Jacobs, Michael; Getzel, Bianca; Colenbrander, Sarah

Book

International development and climate finance : the new agenda

Report

International development and climate finance: the new agenda

Michael Jacobs, Bianca Getzel and Sarah Colenbrander

June 2024

How to cite: Jacobs, M., Getzel, B. and Colenbrander, S. (2024). *International development and climate finance: the new agenda*. London: ODI.

Acknowledgements

Sincere thanks to our ODI colleagues for excellent edits and comments: Samantha Attridge, Tom Hart, Hans Peter Lankes, Laetitia Pettinotti, Annalisa Prizzon and Hazel Granger. The authors are grateful also to Friederike Roeder and Khalil Elouardighi for their helpful comments. Thank you also to Scarlett Moore for managing the publication process and to Garth Stewart for report design.

About the authors

Michael Jacobs is a Visiting Senior Fellow at ODI and a Professor of Political Economy at the University of Sheffield. He is a former energy and climate adviser to UK Chancellor of the Exchequer and Prime Minister Gordon Brown.

Bianca Getzel is a Research Officer in the Development and Public Finance programme at ODI.

Sarah Colenbrander is Director of the Climate and Sustainability programme at ODI.

Disclaimer

This publication is a slightly expanded version of a report originally prepared by ODI for the 2024 Italian G7 Presidency, and presented to the G7 Ministers' Meeting on Climate, Energy and Environment in Torino on 29-30 April 2024. ODI is grateful to the Italian Environment Ministry for its support for the project. The contents, opinions and arguments expressed herein are those of the authors and do not necessarily reflect the official views of the G7 Presidency.

Contents

Display items

Boxes

Tables

Figures

Executive summary

Purpose of this report

Over the last few years, since the Covid pandemic, many emerging and developing economies have experienced slow growth, rising poverty, increased indebtedness and a higher frequency of extreme weather events. This has led to a growing realisation that the world is off track to meet the 2030 Sustainable Development Goals.

In response, a number of international initiatives have been developed aimed at expanding and improving the flows of finance for sustainable development. These are sometimes gathered together under the general heading of reforms to the 'international financial architecture.' This is particularly fitting in the 80th anniversary year of the 1944 Bretton Woods conference which established the postwar financial order.

This report aims to bring these initiatives together in a single place and show how they might relate to one another.

Reform of the international financial architecture

Developing countries' financing needs are increasing, partially because of the recent shocks and stresses that have exacerbated poverty and slowed growth, but also because of the need to rapidly scale up investment for transformative climate action. Yet at the same time, developing countries have diminishing access to international finance because of their precarious fiscal position and the increasingly attractive alternative opportunities in developed countries as US interest rates rise. Few developing countries have the political or fiscal space to increase their absorption of international development and climate finance. These forces have catalysed a global push for reform of the international financial architecture to release additional resources and help fill the investment gap.

This report focuses on the four areas where there is the most political momentum: reform of the Multilateral Development Banks (MDBs) to increase their lending and impact; the mobilisation of private finance in and to developing countries; the creation of greater fiscal space through reform of sovereign debt arrangements; and the raising of additional resources through new international taxes. Two others, the use of Special Drawing Rights and IMF reform, and the expansion of carbon and nature markets, have made less progress and are summarised here.

First, reform of the World Bank and regional MDBs is now under the spotlight. Recent reports commissioned by the G20 have set out a comprehensive agenda aimed at tripling total lending to $390bn a year, with a significant proportion of that going to support lower-emission, more resilient development in the global South. Such a goal could be achieved by squeezing more out of existing balance sheets; improving operational efficiency to reduce transaction times and costs for client countries; getting MDBs to work better together, particularly through government-led country platforms; and refocusing lending priorities towards climate change and other global public goods and through a general capital increase.

Second, while public finance has a critical and catalytic role to play, it will not be possible to limit warming to well below 2°C or adapt to the impacts of that warming without raising and steering private finance at unprecedented scale. Unfortunately,

it looks as though expectations of moving from 'billions to trillions' will be difficult to fulfil. Only some countries and some sectors have the potential to offer risk-adjusted returns that are attractive to private investors, and particularly to the large pools of capital held by institutional investors in developed countries. Other countries and sectors struggle due to the inadequate visibility of investible pipelines, low risk-adjusted returns and high costs of capital. However, there is certainly scope to increase private investment for climate-consistent development in all countries. MDBs and other development finance institutions have a key role to play, not only through the provision of patient and concessional capital, but also through policy advice, technical expertise, demonstration projects and innovative financing to reduce risks, such as guarantees and foreign exchange hedging. Governments in both developed and developing countries can help create an enabling environment for capital to flow to climate-compatible measures in developing countries.

Third, governments in developing countries need greater fiscal space for the public investment and spending in health, education, social safety nets, infrastructure, climate adaptation and other fields that will help them meet the sustainable development goals. Many governments have scope to improve domestic resource mobilisation, notably through more efficient collection and enforcement of taxes, and to improve the quality of public expenditure, notably through reform of environmentally harmful subsidies. But such reforms are politically difficult in countries at all levels of income, and recent inflation makes the task harder. In addition, with over 60 low- and middle-income countries now in or at risk of debt distress (unable to sustainably repay their debts), increasing consideration is being given to measures which can provide relief. Some of these measures link the increased fiscal space to climate-related spending, such as 'climate-resilient debt clauses', which suspend debt payments in the event of climate-related disasters; 'debt-for-climate swaps' and 'debt-for-nature swaps', which can help free budgets for investment in climate action and nature conservation; and 'sustainability-linked bonds', which tie interest rates to the achievement or otherwise of key sustainability goals. Other proposals have been put forward to provide liquidity to indebted countries and for more comprehensive debt relief and restructuring. The fiscal space freed by such measures could also be used in part for climate action.

Fourth, there is widespread recognition that raising global investment in sustainable development will be extremely hard from the current global tax base. More money needs to be raised, which is likely to require new forms of taxation at domestic and international levels. Such taxes could include additional levies on fossil fuels, including a carbon damages tax, windfall profits taxes and/or the removal of fossil fuel subsidies; taxes on international transport, including aviation and shipping; taxes on financial transactions; and taxes on very high net worth individuals. A number of such proposals are now being assessed for the overall economic impact, distributional effects and political feasibility,

The New Collective Quantified Goal

Much of this new agenda is aimed at increasing the flows of finance for climate action. 2024 is a critical year for this. At COP29 in November, three years of discussions over a 'New Collective Quantified Goal on Climate Finance' (NCQG) are meant to conclude, establishing ambitions on financing climate action for the foreseeable future. The last time a climate finance goal was set, it shaped the agenda for 15 years.

The United Nations Framework Convention on Climate Change (UNFCCC) does not have formal, direct authority over most elements of the international financial system, including those considered above. The MDBs, for example, have their own multilateral governance arrangements, while the finance ministries responsible for sovereign lending and borrowing and the financial supervisors/regulators that oversee the financial sector are governed nationally. The NCQG therefore cannot singlehandedly require the wider reforms needed to unlock development and climate finance at scale.

However, the NCQG has catalytic potential to establish a high level of ambition, both on climate action and on the finance for that action, by clearly articulating how different efforts can fit together with the consensus of all Parties.

Recommendations

The report highlights the importance of finance, economic development, climate and environment ministers, particularly but not only in G20 countries, engaging with and contributing to broader debates around reform of the international financial architecture. They can do this in particular by:

- Supporting efforts at home and internationally to mobilise domestic resources and improve the quality of public expenditure to generate greater and better climate-related investment.
- Supporting the implementation of the recommendations of the G20 Independent Expert Group on Strengthening MDBs to make the MDBs 'bigger, bolder and better'.
- Promoting domestically and internationally a review of the financial regulation of commercial banks and institutional investors, and the guidance given to them, in relation to climate-related investments in EMDEs.
- Supporting efforts to relieve and restructure sovereign debt in countries in or at high risk of debt distress, particularly focused on measures which can expand the fiscal space for climate and nature-related investment.
- Constructively engaging with efforts to assess and introduce new taxation instruments which can raise revenues for sustainable development spending.

Taken together, the proposals set out in this report have the potential to substantially increase and improve the flows of finance going to low-emission, climate-resilient, nature-positive and include development, as well as enhancing the Paris-alignment of other finance flows. They could thereby foster a more systemic and cooperative approach to achieving the Sustainable Development Goals and the goals of the Paris Agreement.

1 Introduction

The field of international finance for development and climate action is receiving heightened attention. Emerging via a series of G20-commissioned expert reports and achieving global visibility notably through the Barbados-led Bridgetown Initiative, a number of international processes are now under way. These include initiatives to expand the lending and development impact of the Multilateral Development Banks (MDBs), to re-channel Special Drawing Rights to developing countries, to mobilise greater private finance, to reform sovereign debt arrangements, to identify possible new taxation instruments, and to regulate and expand carbon and nature markets.

This report aims to provide an overview of efforts and proposals to reform the international financial architecture. These are the subject of increased attention within the general field of development finance and increasingly also within the UNFCCC negotiations on climate finance, where they may be able to contribute to the development and financing of the New Collective Quantified Goal (NCQG).

The report provides a brief overview of the climate finance landscape (Section 2) and describes initiatives for reform of the international financial architecture (Section 3). The bulk of this report examines the main proposals under discussion in four key areas: reform of the multilateral development banks (Section 4), mobilisation of private finance (Section 5), international sovereign debt (Section 6) and international taxation (Section 7). The final section offers recommendations on how finance, economic development, climate and environment ministers from the G20 countries and others could support reform of the international financial architecture to accelerate the global transition to low-carbon, climate-resilient, nature-positive and inclusive development.

2 Development and climate finance

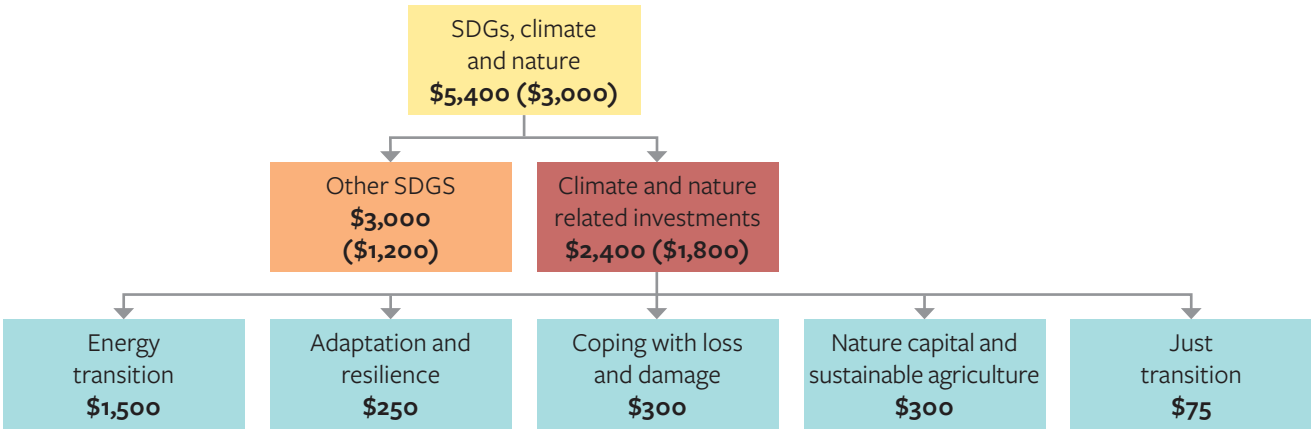
2.1 Developing country investment and financing needs

There are two authoritative sets of numbers generally used to give the investment and financing needs of developing countries.

