemic has required an extraordinary response from the MDBs, with implications for their future support for climate action. Altogether MDBs have committed in excess of \$230 billion in support over the next 12-18 months. Despite these commitments, their capacity to respond and sustain future lending is constrained by their financial capacity.¹¹⁶ The total amount of their support in response to the pandemic could therefore turn out to be much less ambitious than at the time of the 2009 financial crisis despite the fact that this crisis has had a much deeper and broader impact on EMDEs.¹¹⁷ Moreover with the announced scale of funding, some MDBs would have to cut back on their financing beginning as early as 2022 without new capital or a change in their financial policies. This would seriously constrain their ability to help developing countries “build back better” and implement more ambitious NDCs. To address this looming constraint, MDBs could adjust many of their financial policies but that would require careful assessment of the implications and shareholder consent.¹¹⁸

Given the magnitude of needs that developing countries will face, including on climate action, shareholders urgently need to consider further capital increases based on the circumstances of the individual MDBs post-2020. The capital increases would have a strong climate orientation in terms of the accompanying lending and policy program. MDBs must remain strongly engaged and be able to provide adequate financing across all income groups given the scale of needs for climate action and sustainable infrastructure, and their development and global benefits. MDBs should also adopt a more nuanced approach to the process of graduation¹¹⁹ away from MDB concessional windows that takes into consideration other factors beyond income levels and creditworthiness. This could incorporate elements of the structural gap analysis proposed by ECLAC, where a set of indicators that reflect country-specific characteristics¹²⁰ is used, along with metrics that capture climate vulnerability.

It is essential to ensure that MDBs reach their climate finance targets and raise them over time - they need to raise their games in terms of both concessional and non-concessional finance. The MDBs are uniquely placed to assume a central role in scaling up climate finance to developing countries. Already MDBs have made commitments to substantially increase their financing for climate action and making fuller use of their balance sheets (collectively and individually). While most MDBs have reached their targets of share of climate finance in total lending, progress on increasing adaptation finance has been mixed. Although they have mobilized more private climate finance than other entities of the public finance system -the level of private finance mobilization remains low and feedback from the private sector¹²¹ indicates that improving instruments, private sector orientation, and reducing the cost of doing business with MDBs could result in yet greater sums mobilized. The 2019 Joint MDB Report on Climate Finance shows that, on average, the MDBs were able to mobilize less than USD 1 from the private sector for every USD 1 of climate finance they provided; and that they have generally been more successful at mobilizing other public dollars, rather than private ones.¹²²

The MDBs also need to accelerate the alignment of their activities in line with the goals of the Paris Agreement. The MDBs have been working on a common framework and action plan to support alignment of their finance and activities with the Paris Agreement. The MDBs Paris Alignment Framework is based on six pillars: (a) alignment with mitigation goals; adaptation and climate-resilient operations; (c) accelerated contribution to the transition through climate finance; (d) strategy, engagement and policy development; (e) reporting; and (f) alignment of internal activities.¹²³ The application of the framework and methodologies is challenging because the NDCs of most countries are not consistent with the temperature goals of the Paris Agreement and only a handful of countries have prepared long-term strategies. There are also data and Information gaps at the country and sectoral level. Nevertheless, MDBs can accelerate alignment of their finance with the Paris Agreement by setting early deadlines for withdrawal of funding for fossil fuel-based investments, especially those that are clearly misaligned, notably extraction and power generation from coal or peat. There should also be clear criteria for future support including gas-based power generation linked to well-articulated country-led transition plans. They must also greatly

step up their support to enable developing countries to accelerate the phase out of coal and tackle the related challenges of managing the social transition.

MDBs will need to achieve higher mobilization ratios going forward, whilst taking into account developing country concerns relating to increased private sector investment. There are a number of new initiatives to bolster mobilization of private finance.¹²⁴ Pending the outcome of these, we would like to draw attention to instruments important to the private sector that MDBs already employ, but which could be further developed and more extensively deployed.

- *Guarantees*: Despite guarantees having generated almost 45% of the private finance mobilized by MDBs (whilst represent only 5% of their commitments), both MDBs and their donors have had limited incentives to scale up their use. Guarantees require the same amount of capital set-asides as loans and are more complex to originate. An additional factor for donors is that guarantees are not counted as ODA unless actually called.¹²⁵
- *Local currency lending*: Exposure to exchange rate fluctuations constitutes a very substantial risk associated with foreign or 'hard' currency borrowing, as evidenced by major swings in foreign exchange markets caused by events such as the 2008 financial crisis and coronavirus pandemic. This represents a significant barrier to enhancing private sector investment in many developing countries¹²⁶, and a more diversified currency offering would facilitate access to climate finance by a range of private sector entities, domestic and international alike. The ability to borrow in domestic currencies would also be critical to many sub-national government entities.

Moreover, as mentioned above, since public borrowing by a number of countries via international bond markets in 'hard' currencies has been rising, MDBs being able to offer them refinancing options in domestic currency can help reduce their debt risk profile. MDBs' business model has traditionally involved providing the bulk of loans in the 'hard' currencies of the largest 'core' capital markets where they are able to readily place large bond issues. Such matching minimises their exposure to exchange rates, and means that they have limited incentive to actively stimulate demand for local currency borrowing. Whilst MDBs have been working to diversifying the currencies in which they issue bonds, continued effort will be required.

- *Equity investments*: Equity investments are another potentially impactful means of de-risking activities to attract private capital. MDBs can leverage their research units and databases as well as their on-the-ground presence and long-standing relationship with key in-country actors to support equity operations.¹²⁷ Existing disincentives (such as reluctance to tie up capital for extended periods before returns can be realised, lack of ready exit opportunities to limit losses, and the fact that equity investments are rated lower for transfer and convertibility risk compared to loans¹²⁸) would need to be addressed.

Greater scale of action can be achieved by growing the capacities of cities as well as domestic private sector and non-profit entities in developing countries, and for this to happen new mechanisms that significantly increase the flow of funds to them must be developed. A good starting point would be to target capacity building support towards urban adaptation planning, and thereby highlight risks associated with failure to invest in climate resilient spatial planning and attendant infrastructure - as well as developing a strong project pipeline. These would help create greater domestic awareness of an escalating vulnerability (given high developing country urban growth rates) and raise national-level prioritization of urban resilience. **In response, MDBs could establish targeted urban infrastructure financing programs.**

Developing countries urgently need better financial tools to raise resources when climate-related

disasters strike. A timely and effective response can save lives and livelihoods, but many countries don't have access to disaster risk finance and must rely exclusively on the humanitarian community for aid post-disaster. The MDBs' regional risk insurance pools, and other entities now provide financial tools including sovereign parametric insurance and contingent credit lines. But few countries have well-developed strategies that deploy multiple instruments to cover the full range of risks they face since only a few have been able to do so.

