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Shaping the Future of Multilateralism

Mobilizing resources
urgently for climate
action: overcoming
longstanding challenges
and learning from
Covid-19

BY MOHAMED ADOW

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About the Author

Mohamed Adow is the Director and Founder of Power Shift Africa, a nongovernmental organization and think tank he founded to mobilize climate action in Africa and shift climate and energy policies to zero carbon. Before founding Power Shift Africa, Mohamed spent a decade at the intersection of international development and climate as the Global Climate Policy Lead for Christian Aid.

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Mobilizing resources urgently for climate action: overcoming longstanding challenges and learning from Covid-19

The Covid-19 pandemic has shown that countries can marshal significant resources quickly and at scale in an emergency. The climate crisis requires no less. First and foremost, that means resolving longstanding issues of climate finance – definitional disputes, access to financing, the obstacle of indebtedness, and underneath them all, trust that rich nations will deliver on their outstanding and new climate finance commitments. Only then can the international system ensure that the poorest and most vulnerable people, communities, and countries can make the necessary changes the whole world needs.

The 26th United Nations Climate Change Conference (COP26) set for November in Glasgow, Scotland, makes 2021 a crucial year for tackling the global climate emergency. In preparation, climate finance – that is, the financing needed to mitigate or adapt to climate change – remains core to the climate action agenda, as laid out in the 1992 United Nations Framework Convention on Climate Change (UNFCCC) and the 2015 Paris Agreement. And yet this urgent need comes against the backdrop of the coronavirus pandemic, which in addition to the catastrophic level of lives lost, has decimated livelihoods and caused a global economic shock not seen since World War II.

Amidst the horror, though, has been hope that the world might learn important lessons from the loss, and emerge determined to build a better post-pandemic society that would be more resilient, more respectful of human rights for all, and better prepared for future shocks. Strong country-level and global leadership would embrace multilateral cooperation and be equipped to implement immediate, coordinated responses to crises.

But for the time being, that remains an aspiration. The international community's record in dealing with the longer-term and more slow-gathering storm of the climate crisis is one of persistently inadequate response that fails to meet the existential threat. The imperative of climate finance is a key example. The need to adapt to and, reduce the impacts of climate change and undertake ambitious emission reductions (mitigation) to avoid crashing through the guardrail of a 1.5°C temperature increase over pre-industrial levels demands quality finance that focuses not just on the amount, but the level of finance concessionality (meaning delivery of grants as well as loans extended on terms significantly more generous than market loans), its adequacy for the challenges to be met and the predictability of its delivery at a scale able to deliver transformation.

And the scale of climate finance needs is massive: on mitigation, for instance, to support emissions reductions in the supply-side energy system alone, a goal of limiting global warming to 1.5°C would require US\$1.6 trillion to US\$3.8 trillion of investments between 2016 and 2050.¹ On the adaptation side, [statistics show](#) that costs would range between US\$140 billion to US\$300 billion by 2030 and US\$280 billion to US\$500 billion by 2050. According to the Global Commission on Adaptation (GCA), [annual investment of US\\$180 billion](#) is required to respond to the growing adaptation burden between 2020 and 2030. African countries alone will require [over US\\$ 3 trillion by 2030](#) to implement their agreed Nationally Determined Contributions (NDCs) under the Paris Agreement.

It is clear that the needed level of financing goes way beyond the US\$100 billion a year that rich countries originally committed by 2020 under the 2009 Copenhagen Accord, and even that level has not been reached. In the meantime, poor and vulnerable countries – including Least Developed Countries (LDCs), most African countries, and Small Island Developing States (SIDs) – are on the front lines of climate change. Despite their low greenhouse gas emissions, they are the most vulnerable to the effects of climate change – in some cases existentially – due to a host of reasons, including inadequate financing for adaptation and mitigation. For these nations, financing is not just a prerequisite for climate action, but a lifeline.

Clarifying global climate finance terms and approaches

The global framework for climate finance remains unclear and vague in a number of aspects. Under the [UNFCCC](#) and the [Paris Agreement](#), developed countries have an obligation to provide financial support to developing nations to tackle climate change.² In addition to a reiteration of the [longstanding 2009 commitment](#) of US\$100 billion per year of climate finance by 2020, the Paris Agreement promised that developed countries would escalate this amount after 2025. Yet the extent to which countries register progress in mobilizing, providing, tracking, and reporting climate finance is dependent on their individual

1 IPCC, (2018). Global warming of 1.5°C

2 Under Article 4 of the [UNFCCC](#), developed countries are asked to “provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties” to address their climate obligation, and in particular, “also assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects.”

understandings of what counts as climate finance. Furthermore, the continuing lack of clarity about developing countries' access to and use of such funding compromises the extent to which the parties can deliver on the goals.