The Independent High-Level Expert Group (IHLEG) on Climate Finance established under the COP26 and COP27 Presidencies, co-chaired by Vera Songwe and Nick Stern, has published two reports (IHLEG, 2022, 2023). These reports used a variety of sectoral and regional estimates of investment needs to calculate the global totals.

The IHLEG report estimates that, for all emerging and developing countries (EMDEs) excluding China, total investment required to meet the SDGs and Paris Agreement will amount to around $5.4 trillion a year in 2030. As they estimate that current spending is approximately $2.4 trillion, their analysis implies an annual increase of $3 trillion is required (see Figure 2.1.)

Figure 2.1 Investment/spending requirements for climate, nature and sustainable development (US$ billion per year by 2030)



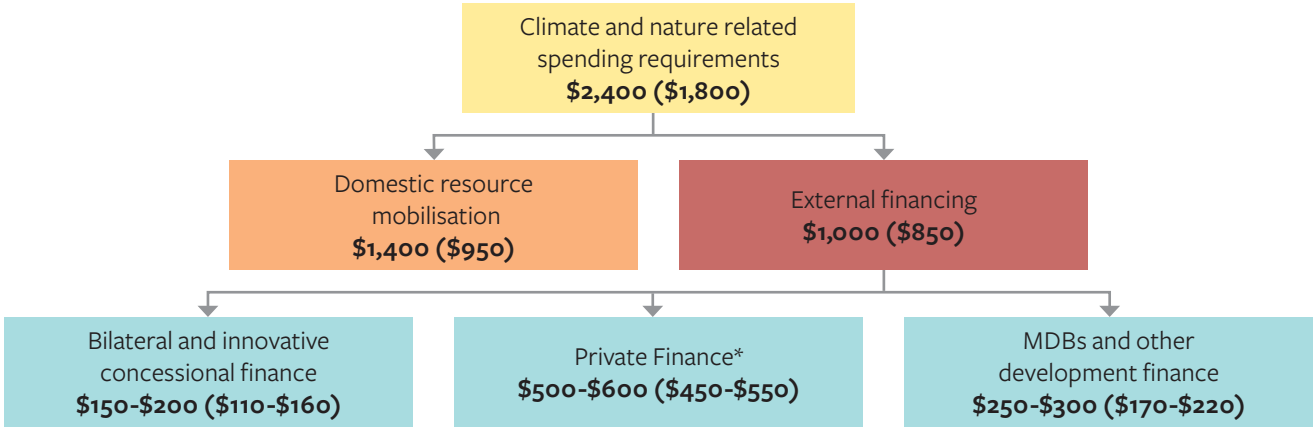
Note: Additional investment over current levels is indicated in paratheses

Source: IHELF, 2023

Of the $5.4 trillion required each year, the IHLEG estimate that $2.4 trillion will be needed for climate- and nature-related investments. This is four times current levels, or an additional $1.8 trillion a year. However, more than half ($1.4 trillion) is financeable from domestic sources in EMDEs. That would leave $1 trillion required from international sources, representing an additional $850bn over current levels (see Figure 2.2.).

Finally, the IHLEG estimates that half or more of the $1 trillion in international finance could come from private sources ($500-600bn) and 25-30% could come from MDBs ($250-300bn) and other development finance institutions. This implies that 15-20% ($150-200bn) needs to come from bilateral and innovative concessional finance.

Figure 2.2 Mobilising the necessary financing for the green transition (US$ billion per year by 2030)



Notes: Additional investment over current levels is indicated in parentheses. More than half of the private finance would be directly and indirectly catalysed by MDBs, other development finance institutions, and bilateral finance.
Source: IHLEG, 2023

The other set of numbers widely used are those produced by the UNFCCC Standing Committee on Finance. Its *First Report on the Determination of the Needs of Developing Country Parties Related to Implementing the Convention and the Paris Agreement* (UNFCCC, 2021) brings together the financing estimates and calculations published in a wide range of global, regional and national reports, using a number of different estimation methodologies.

As of 31 May 2021, the report notes that among 78 developing countries which identified financing needs in their NDCs, the cumulative investment requirement to meet stated climate goals from 2020-2030 amounted to $5.8–5.9 trillion. This includes both domestic and international finance.

2.2 Defining climate finance

'International climate finance' is generally understood in the context of the international climate regime to refer to the provision and mobilisation of resources by developed countries to developing countries, as set out in Article 9.1 of the Paris Agreement (Article 9.3 encourages voluntary contributions by other Parties). This obligation was set out in the Convention, based on the principle of common but differentiated responsibility and respective capabilities. The climate finance obligations under the Convention and Article 9 of the Paris Agreement refer only to mitigation and adaptation. Loss and damage was defined after 1992, and finance for it is not mentioned in the Paris Agreement. It is not yet clear whether it should be included within the NCQG.

The current climate finance goal, agreed at COP15 in Copenhagen in 2009, commits developed countries to provide and mobilise $100 billion a year by 2020. This $100 billion encompasses public and private, bilateral and multilateral and innovative sources of funding. However, while symbolically and instrumentally critical, the $100 billion goal describes only a small subset of the resources necessary to achieve low-emission, climate-resilient development. Two other concepts are therefore drawn upon in this report.

'**Finance for climate action**' describes any climate-positive spending and investment in any country. This includes public finance (from

governments, state-owned enterprises and DFIs) and private finance (from households, firms and financiers) on measures that reduce emissions, enhance resilience or both, such as renewable energy, clean transport, building efficiency, stormwater drainage or nature-based solutions.

Second, **'Paris-aligned finance'** describes efforts to ensure that all finance flows – public and private, domestic and international, in all countries and sectors – support rather than undermine climate goals. The term 'Paris-aligned finance' refers to Article 2.1(c) of the Paris Agreement, which commits Parties to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". This is a pre-condition for achieving the two other long-term goals of the Paris Agreement: limiting warming to well below 2°C and ideally to 1.5° C (Article 2.1(a)) and adapting to climate change impacts (Article 2.1(b)).

The challenge facing even the best-intentioned climate negotiators is that the array of tools that need to be deployed to deliver 'finance for climate action' and achieve 'Paris-aligned finance' stretches far beyond the authority of even the most powerful line ministry, or even the office of the head of state (given independent financial supervisors, energy regulators, private actors, etc). Moreover, the profound changes in capital allocation necessary to deliver climate goals will have profound implications for other urgent policy priorities, such as job creation, cost of living, or energy and food security. Delivering both the Sustainable Development Goals and the Paris Agreement will therefore require sustained and concerted efforts by a very wide range of actors, going far beyond 'climate finance' from developed countries to developing countries.

2.3 Current financing flows

Climate finance flows counted towards the $100bn

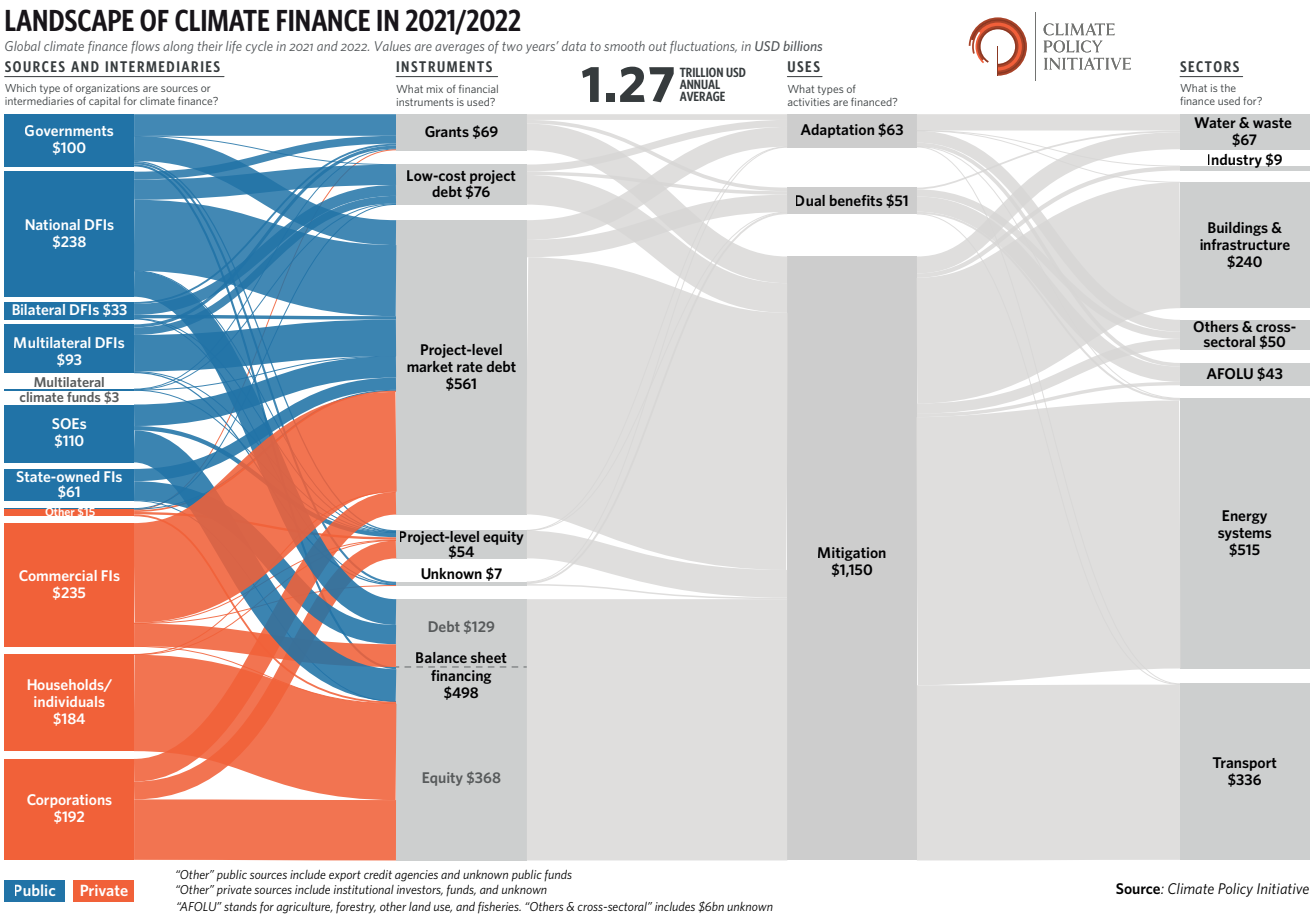
The OECD publishes an annual assessment of progress towards the $100bn goal. Its latest report, published in May 2024, calculates that in 2022 $115.9bn was provided and mobilised by developed for developing countries (OECD, 2024a). The $100bn goal has therefore been met, but two years later than pledged. Of the $115.9bn, 60% was for mitigation, 28% for adaptation, and 2% cross-cutting.