Donors and other entities must find new ways to channel concessional finance for disaster risk finance, including by expanding the roles of regional MDBs, IDA, including through the potential creation of new financial vehicles that incentivize collaboration among disaster risk finance providers.¹²⁹ Additional voluntary contributions to other funds are also needed; for example, the Adaptation Fund, serving to the Paris Agreement and its goals.

3.7 The Broader Development Finance System

In addition to the MDBs, the broader development finance system, and in particular the International Development Finance Club, can play an important role in both scaling up and better aligning its support to the Paris Agreement. A concerted effort from all major International Financial Institutions will be required to help meet increasing needs for climate-aligned development finance during the post-pandemic recovery and thereafter. These institutions should take on an expanded role in managing and sharing investment risks associated with low-carbon climate-resilient infrastructure so as to raise their mobilization ratios without increasing the cost of capital for developing countries. This implies raising their risk appetite and providing them with both the means and incentives to do so.

The contribution of bilateral DFIs to climate finance could be increased ten-fold, in part by phasing out their support in some instances of fossil fuel based investments. It will also be essential for the IDFC to solidify their commitment to fully aligning their financial flows with the objectives of the Paris Agreement (a process that is still ongoing). DFIs channel a large and increasing portion of their energy investment through financial intermediaries; lack of transparency on financial intermediaries' deployment of DFI funds means it is very difficult to track exactly what these end up financing.¹³⁰

3.8 International Develop Finance Club

The IDFC, which comprises 26 national or regional development banks and bilateral agencies, is the largest provider of public development and climate finance globally, with USD 4 trillion in combined assets and annual commitments above USD 850 billion, including \$197 billion of green finance (of which \$132 was invested in China¹³¹). IDFC has pledged to provide \$1 trillion of climate finance by 2025. IDFC's green finance accounting and reporting practices follows international standards but have received criticism for the rest of the portfolios of its members and require strengthening, paying particular attention to the heterogeneity of its members. The Club pledged In September 2019 at the Climate Action Summit to work with partners such as the GCF, and to support members through a dedicated facility to improve reporting and build capacity.

Members lend predominantly to non-sovereign entities (87% of total commitment¹³²), and hence have stronger ties at the country level to these actors. Consequently, they are ideally placed to take the lead in providing climate finance to non-sovereign actors within their circumscriptions - including to sub-national governments. As national development banks, along with some other members of IDFC, benefit from the backing of their national treasuries and thus have a lender of last resort¹³³ (unlike MDBs), these institutions are already well placed to scale up deployment of guarantees if mandated to.

The IDFC recently convened the Finance in Common Summit, an inaugural meeting of all public development banks. As stated in the preamble of their joint declaration, this new coalition has the potential to make a major contribution to ramping up climate finance through enhanced public-private partnership and greater collaboration between international and national development banks:

Box 2.

Joint Declaration of All Public Development Banks in the World, 12 November 2020¹³⁷

"We, Public Development Banks of the world, gathered for the first time in Paris, commit to support the transformation of the global economy and societies towards sustainable and resilient development. Today, it is essential that we build back better, by simultaneously designing and acting for sustainable, equitable and inclusive outcomes and impacts, leaving no one behind. To this end, we affirm our determination to collectively shift our strategies, investment patterns, activities and operating modalities to contribute to the achievement of the SDGs and the objectives of the Paris Agreement, while responding to the Covid-19 crisis. For greater impact, we are committed to join forces and form a global coalition of all PDBs around the world."

IDFC members have great scope for expanding their role in climate finance, both directly and in partnership with the private sector and national development banks. In addition:

- **IDFC members should take the lead in providing climate finance to non-sovereign actors within their circumscriptions** - including to state/provincial and municipal governments.
- **IDFC members should also assume a larger role in the provision of guarantees to diversify away from their present reliance almost exclusively on loans, particularly for infrastructure.** As national development banks, along with some other members of IDFC, benefit from the backing of their national treasuries and thus have a lender of last resort (unlike MDBs), these institutions are already well placed to do this if mandated to.¹³⁴
- **IDFC members should accelerate the alignment of their finance with the Paris Agreement based on the framework that they have been developing, including through coal/fossil fuel divestment.**

3.9 Export Credit Agencies (ECAs)

Whilst MDBs, along with a number of DFIs, have established climate finance targets and are working towards phasing out support to fossil fuel investments, the Export Credit Agencies (ECAs) of G20 countries continue providing billions of dollars in finance for fossil fuel projects. Given that ECAs provide almost twice as much international public finance as MDBs, it is critical for policymakers to engage with this issue.¹³⁵ A report by Oil Change International¹³⁶ identifies ECAs as the least Paris Agreement-aligned public finance actors analysed; in 2016-2018 they provided \$40.1 billion a year support for fossil fuel (roughly equivalent to the volume of climate finance provided by MDBs) and just \$2.9 billion for clean energy. Shifting support away from fossil fuels and towards clean energy would thus make available very substantial additional green finance. The report also found that, as a group, DFIs over the same period supplied \$25.1 billion annually for fossil fuels compared to \$8.1 billion for clean energy, leaving considerable scope for improvement.