Lack of clear definitions and varying accounting approaches sabotage efforts to calculate, track, monitor, account for, and verify climate-related financing, including the concept of "new and additional" financing, a term that has yet to be fully deciphered. In the nearly three decades since the UNFCCC, officials have yet to agree on a globally accepted definition of climate finance, notwithstanding the framework's [basic definition](#) and further conceptual work of its expert body, the UNFCCC Standing Committee on Finance (SCF). Still missing are shared understandings of, among other issues, vocabulary, calculation methods, and what counts as climate finance.

In its [2018 report](#), the SCF underscores that a "lack of clarity about the use of different definitions of climate finance limits the comparability of data." It further notes that this absence of clarity due to divergent accounting and reporting approaches impedes the accountability of climate finance provision. As a result, stakeholders and parties providing data all have individual perspectives on what counts as climate financing.

The [2014 SCF finance report](#) had brought to light the same issues four years earlier, including lack of clear climate finance definitions and reporting approaches. At the same time, the report presented understandings of what constitutes "new and additional" financing that varied from the crucial concept that climate finance should be new and additional to Official Development Assistance (ODA) and not a diversion of other types of aid financing. Some developed countries, in their determination of new and additional finance, included amounts relative to 0.7 percent of Gross National Income (GNI) ODA while others used additional climate change spending relative to 2010 levels (after the yearly goal of US\$100 billion by 2020 was set in Copenhagen) or prior contributions required under the UNFCCC to some of the existing multilateral climate funds as part of its Financial Mechanism.

More recent evidence presented by [Oxfam in its "Climate Finance Shadow Report 2020"](#) exposes the reality that the majority of climate finance is counted towards increasing official development assistance commitments. Years earlier, in 2012, the joint Climate Change Expert Group of the Organization for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA) emphasized, in a paper entitled ["Tracking Climate Finance: What and How,"](#) the need for globally agreed climate finance definitions and guidelines to determine what climate finance means. They also unpacked terms such as "additionality" and "mobilized" as they should be used to track climate finance. The report questioned estimates of financial flows from the North to the South, based on concerns including risks of double-counting from sources, the absence of an agreed definition of "additionality" and private-sector finance, and the lack of an agreed tracking framework for finance flows.

These persistent gaps in common understandings make determination, tracking, reporting, and estimation of climate finance flows a daunting task and a persistent challenge within the global UNFCCC framework. As a result, decisions and guidance on climate finance on the global stage are implemented from a non-shared understanding of terms. This challenge makes international climate finance tracking difficult and not straight forward, including on the recipient side of climate finance, as recently highlighted in [Kenya's climate finance landscape report 2021](#), which details the sources of international climate finance received by the country.

It is imperative for parties to these agreements to settle on agreed definitions and rules that level the playing field to drive climate action, as they begin implementing the Paris Agreement and tracking progress towards various commitments. Meaningful progress, in particular ensuring finance flows are consistent with the goal of lowering greenhouse gas emission and building climate resiliency, is contingent on universally agreed and applied common definitions of terms including "climate finance," "new and additional," and "mobilized private sector finance through public intervention." It also requires clear, standardized methodologies (approaches) of accounting and reporting based on shared understandings and commitments. Only then will the framework for transparency present an unequivocal basis to inform delivery of future fair, predictable, scaled, and accessible financial support.

Restoring trust by delivering on longstanding US\$100 billion commitment

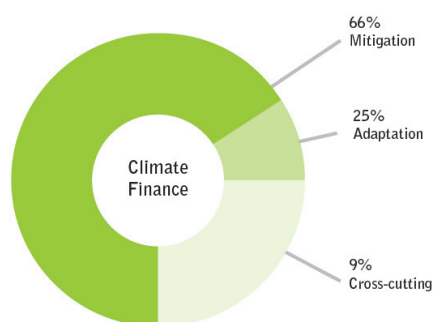
Poor nations are increasingly shouldering climate costs at unprecedented levels from domestic resources, as developed countries fail to fulfil their financing commitments under the UNFCCC. The Paris Agreement requires poor countries to advance mitigation efforts and avoid locking in carbon emissions. At the same time, the poorer countries face additional adaptation costs due to worsening climate change impacts that result from the inadequacy of mitigation efforts by rich countries, who were supposed to take the lead in global emission reductions based on both their historical responsibility as well as their greater economic and technical capabilities.