Public climate finance (bilateral and multilateral) provided by developed countries accounted for just under 80% of the total contributions in 2022. Mobilised private climate finance – that is, private finance shown to have been leveraged by public interventions – grew from $14.4 billion in 2021 to $21.9 billion in 2022.

Finance for climate action

Climate Policy Initiative (CPI) publishes an authoritative annual *Landscape of Climate Finance*. This uses public statements of project-level investments to build a bottom-up picture of global flows (not just those in or to EMDEs). It identifies flows by source (governments; national, bilateral and multilateral development finance institutions; multilateral climate funds; state-owned enterprises and financial institutions; commercial financial institutions; households and individuals; and private corporations), by instruments (concessional and market-rate debt, equity, balance sheet financing, etc.); by uses (mitigation, adaptation); and by sector (energy, transport, agriculture, forest and land use, etc.). Figure 2.3 sets out these flows from CPI's most recent report.

Figure 2.3 Global climate-related finance flows averaged across 2021-22 (US$ billion)



Note: Additional investment over current levels is indicated in paratheses

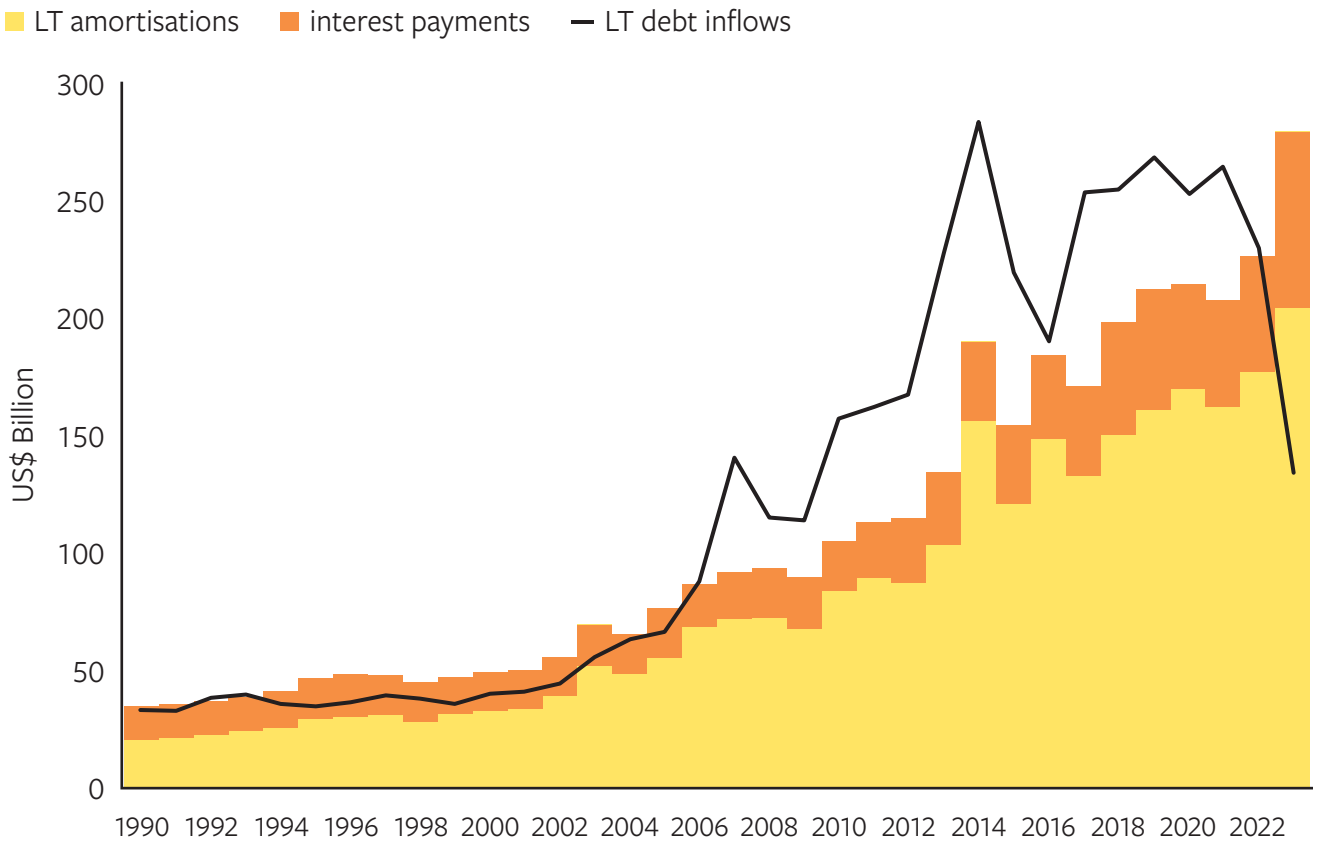
Source: Buchner *et al.*, 2023

CPI estimates that total global flows of climate-related finance in 2021-22 amounted to $1.27 trillion (Buchner *et al.*, 2023). This represents around 1% of global GDP and a near-doubling in two years relative to 2019-20 levels. However, fully 90% of these finance flows were within, or to, developed countries and the three largest emerging economies, China, India and Brazil. Finance to EMDEs excluding China constituted just 15% of the total, with less than 3% ($30 billion) going to or within the Least Developed Countries (LDCs).

Net flows from developing countries

Analysis of international climate finance focuses on flows into developing countries, mainly from developed ones. But in aggregate, that is not the direction in which finance is flowing. Over the last three years, there has been a dramatic reversal of finance flows. If short-term financing from the IMF and MDBs is excluded, more money is now flowing from the poorest countries in the South to the North rather than the other way round (see Figure 2.4).

Figure 2.4 Lower middle income countries, long term debt flows, 1990-2022



Source: World Bank figures compiled by Brad Setser (https://twitter.com/Brad_Setser/status/1744102344680173859).

The central variable is what is known as 'net transfers' (NTs) on external debt: loan disbursements by creditors, minus the repayment by the debtor of interest and principal on past debts. NT measures the actual movement of funds in relation to external debt. For low-income and lower middle-income countries (LICs and LMICs), NT has traditionally played an important role in financing the balance of payments.

In 2019, total NT on external debt in these countries was +$105bn. But by 2022, it was down to +$20bn (Diwan and Harnoys-Vannier, 2024). In 70% of these lower-income countries, net transfers were close to zero or negative. Focusing specifically on long-term debt, NTs declined from +$84 billion in 2019 to -$16 billion in 2022. It is historically highly unusual for such a critical driver of development to flow out of developing countries rather than in. The last time this occurred was at the height of the debt crisis in 2005. This is having a dramatic impact on indebted countries' international reserves, and their ability to pay for essential imports.

There are several reasons for this shift. First, many developing countries have had a slow recovery from the Covid-19 pandemic. In many cases, economic growth has been stunted by climate crises (such as the floods in Pakistan or cyclone in Mozambique) and/or food and energy price shocks associated with Russia's invasion of the Ukraine. Meanwhile, there have been more attractive conditions in developed economies. The result is a rise in

borrowing by, and a collapse in new private lending to, lower-income countries. At the same time, the cost of servicing debt has risen due to both higher interest rates and a strengthening dollar.

In the face of these outflows, MDBs and bilateral donors (excluding China) have increased their short-term lending to LICs and LMICs. But in practice, this lending has leaked out more or less completely to private creditors from developed countries and public and private creditors in China. Long-term NTs from the private sector have fallen from +$54 billion in 2019 to -$51 billion in 2022; long-term NTs from China have swung from +$5 billion to -$6 billion over the same period. And for a number of the most indebted countries, NTs in 2022 were low or negative from *all* sources – including MDBs and bilateral donors.

3 Reform of the international financial architecture

3.1 Recent initiatives

Over the last three years or so, there has been growing interest in reform of the international financial architecture. Some initiatives have focused on specific issues and institutions; others have sought to advance a more comprehensive agenda.

SDR re-channelling

In 2021, the G20 and other economically stronger countries pledged to re-channel $100 billion of the Special Drawing Rights (SDRs) issued by the IMF during the Covid-19 pandemic to vulnerable low- and middle-income countries. As SDRs are issued in proportion to IMF shareholdings, the vast majority had gone to developed countries, though the need for additional liquidity was greatest in LICs and LMICs.

Two funds at the IMF were designated to receive most of the re-channelled SDRs, the Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust, with the aims of rapid disbursement particularly to low-income and lower middle-income countries. Around $89 billion of SDRs have so far been allocated to these funds. There have been some criticisms of the speed at which the IMF has been able to disburse these funds, and the conditionalities it is placing on recipient countries (Miller *et al.*, 2023), but the IMF now states that $69 billion is projected to be committed across 67 countries by the end of 2024 (IMF, 2023).

MDB reform

Among developed countries, most of the focus has been on reform of the multilateral development banks (MDBs), especially the World Bank but also the larger regional development banks. These institutions have come to be seen as too conservative in the way that they use their balance sheets; not efficient and effective enough in their operations; and not sufficiently coordinated among one another. The hope has been that greater risk appetite and use of more innovative instruments – including to mobilise private finance – would allow for greater investment in development and climate action without more direct funding from government budgets.

In October 2022 the World Bank's shareholders tasked its management with reforming the institution's mission, operations and finances to enable it to tackle the major global challenges of the 21st century. Known as the Evolution Roadmap, implementation is now under way. Parallel reform efforts are going on at all other major MDBs.

Two reports commissioned by the G20 have made significant contributions to these processes.