4. MOBILIZING THE FINANCIAL SYSTEM AT LARGE AND ENHANCING THE ROLE OF THE PRIVATE SECTOR IN CLIMATE FINANCE

SUMMARY OF KEY FINDINGS & MESSAGES

- Meeting the commitments in the Paris Agreement will require mobilizing private capital at scale. Without a fundamental shift in the financial system as a whole, the climate goals of carbon net zero by 2050 and those of the Paris Agreement cannot be met.
- The Paris Agreement itself provides little guidance in terms of how Article 2.1c should be interpreted and operationalized, and no global mechanism or platform currently exists to track progress in this regard.
- New financial structures and business models will be needed, as well as more rigorous definitions, labels, and standards, to ensure that finance designated as “climate-aligned” or “green” really is what it purports to be. With this in mind, the COP26 Private Climate Finance Agenda provides a useful framework to think about the separate lines of work that must be advanced to bring Article 2.1c to life.
- Many segments of the business community are displaying leadership and ambition to advance the net-zero agenda. There are at least 34 major private sector initiatives, frameworks, and sets of principles designed to advance progress in areas relevant to Article 2.1c. This ground-breaking activity in the private sector has been propelled by, and in many ways reflects, several macro-trends: shifting investor attitudes, a growing divestment movement, increasing shareholder activism, and the awakening of financial regulators to climate risk. Over time, the social and economic forces behind these trends could accelerate progress.
- Although perceptible, resultant shifts in capital flows are not yet sufficient, and private finance for climate action remains highly concentrated sectorally and geographically; more thought and attention must be given to how private finance can also be directed towards EMDEs.
- National governments should take a more active role in the various dimensions of Article 2.1c implementation through coordination, harmonization, and regulation. Governments should get more involved and begin to set minimum rules that all players must follow, in consultation with the private sector. In the same vein, national regulators and international bodies should consider how to accelerate the shift toward reliable, comparable, and consistent reporting of climate-related risks by companies and financial institutions, including through regulatory approaches.
- Partnerships between private-sector financial institutions and public development finance institutions should accelerate progress toward designing, deploying, and demonstrating new financial models that can be scaled up. These models should make effective use of blended finance; they should also, where appropriate, utilize asset pooling and securitization.
- Parties to the UNFCCC should adopt decisions to operationalize the tracking of collective progress on Article 2.1c. Also, the Standing Committee on Finance, supported by the UNFCCC Secretariat, should ensure that progress on Article 2.1c is adequately covered in future Biennial Assessments,

and that the methodologies used to track progress draw on the best available information and continually improve in coverage and technical sophistication.

- International and national carbon markets should be promoted more actively. Progress in the negotiations over Article 6 of the Paris Agreement has renewed hopes that international carbon markets can be brought into operation. Parties should resolve outstanding technical and political issues and ensure the integrity and credibility of international carbon markets. At the same time, progress in domestic carbon market development should be encouraged and accelerated.

4.1 THE IMPERATIVE TO HARNESS PRIVATE FINANCE

In addition to public finance and public policy action, meeting the commitments in the Paris Agreement will require mobilizing private capital at scale. This is the outer ‘layer’ of the climate finance system, representing the largest pool of available capital that can be deployed to scale up climate-related investments especially in sustainable infrastructure. Without a fundamental and vast shift in private finance and in the financial system as a whole, the climate goals of net zero carbon by 2050 and those of the Paris Agreement cannot be met.

Private finance is pivotal to the future. According to the Climate Policy Initiative, while public actors accounted for 44% of the \$579 billion in total climate finance in 2017-18, private actors provided the other 56%, and that calculation likely underestimates significantly the share of private finance because of data gaps.¹³⁸ However, the bulk of private climate finance is in advanced economies. At present, in emerging markets and developing countries, 80 percent of infrastructure investment is public and mostly publicly financed; private investment in infrastructure has stagnated over the past decade and amounts to less than \$100 billion annually.¹³⁹

A central challenge for international public climate finance going forward will thus be to mobilize increasing volumes of private investment into sustainable infrastructure in EMDEs. The role of private capital in climate finance will be even more important during and after the COVID pandemic, as the economic crisis is causing significant declines in fiscal revenue in almost every country while also multiplying public expenditure needs.

More broadly, meeting these commitments will require financial systems that promote the flow of finance toward net zero carbon and resilient development. Making all financial flows, public and private, “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”, as stipulated in Article 2.1c of the Paris Agreement, becomes an important urgent priority going forward. Promoting Paris-aligned financial systems and mobilizing pools of private capital to finance the transition will require state and non-state actors to identify ways to operationalize Article 2.1c within the UNFCCC and beyond.

Fortunately, many segments of the business community are displaying leadership and ambition to advance the net zero agenda. The recent Green Horizons summit has highlighted that there is now significant positive momentum in the private finance space. Despite the impact of COVID-19, corporate momentum on climate action continues to build through 2020. There have been new announcements by Amazon, BP, Microsoft, Reliance, and Google among others¹⁴⁰ accompanied by growing evidence of the link between responsibility and good risk-returns.¹⁴¹

4.2 FRAMEWORK FOR THINKING ABOUT ARTICLE 2.1c

The Paris Agreement itself provides little guidance in terms of how Article 2.1c should be interpreted and

operationalized. Currently, no global mechanism or platform exists to systematically track progress toward the operationalization of Article 2.1c. The UNFCCC includes provisions related to the tracking of public finance provided and private finance mobilized for climate action in developing countries, but currently there are no requirements to track broader financial flows. Several frameworks have emerged to help stakeholders “unpack” the article’s complexities.¹⁴²

“Making finance flows consistent” with a pathway towards low greenhouse gas emissions and climate-resilient development implies several things: (1) identifying appropriate, science-informed pathways based on temperature goals set by Paris; (2) identifying the characteristics that investment portfolios, balance sheets, and investment decisions should have if they are to be consistent with those pathways; (3) benchmarking the current state of portfolios, balance sheets, and decision-making, and setting targets and benchmarks at different time horizons; and (4) tracking and disclosing progress toward those targets and benchmarks.

New financial structures and business models will be needed, as well as more rigorous definitions, labels, and standards, to ensure that finance designated as “climate-aligned” or “green” really is what it purports to be. Paris Alignment of finance flows will require clear, comparable and transparent methods and metrics that are applied to all investment decisions. The MDB Building Block approach is one method MDBs are developing. Green Budgeting can help the public sector/finance ministries. Taxonomies can also help the public and private sector (but have limitations).

There will be a need to shift investment portfolios. This is where we link back into investment decisions (which would be expanded to include divestment, etc.), and also get into science-based pathways to Net Zero and other transition tools that can provide guidance on decarbonisation pathways; for example, the Paris Agreement Capital Transition Assessment (PACTA), which measures the alignment of portfolios with climate scenarios. This is the most challenging part of alignment. Going forward the world will be asking for transparent information that answers the question: is the financial sector doing what is sufficient to get to net zero? In other words, a portfolio may not be Paris-aligned until, say, 2050, but it needs to be able to give confidence that it is on a realistic path to get there.

