*Delivering on the **$100 billion** climate finance commitment and transforming*

CLIMATE FINANCE

INDEPENDENT EXPERTS REPORT SUMMARY

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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 climate accords since 2009 and is an important symbol of trust. The mobilization of the $100 billion, later enshrined in the Paris Agreement, is **essential for securing progress and meeting the goals of the Agreement.**

According to the independent expert report prepared at the request of the Secretary-General, "Delivering on the $100 billion climate finance commitment and transforming climate finance," released in December 2020, the commitment is "the bedrock of international climate finance, underpinning international agreement and co-operation on climate action." 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 commitment, the report notes, "is a floor and not a ceiling" for climate finance.

1. Path to the $100 billion

Where are we on the path to the $100 billion?

Based on available data up to 2018, **climate finance has been on an upward trajectory, but still falling short of the $100 billion target.** While data for 2019 and 2020 will only come later at the end of 2021 and 2022, respectively, the expert report concludes that the only realistic scenarios are those in which the $100 billion target was not reached in 2020.

The report uses data from the Organization for Economic Cooperation and Development (OECD), the Oxfam Shadow Report, Biennial Reports to the United Nations Framework Convention on Climate Change (UNFCCC), and analyses such as the one conducted by the Government of India. **The OECD estimated the total climate finance for 2018 at $78.9 billion, up 11% from $71.2 billion in 2017. In terms of total public climate finance provided** by developed countries, estimates from the two key available sources vary: $64.3 billion in 2018 according to the OECD, and $48.7 billion in 2018 according to Biennial Reports to the in 2016, 2018 and 2020. In terms of private finance mobilized by developed countries, the OECD calculated $14.6 billion in 2018.

What is eligible to be counted as $100 billion?

All funds provided through bilateral, regional, and multilateral channels count, as well as private funds mobilized through public interventions. **A range of financial instruments** (grant, concessional loan, non-concessional loan, equity, guarantee, insurance) also count.

UNFCCC decisions do not specify how to account for the proportions of financing mobilized from these different channels, for instance, how to account for individual contributions to MDBs, and which portion of those contributions would count toward a country's climate finance pledge. In recent years, the **largest increase in climate finance came 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.

2021 is a critical year to ramp up climate finance from all sources.

Even prior to COVID-19, it was clear that a **major scaling up of international climate finance would be needed** to enable developing countries to adopt more ambitious Nationally Determined Contributions and the Sustainable Development Goals. The report emphasized that the economic fallout from COVID-19 compounded fiscal and financial pressures in developing countries, and in many cases exacerbated debt distress. The report stress that public climate finance needs to be ramped up, including for mobilization efforts. Demonstrating at COP26 that this goal has been reached is a necessity.

The following shortfalls in the quality and composition of climate finance flows need to be addressed as developed countries ratchet up efforts to achieve and surpass the $100 billion from 2021 to 2025.

- **Low levels and declining share of grant finance:** Grants are a small share and not growing at the pace needed. 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.
- **Underfunding of adaptation:** Adaptation finance has been relatively neglected and is far from achieving a balanced allocation. Although adaptation finance increased more rapidly between 2016-2018, its overall share in total public finance was only 21 percent in 2020. Significant capital will be needed to meet climate adaptation and resilience needs. Assessments by the UN Environment Programme estimate adaptation costs faced by developing countries to be in a range of $140 billion to $300 billion per year by 2030, and $280 billion to $500 billion annually by 2050.
- **Lack of adequate finance for LDCs and SIDS:** There has not been an adequate focus on the needs of Least Developed Countries and Small Island Developing States. LDCs and SIDS received 14% and 2% respectively of total climate support in 2018.
- **Obstacles to expeditious access by developing countries to climate finance:** Developing countries and entities within these countries continue to face obstacles in accessing climate finance.

How can more money flow towards climate-resilient investments in developing countries?