First, under the Italian presidency in 2021, the G20 commissioned an independent review of the MDBs' capital adequacy frameworks (CAF) (Expert Panel, 2022). The review report concluded that government shareholders, MDB management and credit rating agencies have overestimated the financial risks facing MDBs and underestimated their unique strengths, including their 'preferred creditor' status and their capacity in a financial

emergency to draw on 'callable capital' from their shareholders. This leads to lower lending levels than necessary from their existing capital base. The panel proposed a range of measures to make more efficient use of MDB capital, with the potential to unlock billions of dollars in additional new lending without affecting their long-term financial viability or requiring new capital injections.

Second, under the Indian presidency in 2023, the G20 established an Independent Expert Group (IEG) on Strengthening Multilateral Development Banks. Its two reports (IEG, 2023a; IEG, 2023b) set out a 'triple agenda' for MDBs to become 'better, bolder and bigger'. Recommendations include the adoption of a 'triple mandate' of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods; a tripling of annual sustainable lending levels to $390 billion per year by 2030, including a tripling of concessional finance to $90 billion a year and the catalysing of a further $500 billion annually in private financial flows; operational reforms to speed up and improve lending practices; and the use of 'country platforms' to coordinate MDB and other development finance institution (DFI) activities towards the financing of national investment plans in individual countries.

The Bridgetown Initiative

In 2022, Barbados Prime Minister Mia Mottley proposed a package of policies to increase the flows of finance for climate-resilient development (Government of Barbados, 2022). These included using Special Drawing Rights issued by the IMF to back increased lending for climate mitigation; widening access to concessional finance for middle income climate-vulnerable countries; expanding MDB lending for climate and the SDGs through greater risk appetite and the use of donor guarantees; new funding for loss and damage, raised for example through fossil fuel levies; and the introduction of natural disaster and pandemic clauses in debt contracts to suspend debt repayments after the occurrence of a predefined catastrophic event.

The Bridgetown Initiative attracted considerable attention and traction in 2022-23, not least because it offered developed countries mechanisms to increase climate and development financing without new budget contributions. However, since it did not include an explicit demand for new concessional finance, the Bridgetown Initiative was interpreted in some quarters as a largely middle-income country agenda.

Accordingly, a subsequent set of wider 'Bridgetown 2.0' proposals widened the focus (Government of Barbados, 2023). They included immediate liquidity support by the IMF, including more rapid disbursement of re-channelled SDRs; re-design of the Common Framework for Debt Treatment; development of a new foreign exchange risk instrument; an increase in official sector development lending for the SDGs to $500 billion per year; reform of the multilateral trading system to support green and just transformations; and reforms to the governance of the major international financial institutions.

Paris Pact for People and Planet

In June 2023, France hosted a summit to promote and propose a wide range of reform initiatives aimed at increasing and improving flows of finance for climate and sustainable development (Government of France 2023a). Alongside MDB reform and the Bridgetown proposals, these included a new push for an international tax on maritime emissions; a taskforce to explore other new international taxation options; and an expert review to examine the relationship between debt,

nature and climate. After the Summit, the French government established the 'Paris Pact for People and Planet' (4P), an alliance now comprising 54 countries in support of a reform agenda (Paris Pact for People and Planet, 2024). Among its new coalitions of countries are those promoting a global blended finance alliance, a global biodiversity credits roadmap and Paris-aligned carbon markets.

Table 1 Other initiatives

Initiative	Agenda
Nairobi Declaration	The inaugural Africa Climate Summit was held in Nairobi in September 2023 under the auspices of the African Union and the Government of Kenya. It adopted the **Nairobi Declaration**, an eleven-point call to action (African Climate Summit, 2023). The Declaration emphasises the need for African countries' economic development plans to focus on "climate-positive growth", including green industrialisation, expansion of just energy transitions and renewable energy generation, climate smart and restorative agricultural practices, and essential protection and enhancement of nature and biodiversity. The Declaration calls on the international community to support MDB reform and the proposals in the Bridgetown Initiative.
Accra-Marrakech Agenda	The V20, representing 68 of the world's most climate-vulnerable economies, published its **Accra-Marrakech Agenda** in October 2023. This sets out four priority areas for a "re-wiring of the global financial system": making "debt work for the climate" through reform of the Common Framework and debt relief; a transformation of the financial system away from carbon-intensive and non- adapted investments towards green and resilient ones; a new global deal on carbon financing, including carbon markets; and a scaling up of risk management instruments for climate vulnerability, such as the G7-V20 Global Shield against Climate Risks.
Just Energy Transition Partnerships	**Just Energy Transition Partnerships** (JETPs) were announced with South Africa, Indonesia, Viet Nam and Senegal between 2021 and 2023. The four JETPs are between the four host countries and different International Partners Groups, each comprising different configurations of developed countries but typically anchored by two G7 members. The JETPs provide support for the transition away from coal, scaling of renewable energy and development of green industries. JETPs are perhaps the most visible forms of 'country platforms', aimed at coordinating international and domestic finance around national investment plans.
G20 Task Force on a Global Mobilisation against Climate Change	In its capacity as presidency of the G20, Brazil has established a **G20 Task Force on a Global Mobilisation against Climate Change**. Bringing together the G20 sherpa and finance tracks, with the participation of both finance and climate officials from G20 members and other countries, the Task Force aims to identify principles and best practice around national transition plans and the alignment of the financial sector with the Paris Agreement.

3.2 The emerging agenda

Over the last three years, these diffuse initiatives have identified and generated some support for a clear set of international financial architecture reforms. The reforms are individually and collectively intended to both increase and improve the finance for climate-smart, nature-positive development. Together, they offer the potential to use scarce concessional resources more strategically; unlock new concessional resources for development, climate and nature; and better align finance flows with low-emission, climate-resilient development.

Broadly speaking the agenda has six key areas of focus:

1. MDB reform;
2. Private finance mobilisation;
3. Sovereign debt reform;
4. New international taxes;
5. SDR rechannelling and IMF reform;
6. Carbon and nature markets.

In practice, the first four of these – MDB reform, private finance mobilisation, sovereign debt reform and new international taxes – have significant international momentum; the next four sections of this report accordingly provide a more detailed assessment of options as well as recommendations on these agendas. The other two are proceeding on slower tracks, so will be summarised briefly in this chapter.

Debates around **SDR re-channelling and IMF reform** are in practice mainly focused on two proposals: re-channelling some SDRs to the African Development Bank as hybrid capital (Plant, 2023) and the issuance of SDR-backed bonds by the World Bank (Setser and Paduano, 2023). Both these proposals would leverage SDRs to enable higher levels of lending to countries in need. While the IMF remains subject to some external criticism for the conditionalities it imposes on recipient countries and other limitations on access to its funding (Welham and Miller, 2022), a lack of interest among its major shareholders has kept wider reform largely off the agenda.

Carbon and nature markets (investments in carbon reduction or biodiversity protection to 'offset' emissions, or as wider climate commitments) are the subject of continuing negotiation within the UNFCCC under Article 6 of the Paris Agreement. Voluntary carbon markets have been subject to considerable criticism in recent years as poor-quality projects and double-counting have been exposed (Temple, 2023). New efforts are therefore under way to define a common integrity standard (Voluntary Carbon Markets Integrity Initiative, 2024), but the promise of significant flows of finance to developing countries from this source remains unfulfilled. In general the use of carbon and nature markets is highly contested. It is widely agreed that emissions 'offsets' should be a last resort where residual emissions or biodiversity loss are unavoidable, but there remain serious concerns that using land for this purpose will have adverse impacts on food security and equity and the rights of indigenous peoples (Carbon Brief, 2023). Meanwhile, direct air carbon capture utilisation and storage technologies are not yet commercially viable (Baylin-Stern and Berghout, 2021).

4 Reforming the MDBs

4.1 The importance of MDBs

Of the various potential sources of international finance, multilateral development banks (MDBs) offer by far the 'ripest' opportunity, and at the largest scale. They are able to catalyse both public and private sector investment, and are a valuable source of low-cost finance, technical knowledge and policy advice for many developing countries.

The importance of MDBs lies in their unique model. Though founded on public capital, MDBs get most of their funding by borrowing on international capital markets. The largest MDBs have been able to leverage more than 30 times the capital paid into them since their creation. (Humphrey and Prizzon, 2022). With a small amount of shareholder capital and a strong financial track record (which gives them AAA credit ratings), MDBs can borrow substantial medium- and long-term resources from bond investors on excellent financial terms, which they can then on-lend for development projects.

MDBs are therefore critical players in the global response to new development challenges, including climate change. However, they face a series of structural constraints to realising their full potential: for example, staff incentives that emphasise volume of own lending over volume of private finance mobilised. Over the last three years, MDB shareholders have therefore initiated reform processes aiming to overcome these barriers. Achieving these reforms will require concerted and sustained effort from both the MDBs' leadership and their shareholders, informed by ongoing dialogue with client countries.

The reform agenda has three main dimensions, applying in varying degrees to the World Bank and the largest regional banks. These are:

- Reforms to the **mission and lending priorities**, to incorporate tackling climate change and other global public goods;
- Reforms to the **operating model**, to make the banks more efficient and effective; and
- Reforms to the **scale and form of finance**, to expand total lending.

How far these reforms should go is not agreed: individual board members and executives have taken different positions on different reforms, as have national shareholders. But an ambitious vision has been laid out in the two reports of the Independent Expert Group on Strengthening MDBs commissioned by the Indian Presidency of the G20 and chaired by N K Singh and Larry Summers (IEG, 2023a; IEG, 2023b). These are summarised in Table 2 and elaborated upon below.