With this context in mind, the COP26 *Private Finance Strategy to Drive Whole Economy Transition* that was launched under the leadership of UN special envoy for climate action and finance Mark Carney in February 2020¹⁴³ and published in November 2020¹⁴⁴ – with the objective being that every professional financial decision will need to take climate change into account – provides a useful framework to think about the separate lines of work that must be advanced to bring Article 2.1c to life:

- **Reporting.** Markets require reliable, comparable, and consistent information about the exposure of portfolios and balance sheets to high-carbon assets and to physical climate impacts. Investors also need objective information about the characteristics of financial products marketed under labels such as “green” and “sustainable”. Without this information, investors and creditors cannot make informed decisions about how best to deploy their capital in a way that supports activities and businesses best aligned with the net-zero-carbon transition. The Taskforce on Climate-Related Financial Disclosures (TCFD) and similar initiatives provide a foundation on which such reporting can be built. In this context, the EU Taxonomy – a classification tool aimed at investors, companies and financial institutions to define environmental performance of economic activities across a wide range of industries, that sets requirements corporate activities must meet to be considered sustainable – is also relevant and useful.¹⁴⁵
- **Risk management.** This category of actions is aimed at requiring and enabling financial institutions and other market participants to measure and manage climate-related financial risks. Policy

instruments include, for example, climate-risk stress testing for banks and insurance companies, risk-weighting of bank assets based on their climate-related characteristics and monitoring of transition risks in asset portfolios and across the financial system as a whole. Policies in this category are essential to ensure that financial institutions systematically incorporate climate considerations into their decision-making.

- *Returns.* Actions in this category are meant to enable investors to identify the opportunities in the transition to low-GHG emissions, resilient development and to report their own alignment with these pathways. Some financial institutions are pledging to boost the green portion of their portfolios, and others are going further, promising to decarbonize portfolios altogether by mid-century. These commitments can serve as important signals to the market about the long-term expectations of major capital providers.
- *Mobilization.* This dimension involves building new public-private partnerships, developing pipelines of “bankable” projects, and creating market structures to increase sustainable private financial flows, particularly to developing countries. Investment in clean power generation, clean transportation, and building efficiency has grown significantly in recent years, but low-carbon investment in other sectors is lagging and requires additional capital mobilization.

This approach can yield significant positive results and further propel a shift in capital deployment away from high-carbon destinations and if it can be scaled up across national financial systems, buttressed with appropriate policy frameworks and catalyzed by appropriate public finance, then the world will get much closer to reaching the aspirations of Article 2.1c.

However, more thought and attention must be given to how private finance trends will benefit emerging markets and developing countries, rather than mainly developed countries, which will be an understandable concern in some quarters. As the most recent articulation of the framework by Mark Carney concedes: “...international private financial flows to emerging and developing countries are still limited but are critical to supporting the transition in these countries.”¹⁴⁶

Carney argues that “[t]he benefits of improving reporting, risk management and return measures in advanced economies will also accrue to emerging and developing economies. Reporting emissions and conducting scenario analysis on a Scope 3 basis will create incentives to invest to decarbonize across the supply chain, including in developing countries. And companies will increasingly need to show how they plan to meet their net zero targets, and the role of offsets as they make the transition.”¹⁴⁷ But, as he then concludes: “...to unlock private financial flows, we need bespoke solutions for these countries: we need public private partnerships, pipelines of bankable projects, and new market structures, to facilitate commercially viable opportunities for sustainable investment.” In the coming year there should be a rigorous focus on how to develop such “bespoke solutions”; to deliver the private finance at the scale and with the urgency needed.

Internal governance and decision-making within financial institutions will also need to shift: many ‘green’ opportunities do not fit traditional internal systems, and so there is scope for innovation, as well as development of new capacity/capabilities and incentives.

The domestic policy - and enabling - environment is important to unlocking private finance at scale. As the Climate Finance Leadership Initiative, European Development Finance Institutions (EDFI) and Global Infrastructure Facility (GIF) point out, now is the time “to raise the profile of enabling environment priorities by convening an industry-led effort to:

- Define the most fundamental and cross-cutting factors limiting private climate finance in emerging markets;
- Open new engagement channels with key decision-makers to identify policy improvements that will help stimulate private investment; and
- Catalyze essential collaboration between private finance, public finance, and policymakers to dramatically expand pipelines of sustainable infrastructure opportunities to drive investment in a sustainable and inclusive recovery from COVID-19.¹⁴⁸

4.3 PRIVATE SECTOR TRENDS

Each of the four areas above has seen intense activity in recent years. We identified at least 34 major private sector initiatives, frameworks, and sets of principles designed to advance progress in these areas; these are mapped in the table below. Several have been supported by or incubated in the United Nations. The table is not meant to be an exhaustive listing, nor does it reflect all the possible overlaps and complementarities among initiatives. Also, the table should not suggest that these initiatives exist in a vacuum - many also represent a response to policy shifts, changing consumer preferences, and social movements. However, the table does convey that banks, investors, insurers, and non-financial corporations, along with civil society organizations and other stakeholders, have been hard at work building an institutional infrastructure that can help align both the stocks and flows of finance over time.

Table 3: Examples of Major Private-Sector Initiatives, Frameworks, and Principles for Climate Alignment

INITIATIVE	INSTITUTIONS THAT ARE THE PRIMARY FOCUS OF THE INITIATIVE			
	BANKS	INVESTORS	INSURERS	NON-FINANCIAL CORPORATIONS (+ INVESTORS & BANKS)
REPORTING				
<i>Setting standards, labels, and benchmarks</i>	Poseidon Principles; Center for Climate Aligned Finance; (plus see other initiatives on this row)	Transition Pathway Initiative; Paris Aligned Investment Initiative (PAII); Finance to Accelerate the Sustainable Transition Infrastructure (FAST-Infra)	Coalition for Climate-Resilient Investment (CCRI)	Climate Bonds Taxonomy and Standard and Certification Scheme; Coalition for Climate-Resilient Investment (CCRI); Partnership for Carbon Accounting Financials (PCAF)
<i>Frameworks and commitments for</i>	Collective Commitment to Climate Action	Net Zero Asset Owners Alliance; Paris Aligned	Principles for Sustainable Insurance	Climate Disclosure Standards Board (CDSB) Framework; Partnership
<i>Disclosure and transparency</i>	(signatories of Principles for Responsible Banking)	Investment Initiative (PAII); The Investor Agenda	<i>See other initiatives on this row</i>	for Carbon Accounting Financials (PCAF); Task Force on Climate-Related Financial Disclosures (TCFD); Global Reporting Initiative (GRI); Sustainability Accounting Standards Board (SASB); CDP company questionnaires