Developing countries face the imperative of rolling out massive adaptation initiatives as well as adopting mitigation actions at scale, such as a transitioning to renewable energy from fossil fuels or addressing persistent energy poverty. But they are challenged by low levels of capital coupled with high debt levels that heighten their cost of accessing and borrowing finance and thus their investment costs. Public climate financing provided by developed

countries should cover the costs of climate investments – both incremental and actual full costs.³ This financing should be available at scale to poor nations, not only to cover the costs of essentially saving the planet, but also to ensure that doing so does not infringe on human rights and sustainable development or destroy a population’s livelihoods.

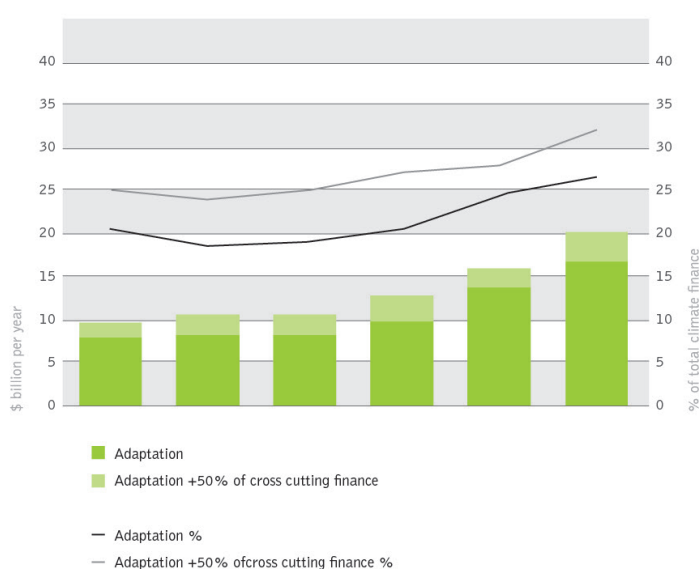
Unfortunately, rich countries have failed to deliver on their internationally agreed US\$100 billion-per-year financing commitment, despite annual increases. For 2017, [the OECD estimated](#) that climate finance (bilateral public, multilateral public, officially supported export credits, and mobilized private finance) provided and mobilized by developed countries reached only US\$71.2 billion, although this was a 21 percent increase from US\$58.6 billion in 2016.

In addition to insufficient quantity of climate financing, the quality of financing falls short, too. For example, [an analysis by Oxfam](#) of the 2017 numbers indicates that the actual amount of support to developing countries equated to only US\$22 billion, once various forms of over-reporting, interest accrued, and loan repayments were considered. The report further reveals the increased use of loans in climate financing, with about 20 percent of reported public finance being grants while 80 percent were loans and other non-grant instruments. As a result, Oxfam concluded, the net-equivalent value of climate finance might have been less than half of what developed countries reported at the time.



Global shares of mitigation, adaptation and cross-cutting finance in 2017–18

Sources: Fourth Biennial Reports (2020); OECD (2020a)



Share and volume of adaptation finance, 2013–18

Source: 2013–16 OECD (2019b); 2017–18 OECD (2020a); Fourth Biennial Reports (2020)

- Many climate funds cover only the incremental cost of climate action, that is the additional cost needed to a development baseline cost to address climate change impacts. In contrast, a full cost financing approach pays for the entire measure, without dividing investments into a development and climate action part.

It is disheartening – and, importantly, a matter of climate injustice – that in financing adaptation actions, the use of loan facilities is increasing while the use of grant-based finance is on a fast decline. In its [Climate Finance Shadow Report 2018](#), Oxfam estimates grant-based finance for adaptation at 38 percent for 2015-2016 of all funding provided for adaptation. Its [2020 report](#) shows grant-based adaptation finance fell to 33 percent in 2017-2018. For example, [in Kenya](#), approximately 79 percent of international climate finance in 2018 was delivered through debt (ranging from concessional public development loans to loans on market terms) and only 19 percent through grants, with 2 percent made up of varying types of equity.