Table 2 Summary of leading MDB reform proposals

Proposal	Description	Stakeholders	Timing
Vision and mission			
Incorporate climate into MDB mandates	Adopt a triple mandate of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods (GPGs)	Shareholders and management across all MDBs (AIIB and EBRD have already done)	ST
Operational model			
Sharpen analytical support and diagnostics and tune to local context	Prioritise longer-term relationship-building over 'fly-in, fly-out', stand-alone reports	MDB management	MT
Speed up and simplify business processes	Further delegate project approval to management (the AIIB already does this). Harmonise safeguards and fiduciary requirements	MDB management	MT-LT
Improve responsible lending practices	Include natural disaster and pandemic clauses in loan contracts	MDB concessional windows (IDA, ADF, AsDF)	ST-MT
Work together as a system	Agree to be held accountable, individually and collectively, on a range of KPIs to match the expanded mandate. Pool risks and create common asset classes in dialogue with credit rating agencies	MDB management	MT
Deploy country platforms	MDBs should channel at least 50% of incremental lending activity through country and regional platforms	MDB management	MT
Scale and form of finance			
Aggressively pursue all efforts at balance sheet optimisation	Especially, incorporate callable capital and preferred creditor treatment into MDB CAFs. These efforts should boost lending room by $40 billion a year to 2030	MDB management and shareholders, CRAs	ST-MT
Explore and pilot innovative tools, including portfolio guarantees and hybrids	These measures can be implemented rapidly, providing an immediate boost to lending firepower of up to $40 billion per year over a decade	Any shareholder(s) can pursue independently; CRAs	MT
Commit to an (indexed) local currency lending target	Shift MDB lending from hard currency denomination towards (indexed) local currency loans	MDB management	MT
General capital increases	Add a further $100 billion a year in lending capacity, bringing the total to $300 billion per year ($100 billion already, $100 billion from innovations and squeezing, $100 billion from fresh capital including retained earnings)	Shareholders especially at AfDB and WBG	Ongoing
Triple concessional funding to $90 bn per year	Replenishment of MDB concessional windows	Shareholders especially at IDA, AfDF, and AsDF	Ongoing

Note: ST: short term (2023-24); MT: Medium term (2025-27); Long term (2028-30). Where no time frame is indicated, the proposals are ongoing. CRA: Credit ratings agencies

4.2 Mission and priorities

Formally speaking, only the AIIB and EBRD explicitly include environmental considerations within their mandates. This is because all other large MDBs were established before climate change became a major international concern. However, part of the reform process of the last few years has been to make climate action in particular central to the banks' missions.

The World Bank's new mission embraces environmental sustainability as a necessary condition for poverty eradication and shared prosperity (the Bank's pre-existing mandate). It expresses this in its new vision statement as creating "a world free of poverty on a liveable planet." More widely, it embraces the idea that the Bank should have as a core goal the response to global challenges: not just climate change, but pandemic preparedness and peace and security.

While the renewed vision and mission help guide the World Bank's mandate, they still require some clarification. In particular, what constitutes a 'global challenge' is yet to be fully defined. Shareholders have different views regarding which global challenges should be prioritised (for example, the importance of biodiversity). A number of developing economies have expressed concern that (given limited budgets) prioritising global public goods such as climate change effectively means downgrading domestic priorities such as economic development and poverty reduction. These questions are extremely important as the World Bank and other MDBs decide on which "global challenge" projects would qualify for the most highly subsidised forms of financing which the Bank provides.

Beyond the World Bank, all MDBs have made climate change a strategic priority, with dedicated climate change strategies or action plans. The focus of the AfDB, AsDB, and IADB is predominantly on climate adaptation and resilience; the AIIB, EBRD, and EIB prioritise climate mitigation more strongly. In each case this reflects the concerns and priorities of their member countries (Prizzon, Getzel *et al.*, forthcoming).

4.3 Operational model

Operational effectiveness and efficiency are key to increasing the speed, scale, and quality of implementation of MDB lending.

In a survey conducted by ODI (Prizzon *et al.*, 2022), many government officials expressed frustration at the way that project preparation and project development tend to be highly fragmented across providers. Borrowing countries can consequently face a bewildering array of requirements. There are therefore consistent calls for MDBs to streamline their individual processes and to harmonise their safeguards (environmental and social conditionalities) and procedures to reduce transaction costs. Only a third of government officials in client countries think that MDBs are responsive to their demands when providing technical assistance and policy advice. Borrowing countries also want MDBs to reduce their dependence on fly-in, fly-out visits, and prioritise longer-term relationship-building and capacity-strengthening within countries.

In the face of these criticisms, the World Bank has introduced a new 'playbook' with a series of proposals aimed at increasing efficiency, initially by streamlining processes to reduce processing times by a third. The new approach emphasises partnerships among the World Bank Group, other MDBs and national actors. But these reforms need to be implemented consistently.

A key demand of MDBs in the climate field is that they help countries design and deliver climate-smart economic development strategies. Drawing in national expertise, facilitating national dialogue and coordinating donors could help increase ownership and identify key sectors that offer opportunities for 'green growth' and 'climate-resilient development'.

The desire for MDBs to work together in such ways at national level has led to the proposal that they should operate through 'country platforms'. A country platform is a mechanism through which a national development plan can be turned into an investment and policy programme, and the financial and technical assistance then found for that programme through a collaboration of MDBs, bilateral development agencies, domestic public finance institutions and the private sector, both domestic and international. Country platforms have been exemplified in the last few years by the Just Energy Transition Partnerships (JETPs) announced by South Africa, Indonesia, Viet Nam and Senegal, by Egypt's Nexus of Water, Food and Energy Programme and Bangladesh's Climate and Development Platform. At COP28, ten multilateral development banks announced that they would work together to support country platforms to help coordinate external and domestic financing for government-led climate-related investment programmes.

4.4 Scale and forms of finance

Making the MDBs more operationally efficient and effective is a priority for both shareholders and borrowers. But given the scale of financing needs, it is widely accepted that MDBs also need to scale up their lending. This agenda encompasses four different elements: better use of existing balance sheets; new forms of capital; recapitalisation; and greater mobilisation of private finance.

On the optimisation ('squeezing') of balance sheets, all the MDBs are now reviewing and (to some extent) implementing the recommendations of the G20's Independent Panel on MDB Capital Adequacy Framework Review (CAFs). These recommendations could help the MDBs unlock potentially billions of dollars in additional lending (especially toward lower middle-income countries) without affecting their long-term financial viability or requiring new capital injections from shareholders. These processes are proceeding at different speeds in the various banks. In 2023, for example, the World Bank decreased the floor on its equity-to-loan ratio from 20% to 19%, which increased the sustainable annual lending level by $4-5 billion a year, and removed its statutory lending limit. Meanwhile, the ADB updated its capital adequacy framework, unlocking $10-12 billion a year in new funding through optimising its prudential level of capitalisation and strengthening related aspects of its risk management framework.

Bolder reforms have different degrees of shareholder support. For instance, finance ministries in different countries take different positions on the treatment of 'callable capital' (capital which countries have not actually provided to MDBs, but which can be 'called upon' in case of financial emergency). More widely, it is still not clear that either the Bank management or all its major shareholders are willing to address the more fundamental aspects of the CAF reform proposals, particularly whether MDBs (as well as rating agencies) are overestimating financial risks to the detriment of lending capacity. If implemented aggressively, the G20 IEG estimates that just the capital efficiency-related recommendations of the CAF report could boost lending capacity by up to $40 billion a year.

In addition to the more efficient use of existing capital, countries can "augment" their capital through innovative forms of shareholder support, such as portfolio guarantees and hybrid capital, to increase MDBs' lending capacities.

In a portfolio guarantee, donors backstop a cross-section of a whole portfolio of projects across countries and sectors, effectively taking risk off the MDBs' balance sheets to free up new space for lending without affecting the MDBs' creditworthiness. The Asian Development Bank is experimenting with a portfolio guarantee via the new Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP), whereby $3 billion in guarantees could enable as much as an additional $15 billion in lending for climate projects across the region. 'Hybrid capital' is a type of financial instrument which is sold to investors to mobilise equity and associated leverage without diluting MDB shareholder rights (see Humphrey *et al.*, 2023). The African Development Bank was the first large MDB to incorporate hybrid capital into its capital structure.

At the 2024 Spring Meetings of the World Bank and IMF, eleven countries announced commitments toward the World Bank's innovative financial and balance sheet optimisation tools that could generate up to $70 billion over 10 years. Belgium, France, Japan, and the United States pledged to the Portfolio Guarantee Platform, while Denmark, Germany, Italy, Latvia, the Netherlands, Norway, and the United Kingdom made commitments to hybrid capital. These commitments total $11 billion.

Optimising balance sheets and innovative forms of shareholder support can significantly increase lending capacity, complementing traditional paid-in capital from government shareholders, which is the foundation on which MDB financial strength and access to capital markets is based. At the World Bank, in light of the ongoing reform of its operational and financial models, the support from shareholders through hybrid capital and portfolio guarantees will allow an expansion of its lending capacity by $70 billion over the next decade: welcome progress towards closing the investment gap.

Ultimately, however, supplying the required capital via additional paid-in commitments is the most effective way to ensure MDBs can expand their lending, including to meet their climate finance goals. New capital injections have recently been approved for the European Bank for Reconstruction and Development (December 2023) and the Inter-American Development Bank (March 2024). There is also a strong case for a new capital increase for the African Development Bank and the World Bank, once operational and financial models have been reformed.

A particular priority is the replenishment of the World Bank's concessional finance window, the International Development Association (IDA), which provides finance specifically to the poorest and lowest income countries. IDA is the largest source of non-earmarked concessional funds, currently generating $4 in low-cost lending for every $1 in contributions. As the most recent G20 Independent Expert Group report notes, tripling the size of IDA by 2030 would imply a replenishment of at least $100 billion, reversing several years of flat contributions in nominal terms (a 25% fall in real terms since 2009). This would require shareholders to commit around 0.04% of gross national income in annual contributions – the equivalent of less than a cup of coffee monthly per head in the G7.

5 Mobilising private finance

5.1 The importance of private finance

When the global community adopted the 2030 Agenda for Sustainable Development in 2015, private finance was expected to make a significant contribution. At the time, dramatically increasing private investment in developing countries seemed plausible, particularly in high growth middle-income countries. The challenge, which MDBs were asked to address as part of the Addis Ababa Action Plan, was how to enable this capital reallocation.

In pursuit of this agenda, MDBs and bilateral DFIs have experimented and innovated (Gregory, 2023). Yet private capital flows for sustainable development in and to low- and middle-income countries have not increased at the scale or pace required. In 2021, MDBs mobilised $5.2 billion of private finance for low-income countries and $58.1 billion for middle-income countries. Of this $63.3 billion in total, 48% was private finance directly mobilised and 52% was indirectly mobilised (World Bank Group *et al.*, 2023a) These figures remain small relative to the 'billions to trillions' aspiration.

Given this context and the scale of the financing needs, there has been a renewed attempt to promote the private finance mobilisation agenda. Increasing both domestic private investment within, and international private capital to, EMDEs from current levels will require concentrated efforts in three core fields. These are summarised in Table 3 and described below.