INITIATIVE	INSTITUTIONS THAT ARE THE PRIMARY FOCUS OF THE INITIATIVE			
	BANKS	INVESTORS	INSURERS	NON-FINANCIAL CORPORATIONS (+ INVESTORS & BANKS)
RISK MANAGEMENT				
<i>Measuring financed emissions</i>	Poseidon Principles; Paris Agreement Capital Transition Assessment (PACTA) for Banks; Center for Climate Aligned Finance	Paris Agreement Capital Transition Assessment (PACTA)	<i>See other initiatives on this row</i>	Partnership for Carbon Accounting Financials (PCAF); Global Reporting Initiative (GRI); Sustainability Accounting Standards Board (SASB)
<i>Setting decarbonization pathways</i>	Science Based Targets (SBTi) for Financial Institutions; Collective Commitment to Climate Action (signatories of Principles for Responsible Banking); Paris Agreement Capital Transition Assessment (PACTA) for Banks; Center for Climate Aligned Finance	Net Zero Asset Owners Alliance; The Investor Agenda; Paris Agreement Capital Transition Assessment (PACTA)	<i>See other initiatives on this row</i>	Business Ambition for 1.5°C; Science Based Targets Initiative (SBTi); The Climate Pledge
<i>Advancing divestment from fossil fuel assets</i>	Banking on Climate Change (fossil fuel finance reporting)	Stop the Money Pipeline; Divest/Invest Network; BlackRock's Big Problem Campaign	<i>See other initiatives on this row</i>	
RETURNS				
<i>Identifying investment opportunities</i>	Collective Commitment to Climate Action (signatories of Principles for Responsible Banking)	Paris Aligned Investment Initiative (PAII); The Investor Agenda	Insurance Development Forum; Principles for Sustainable Insurance	Coalition for Climate-Resilient Investment (CCRI); Task Force on Climate-Related Financial Disclosures (TCFD)
<i>Investor engagement with corporates</i>	<i>See other initiatives on this row</i>	Net Zero Asset Owners Alliance; Paris Aligned Investment Initiative (PAII); The Investor Agenda; Paris Agreement Capital Transition Assessment (PACTA)	<i>See other initiatives on this row</i>	Climate Action 100+; Task Force on Climate-Related Financial Disclosures (TCFD); Global Reporting Initiative (GRI); Sustainability Accounting Standards Board (SASB)

INITIATIVE	INSTITUTIONS THAT ARE THE PRIMARY FOCUS OF THE INITIATIVE			
	BANKS	INVESTORS	INSURERS	NON-FINANCIAL CORPORATIONS (+ INVESTORS & BANKS)
MOBILIZATION				
<i>Developing new financial structures & business models</i>	Poseidon Principles; Center for Climate Aligned Finance; Blended Finance Task Force	Finance to Accelerate the Sustainable Transition Infrastructure (FAST-Infra); Blended Finance Task Force; Sustainable Stock Exchanges Initiative (SSE)	Insurance Development Forum; InsuResilience Partnership; Principles for Sustainable Insurance	Climate Finance Leadership Initiative (CFLI); Financing the Transition to a Net Zero Future (WEF); Coalition for Climate-Resilient Investment (CCRI)
<i>Policy analysis and advice; technical assistance</i>	Collective Commitment to Climate Action (signatories of Principles for Responsible Banking)	Institutional Investors Group on Climate Change (IIGCC); G30 Consultative Group on International and Monetary Affairs	InsuResilience Partnership; The Geneva Association	Financing the Transition to a Net Zero Future (WEF)

Ground-breaking activity in the private sector has been propelled by, and in many ways reflects, several macro-trends. Over time, the social and economic forces behind these trends could accelerate progress and help advance many aspects of the framework above. For that reason, these trends are worth supporting and accelerating:

- *Shifting investor attitudes.* Investor attitudes are shifting in the direction of greater environmental sustainability. Surveys suggest that the vast majority of millennial investors (ages 24-39 in 2020) are interested in directing their investments toward companies with good environmental, social, and governance records and report a desire for their investments not just to earn a return but to align with their personal values.¹⁴⁹ This generational cohort is poised to inherit significant wealth from their parents in the coming decade, so their investment preferences will be very influential in shaping future product and service offerings of financial institutions. The Net Zero Asset Owner Alliance, whose members commit to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050, now represents \$5 trillion in assets under management. Asset owners have agreed to implement deep GHG emissions reductions in their portfolios by up to 29% by 2025.¹⁵⁰
- *Divestment movement.* The movement to pressure institutional investors to divest from financial assets connected to fossil fuel companies has gained significant momentum in recent years. Over 1,200 institutional investors and institutions worth \$15 trillion have made commitments to divest partially or fully from fossil fuel-related assets.¹⁵¹ Faith-based organizations are the largest group of institutions divesting, accounting for about a third of the total. Pension funds and philanthropic, educational, and government institutions make up most of the rest. While the total amounts divested are modest relative to the total assets held by institutional investors worldwide, this movement's real influence might be in helping shift public attitudes about the fossil fuel industry and about investing in fossil fuels.

- *Shareholder activism.* In several countries, shareholders are using or pledging to use their influence to push the companies in which they own stock to embrace more climate-friendly behavior. For example, of 429 shareholder resolutions on environmental, social and governance (ESG) issues filed for the 2020 proxy season in the United States, 15% concerned climate change – the second-largest category. The \$1 trillion Norwegian government pension fund adopted climate-related expectations for all companies in its portfolio, covering strategy, risk management, disclosure, and policy. And BlackRock, the world’s largest asset manager, said it will increasingly likely to vote against company managers and board directors if companies don’t make sufficient progress on sustainable business practices. Public rankings of financial institutional performance have also propelled some to act – for example, ShareAction’s work in this regard.¹⁵²
- *Awakening of financial regulators to financial risk.* Authorities overseeing the national financial systems have become keenly attuned to the need to measure and manage climate-related risks before they pose systemic threats. Over seventy regulators, including the financial authorities of China, Japan, and every major European country, have come together through the Network for Greening the Financial System (NGFS) to conduct research and exchange lessons on the subject. While the United States has not yet joined the NGFS, a recent report written under the auspices of U.S. financial regulator recently concluded that climate change constitutes a systemic risk to the U.S. financial system and provided extensive recommendations on how to address it.¹⁵³ And since her recent appointment to the role, IMF Managing Director Kristalina Georgieva has pushed her organization to more actively support countries to measure and manage climate risk.

