



Operationalising effectiveness principles for a fit-for-purpose global climate finance architecture

Policy brief



CSO Partnership 
for **Development Effectiveness**

A DECADE OF CSO SOLIDARITY
ON EDC ADVOCACY AND PRACTICE

Operationalising effectiveness principles for a fit-for-purpose global climate finance architecture

Abstract

As the international community seeks to scale up the delivery of climate finance, there is growing interest on how effectiveness principles could be applied to ensure relevance and greater accountability of international climate finance effectively. This paper highlights some of the key issues of interest to the international community in this respect, drawing on insights from the literature on climate finance, and the development community's experience and lessons in advocating for aid effectiveness. On this basis, it outlines an initial approach to examine the key components of effective global climate finance architecture, with reference to the administration and governance and the disbursement and implementation of climate change funding.

I. Context

Under the 2015 Paris Climate Agreement, countries agreed to cut greenhouse gas emissions with a view to “holding the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels.” To reduce their GHG emissions, all countries need to embark on a low-carbon development path. However, unlike developed countries that grew their economies by generating energy at low cost and without consideration of the environmental impacts, the low-carbon path asked of developing countries will involve significantly greater investment and potentially higher energy cost.

Developed countries have the moral obligation to provide new and additional finances for climate action in developing countries. From the lens of accountability, climate finance is the cost of the global North's climate debt for their years of extracting and burning fossil fuels, the impacts of which are disproportionately shouldered by the peoples of the global South. In terms of capacity, the decarbonisation of the economy of developing countries will involve greater investment and potentially higher energy cost for which they will need support.

Defining climate finance. The open-endedness of the term “climate finance” makes it subject to differing views on what type of funding constitutes climate finance, how it should be delivered, and how much money developing nations will need to be more resilient to climate change and for their economies to become less carbon-intensive.

The 1992 United Nations Framework Convention on Climate Change (UNFCCC, or the Convention) did not explicitly define climate finance but set the parameters of what was envisioned as climate finance: “new and additional financial resources that meet the agreed full costs incurred by developing country parties”. The Convention also stated that developed country Parties and other developed country Parties in Annex II¹ shall provide such financial resources. Most fundamentally, it laid out that the Parties needed to take climate actions, including on finance, on “the basis of equity and in accordance with their common but

¹ The 1992 UNFCCC divides developed country parties into 2 groups Annex I and Annex II. Annex I countries include the industrialized countries that are members of the OECD plus countries in transitions. Annex II countries are those that consist of the OECD members of Annex I and they are required to provide financial resources to enable developing countries to undertake emissions reduction activities under the Convention and to help them adapt to climate change impacts. Funding provided by Annex II countries is channeled mostly through the Convention's financial mechanism. Non-Annex I countries are mostly developing countries.

differentiated responsibilities and respective capabilities.” This principle is relevant for the mobilisation of climate finance, as is the UNFCCC requirement for “adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties.” Further decisions adopted under the Convention such as the 2008 Bali Action Plan and the Ad-Hoc Working Group on long-term cooperative action (AWG-LCA) at COP16 in Cancun reiterated the need for scaled-up, predictable, and new and additional finance for developing country Parties.

Developed countries adopt a looser definition where climate finance is regarded as any finance flow directed to climate programs and climate actions regardless of sources, recipients, and modalities. This broad approach is also reflected to an extent in Article 9 of the 2015 Paris Climate Agreement. The Paris Agreement, while reaffirming the obligations of developed countries to take the lead in providing climate finance, calls for innovative sources, instruments, and channels of financing to be implemented as a veiled reference to private sector financing. Climate finance per the Paris Agreement encompasses external or internal financial flows from any source if it is channeled towards advancing global mitigation and adaptation efforts.

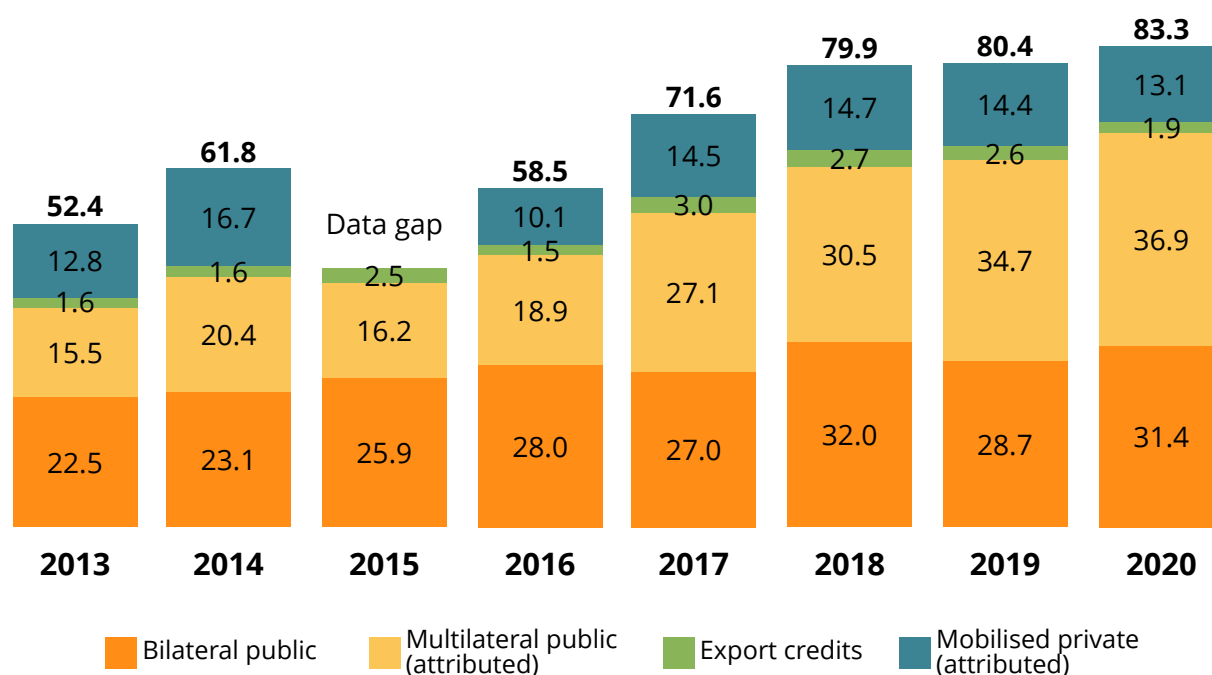
Civil society and developing countries offer a narrower definition of climate finance. For example, Oxfam understands climate finance as the “net climate-specific assistance” provided by developed countries (Carty and Comte, 2018). Oxfam only accounts grant and grant equivalents as climate finance. Similarly, India defines climate finance as cross-border flows that have been “actually disbursed, new and additional, climate specific, and in the form of grant/grant equivalent” (Dasgupta, 2015).

The USD 100 billion climate pledge. At COP15 in Copenhagen in 2009, industrialised or Annex II countries pledged to mobilise USD 100 billion per year by 2020 “to address the needs of developing countries.” This pledge was affirmed the following year as part of the Cancun Agreements in 2010 and the Durban Platform in 2011. Over time, climate finance and the USD 100-billion promise have become an integral part of the international climate regime. The Paris Agreement (UNFCCC, 2015) reiterated that developed countries should take the lead in mobilising climate finance “from a wide variety of sources, instruments and channels” in a “progression beyond previous efforts.” The accompanying COP21 decision agreed to set a new collective goal by 2025 by scaling up from a floor of USD 100 billion pledged in Copenhagen.