Table 3 Summary of areas for action for private finance mobilisation

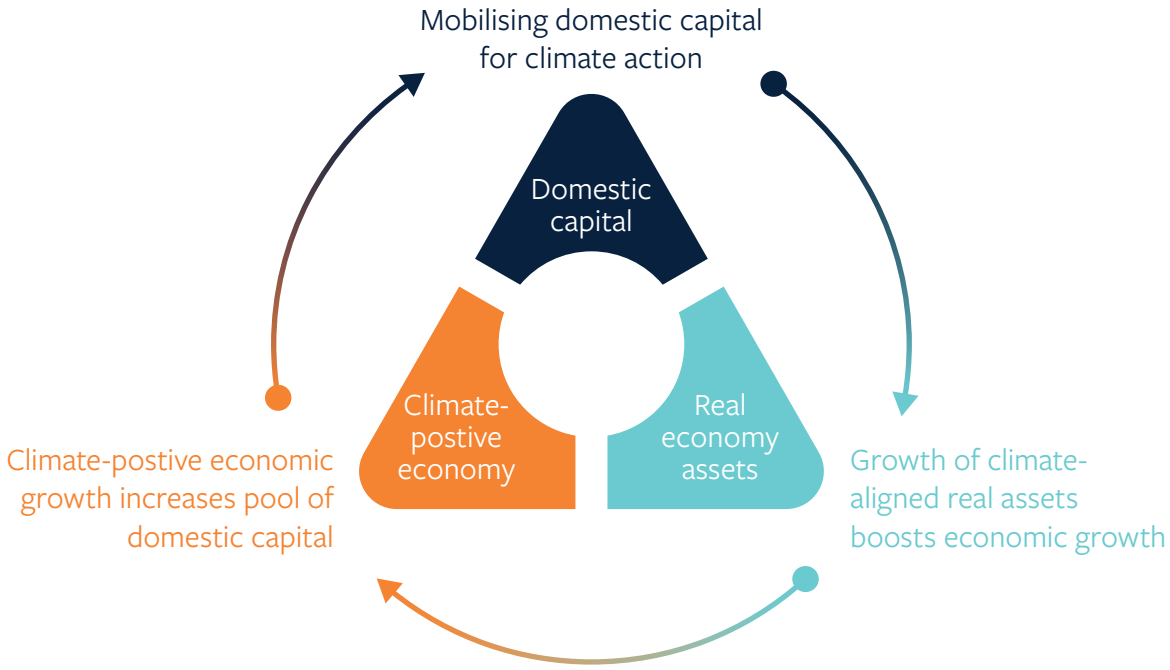
Proposal	Stakeholders	Timing
Strengthening enabling environments in developing countries		
Review opportunities to reform policy and regulatory frameworks to incentivise (low-emission, climate-resilient) investment, including by domestic financiers	Central governments; central banks; other financial regulators; MDBs; bilateral DFIs; national development banks (NDBs)	
Develop (low-emission, climate-resilient) national and sectoral investment plans in consultation with NDBs, including clear targets to strengthen and leverage these institutions	Central governments; NDB management	ST-MT
Channel concessional finance to nationally-led project preparation facilities and collaborate with NDBs on the development of a bankable project pipeline	Donors; philanthropies; MDB and bilateral DFI management; NDB management	ST
Undertake demonstration transactions such as local currency bond issuance	Government agencies; management of private-sector arms of MDBs and bilateral DFIs; private investors	ST

Optimising the private-sector arms of MDBs and bilateral DFIs (also partially addressed in Section 4)		
Set private finance mobilisation targets carefully by sector and geography, to encourage robust private-sector engagement across different contexts	Management and shareholders of private-sector arms of MDBs and DFIs	ST
Redesign targets, incentives, fee structures and origination capacity to make an "originate to share" strategy financially and operationally sustainable	Management and shareholders of private-sector arms of MDBs and larger DFIs	MT
Ratchet up the use of guarantees so that they account for 25% of MDB portfolios by 2030	MDB management and shareholders	LT
Increase funding for existing project preparation facilities	Shareholders; MDB/DFI management; philanthropies	MT
Offer more lending in local currency and scale up currency hedging mechanisms	MDB leadership and shareholders	ST-MT
Publication of more disaggregated data on private finance mobilisation	Management of private-sector arms of MDBs and DFIs	ST
Addressing barriers facing international private investors		
Review current financial regulation in developed countries that may incentivise or disincentivise cross-border investment in developing countries	Financial regulators in developed countries	MT
Provide clearer guidance on fiduciary duty and the consideration of second materiality ESG factors	Financial regulators in developed countries	MT
Review the capital charges for non-OECD infrastructure in Solvency II and equivalent regulatory frameworks	Financial regulators in developed countries	MT
Make the GEMs database available to private investors	GEMs consortium; MDB shareholders	ST
Create standardised MDB/DFI/NDB assets which can be aggregated to create investment-grade pools for institutional investors	Management and shareholders of private-sector arms of MDBs, DFIs and NDBs	ST
Increase origination activity, including upstream advisory and capacity building, to create a diversified pipeline of investment-grade assets	MDB, DFI and NDB management	ST

5.2 Strengthening enabling environments in developing countries

A recent report by the Blended Finance Task Force (2023) finds that the approximately $17 trillion of bank savings, insurance and pension assets currently held in EMDEs could nearly triple by 2040. Leveraged effectively, these resources can create jobs and boost economic growth while tackling the climate and biodiversity crises, for example through investments in regenerative agriculture, renewable energy generation and mass transit. This growth in turn would increase the pool of domestic capital available, which would promote a long-lasting cycle for sustainable finance (see Figure 5.1).

Figure 5.1 Unlocking domestic capital for climate action



Source: Blended Finance Taskforce, 2023

However, unlocking domestic capital faces several barriers (Box 1). Together, these barriers mean that many EMDEs lack both **creditworthy entities** – government agencies that have a track record of reliably servicing their debts, enabling them to borrow against future revenues – and **bankable projects**, that is, a pipeline of potential assets in which mobilisation products and financing vehicles targeted at institutional investors can be invested. The absence of creditworthy entities and bankable projects precludes access to finance at sufficient scale to meet development needs, let alone the incremental investment required to climate-proof that development. A government cannot issue a green bond if it cannot issue a bond at all. A utility that is not confident of getting a return on a gas-fired power plant will not assume the additional risks associated with a solar or wind farm, which has higher upfront costs (even if cheaper over its lifetime) and potential policy and technological risks if installed in frontier markets.

Box 1 Barriers to unlocking domestic capital

Many EMDEs do not have an **enabling environment** sufficiently robust or credible to attract inward or domestic investment. In countries with conflict, political volatility, social unrest and weak legal and regulatory systems, there are higher risks to investment and lending. Yet these are often the countries where the most resources are needed to meet the SDGs and enhance climate resilience, where poverty and inequality contribute to low adaptive capacity.

Many EMDEs also lack the **capabilities** necessary to leverage private capital. For example, civil servants may not have the legal expertise to prepare suitably tight contracts for public-private partnerships or the financial expertise needed to structure a bankable project.

Thirdly, the private finance available within EMDEs is often not well-matched to investment needs. Shallow **domestic capital markets** may limit the long-term growth of pools of domestic capital, making market-based options inefficient in the short-term. Where equity and debt markets (e.g. for shares and bonds) are not well-developed, governments and firms are more dependent on bank lending. In many cases there is also limited availability, affordability or access to the right type of catalytic capital, which can leverage domestic actors, de-risk projects and reduce the high costs of capital in general. Catalytic capital is patient, risk-tolerant, concessional and flexible. It may include international public finance, domestic public finance, philanthropic resources or private finance such as impact investment or venture capital.

Mobilising private finance for development and climate in such contexts therefore depends on foundational work to create an enabling environment, primarily by reducing the wide array of risks facing prospective investors. Both developed and developing countries and multilateral institutions have worked on this agenda for some time, but more remains to be done, including through, at national level:

- Strengthening the rule of law to protect property rights and enforce contractual obligations;
- Creating an enabling policy and regulatory framework that incentivises desired investments;
- Developing national and sectoral investment plans that identify financing needs at a programmatic rather than project scale (see 'country platforms' in section 4);
- Providing infrastructure such as transport, electricity and ICT which are preconditions for investment in manufacturing and services (private investment may also be sought for these);
- Facilitating project preparation through technical assistance and funding for pre-feasibility studies and early-stage design;
- Undertaking demonstration transactions, such as local currency bond issuance, to build credit history; and
- Maintaining dialogue between the public and private sector to build mutual understanding and enhance critical capabilities in both.

Box 1 Barriers to unlocking domestic capital, continued

A climate lens can be applied to all of the above. For example, measures to create an enabling policy environment could include fossil fuel subsidy reform to create a level playing field for low-carbon measures, as well as unlocking significant fiscal space to anchor investments. National investment plans should recognise the need to phase down if not phase out fossil fuel production and power generation in keeping with science-based targets. Pilot projects could be undertaken in frontier clean technologies (such as electric buses or concentrated solar power), while demonstration bond issuances could be for green bonds.

5.3 Optimising the private-sector arm of MDBs and DFIs

MDBs and DFIs have a key role to play in channelling international private capital toward sustainable EMDE investments. Yet so far they remain marginal players – although their mobilisation activities are now increasing faster than their own investment. Their overall leverage ratios rose from 49 cents on the dollar to 69 cents during the period 2013–2018. Leverage ratios for bilateral DFIs (82 cents) were higher than MDBs (52 cents) but MDB ratios appeared to be increasing more quickly (Attridge and Gouett, 2021). A number of barriers exist to private capital mobilisation, ranging from staff performance incentives dominated by the volume of own lending (not total lending mobilised) to financial assessment tools which frequently lead to competition with private finance (see Box 2).

Box 2 Barriers to the mobilisation of private finance by MDBs and DFIs

1. A culture of avoiding, not managing, risk
2. Mixed shareholder signals on risk tolerance
3. Performance incentives dominated by own-account volume
4. Internal silos that prevent integrated approaches to enabling environments and project pipelines
5. A set of financial tools that often compete with those of commercial finance actors
6. A weak private sector voice in shaping MDB strategies and platforms
7. An inefficient and unscalable transaction-by-transaction approach to blended finance
8. Lack of transparency about MDB credit performance

Source: G20 Independent Expert Group (2023)

The G20 IEG on strengthening MDBs calls for all the MDBs to work systematically with the private sector with the aim of increasing their total private capital mobilisation from $60 billion to $240 billion by 2030. MDBs and DFIs have an important role to play in creating an enabling environment through the measures outlined in Section 5.2, such as providing technical assistance for the preparation of national investment plans, pilot projects or demonstration transactions. A range of internal measures could enhance MDB and DFI performance on these fronts, from setting institutional and staff performance targets for private capital mobilisation (rather than targets for own finance) to improving collaboration between MDBs' public and private arms. Optimising the way MDBs and DFIs mobilise private finance also requires a shift from a historic focus on transaction-level mobilisation toward one that includes proactive portfolio-level mobilisation. In particular, MDBs and DFIs could shift some of their portfolio from an 'originate-and-hold' model (in which projects are developed and the loans or equity retained) to an 'originate-and-share' model (in which the loans or equity are sold, freeing up capital). This would allow MDBs and DFIs to concentrate on their comparative advantage: the origination of sustainable SDG investments.