However, despite considerable momentum and private sector leadership, private capital is not yet flowing in the volumes necessary to make the transition to net zero emissions at the required speed, and financial flows are not yet fully aligned with the Paris Agreement’s goals. *Below, in section 4.4, some of the achievements and opportunities, and the limitations, are set out.*

4.4 LIMITATIONS AND THE ROAD AHEAD

The initiatives and trends above have resulted in perceptible shifts in capital flows, but at a scale that is not yet sufficient to meet the challenge of Paris alignment. Global investments into clean energy grew from \$60 billion in 2004 to an average of \$311 billion per year over the last decade.¹⁵⁴ Yet, private finance for climate action remains highly concentrated sectorally and geographically. Private capital has gravitated most strongly to the power sector, especially to wind and solar power generation. Meanwhile, clean transportation, decarbonization of hard-to-abate sectors, and adaptation and resilience lag behind. In addition, most private finance for clean energy has concentrated in advanced economies and a handful of emerging markets. Investment flows to the 31 markets classified by the World Bank as low-income countries represented a mere 0.1% of total clean energy investment from 2009 to 2018.¹⁵⁵

As the Climate Finance Leadership Initiative has pointed out, several barriers are holding back private capital from supporting the net zero transition. Proven investment models, such as securitization, are not being replicated on a large scale. Risks that typically hold back other kinds of investment – country, policy, technology, macroeconomic, and operational risk – are also holding back private investment in climate action. Because of technological barriers, high capital costs, and the lack of viable financial models, certain segments of the market, such as heavy industry, agriculture, and heavy-duty transportation, remain short of capital.

MDBs are helping mobilize private sector finance in developing countries by de-risking transactions and making up for patient and risk-taking capital when none can be found locally. Together, the MDBs reported \$23 billion in direct and indirect co-finance from the private sector in 2019.¹⁵⁶ As previously

mentioned, the extent to which private finance can be mobilized for climate action has at times suffered from inflated expectations. In 2019, six of the seven MDBs mobilized less than \$1 from the private sector for every \$1 of MDB climate finance.¹⁵⁷ Additional efforts are needed to raise these mobilization ratios.

Despite many steps in the right direction, disclosure of climate risks is moving too slowly. Encouragingly, banks, insurers, pension funds, and investors with balance sheets totalling nearly \$150 trillion have expressed their support for disclosure following the recommendations of TCFD. But the TCFD's 2020 status report found that disclosure remains very much the exception rather than the rule. In eight of the eleven disclosures recommended by the TCFD, less than a third of the companies reviewed followed the recommendations. And in the other three disclosures, the share of firms complying did not break 50 percent. Notably, only 7 percent of companies are reporting on perhaps the most important disclosure—the resilience of their business strategy to climate-related risks.¹⁵⁸ All this suggests that purely voluntary disclosure regimes may be too slow to generate, in a reasonable time horizon, the scale and quality of climate risk reporting that the market is demanding, including in the world's largest financial markets.¹⁵⁹

Green and net zero targets are essential to help provide long-term signal to the market. However, such targets must be transparent, comparable, and credible. For example, of the world's 50 largest banks, at least 23 have made sustainable/green finance commitments.¹⁶⁰ However, these "green" targets vary widely in terms of their definitions, accounting methodologies, and time horizons, making it difficult to compare them over time and against other institutions' targets.¹⁶¹ Investors and stakeholders must be able to assess the credibility of climate targets, including net-zero targets, by non-financial corporations, banks, and other financial-sector actors.

A key development worth noting is the growth of sustainable investing or "green finance" in recent years; this exemplifies both the potential as well as the shortcomings of aligning financial flows with the transition to net zero. In response to consumer demand, 'green' investment products are coming to market rapidly. For instance, the number of exchange trade funds (ETFs) that incorporate ESG factors available to investors quintupled between over the past decade, as has the amount of assets invested in such funds, to \$25 billion in 2019.¹⁶² Issuance of green bonds has grown steadily over the past decade, setting new records almost every year. During 2019, corporations, governments, and other entities issued about \$260 billion worth of green bonds.¹⁶³ Institutional and other investors, hungry for sustainable debt products, have reacted enthusiastically, and many of these bond issuances have been significantly oversubscribed.

Private sector ESG is not up to the task and needs to be transformed. ESG investing may be generating less tangible progress than the large market figures suggest. ESG investments typically avoid fossil fuel and other carbon-intensive companies by screening them out or underweighting them in their portfolios. Instead, they generally focus on companies that have modest carbon footprints because of the nature of their business (e.g., information technology).¹⁶⁴ What ESG investments are often not doing, however, is shifting capital to companies with a high capacity to decarbonize high carbon sectors and therefore directly advancing the transition to a net zero carbon economy. While ESG is getting better at doing less harm from a climate standpoint, it may not yet be doing enough good.

Also, in many instances, ESG investing is not channeling capital to developing countries. Although developing countries represent a fifth of the capitalization of global stock markets and 30% of the ETF universe globally, ESG ETFs are almost completely absent in the developing world, except for the Asia-Pacific region.¹⁶⁵ UNCTAD attributes this absence to weak institutional capacities and expertise in developing countries, scarcity of ESG-related data, lack of investor demand, and underdeveloped capital markets.

Finally, the world of sustainable investing suffers from a lack of clear and consistent standards and definitions, which undermines public confidence in quality of products labeled 'green' or 'sustainable'.

For that reason, the OECD recently called on ESG funds to carry labels and engage in disclosure practices that enable investors can make informed choices.¹⁶⁶ The European Union's taxonomy for sustainable activities provides one example of how transparency can improve in the sustainable investing world.