The pledge, while arbitrary and fell short of the actual needs of vulnerable countries, was an important yardstick by which to measure developed countries’ overall commitment to climate action. It was key to trust and solidarity building between developed and developing countries.

In its recent report, the OECD (2022) confirms that climate finance in 2020 fell far below the goal, reaching around USD 83 billion, significantly lower than the promised USD 100 billion and only marginally higher than the levels achieved in 2019 and 2018 (around USD 80 billion each).

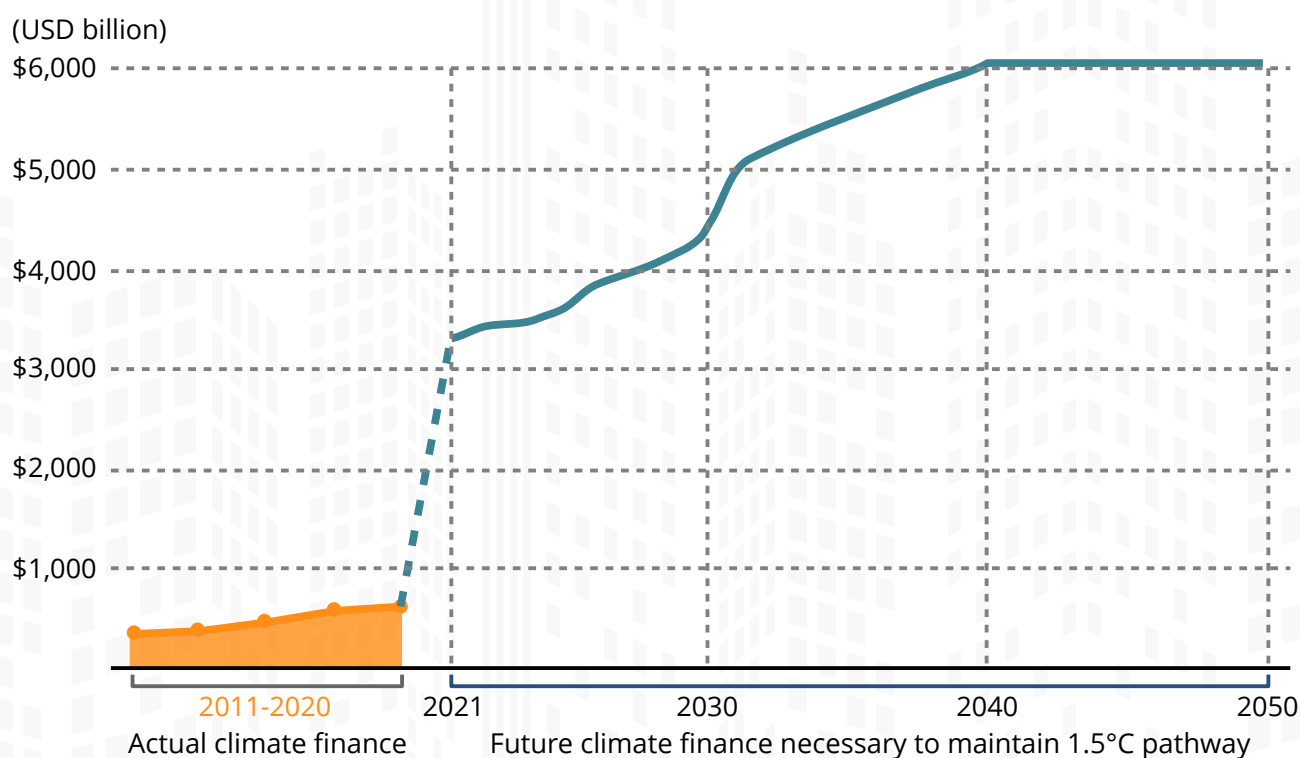
In the run up to COP26 in 2021, developed countries set out 2023 as the new target when the level of USD 100 billion a year would be realised based on a string of pledges by developed countries for the 2021 – 2025 period.



Climate finance 2013-2020 per the most recent OECD report. (Source: OECD, 2022).

Minding the gap.

According to a recent study by the research think tank Climate Policy Initiative (2021), climate finance flows are nowhere near estimated needs.



Global tracked climate finance flows and the average estimated annual climate investment needed through 2050 (Source: Climate Policy Initiative, 2021).

A vital point of reference in estimating the scale of overall climate finance needs of developing countries is the Needs Determination Report published in October 2021 by the Standing Committee on Finance (SCF) of the UNFCCC. According to the SCF, developing countries need USD 5.8 to 5.9 trillion up to 2030 to finance actions listed in their nationally determined contributions. The real overall figure is likely to be much higher.

Many reports have also come up with varying estimates of adaptation costs based on current climate change knowledge. At the lower end, according to UNFCCC (2007), projected adaptation finance for developing countries would start at USD 28 billion annually by 2030. At the higher end, the United Nations Environment Programme (2021) projects adaptation cost of developing countries to reach USD155–330 billion by 2030, rising to USD 310–555 billion by 2050 ‘with increasing levels of climate change’ (UNEP 2021).

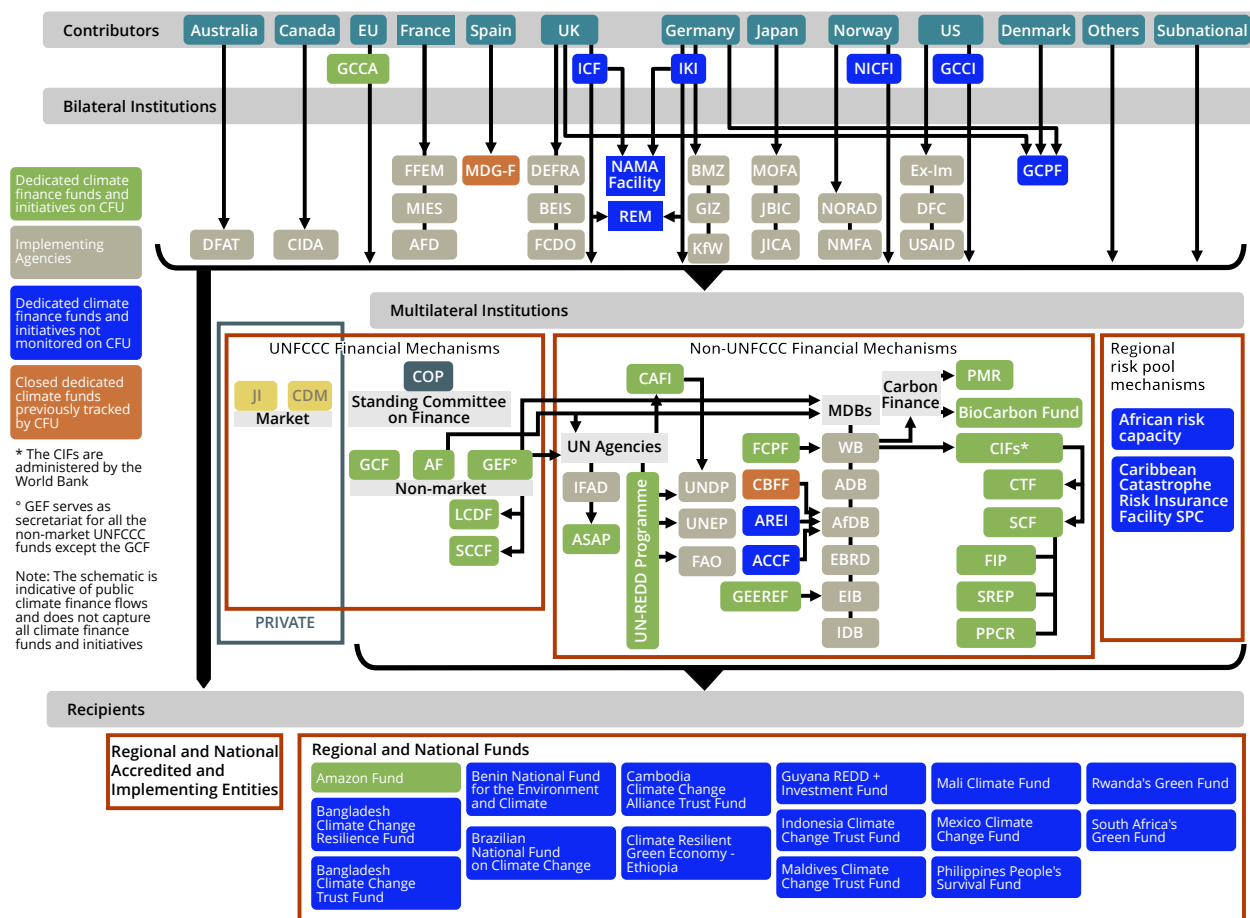
Reducing emissions and enhancing resilience against climate change can only take us so far. Some negative impacts and damages are now inevitable and have collectively come to be known as “loss and damage.” Loss and damage impacts derive from extreme events, for example, weather-related natural hazards, to slow-onset events, including sea-level rise, increasing temperatures, ocean acidification, glacial retreat and related impacts, salinisation, land and forest degradation, loss of biodiversity, and desertification (UNFCCC, 2012). Communities are already experiencing significant loss and damage to quality of life, livelihoods, food and security, as well as secondary loss and damage in the form of stress on social fabric essential to adaptive capacity and resilience (Least Developed Countries Group on Loss and Damage, 2012).