MDBs and DFIs could also manage risks in a more sophisticated manner, both through the reform of MDB business models and the deployment of risk mitigation instruments, to more effectively mobilise private finance. This requires shifting from a conservative risk appetite to a culture with 'informed risk taking', as outlined in the previous section.

In particular, MDBs and DFIs' heavy dependence on senior debt (as opposed to subordinate or mezzanine debt, equity, guarantees or other instruments) limits more active structuring to mobilise at larger scales, while high capital adequacy ratios and excessive liquidity mean that they do not 'squeeze' existing resources effectively (Attridge and Gouett, 2021; Attridge and Novak, 2022). There is accordingly pressure on MDBs to increase the use of two risk mitigation instruments in particular: guarantees and currency hedging mechanisms.

- Guarantees have a strong record of unlocking private finance: on average, every dollar of World Bank guarantee has mobilised $4 of investment and project finance (IEG 2023b). They are also attractive to MDB shareholders, as guarantees are rarely drawn upon and therefore imply small (if any) capital increases. The IEG recommends that guarantees should account for 25% of MDB portfolios by 2030. Guarantees may be applied to individual transactions, which would be how private finance mobilisation is commonly measured, or at the portfolio level, which allows institutions to more effectively leverage their balance sheets. Both can mobilise private finance.
- Currency hedging mechanisms are similar to insurance, and seek to offset fluctuations in local currency that can increase debt servicing costs or erode the value of an asset on an international financier's balance sheet. Most MDBs and DFIs are either not permitted or not encouraged to lend in local currency. If this cannot be changed, MDBs and DFIs could do more to manage currency risk for themselves and private investors. A recent initiative by the G20 Brazilian presidency has announced a collaboration with the Inter-American Bank , Eco Invest, which will include a liquidity fund to absorb significant depreciations tied to eligible climate investments in Brazil. More broadly, the initiative will aim to support "the development, liquidity and efficiency of the country's FX protection market, by purchasing derivatives

on the foreign market and passing them on to local financial institutions" (G20 Brasil, 2024). At the 2024 Spring Meetings of the World Bank and IMF, MDBs announced their intention to collaborate on the development of currency risk tools and hedging mechanisms.

One way to increase private finance mobilisation is through setting high targets for MDBs and bilateral DFIs. However, this approach creates incentives for donors to allocate scarce concessional finance to countries and measures that are less risky – most obviously, large-scale renewable energy generation in stable and large emerging economies like Brazil, China, India, Indonesia and Viet Nam. A small amount of concessional money on such projects in such contexts can leverage very large amounts of private money.

Yet while decarbonisation of the power sector in these countries is important, the economic headwinds are already behind renewables, and such investments are increasingly likely to take place with or without support. Scarce concessional finance instead needs to be used much more strategically: for example, to establish frontier climate technologies (e.g. battery storage, electric buses, green hydrogen), build new markets (e.g. demonstration projects in lower-income countries) or help finance climate measures with significant public goods characteristics (e.g. mass transit, nature-based solutions). These investments will not yield such high leverage ratios for the purposes of climate finance reporting, but will ultimately be much more catalytic. For this reason, MDB and DFI targets for private finance mobilisation should be disaggregated by sector and geography, recognising that smaller volumes of private finance mobilised may have greater impact in particular contexts.

5.4 Addressing barriers facing institutional investors

Institutional investors have indicated a growing interest in investing in EMDEs, which have greater long-run growth potential than higher income economies and where much-needed infrastructure assets can provide stable cash flows and attractive returns. But progress has been slow. A study of five European countries found that most pension funds and insurance companies allocate only around 5% of their total portfolio to developing countries, and these allocations are highly concentrated in investment grade, publicly listed assets in large middle-income economies, such as Brazil, India and South Africa (Attridge *et al.*, 2024).

Addressing regulatory barriers

For pension funds in many high-income countries, legal and regulatory frameworks do not appear to explain limited allocations to developing countries. The main barrier appears to be behavioural, i.e. a conservative interpretation of those frameworks or market convention. There is a common perception, often supported by consultants and legal advice, that fiduciary duty only allows for the maximisation of financial returns. Clearer guidance by government and financial regulators on fiduciary duty and the need to consider impacts on the world at large (double materiality) could therefore enable pension funds to increase investment in developing countries (ibid.). This is not to say that there are no legal and regulatory barriers facing pension funds. For example, pension funds face limits to investment in securities not traded in regulated markets, such as public-private partnerships. But these constraints appear to be less pressing than behavioural factors.

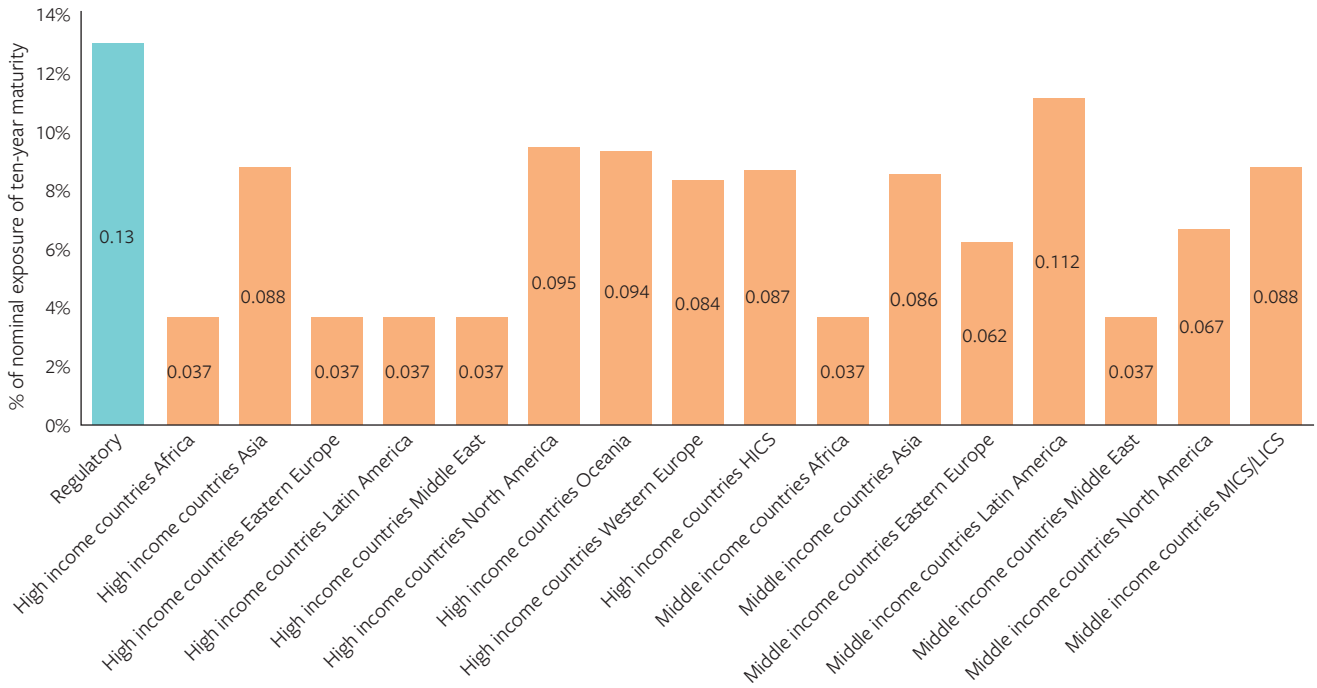
The situation for insurance companies is different. Here regulated capital charges continue to bias allocations toward investment-grade assets in advanced economies. But capital and solvency requirements may not be commensurate with actual risk (see Figure 5.2). Within the Solvency II framework, for instance, the European Insurance and Occupational Pensions Authority (EIOPA) has recently introduced lower capital charges for higher-rated OECD or European Economic Area (EEA) infrastructure debt. But this favourable treatment is not extended to infrastructure debt related to projects in less developed non-EEA or non-OECD countries – even though these exhibit superior credit performance. So there is scope for EU and Swiss regulators to review capital charges for non-OECD investments, especially infrastructure (ibid.).

Some climate- and nature-related financial regulation, while welcome, also poses a risk to investment in developing countries. Screening investments and reporting on ESG performance can be more challenging or onerous in these contexts, thereby acting as a disincentive to investment. As the regulatory framework evolves, it will be essential to make compliance as straightforward as possible.

Addressing information barriers

The perception of country and project risks may exceed their actual severity due to lack of data. However, MDBs and DFIs have good evidence based on their extensive experience in developing countries. Initiatives like opening the Global Emerging Markets (GEMS) Risks Database to institutional investor can familiarise them with the risk profile of different asset classes in different developing countries. Political risk insurance can also help mitigate some country risks (ibid.).

Figure 5.2 Estimated capital charge (%) for ten-year unrated project loans with diversification



Source: Risk Control 2020

Investors also learn by doing. By undertaking demonstration projects, de-risking initial private investments and creating structures/vehicles/products that meet the requirements of prospective investors, MDBs and DFIs can help build their knowledge and skills in new geographies and sectors and unlock further investments that don't need intermediaries.

Addressing pipeline barriers

Institutional investors don't generally invest in individual projects. They look for low-cost, investment-grade, well-managed and diversified pools of assets at the level of $0.5 billion or more. Governments, MDBs and DFIs are already working together to create such pools, either within countries or across regions, but could do so at greater scale. Where necessary, governments, MDBs and DFIs can then de-risk those asset pools by taking junior, high-risk tranches, and/or by blending commercial and concessional capital.

To create these portfolios of assets, however, MDBs and DFIs will have to devote more efforts to market development and asset origination, as there are currently not enough opportunities to meet potential demand (ibid.).

6 Expanding fiscal space and addressing sovereign debt

6.1 Expanding fiscal space

Sustainable economic development requires public investment and spending in health, education, social safety nets, infrastructure, climate adaptation and other fields. For such spending, governments need 'fiscal space': room for undertaking discretionary spending and investment relative to existing plans without endangering market access and debt sustainability (IMF, 2018).

There are broadly four ways to increase the resources available for priority spending.

First, economic growth is the principal way in which fiscal space expands. Higher incomes and larger profits lead to higher tax revenues.

Second, a government can improve domestic resource mobilisation, i.e. the process through which it raises funds within the country. Improved domestic resource mobilisation may imply new taxes or higher taxes, but significant gains can usually be achieved through more efficient collection and enforcement, for example simplified filing processes or better auditing. Many lower-income countries significantly increased domestic resource mobilisation during the 2000s and 2010s, but ultimately poverty, a relatively large informal economy and an underdeveloped business sector all limit the tax base (Gallien *et al.*, 2024).