Finance that is meant to support climate-affected communities in poor countries should not aggravate their country's debt burden and thereby weaken socio-economic structures such as social services that affect resilience. When this occurs, frontline communities are denied their right to socio-economic equity, and in extreme circumstances, their very existence may be at risk, such as when food or emergency assistance in response to extreme weather events cannot be provided because of a country's liquidity shortfall due to excessive debt servicing requirements.

Such perpetual failures in climate finance provision and delivery have compromised trust between rich and poor nations. While the US\$100 billion financing goal was always a political goal, not a reflection of true developing countries' needs, it nevertheless served as a [benchmark for assessing progress in delivering climate finance](#) and for gauging whether developed countries were holding up their end of this multilateral bargain. And that's not to mention the indispensable lifeline that such financing represents for the poorest nations that have no independent capacity to handle the costs of the climate crisis.

Under the Paris Agreement, the US\$100 billion-per-year goal was extended to 2025, after which a newer, higher financing goal is to be set. However, the failed track record by rich nations leaves poor nations doubting whether they can trust any new commitments that might be tabled. Lacking such confidence they might not be willing to increase the level of ambition of their own contributions to the fulfillment of the Paris Agreement. Many of these pledges for greater climate efforts by poorer countries are conditional on receiving additional financial support. It remains unclear whether and how rich nations might rectify their pre-2020 failure and uphold such levels to 2025. Rich nations should take concrete action in 2021 to demonstrate a desire to restore lost trust by resolving these long-term finance issues, including providing the funding, taking accurate stock of the record thus far, and filling the existing gaps.

Access to finance

The [evolving global climate-finance landscape](#) has been characterized by a growing – though still insufficient – volume of financing over the past decade, but also the emergence of dynamic means for channeling and delivering finance. This has created a complex system for poor countries to access climate finance, compounded by the problem of inadequate disbursement of committed amounts, resulting in insufficient financial resources to tackle the climate crisis.

Accessing climate finance is a top concern for poor nations with low financial capability to deal with climate impacts. In multilateral forums, these nations repeatedly describe difficulties they encounter in accessing financing from the panoply of multilateral funds, bilateral sources, development finance institutions, and multilateral banks. Many African nations, for example, cite unclear, lengthy, complex application requirements and processes, their own institutional capacity constraints, and inadequate leveraging of international public finance as obstacles to domestic climate investments. Poor nations are also concerned that eligibility for financing typically is based only on Gross National Income (GNI), and a country's vulnerability to climate change plays no role, omitting a critical consideration.

An architecture that does not deliver on the needs of poor nations severely hinders their ability to prepare for catastrophic climate events and to effectively integrate climate risks into planning and decision-making. The post-2020 era requires urgent, ambitious, and forward-looking action to resolve challenges of access to climate financing. This should be a collaborative process within the climate negotiations to build trust and establish a responsive partnership between climate finance providers and recipients. That means delving deep into the details of prevailing concerns, finding workable solutions with clear timelines, and importantly, upturning business as usual, which too often gets mired in a lack of standard definitions and commonly agreed approaches. At the UNFCCC level, the issue of access to finance needs to be given priority attention, and contributor countries, international finance institutions, and recipient countries must cooperate.

In 2021, under the current U.K. presidency of the UNFCCC Conference of the Parties (COP 26), improving access to climate finance is one of the priority areas of action. Now more than ever, the onus is on the rich countries to show the political will to lead efforts to develop an effective, impactful, and more accessible climate finance architecture that responds to poor nations' concerns. These solutions should not only focus on finance-delivery institutions under the UNFCCC, but also on institutions such as the multilateral development banks (MDBs), which already play an important role in providing climate finance, both through their own finance portfolios and as accredited implementing entities under UNFCCC climate funds.

This year provides an opportunity to reset the international climate finance architecture and solve the access-to-finance puzzle, with cooperative, collaborative action by countries providing climate finance, the funding entities through which finance is channeled, and the recipient countries.