The subject of loss and damage was a focal point in the Paris Agreement in 2015. Article 8 of the Paris Agreement states that “Parties should enhance understanding, action and support, including through the Warsaw International Mechanism, as appropriate, on a cooperative and facilitative basis with respect to loss and damage associated with the adverse effects of climate change” (UNFCCC, 2015). Despite the recognition, “however” the Paris Agreement failed to indicate loss and damage as an area needing financing separate from that allocated to adaptation. Just the projected economic cost of loss and damage by 2030 alone has been estimated to be USD 400 billion a year (Climate Analytics, 2015) and between USD 290 and 580 billion in developing countries alone (Mechler, et al, 2018). By 2050 the economic cost of loss and damage in developing countries is estimated to be between USD 1 to 1.8 trillion.

II. Navigating the global climate finance architecture

The global climate finance architecture is complex and always evolving (Watson & Schalatek, 2019). Generally, funds flow both within and outside of the Convention and the Paris Agreement financial mechanisms. Funds are also increasingly flowing through bilateral as well as regional and national climate change financial mechanisms. Many developing countries have also set up regional and national channels to receive climate finance.

The global climate finance architecture



Source: Watson, Schalatek, & Evequoz. *The Global Climate Finance Architecture* (2022).

To facilitate the provision of climate finance, the Convention established a financial mechanism to provide financial resources to developing country Parties. The financial mechanism also serves the Kyoto Protocol and the Paris Agreement.

The operation of the financial mechanism can be entrusted to one or more existing international entities (UNFCCC). The Global Environment Facility (GEF) has served as an operating entity of the financial mechanism since the Convention's entry into force in 1994. At COP 16, in 2010, Parties established the Green Climate Fund (GCF) and in 2011 also designated it as an operating entity of the financial mechanism. The financial mechanism is accountable to the COP, which decides on its policies, priorities and eligibility criteria for funding.

The Green Climate Fund (GCF). The Green Climate Fund (GCF) is one of the largest dedicated multilateral climate funds. The GCF was originally established to channel a significant portion of the USD 100 billion climate finance pledge.

The GCF design was agreed on by all parties during the 2011 COP in Durban, South Africa, and became operational in 2014. While the GCF is an operating entity of the UNFCCC and under the Paris Agreement, it remains largely an independent institution hosted by South Korea, having its own secretariat and the World Bank as its trustee (Shalatek & Watson, 2018).

As stated in paragraph 2 of the Governing Instrument, the GCF's overall objective is to promote a "paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change" (2019). It funds climate action through shifts of policies, procedures and proposals with the ambition beyond what is already funded by existing climate funding mechanisms.

Additionally, the GCF aims to address the needs of developing countries that are particularly vulnerable to climate change effects; hence, the fund's target is to split its funding equally between mitigation and adaptation. Within the adaptation framework, it intends to utilise at least 50% of its funding on Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African countries.

Developing countries as recipients of climate finance can access GCF through two modalities: international and direct access (Lottje, Affana, Eckstein, & Weischer, 2019). International access, which has become the standard procedure for most climate funds, allows recipient countries to submit funding proposals via international accredited entities (IAEs) such as large multilateral organisations like the UN or multilateral development banks, developed country bilateral institutions, and private sector institutions like commercial banks. Direct access meanwhile enables national institutions to apply directly for project funding after becoming accredited entities (DAEs).

In 2021, the GCF approved more than USD 3 billion worth of projects in 2021. The mobilised co-finance increased even faster from USD 3.2 billion USD in 2019 to USD 11.5 billion in 2021. In total, the GCF was able to gather USD 14.4 billion in 2021. This is about 14% of the annual USD 100 billion goal, assuming that all mobilised co-finance can be accounted towards this goal. Not all co-finance is additional, however. Without the GCF, some co-financiers would have invested their finance on other climate projects.

The GEF. The Global Environment Facility (GEF) is the primary fund administrator for the four Rio Conventions (1992 Earth Summit) including the UNFCCC. It works with member governments and international institutions, NGOs, and the private sector for projects such as biodiversity, climate change, chemicals, land degradation, international waters, and forest management in developing countries. The GEF also manages two special funds under the UNFCCC: the Least Developed Countries Fund and the Special Climate Change Fund (SCCF).

To date, the GEF has provided more than USD 22 billion in grants and mobilised another USD 120 billion in co-financing for more than 5,200 projects and programs. The original GEF pilot program of USD 1 billion has been replenished seven times with USD 2.01 billion in 1994, USD 2.67 billion in 1998, USD 2.93 billion in 2002, USD 3.13 billion in 2006, USD 4.34 billion in 2010, USD 4.43 billion in 2014, USD 4.10 billion in 2018, and USD 5.33 in 2022 (Global Environment Facility, 2022).

Adaptation fund. Formally linked to the UNFCCC and now mandated to serve the Paris Agreement, the Adaptation Fund is financed through a 2% tax on the sale of emission credits from the Clean Development Mechanism (CDM) of the Kyoto Protocol. At COP26, Parties agreed to provide AF with 5% of the share of proceeds from emissions credits sold under the new CDM mechanism.

Other multilateral channels. A considerable amount of climate funds also courses through institutions outside the UNFCCC. They include the World Bank's Climate Investment Funds (CIF) that operates in partnership with regional development banks including the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB). The CIF has the USD 2.63 billion Strategic Climate Fund which is composed of four programs, namely the Clean Technology Fund, the Scaling Up Renewable Energy Program for Low Income Countries (SREP), the Foreign Investment Program (FIP), and the Pilot Program for Climate Resilience (PPCR).