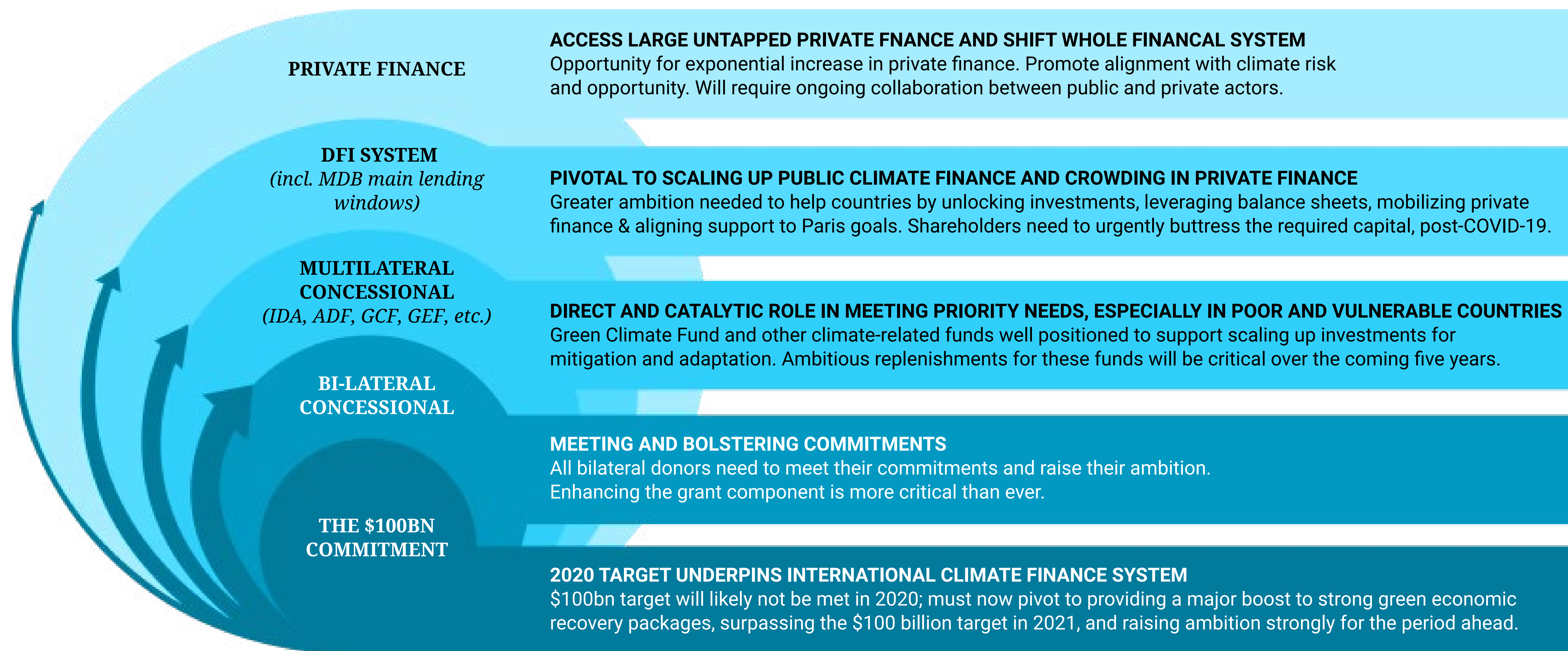
- **All bilateral donors must live up to their climate finance commitments** and set more ambitious targets. The need for the grant component of climate finance is even greater than before.
- **Multilateral climate funds can play a catalytic role** in scaling up investments and leveraging other sources of finance, including Multilateral Development Banks.
- **Multilateral Development Banks must better leverage their balance sheets,** improve their private sector multipliers and work better as a system.
- **Multilateral Development Banks 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.
- All **countries will need to unlock opportunities** for low carbon climate resilient infrastructure and other climate-related investments to support recovery and transformation.
- **Tackling debt distress and excessive debt overhang,** especially in poor and climate vulnerable countries, is crucial.
- **Mobilizing finance on this scale will necessarily require private capital.** Private capital is not flowing fast enough to finance the low-carbon and climate-resilient transition and is often not Paris-aligned. Moreover, most of the current stock of private sector climate investment is in advanced economies.

2. Turning the billions into trillions

The "Climate Finance Framework", as illustrated in the next page, represents the key channels through which the $100bn per year by 2020 commitment can help transform the climate finance system. Key elements include:

- The $100bn per year by 2020 commitment 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.** All bilateral donors must live up to their 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** 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.
- **Private finance is a largely untapped pool of capital.** Significant levels of international public climate finance resources need to be deployed to mobilize this pool. Achieving and surpassing the $100 billion goal is the critical steppingstone to move from billions to the trillions.

Our climate finance framework: a forward-looking ambitious agenda



Independent Expert Group on Climate Finance

3. Mobilizing the financial system

Without a fundamental shift in the financial system as a whole, the goals of the Paris Agreement cannot be met. 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.

- National governments **should take a more active role** in the implementation of Article 2.1c through coordination, harmonization, and regulation.
- 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.
- **Parties to the UNFCCC should adopt decisions** to operationalize the tracking of collective progress on Article 2.1c.
- **Progress in the negotiations** over Article 6 of the Paris Agreement is critical for international carbon markets to be brought into operation.

THE FULL REPORT CAN BE FOUND AT

http://bit.ly/ClimateFinanceReport