4.5 RECOMMENDATIONS

- **National governments should take a more active role in the implementation of Article 2.1c through coordination, harmonization, and regulation.** While private-sector initiatives are very welcome, there is a risk that the unbounded proliferation of private sector-led standards, definitions, benchmarks, principles, methodologies and frameworks will become counter-productive. This could result in regulatory arbitrage, whereby companies choose the weakest set of standards but still reap reputational rewards for doing so. More importantly, too many different initiatives will make it too costly and difficult for market participants to compare performance, assess the quality of products and commitments, and make informed decisions. Governments should get more involved and begin to set minimum rules that all players must follow, in consultation with the private sector. Clear sectoral and/or regional transition pathways with specific targets and timelines will also be important.
- **In the same vein, national regulators and international bodies should consider how to accelerate the shift toward reliable, comparable, and consistent reporting of climate-related risks by companies and financial institutions, including through regulatory approaches.** They should also consider, in partnership with the private sector, how to improve transparency and comparability of financial products marketed as climate-friendly or sustainable. The European Commission's Action Plan on Sustainable Finance is a good start, but care should be taken to avoid competing regional standards, which would increase transaction costs for companies operating in multiple jurisdictions.
- **Partnerships between private-sector financial institutions and public development finance institutions should accelerate progress toward designing, deploying, and demonstrating new financial models that can be scaled up.** These models should make effective use of blended finance. They should also, where appropriate, utilize asset pooling and securitization, with the goal of structuring securities that can be sold to institutional investors in large volumes, freeing up bank capital for additional financing.
- **Parties to the UNFCCC should adopt decisions to operationalize the tracking of collective progress on Article 2.1c.** Also, the Standing Committee on Finance, supported by the UNFCCC Secretariat, should ensure that progress on Article 2.1c is adequately covered in future Biennial Assessments, and that the methodologies used to track progress draw on the best available information and continually improve in coverage and technical sophistication. The measurement, reporting and verification of support has evolved and improved over time under the Convention and the climate accords. As part of the transition towards the full operationalization of the Paris Agreement and the implementation of nationally determined contributions put forth by all Parties, there are ongoing negotiations regarding the Enhanced Transparency Framework (ETF) and the modalities, procedures and guidelines for Parties to report on support provided, mobilized, as well as needed and received. Parties to the UNFCCC should further aim at increasing the comparability of information and to reducing data gaps and inconsistencies so that more rigorous assessments of progress can be conducted in the upcoming implementation cycles through the Global Stocktake, starting in 2023. Improved transparency at all levels will contribute to foster confidence in the system and greater trust among all stakeholders.

- **International and national carbon markets should be promoted. Progress in the negotiations over Article 6 of the Paris Agreement has renewed hopes that international carbon markets can be brought into operation.** Carbon markets figure prominently in countries' plans to reduce emissions: half of NDCs, accounting for over 30% of global emissions, rely to some extent on the use of carbon markets. Parties should resolve outstanding technical and political issues and ensure the integrity and credibility of international carbon markets.¹⁶⁷ At the same time, progress in voluntary carbon market development should be encouraged and accelerated. As Mark Carney stated recently: "Despite its importance, this market barely exists at present. Buying offsets is an opaque and cumbersome process. A market that should be measured in the tens of billions of dollars was less than \$320 million last year. To conserve our carbon budget, we have to stop spelling billion with an M! For finance to flow to emissions reduction projects, we need a professional, transparent and resilient market...we're calling on all interested parties to respond to shape the infrastructure for a scaled up, robust voluntary private offset market. By Glasgow, the taskforce should aim to have a functioning pilot market".¹⁶⁸

Annex 1: COMPARISON OF THE KEY SOURCES THAT ASSESS PROGRESS TOWARDS \$100 BILLION TARGET

	Type of climate finance included	Source of underlying data			Years for which latest data is available
		Bilateral finance	MDBs	Private mobilized	
BRs	<p>Bilateral public finance from developed countries</p> <p>Multilateral public finance from developed countries</p> <p>Private climate-related finance mobilized by developed countries</p>	Climate specific support as reported in CTFs	Climate specific and core/general support as reported in CTFs	Narrative examples and quantitative estimates of private sector finance leveraged where available	Published biannually. The fourth iteration was published in 2020 and presents data from the period 2017 and 2018.
BA	<p>Bilateral public finance from developed countries</p> <p>Multilateral public finance attributed to developed countries</p> <p>Private finance mobilised by developed countries</p> <p>Other climate-related flows.</p>	Biennial Reports submitted by Annex I Parties to the UNFCCC.	Fund financial reports, CFU; MDB joint report (self-reported by MDBs, with the share attributable to Annex II countries derived in accordance to two methodologies: shareholder basis and OECD 2015 methodology).	<p>MDB joint report (self-reported by MDBs);</p> <p>OECD for mobilized private finance by bilateral, regional institutions</p>	Published biannually since 2014. The latest report was published in 2018 and presents data for 2015 and 2016.
OECD	<p>Bilateral public finance from developed countries</p> <p>Multilateral public finance attributed to developed countries</p> <p>Officially supported export credits from developed countries</p> <p>Private finance mobilized by developed countries</p>	<p>Biennial Reports submitted by Annex I Parties to the UNFCCC; OECD export credit statistics (for officially supported export credits).</p> <p>For a limited number of remaining gaps, the OECD collected complementary ad hoc data from climate finance providers or developed estimates based on publicly available sources.</p>	OECD DAC statistics on development finance (activity-level data for multilateral public climate finance, as well as mobilised private finance).	OECD DAC statistics on development finance (activity-level data for mobilised private finance).	Periodically; latest in 2020. Latest data presented for 2017 and 2018.

	Type of climate finance included	Source of underlying data			Years for which latest data is available
		Bilateral finance	MDBs	Private mobilized	
Climate Policy Initiative (CPI)	Primary capital flows directed toward low-carbon and climate-resilient development interventions with direct or indirect greenhouse gas mitigation or adaptation benefits. These flows include support for capacity building measures as well as for the development and implementation of policies. The coverage is broader and includes overall flows of climate finance, beyond those mobilized by the developed countries.	Data reported to the OECD DAC system through the Creditor Reporting System (CRS) database.	Surveys of DFIs; data reported by the MDBs to the OECD; Climate Funds Update via ODI/HBF; BNEF and IEA data.	BNEF; Climate Bonds Initiative; IEA; REN-21; IJGlobal.	Annual updates; the latest edition was published in 2019 and covers the period 2013-2018.
Oxfam	Grant-equivalent, climate specific net assistance (bilateral and multilateral public finance) attributed to developed countries.	Climate-related development finance reported to the OECD Biennial Reports submitted by Parties to the UNFCCC.		Not assessed, issues around transparency of data raised.	Published biennially since 2016. The 2020 report is the third edition and presents data for 2017-18.
Ministry of Finance of India	Bilateral public climate finance from developed countries. Multilateral public climate finance attributed to developed countries.	OECD analysis discounted for over-reporting ; non-grant-equivalent; and for not being 'new and additional'.	OECD analysis discounted for over-reporting; non-grant-equivalent; and for not being 'new and additional'.	Not assessed, issues around transparency of data raised.	Published in 2015.