Bilateral channels. Climate finance spent bilaterally through development agencies and special bilateral climate funds (Shalatek & Watson, 2018). Monitoring bilateral climate finance can be a challenge as there is no standard definition yet of climate finance or agreed reporting and accounting standards. According to the 2020 Biennial Assessment, developed countries provided USD 32.1 billion annually to developing countries in 2017 – 2018, in addition to those spent through climate funds and development finance institutions. The OECD-Development Assistance Committee reported an annual average of USD 32.7 billion in climate-related ODA in the same year.

Regional and national funds. A number of national and regional channels and funds were also established by developing countries (Shalatek & Watson, 2019). National fund initiatives include Indonesia's Climate Change Trust Fund and Brazil's Amazon Fund, the latter being the largest national climate fund with a commitment of more than USD 1 billion from Norway. The Amazon Fund is also the largest Reducing Emissions from Deforestation and Forest Degradation - Plus (REDD+) dedicated fund with 102 projects in Brazil and the Amazon biome worth USD 717 million (Shalatek & Watson, 2019). REDD+ is an enhanced version of REDD that seeks to create financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to development.

III. Problems with the current climate finance regime

Insufficient mobilisation of climate finance is very much tied to the systemic problems besetting the global climate finance architecture.

Climate relevance of projects are overestimated. A study by Oxfam (2022) reveals that the current climate finance reporting system allows for the overestimation of the climate component or relevance of projects by countries and multilateral development banks. Developed countries have been liberally tagging their bilateral finance as having climate as their secondary objective (Rio Marker 2) or as primary objective (Rio Marker 1) even though these have little or no discernible focus on either mitigation or adaptation.

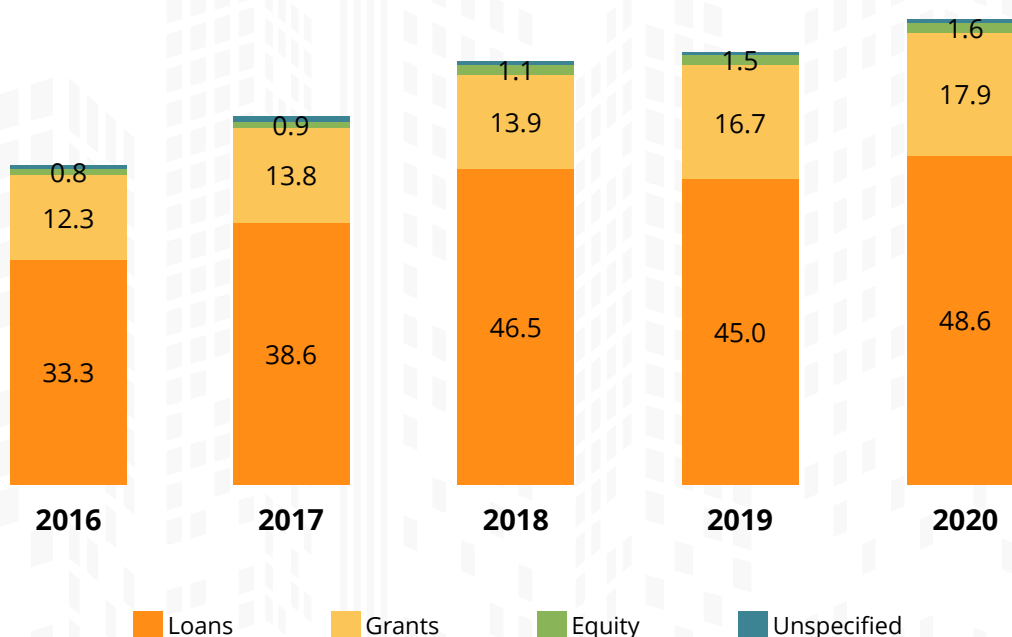
Coefficients for counting climate finance by Rio Markers for selected countries

Country	Rio Marker 2	Rio Marker 1
Australia	100%	30%
Canada	100%	30%
Denmark	100%	50%
EU Institutions	100%	40%
Germany	100%	50%
Japan	100%	50%
Netherlands	100%	40%
New Zealand	100%	30%
Norway	100%	40%
Spain	100%	50%
Sweden	100%	40%
Switzerland	85%	50%
United States	N/A	N/A

Source: OECD (2022b). The table shows the percentages by listed contributions to determine the value of Rio Marker 1 and 2 climate adaptation and mitigation projects. Some smaller contributors (not listed in the table) count the value of Rio Marker 1 projects at 100% even though they are explicitly identified as not targeting climate action as a primary objective. The US is marked N/A because it calculates the climate component of funded projects on a case-by-case basis. *Unless a specific dollar value can be calculated.

Reported climate finance of multilateral development banks (MDBs) raises concerns as well. According to Oxfam, the World Bank's claimed levels of provided climate finance in 2020 cannot be independently verified and could be off by as much as USD 7 billion, or 40%.

Funds are not compensatory. Climate finance is increasingly taking the form of loans which means that funds are owed to donors, turning the obligatory relationship around. According to the latest review by the OECD, loans made up 71% of public climate finance in 2020 or USD 48.6 billion – a significant share of which were non-concessional – while only 26% was provided as grants (USD 17.9 billion).



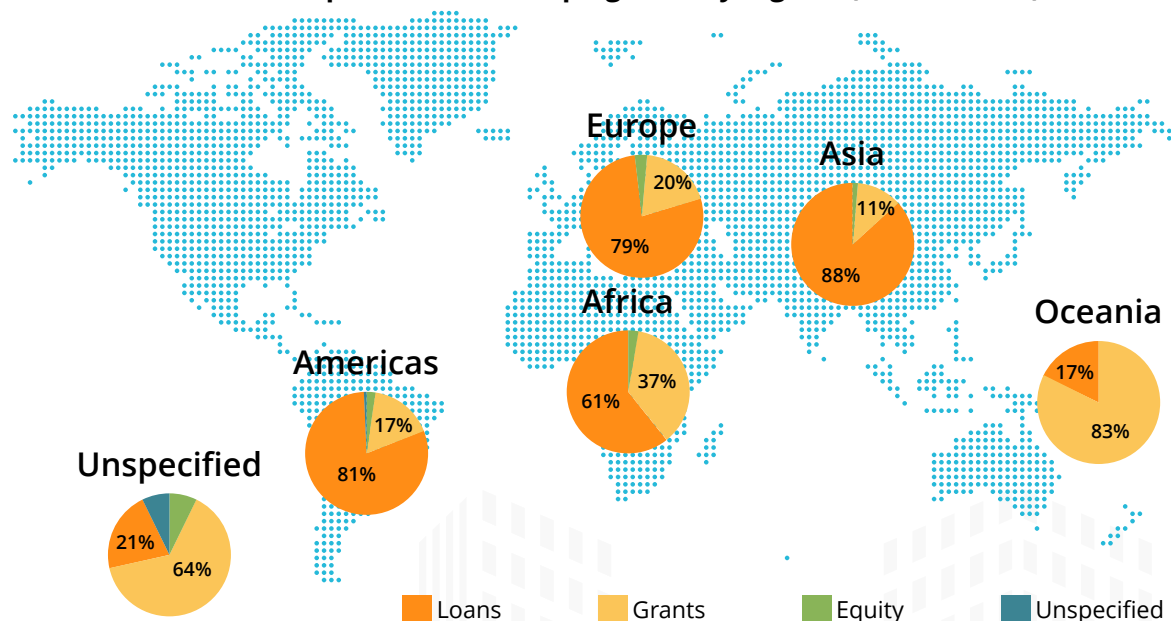
Note: The sum of instruments may not add up to totals due to rounding.