- Rich countries must take actions including:
 - Enhance provision of finance to vulnerable countries.
 - Integrate climate vulnerability as a measure to determine eligibility beyond GNI.
 - Agree to set in place policies that advance access efficiencies.
 - Increase finance flows to support in-country capacity development within poor countries.
 - Enhance transparency on finance counted and reported as climate finance.
 - Undertake joint actions and investments to integrate a comprehensive set of climate risks.
 - Move away from short-term, unpredictable funding and consider provision of long-term predictable funding that allows for learning, capacity development and risk integration.
 - Promote climate finance for human-rights centered and gender-responsive climate actions in order to ensure that climate finance delivery is effective and equitable.
- International climate finance entities, in particular multilateral funds (and especially those under the UNFCCC), should:
 - Revisit their access procedures and policies with the goal of simplifying them.
 - Reduce delays in disbursement of approved funding.
 - Promote legitimate and genuine country ownership by considering developing countries' specific circumstances and capabilities.
- Recipient countries should:
 - Institute policies that advance transparency in public-finance management.
 - Support equitable finance distribution within their countries, in line with climate- and sustainable-development objectives.
 - Enhance the capacity of country stakeholders on climate risks and vulnerabilities.
 - Develop bankable climate projects that can attract investors, including from the private sector for a financial return on investments.
 - Devolve financial decision-making on climate action to local levels by incorporating the priorities and needs of frontline communities and marginalized or vulnerable groups, including women and indigenous peoples.

Debt-for-climate swaps

Global debt has risen to unprecedented levels – a record high of \$253 trillion in 2019. This unsustainable accumulation has put poor nations in particular in debt distress in the midst of dealing with the Covid-19 crisis. The pandemic has brought economic growth to a screeching halt and plunged public finances into deficit territory. The result is a severely constricted fiscal space for countries to meet their already extensive and diverse financial responsibilities, much less direct resources to tackle the health and economic shocks of the pandemic, invest in recovery efforts, and deal with climate impacts.

Many debtor countries in 2020 raised the alarm over their difficulties in repaying their debts and requested urgent relief. Initiatives such as the temporary debt moratorium by the Group of 20 (G20) in light of the Covid-19 pandemic ([Debt Service Suspension Initiative \(DSSI\)](#)) resulted in deferment of loan repayments and served as short-term relief. But the question of sustainable debt management strategies remains atop the global development agenda.

A [DSSI research study](#) reveals that, even with debt payment postponement, the initiative's 73 target countries were still expected to pay up to US\$33.7 billion through the end of 2020. Such debt has stymied the ability of poor and distressed countries to mount an effective response to the pandemic, further exposing them to severe health and economic risks.

Simultaneously, the urgency of the climate crisis demands scaled-up investment and fast action to avert near-term and future ruinous impacts, with less than 10 years to the target date of 2030 to avoid the worst outcomes.⁴ The same will be needed to support the ultimate goal – a transformation that leapfrogs the world into a clean, carbon-neutral, and resilient future.

But even as the debt crisis portends an escalating disaster, tackling it could offer an opportunity to deliver financing for a green Covid-19 recovery, sustainable development, and climate protection. Debt management strategies also have the potential to free up domestic resources and advance climate protection. One approach that has gained renewed traction in 2020 is the idea of debt-for-climate swaps.

4 According to the Intergovernmental Panel on Climate Change (IPCC), the scientific expert body task to provide science-based guidance to policymakers on climate change issues, the world's carbon emissions must fall 45 percent by 2030 to keep the world's average temperature from rising more than 1.5°C above pre-industrial levels. So the less than 10 years remaining are crucial for any efforts to slow this trend.

A [2014 commentary in *Nature*](#) noted that, between 2010 and 2012 alone, the combined total amount of external debt-servicing by developing countries was more than US\$1.7 trillion – multiple times the annual climate finance goal. Using debt-for-climate swaps, an indebted nation could write off debt, based on new terms agreed with creditors, by financing local climate projects in local currency in place of making external payments on loans in hard currency. Debt-distressed poor and climate-vulnerable nations would benefit from fiscal space created through such debt relief, restructuring, or buybacks, and could fund domestic climate adaptation and low-carbon development measures.

Earlier models, such as debt-for-nature or debt-for-environment swaps, have demonstrated the potential for addressing multiple crises with a single mechanism. According to a [2018 U.S. Congressional Research Service report](#), eight Latin American countries reduced their US\$1.9 billion of debt by more than US\$1 billion in arrangements during the 1990s that generated about US\$180 million for conservation in the region, through U.S. bilateral debt-for-nature swaps under the Enterprise for the Americas Initiative. The World Bank, according to a [2007 environmental finance expert paper](#), estimated that of the US\$4.2 billion debt swapped for local currency, US\$1.6 billion had been earmarked for debt-for-environment swaps by 2000.