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88 Over the next 10 years infrastructure investment in emerging markets and developing countries other than China will need to more than double from present levels of around \$1 trillion per year, and virtually all this increase must be green infrastructure to meet the Paris targets and adapt to climate change. Bhattacharya et al (2016); NCE (2018) Unlocking the Inclusive Growth Story of the 21st Century.

89 Bhattacharya et al, Delivering on sustainable infrastructure for better development and better climate, Brookings (2020). https://www.brookings.edu/wp-content/uploads/2016/12/global_122316_delivering-on-sustainable-infrastructure.pdf

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102 Doubling Back and Doubling down: G20 scorecard on fossil fuel funding, IISD, ODI & OCI, November 2020

103 M Shafik (2020) "Toward a New Social Contract", <https://www.project-syndicate.org/onpoint/new-social-contract-welfare-state-by-minouche-shafik-2019-12?barrier=accesspaylog>

104 The GEF also manages two funds dedicated to adaptation, namely the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF), whose combined stock amounts to \$1.4 billion.

105 <https://www.greenclimate.fund/news/green-climate-fund-exceeds-usd-10-billion-replenishment-mark>

106 Despite difficulties, the GCF has built a substantial track record since its establishment. As of November 2020, the GCF had approved 159 projects in 117 developing countries with \$7.2 billion in approved funding. In its private sector portfolio, with \$1.9 billion of GCF funding, it has mobilized \$6.7 billion in co-financing.

107 Two important examples are its involvement in the Climate Investment Platform and partnership with the International Development Finance Club to support public development banks in financing the green transition.

108 Research to develop the PSF strategy showed that the private sector needs faster response/turn-around times, and that certain changes in the Fund's business model would allow the PSF to more effectively fulfill its mandate. The Forward-looking Performance Review conducted to inform the replenishment confirmed that "a significant part of the PSF portfolio is virtually indistinguishable from the (climate or energy) portfolios of (international) development banks", flagging that "the PSF has so far funded a considerable number of projects that development finance institutions also finance, in cases even on the same financial terms, despite the Fund's ability to provide highly concessional finance".

109 GCF Governing Instrument, paragraph 41

110 For example, although low-emission transport is one of the Fund's key impact areas, the FPR found that only three such projects had been approved to date - in contrast with needs expressed in the NDCs of 50 LDCs, SIDS and African nations for such investments. Such projects being overwhelmingly urban in nature may explain their limited representation.

111 The PSF could for instance issue targeted RFPs and filter out early on proposals in the GCF pipeline that could be financed directly by DFIs and MDBs (e.g. hard currency loans for mature energy technologies). For adaptation finance, the PSF could provide early-stage finance through incubators and accelerators that contribute to de-risk private adaptation investments to help grow the share of these in the GCF portfolio (currently only 2 percent).

112 Clean Technology Fund and the Strategic Climate Fund, which consists of three programs: Pilot Program for Climate Resilience, Forest Investment Program, and Scaling Up Renewable Energy Programs in Low Income Countries.

113 Climate Investment Funds <https://www.climateinvestmentfunds.org/country>

114 The GIF's current donor support includes Australia, Canada, China, Denmark, Germany, Japan, Singapore and the World Bank.

115 In line with this commitment, the World Bank announced on December 9, 2020 a new target of 35 percent of lending with climate co-benefits for the next five years compared with the previous target of 28 percent by 2020. It also set a target of 50 percent of its support for adaptation and resilience. <https://www.worldbank.org/en/news/press-release/2020/12/09/world-bank-group-announces-ambitious-35-finance-target-to-support-countries-climate-action>

116 Christopher Humphrey and Annalisa Prizzon, Scaling up multilateral bank finance for the Covid-19 recovery, ODI (2020). <https://www.odi.org/blogs/17570-scaling-multilateral-bank-finance-covid-19-recovery>

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118 First, while maintaining a AAA rating, MDBs could expand their loan books by at least \$750 billion simply by using better accounting practices on how capital is counted, something that the major rating agencies have encouraged them to do.²⁰ Second, they could take a policy decision to move towards industry standards on risk management variables like equity-loans, increasing the leverage ratio. Third, they could make additional efforts to seek local counterpart funds and private participation in projects. Fourth, they could turn-over their loans and not hold them all to maturity, freeing up capital space or additional projects. See Kharas and Dooley (2020) Sustainable development finance proposals for the global COVID-19 response.

119 When a country's per capita income reaches a certain threshold, a process ('graduation') is triggered that will result in decreasing access to concessional public finance. During 2018, 12 countries met the graduation criteria and are now at various stages in the graduation process (compared with only five countries which had graduated before 2018). However, nine of these countries remain highly vulnerable

120 Such as high inequality, low labor productivity, and lagging infrastructure spending

121 Business "finds it difficult to follow the World Bank's lead. It cannot easily operate on the Bank's timeline and abide by all the requirements imposed by the Bank and its borrowers. Returns on Bank-involved projects are rarely much better than on those without the Bank's engagement.... What the Bank offers in risk management it takes away in efficiency and vulnerability to politics." [Better Business with Bretton Woods, US Chamber of Commerce, in Revitalizing the Spirit of Bretton Woods, 2019].

122 "The Good, the Bad and the Urgent: Multilateral Development Bank Climate Finance in 2019" WRI blog, August 2020

123 Joint MDB presentation at COP25, December 2019.

124 This includes the FAST-Infra initiative, a public-private partnership to scale up private financing for sustainable infrastructure; the Climate Finance Leadership Initiative (CFLI) that has prepared investor readiness guidelines to help countries attract more private financing for climate-related investments; and the Global Investors for Sustainable Development Alliance.

125 "Guarantees for development: a review of multilateral development bank operations, 2014" ODI December 2014

126 Forward Performance Review, GCF IEU, 2019

127 Ibid.

128 Centre for Global Development, 2019

129 See, for example, Martinez-Diaz, Sidner, and McClamrock, "The Future of Disaster Risk Pooling for Developing Countries: Where Do We Go From Here?" World Resources Institute, 2019.

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132 The IDFC and the SDGs, CGD 2018

133 Ibid.

134 "Still Digging: G20 Governments continue to finance the climate crisis", Oil Change/Friends of the Earth, May 2020

135 Ibid.

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145 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

146 Ibid., at page 10. <https://custom.cvent.com/8644FD66069649369747A352DBAB07C3/files/d59172883a85415fb14311fd6eeeb072.pdf>

147 Ibid. at page 10-11.

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