Source: Based on Biennial Reports to the UNFCCC, OECD DAC and complementary reporting to the OECD.

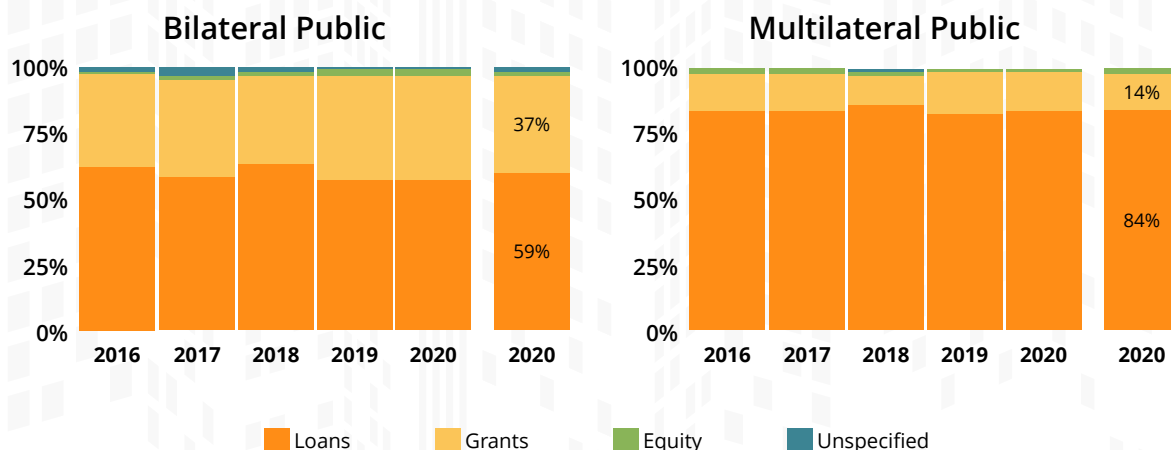
Disaggregating the type of public finance, OECD (2022) data reveals the same trend where loans represent the biggest share of the financial instrument in both bilateral and multilateral public finance from 2016 to 2020, accounting 59% of total bilateral public climate finance provided and 84% of total multilateral public finance provided. These shares remained relatively stable across both bilateral and multilateral providers over the five-year period. Equity investments remained marginal in both bilateral and multilateral public, representing 2% in each.

The instrument split of public climate finance also varied considerably across regions. Loans accounted for more than three-quarters of total public climate finance in Asia (88%), the Americas (81%), and Europe (79%).

Instrument split across developing country regions (2016-2020, %)



Among other issues, current reporting rules allow for reporting of loans and other non-grant instruments at face value rather than the amount of finance being given away (Oxfam, 2022). Reported numbers do not reflect the 'effort' of contributors, nor the financial benefit for recipient countries. This means developed countries take credit for providing climate finance that low-income countries actually have to pay back. This creates a huge incentive for developed countries to provide loans over grants.



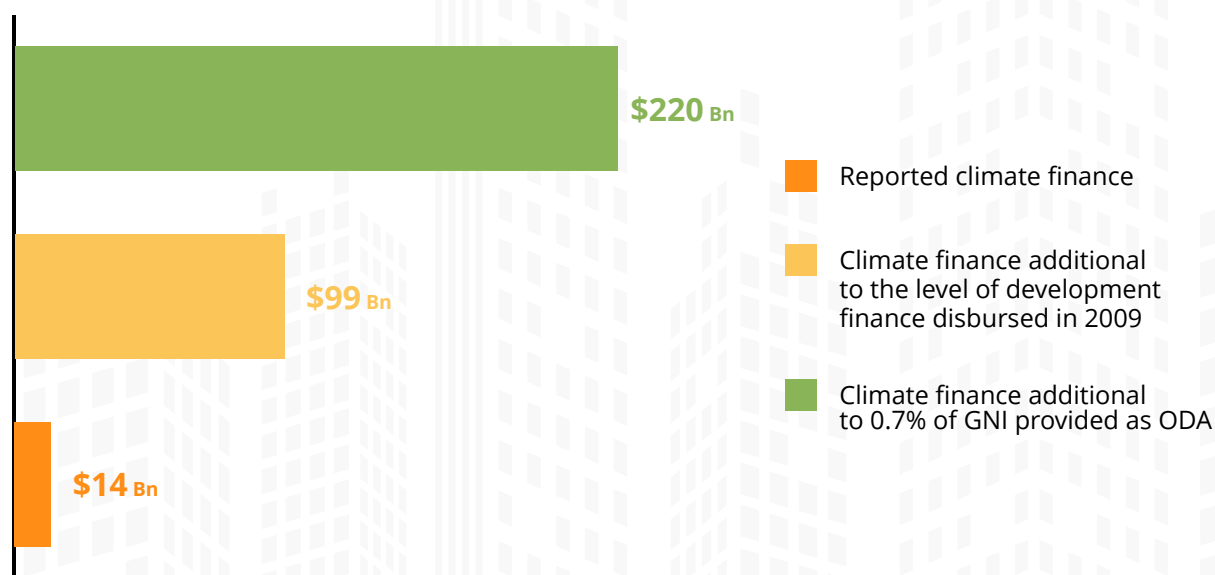
Note: Public guarantees are not accounted for as public finance but are instead captured as part of the analysis of private finance mobilised, presented in other figures and sections of this report.

Instrument split of public climate finance provided by provider type in 2016 - 2020 (%)

Funds are unpredictable. The discretionary nature of climate funds results in financial inadequacy and unpredictability, leading to delays in urgent adaptation and mitigation actions in poor countries and hampering their compensation by the North. Such has been the case with the USD 100 billion climate finance pledge which was a figure that emerged from political negotiations rather than actual determination of the climate action needs of developing countries.

The United States, the all-time biggest greenhouse emitter on the planet, has threatened to leave the Paris Agreement. Out of the USD 3 billion that the US under Obama pledged to contribute to the GCF, it has only managed to deliver USD 1 billion (Congressional Research Service, 2019). Pres. Donald Trump has since bailed on the GCF and deleted all references to climate finance from the State Department website. Hopes for the US to restore its credibility on climate action and international cooperation under President Joe Biden were dashed after the new spending bill passed by the US Congress only allocated USD 1 billion in international climate finance for 2022, and which also did not include any funding for the GCF (Farand, 2022).

Funds are not new and additional. Funds do not represent new and additional funding as some developed countries continue to count their climate funds as part of their Official Development Assistance (ODA), according to new research (Hattle & Norbo, 2022). Developed countries reported USD 220 billion of public climate finance across the 8 years from 2011 to 2018. Yet, only USD 14 billion or 6% of this amount can be considered strongly additional. USD 99 billion or 45 per cent of the reported climate finance can be considered having weak additionality. More than half of this amount is questionable since they represent development finance rebadged with climate change objectives when it should have been on top of any support for development.



Source: Hattle & Norbo (2022)

Researchers also found out that from 2011 to 2018 that new and additional climate finance on top of ODA has been on the decrease. In 2011, the share of reported climate finance found to be weakly additional was 60 per cent, while the share of strongly additional reported climate finance was only 10 per cent. By 2018 these shares had dropped to 40 per cent and 4 per cent, respectively.