Central to such an approach going forward would be a well-conceptualized governance framework, which would need to allow for flexibility to facilitate various debt-for-climate swap agreements and ensure that financing is used effectively to deliver sectoral and economy-wide climate objectives. The successful participation of debtor countries in such schemes should not be held against their credit rating and credit worthiness, but instead should improve the evaluations by credit agencies and thereby facilitate countries' future access to capital markets. Debt-for-climate swaps should be integrated within ongoing debt relief and debt restructuring – for example through reporting and accounting – as a vital tool to finance a post Covid-19 recovery that integrates climate protection.

Conclusion

Climate finance is an essential component of the international regime for addressing climate change with the urgency, coordination, and ambitious action required. As many developing countries grapple with the effects of Covid-19, they continue to face the impacts of climate change, as well as their pre-existing conditions of poverty and development challenges. To achieve tangible results for the sustainable development goals (SDGs) by 2030, this is a decisive decade of action until 2030 for both more [inclusive sustainable development](#) and to [avoid the worst of the climate crisis](#) calls for different approaches and for agility in leadership on provision, access, and delivery of climate finance. This especially holds true for addressing both challenges holistically on the

African continent,⁵ where reaching the SDGs remains a challenge and climate change impacts – even before Covid-19 exacerbated these trends – in many instances is reversing hard-won development gains, threatening food security and nutrition, and increasing the risk of extreme weather events.

Preparations for COP26 in November should place a renewed focus on trust-based multilateralism and solidarity with the world’s vulnerable countries as one of the lessons reinforced – and made even more urgent – by the Covid-19 pandemic. Multilateral climate governance in 2021 must advance a system that strives to meet the needs of poor nations by increasing the share of public climate finance, including by increasing the share of adaptation finance beyond the current 25 percent toward a long-demanded balance with mitigation finance, and by using public funding to leverage private-sector investments (such as by taking on financial risks that the private sector is not willing to shoulder for climate investments). Governance must also acknowledge and incorporate financing for residual and irreversible climate impacts in cases where communities and countries can no longer adapt and experience increasing loss and damage, both economic and non-economic.

Re-envisioning the global climate finance architecture has never been more urgent, as the existing regime are flawed and inadequate for mobilizing and scaling up, accounting for and innovatively delivering climate finance, including for underserved aspects of climate impacts such as loss and damage. A re-engineering for the system is inevitable. It should prioritize accountability and transparency of climate finance delivery as the basis for rebuilding trust among the parties to the Paris Agreement. That will require clarity of what constitutes climate finance and what can be counted toward current and future financial commitments. It will demand more flexibility, simplification in accessing climate finance, and innovative approaches for generating additional financing. Further, the provision and implementation of climate financing must acknowledge gender-differentiated impacts of climate change and support and respect human rights. These issues cannot wait for another two or five years – the lives and livelihoods of people in developing countries is at stake.

5 Ukaga Okechukwu and Afoaku Osita, (2005); *Sustainable Development in Africa: A Multifaceted Challenge*, Asmara: Africa World Press.

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Heinrich-Böll-Stiftung European Union, Brussels, Rue du Luxembourg 47-51,
1050 Brussels, Belgium

Heinrich-Böll-Stiftung Washington, DC, 1432 K St NW, Washington, DC 20005, USA

Contacts, Heinrich-Böll-Stiftung European Union

Anna Schwarz, Head of Programme, Global Transformation,
Heinrich-Böll-Stiftung European Union, Brussels,

E Anna.Schwarz@eu.boell.org

Lisa Tostado, Head of Programme, Climate, Trade and Agricultural Policy,
Heinrich-Böll-Stiftung European Union, Brussels,

E Lisa.Tostado@eu.boell.org

Contacts, Heinrich-Böll-Stiftung Washington, DC

Sabine Muscat, Programme Director, Technology and Digital Policy,
Heinrich-Böll-Stiftung Washington, DC,

E Sabine.Muscat@us.boell.org

Liane Schalatek, Associate Director, Heinrich-Böll-Stiftung Washington, DC,

E Liane.Schalatek@us.boell.org

Christin Schweisgut, Programme Director, Infrastructure and Development,
Heinrich-Böll-Stiftung Washington, DC,

E Christin.Schweisgut@us.boell.org

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