Approaches for assessing additionality

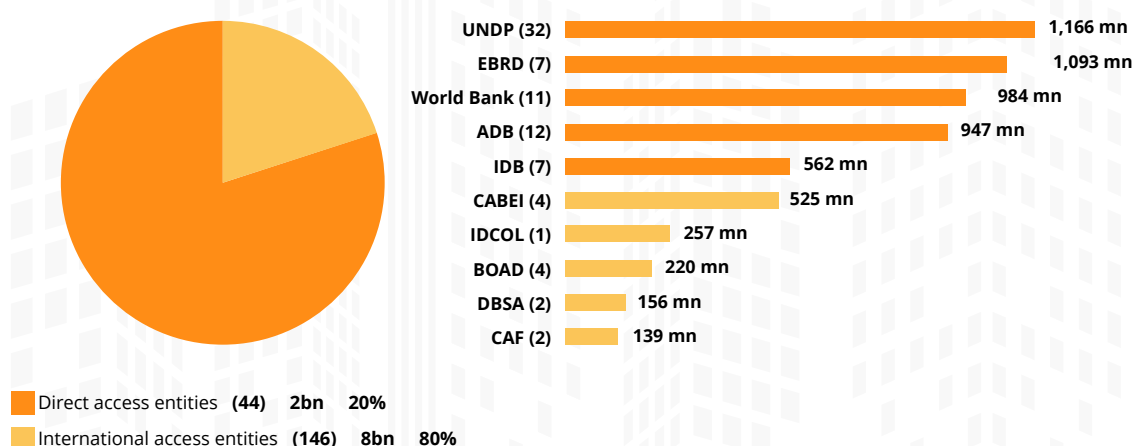
1. Strong additionality	The amount of climate finance which has been provided on top of the long-standing international commitment made by developed countries to provide 0.7 per cent of their GNI as official development assistance (ODA).
2. Weak additionality	The amount of climate finance which has been provided by a developed country on top of the level of development finance they contributed in 2009, the year of the COP15 climate finance commitment

Source: Hattle & Norbo (2022)

Donors control the funds and dictate the agenda. The inequitable and unaccountable control of resources by the North and corporations is one root of the current climate crisis. The existing global climate finance governance structures preserve this unfair arrangement.

In October, 2021, GCF reported that 80% or USD 8 billion of its total funding for climate projects were channeled through international players rather than directly to countries where the projects were built. The United Nations Development Programme accounts for the largest value of GCF-approved funding (11.7%, 32 projects), followed by the European Bank for Reconstruction and Development (10.9%, 7 projects), World Bank (9.8%, 11 projects), Asian Development Bank (ADB) (9.5%, 12 projects), and the Inter-American Development Bank (5.6%, 7 projects). Together, the five large international entities received USD 4.75 billion (or 47.5%) and thus almost half of all approved GCF funding as of January 2022.

Total GCF funding by access modality of accredited entities, including top five recipients (in USD million), after the 30th GCF Board meeting



Source: Authors' own calculations based on Board document GCF/B.30/Inf.12, figure 18, p.18 (<https://www.greenclimate.fund/sites/default/files/document/gcf-b30-inf12.pdf>), and updated to reflect project/programme approvals at B.30

Notes: Number of approved projects is given in parentheses against each entity. Abbreviations. ADB = Asian Development Bank; BOAD = Banque Ouest Africaine de Développement (West African Development Bank); CABEI = Central American Bank for Economic Integration; CAF = Corporación Andina de Fomento; DBSA = Development Bank of Southern Africa; EBRD = European Bank for Reconstruction and Development; IDB = Inter-American Development Bank; IDCOL = Infrastructure Development Company Limited; UNDP = United Nations Development Programme.

Source: Schalatek, 2021

Developing countries rarely receive direct funding from the GCF to undertake the financing and development of the projects by their own government agencies or national companies (Nijkraak, 2019). Instead of facilitating access to the funds, developing countries face impediments and complex bureaucratic procedures. At its board meeting in March 2021, the GCF board approved USD 1.2 billion in funding for 15 climate change projects in developing countries. However, funding for only two of these projects, or 1.5% of the total amount, went directly to developing country institutions.

As a form of financial insurance, the GCF funding requires countries to raise significant co-financing which can be sourced through their own tax base or the private sector (Mattar, Kansuk, & Jafry, 2019). For poor countries, this is a significant barrier. This also raises the question whether GCF is indeed benefiting developing countries that are most vulnerable to the climate crisis, or instead those countries with the most lucrative investment opportunities.

With control over resources comes increasing power over agenda setting, reducing climate vulnerable countries' ownership of climate finance. For instance, the European Union and France have been accused of attempting to hijack the African Renewable Energy Initiative (AREI), an African-led and African-owned initiative to scale up renewable energy in the region (Kumarankandath, 2017). Former AREI and African Development Bank head Youba Sokona charged the EU and France of colluding with a handful of African countries to sanction projects selected by Europeans without any evaluation. Moreover, AREI says that the EU and France are claiming board membership when they were only invited to AREI meetings. Another issue is that the money channeled into AREI is not coming from climate finance but ODA.

The corporatisation of the climate funds. Efforts to scale public finance have stalled and developed countries are reneging on their climate finance commitments. Meanwhile, the cost of what is needed only increases with each passing year. As a result, there is a push to mobilise private finance to bridge the gap between commitments and actual climate finance delivered by developed countries. However, over-reliance on private finance poses risks that may potentially undermine the climate and development goals of poor countries (Oxfam, 2013).

The appetite for greater returns may unlikely attract private investments for small-scale, but nevertheless critical, community adaptation initiatives that address the needs of those disproportionately affected by climate change. Emphasising private finance mobilisation – which has historically flowed almost exclusively to mitigation – risks aggravating the continuing neglect of adaptation, an area critical in lifting the most vulnerable but poor in attracting for-profit-ventures.

While more money can be made in mitigation, poor countries are far less likely to have high mitigation needs (LDCs are among the world's lowest per capita GHG emitters) and economies of scale big enough to attract much private finance. Thus, a private finance-focused climate finance architecture would largely bypass the energy needs of low-income countries.

Indeed, OECD data shows that in 2020, mitigation finance still represented 58% of climate finance, despite a 2.8 billion decrease to 2019. But as Oxfam's estimates show, if a fairer and more robust accounting methodology is applied then the level of adaptation finance drops significantly, to between USD9.5–11.5bn in 2020. The public sector continues to provide almost all adaptation financing, with adaptation increasingly being prioritised in development finance climate portfolios, yet adaptation finance represented just 14% of total public finance (Climate Policy Initiative, 2021).

IV. Effectiveness principles for a fit for purpose global climate finance architecture

At the heart of development cooperation is facilitating developing countries' economic, social and environmental transformation in the face of complex challenges. Climate change poses problems toward the achievement of cooperation goals. Numerous studies have established climate change's impacts in terms of amplifying socio-economic inequalities, worsening conflicts and insecurity, and further weakening of the social fabric in general. Institutions, actors, and processes to facilitate and provide development cooperation will need to anticipate and account for climate change if they are to deliver on their mandates.

In their traditional form, many development cooperation activities have contributed to the current unsustainable trajectories, in particular through financing major infrastructure and economic activities that are the main sources of emissions. They have also allowed and facilitated the depletion and exploitation of resources in the global South, including natural carbon sinks such as forests and oceans.

Decision-makers should acknowledge and take up the vast evidence that sound, just and equitable climate change policy means sound, just, and equitable development policy. By considering climate change into their plans and activities, development cooperation providers can accelerate the needed shift to low-emissions pathways while also supporting adaptation to climate impacts and enhancing resilience.

The current climate crisis is an opportunity for development cooperation to contribute in transforming the existing modes of development that lead to maladaptation and rights and environmental violations. The knowledge, technical solutions and financial resources for alternative development models and better development outcomes already exist, in the daily practice and struggles of frontline communities. Development cooperation can help countries in harnessing existing tools, resources, and solutions, and implementing these shifts in a way that lays the groundwork for better societies. Equitable, rights-based inclusive climate action can help promote greater public acceptance for climate policies and enable more rapid progress.

Climate finance in effectiveness discourse. Effectiveness principles have guided providers, multilateral institutions, partner countries, civil society, the private sector, and other development actors to address governance and accountability in development cooperation. The four effectiveness principles, also known as the Busan Principles, are the following:

1. Country ownership - Countries set their own national development priorities, and development partners align their support accordingly while using country systems
2. Focus on results - Development cooperation seeks to achieve measurable results by using country-led results frameworks and monitoring and evaluation systems
3. Inclusive partnerships - Development partnerships are inclusive, recognising the different and complementary roles of all actors
4. Transparency and mutual accountability - Countries and their development partners are accountable to each other and to their respective constituents. They are jointly responsible for ensuring that development cooperation information is publicly available

(CPDE, 2022)

As climate finance assumes a greater role in the development cooperation landscape, the development community is also reflecting on how the effectiveness principles can guide the discourse on and the provision of climate finance. Effectiveness principles can be useful in considering how to mobilise and use international climate finance. Decades of development cooperation practices have yielded important lessons and best practices on effective aid, which can be useful for the development community.

There have been several international agreements relating to aid effectiveness that also have bearing on climate finance (Ellis, et al, 2013). In the Paris Declaration on Aid Effectiveness, donor and partner countries, development financial institutions, and civil society, agreed on aid effectiveness principles. These principles are based on the assumption that effective national and international processes will enable effective outcomes. In 2008, the Accra Agenda for Action called on donors and partner countries to step up the implementation of the aid effectiveness principles.

The Busan 4th High-Level Forum on Aid Effectiveness highlighted the link between the effectiveness principles and climate finance. In particular, climate finance was outlined as a priority for effective international development, to “continue to support national climate change policy and planning as an integral part of developing countries’ overall national development plans, and ensure that – where appropriate – these measures are financed, delivered and monitored through developing countries’ systems in a transparent manner” (OECD, 2011). The Manila Consensus on Public Financial Management (2011) and the New Consensus on Effective Institutions (2011) also highlighted the importance of integrating aid effectiveness principles into climate finance.

Elements of effectiveness principles can also be gleaned from the practice and frameworks of climate financial channels of the UNFCCC (Ellis et al, 2013). For instance, effectiveness is specifically mentioned in the mandate of the Green Climate Fund (GCF), where it states that the Fund is to “operate in a transparent and accountable manner guided by efficiency and effectiveness” (UNFCCC, 2011) (See sidebar). Moreover, the Board of the GCF is tasked “to develop a transparent no objection procedure... to provide for effective direct and indirect public and private-sector financing...” (UNFCCC, 2012). Further, monitoring and evaluation under the GCF will include “a results measurement framework with guidelines and appropriate performance indicators” (GCF, 2011).

UNFCCC guidance on climate finance effectiveness

In 1998 the COP proposed the following criteria against which to assess the effectiveness of Climate Convention financial mechanisms:

1. The transparency of decision-making processes
2. The adequacy, predictability and timely disbursement of funds for activities in developing country Parties
3. The responsiveness and efficiency of [the] project cycle and expedited procedures, including its operational strategy, as they relate to climate change
4. The amount of resources provided to developing country Parties, including financing for technical assistance and investment projects
5. The amount of finance leveraged
6. The sustainability of funded projects.

In the fourth review of the financial mechanism of the UNFCCC in 2007 the following additional guidance was agreed:

1. Examining relevant sources and means of financing [that] would assist developing countries to contribute to the achievement of the objective of the Convention, in particular innovative means of financing, such as for the development of endogenous technologies in developing countries
2. Examining the role of the financial mechanism in scaling up the level of resources
3. Assessing enabling environments for catalysing investment in, and the transfer of, sustainable technologies that mitigate greenhouse gas emissions, and for enhancing resilience to climate change.

Sources: UNFCCC (1998) Decision 3/CP.4 Review of the financial mechanism, UNFCCC (2007) CP.13 Fourth review of the financial mechanism

Operationalising effective climate finance. There is a wide recognition among recipients, providers, and supporters that climate change is not an isolated policy area, and that the Paris-Accra-Busan effectiveness principles can provide enabling conditions to improve the international climate finance architecture and address some of the gaps in the design, delivery, and monitoring of climate finance. We consider operationalising effectiveness principles in climate finance through a reinterpretation of the four Busan principles of country ownership, focus on results, inclusive development partnerships, and mutual accountability and transparency.

Democratic country ownership. The literature on aid effectiveness similarly indicates a consensus on the importance of the principle of “ownership” although its realisation has not been easy.

The Paris Declaration on Aid Effectiveness defines national ownership as “the effective exercise of a government’s authority over development policies and activities, including those that rely – entirely or partially – on external resources. For governments, this means articulating the national development agenda and establishing authoritative policies and strategies” (OECD 2010).

Article 4 of the Paris Climate Agreement similarly upholds the principle of country ownership by requiring Parties to prepare, communicate and update successive Nationally Determined Contributions (NDCs) that it intends to achieve to reduce emissions. Developed countries are expected to “provide support, including through finance and technological transfer” to help developing country Parties achieve their NDCs and allow for more ambitious climate action. Article 7 of the Agreement also calls for a global cooperation to support developing countries’ adaptation plans that are “country-driven, gender-responsive, participatory, and fully transparent”.

Developing countries must have the space to define and achieve their own objectives and exercise effective leadership over their respective development strategies, policies, and programs to attain climate resiliency. While climate action must adhere to a globally coherent framework, each country must democratically define its own needs, strategies, policies, programs and budgets for climate adaptation, and on that basis decide what climate finance to employ and how.

Allowing developing countries to directly access climate funds rather than facilitated through international intermediaries is a way to realise country ownership over climate funds. National and subnational institutions are well-placed to channel GCF funding to the local level, where communities can implement solutions that respond to their specific climate vulnerabilities and needs (Brown & Alayza, 2021) (See also sidebar). There is growing recognition internationally that communities on the frontlines of climate change impacts need to be empowered to adapt in locally relevant ways.

There are ongoing initiatives that are finding ways to deliver climate finance through national financial systems in support of emergent national policy priorities. The use of national level stakeholder engagement and decision-making processes to identify how climate finance is delivered can help enhance coherence with national priorities. It can also help design instruments and approaches to fit national needs (Persson et al. 2009).

Namibia Environmental Investment Fund

The Environmental Investment Fund of Namibia is addressing this challenge through its Empower to Adapt project, approved by the GCF in 2016. The project gives small grants and training to rural communities to build climate resilience through improved land and natural resource management. Communities may choose to partner with local NGOs or small businesses on projects that strengthen forest and savanna ecosystems and establish sustainable businesses. Some of the GCF sub-grants awarded to date are being used to improve access to water in drought-prone areas, to strengthen food security by growing more vegetables with less water, and to protect communities’ water sources.

Source: Brown & Alayza, Why the Green Climate Fund Should Give Developing Countries Greater Direct Access to Finance (2021)

Focus on the needs of the most climate vulnerable. Currently, the majority of climate finance is not reaching the countries most in need (Savvidou et al., 2021) Least developed countries are the ones repeatedly left behind. In 2015, they received only 30% of international public climate finance (Steele, 2015), while in a recent review, just 18% of funds went to projects in the poorest countries while 65% went to middle-income countries (Mattar, Kansuk, & Jafry, 2019). The latter is preferred because they are able to generate income and attract private investments.

It is also notable that as the GCF has gained greater attention and importance, the Least Developed Countries Fund (LDCF) under GEF, meanwhile, has gradually been neglected. The LDCF is the only climate fund set up specifically for the 48 countries classified by the UN as most economically vulnerable. Currently, LDCF has financed around USD 1.7 billion of projects and activities from voluntary contributions from donors (Global Environment Facility, 2022). This is insufficient. In Bangladesh alone, around USD 50 billion annually will be needed to maintain climate adaptation.

The Paris Agreement prioritises LDCs and SIDS for climate finance and capacity building, and the LDCs for technology transfer. Further specification of priority recipient countries could help to steer grants and adaptation finance to areas of greatest need and/or greatest impact (Pauw et al., 2019).

Focus on the most vulnerable should not only refer to countries but also local communities including indigenous peoples, farming communities, coastal communities, urban slums, fisher folk, rural women, children, and other marginalised groups in society. These sectors are also the core implementers of climate pledges, but do not have access to finance.

Climate finance channels and funds like the GCF, for example, should prioritise support for micro, small and medium enterprises in developing countries, with special efforts to reach the informal economy. It should promote the use of local goods and services to increase climate finance's positive impact on the local economy and employment to help communities become more resilient to climate change (IBON International, 2020).

Cross-sectoral and thematic analyses must be conducted to find out the differing needs and interests, accessibility to financial services and channels, and power relations. These will also help determine what the social additionality of climate and development finance on local communities could be. This will also ensure that 70 percent of climate finance goes to support community-led climate action in developing countries by 2030 (Achampong, 2021).

Inclusive climate policymaking and governance. Countries should institutionalise engagement mechanisms. Communities through their organisations must have a principal role in the identification, definition, implementation and evaluation of programs, projects and activities for mitigation and adaptation. More efforts should also be made to decentralise decision-making, policy, and project development processes, in order to support community-based policy development and implementation.

Currently, indigenous peoples, the rural poor, women, and other marginalised grassroots sectors are not recognised as constituencies meriting their own representations at the GCF. Instead, they are represented by two “active observers” speaking on behalf of all civil society at the GCF Board meetings. A genuinely transformative and just climate accord, built on a foundation of respect for peoples' rights and wellbeing, must enhance the contributions of grassroots sectors to climate change solutions and encourage and support existing alternative mitigation and adaptation practices on the ground.

Transparency and mutual accountability. The administration of climate finance demands publicly available comprehensive, accurate and timely information on a funding channel's structure, financial data, governance and decision-making bodies, project preparation documents, actual funding decisions, and disbursements made, as well as implementation results. Accountability demands citizens' access to redress mechanisms to ensure their procedural rights to interrogate and challenge funding decisions or project implementation. It also requires the formulation of regulatory and integrity policies, independent or third-party accountability and evaluation procedures, as well as strengthened oversight by national legislatures (Schalatek and Bird, 2022)

A comprehensive monitoring and reporting framework that includes private finance and multilateral finance will help clarify the additionality of climate finance, and contribute to reducing double-counting. It will also allow the vested interests of those with significant levels of power to be exposed, instead of prioritised (Achampong, 2021). Climate finance interventions should also report on their impacts on vulnerable and marginal sectors such as women and girls, indigenous peoples, persons with disability, the elderly, etc.

There are existing proposals for alternative approaches to have a more transparent and accountable climate finance among countries (See Sidebar). For example, the ‘fair shares’ approach accounts for the specific responsibility of a country for the climate finance targets. (See sidebar)

Enhancing climate finance transparency and accountability through a fair shares approach

Part of the challenge in ensuring accountability for climate finance is that the climate accords rely on pledging and do not include any formula for determining how responsibility for this target should be apportioned among developed countries. To foster accountability, climate justice movements have long been calling for a ‘fair shares’ approach to climate finance.

The ‘fair shares’ approach is the position of many in the climate movement that a fair and effective global agreement can only truly be reached by setting a global carbon budget and sharing the effort to remain within that budget. A global carbon budget is the amount of greenhouse gas emissions we can emit while still having a reasonable chance of limiting global temperature rise to 1.5 C above pre-industrial levels. That amounts to a certain number of gigatonnes of carbon that could be burned and released into the atmosphere whilst keeping us below that temperature increase. If this is divided according to each nation’s responsibility, capacity, and right to sustainable societies, we would have a much better idea of what each country’s real national plan should look like. This is the ‘fair shares’ approach.

Applying the ‘fair shares’ approach to climate finance, several models have used gross National Income as proxy for ability to pay; cumulative territorial carbon dioxide emissions (GtCO₂) as proxy for historic responsibility, and population size. Researchers using the fair shares approach have found out that Australia, Canada and the US continue to fall massively short on international climate finance. Only seven rich countries provided and mobilised their fair share in 2020 and pledged the full amount up to 2025: Sweden, France, Norway, Japan, the Netherlands, Germany and Denmark. However, France and Japan stand out for the relatively poor quality of their climate finance. A very high share of their resources is provided bilaterally and as loans, with only a small fraction going to climate change adaptation.

Source: Colenbrander, Pettinotti, & Cao (2022).

What to expect in the COP27?

COP26 and the Glasgow Climate Pact acknowledged the failure of developed countries to meet their longstanding commitment of providing USD 100 billion per year by 2020. In light of increasingly severe climate impacts on the most vulnerable countries and communities, not only does the quantity of climate finance mobilised and delivered by developing countries but also the quality remain woefully inadequate. Low quality climate finance further hurts vulnerable communities, aggravates climate injustice and undermines the fiscal space of developing countries, and with it their ability to protect the rights and livelihoods of climate-affected people and communities.

At COP27, developed countries must commit to significantly scale up the quantity and quality of climate finance over existing efforts, especially for adaptation, and should come forward with new concrete grant-based adaptation finance pledges to benefit, for example, the Adaptation Fund and the Least Developed Countries Fund. They must provide a meaningful delivery plan up to 2025. Technical discussions for a new quantified collective goal (NCQG) on climate finance by 2025 based on science and prioritising new and additional grant financing will continue.

Parties and technical experts in working towards defining the parameters for a new goal must apply lessons learned to rectify the current unjust and inadequate climate finance provision, including by centering human rights and gender equality in the future climate finance provision mandate, focusing on the real financing needs of developing countries, improving and simplifying direct access to climate finance for the most vulnerable countries, communities and people, and establishing finance with respective sub-goals for loss and damage as a third financing pillar of climate action.

The Global Stocktake of the Paris Climate Agreement is also a process where there are opportunities for mainstreaming climate finance effectiveness. The Global Stocktake of the Paris Climate Agreement is a process mandated by the international climate regime to assess progress towards achieving the Paris Agreement goals, including on financing climate action. It is crucial that the Global Stocktake process comes up with a comprehensive assessment on the implementation gaps and challenges with respect to the climate finance obligations of Annex II developed countries. Civil society organisations participating in this undertaking may influence the process through submissions to demonstrate in concrete how effectiveness principles can enhance the quality of climate finance.

The intensifying climate emergency means that providers must not only scale up its climate finance provision but also enhance its effectiveness, paying much greater attention to the contexts, priorities, and rights of the most vulnerable populations and countries.

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