Third, a government can improve the quality of public expenditure. One of the most promising and important levers is the reform of environmentally harmful subsidies, particularly fossil fuels.

Fossil fuel subsidies are in general a costly and inefficient means of providing support to lower-income households and businesses, with most of the benefit inevitably going to the largest (and therefore higher-income) fuel users (World Bank, 2023a). Reform can therefore free up significant resources for other purposes, including more pro-poor spending. A few countries have successfully reduced fossil fuel subsidies, among them Indonesia, Morocco and Peru. But such reforms are politically difficult everywhere, and recent inflation makes the task harder.

Fourth, a government can borrow. In principle, sovereign borrowing aimed at sustaining or raising the rate of economic growth is a strategic means of creating fiscal space, at least in the medium term. But if it is not to compromise macroeconomic stability and fiscal sustainability, the government must ensure that it has the capacity to fund its desired expenditure programs and service its debt. The sustainability of debt is a function of several factors: its volume (both in terms of the annual budget deficit and total cumulative debt), what it is used for, the interest rate charged on debt repayments, the rate of inflation and the rate of economic growth. Debt used for productive investment should under normal circumstance pay for itself over time.

But debt that was sustainable under one set of conditions can become unsustainable under another. When growth slows and interest rates rise, countries may find it impossible to service their debt repayments without slashing other forms of expenditure. If cutting expenditure leads to lower growth, leading to lower revenues, a vicious cycle of

indebtedness may result. This is what has happened to many low- and middle-income countries over the past three years. The recent rise in sovereign debt and borrowing costs is not (in most cases) a consequence of poor public financial management. It is a function of the Covid-19 pandemic and a slow recovery, coupled with much higher dollar interest rates, higher energy and food prices and extreme weather events occuring all over the world.

6.2 The debt crisis

As of February 2024, there are 62 countries either already in, or at high risk of, 'debt distress', defined as being unable to sustainability pay their debts (Ray and Simmons, 2024). A majority of countries in Africa and Oceania are included on the list, but every region of the world is represented.

In order to service their debts at the higher interest rates of the last two years, many of these countries have had to make large-scale cuts to other forms of expenditure, including health and education. In 2022, 50 countries spent more than 10% of their government revenues on debt servicing; many are now spending more on debt service payments than health (UNCTAD, 2024). Over the next two years, between 2024 and 2026, at least 20 low- and lower middle-income countries are due to face large loan redemptions which will be effectively unaffordable (Diwan *et al.* 2024). Eleven countries have defaulted since 2020 (World Bank Group, 2023).

An additional 33 countries face capital market constraints (Ray and Simmons, 2024). For this group, borrowing costs in capital markets surpass their growth projections, and new capital flows are hampered by sovereign bond ratings below 'investment grade.' This group includes many countries in Central and Western Asia, as well as Latin America.

For these 95 countries, new lending at market rates – whether for climate-related investments or otherwise – would compound their economic difficulties rather than help solve them. They do not have the fiscal space for new borrowing on these terms. In these circumstances, countries need either grants or lending at highly concessional rates, plus relief from their higher interest borrowing to create fiscal space for investment in sustainable development.

During the debt crisis of the 1990s and early 2000s, a high proportion of sovereign debt was owed to developed country sovereign creditors (known collectively as the Paris Club) and to commercial banks – particularly for the 'Highly Indebted Poor Countries'. This is no longer the case. Today, countries in or at risk of debt distress predominantly owe MDBs, private bondholders in the Global North and both public and private creditors from emerging economies, most prominently China but also India, Brazil, the Gulf states and others (Ray and Simmons, 2024). This makes debt re-structuring much more complex. The G20's Common Framework for Debt Treatments is intended to provide a common methodology and forum for creditors to negotiate with countries seeking debt relief, but it is widely regarded as too slow and cumbersome. Only four countries have applied to it (Ghana, Chad, Zambia and Ethiopia). Only Chad and Zambia have made agreements to date, with Zambia having been in negotiations for over three years. Even if the Common Framework was fit-for-purpose, only 73 countries (IDA countries and the Least Developed Countries) are eligible. At the same time, there is no other option available at the moment that can guarantee intra-creditor coordination.

High levels of debt simultaneously threaten human wellbeing, economic development and climate action. High debt payments squeeze

out prospective investments in sustainable development; moreover, the need to service debt creates additional pressure to exploit natural and fossil resources to generate short-term revenues despite long-term adverse effects (Steadman *et al*., 2023).

6.3 Debt reform proposals

Recent initiatives include:

- The establishment by the G20, IMF and World Bank of a Global Sovereign Debt Roundtable to bring creditors and borrowers together to discuss debt issues, especially focused on securing agreement to improve the functioning of the Common Framework.
- The founding of a Sustainable Debt Coalition of 16 developing countries to create a stronger borrower voice and discuss debt issues.
- The establishment of a Sustainability-Linked Sovereign Debt Hub to explore and promote new forms of debt linked to climate and sustainability goals.
- The launch of an Expert Review on Debt, Nature and Climate under the auspices of Colombia, Kenya, France and Germany, which will make recommendations on how sovereign debt can be made more sustainable, both fiscally and environmentally.

Reform proposals in this field include:

- Measures offering debt relief at times of extreme climate-related weather events
- Measures to provide temporary liquidity to countries in or at risk of debt distress
- Proposals for improvement of the Common Framework
- Revisions to the Debt Sustainability Analysis used by the IMF and World Bank
- Climate or nature 'debt swaps'
- New forms of debt linked to climate or sustainability goals.

Debt relief in times of extreme weather events

'Climate (or catastrophe) resilient debt clauses' (CRDCs) are contractual provisions that allow for debt repayments to be temporarily suspended when a borrower experiences a pre- defined shock or stress, such as an extreme weather event or pandemic. Such clauses are intended to be neutral in terms of net present value of the asset and therefore attractive to creditors. They were pioneered by Grenada and Barbados working with a number of creditor countries and institutions.

The UK has published a standardised term sheet for CRDCs, and several MDBs, including the IDB and World Bank, have been introducing them for some debt contracts. Others are yet to do so.

Measures to provide temporary liquidity to countries in or at risk of debt distress

Several organisations have recently put forward proposals aimed at providing countries with debt relief and/or debt restructuring.

The Finance for Development Lab at the Paris School of Economics has published a proposal entitled 'A Bridge to Climate Action' (Diwan *et al*., 2024). Its aim would be to provide liquidity to countries experiencing, or at risk of, debt distress over the next few years when repayments are going to be particularly high. The proposal envisages a tripartite 'deal': MDBs would boost funding for new investments, particularly those linked to climate objectives; creditors would agree to reschedule their claims; and debtor countries would commit to stabilising their economies and promoting recovery. The proposal argues for a

standardised framework to implement such deals, facilitating and incentivising collective action among debtors and creditors.

The Debt Relief for Green and Inclusive Recovery initiative has proposed a more ambitious programme, comparable to the Highly-Indebted Poor Countries (HIPC) initiative of the 1990s. Under this the restructuring of public and private debt and accompanying credit enhancement would be granted against the adoption of climate prosperity plans by indebted countries (Zucker-Marques and Volz, 2023).

The United Nations Development Programme has proposed that a 'poverty pause' be systematically integrated into international lending to low- and middle-income countries (Ecker *et al.*, 2023). A poverty pause would automatically trigger if an exogenous shock shrinks a country's fiscal space and leads to an increase in poverty. Once triggered, the resources previously earmarked for debt servicing would be reallocated in the form of targeted and temporary support to low-income and other vulnerable households.

Proposals for improvement of the Common Framework

Various proposals have been put forward for adjustments to the Common Framework, some of them by the leadership of the World Bank and IMF (Setser, 2023). These include measures such as clearer timelines for negotiation, better information sharing, debt service suspensions at the beginning of the negotiation process, and provision for MDBs to provide grants in lieu of repayment haircuts.

So far it has proved challenging to reach agreement. However, there has been progress towards common understanding on issues such as the importance of improving information sharing, the role of MDBs, and the need to clarify how comparability of treatment among different creditors will be assessed and enforced (GSDR, 2023). Timelines for individual debt restructuring cases are also getting faster: it took 11 months in 2021 for Chad to secure approval of an IMF program, but 6 months for Sri Lanka and 5 months for Ghana in 2023 (GSDR, 2023).

Revisions to the Debt Sustainability Analysis used by the IMF and World Bank

The IMF and World Bank use two different Debt Sustainability Analysis (DSA) methodologies to assess the level of sustainable debt: one for countries that can access capital markets; the other for low-income countries. The DSA plays a key role in debt re-structuring by setting the desired envelope for debt relief: to secure an IMF program the indebted country must then negotiate with different creditors to reach a level of debt consistent with the DSA recommendation.

However, the DSA methodologies have been criticised for not taking into account the public investment and spending needs associated with climate-proofing development. They therefore do not allow the fiscal space – either via debt relief or additional concessional lending – to enable transformative climate action (Bolton *et al.*, 2022). Critics argue that future economic projections should be based on realistic scenarios of climate vulnerability; and that investments in climate transition, such as in renewable energy or adaptation, should not be treated in the same way as investments in carbon-intensive infrastructure, since they increase resilience (Maldonaldo and Gallagher, 2022). The IMF is currently conducting its own review of the LIC DSA methodology. The Expert Review on Debt, Nature and Climate will also consider opportunities to integrate environmental considerations into DSAs.

Climate and nature 'debt swaps'

Debt-for-climate swaps and debt-for-nature swaps are instruments designed to allow governments to invest in climate action and nature conservation without sacrificing spending on other development priorities. Creditors or other donors provide debt relief in return for a government commitment to a specific set of environmental measures. Debt swaps have come to renewed prominence recently with significant agreements in Barbados, Belize, Cabo Verde, Ecuador and the Seychelles (Patel, 2024).

Debt swaps can provide new and additional funds for climate action or nature protection. Debt relief is in effect a highly efficient form of external financial support for the climate or conservation programme: the swap not only reduces debt service payments (thereby freeing up domestic spending) but improves the indebted country's overall balance sheet and credit rating. In this sense debt swaps do not have to be undertaken by a country's creditors; debt may be bought by any willing donor as a means of financing the climate action or nature conservation programme.

As debt relief measures, debt for nature and debt for climate swaps are not a panacea. Most are small relative to total debt, and can take a long time to negotiate, which can make them a somewhat inefficient instrument for both environmental action and debt relief. For countries with unsustainable debt, a swap cannot restore solvency unless executed on a very large scale. Swaps are thus not substitutes for debt restructuring when it is needed.

Nevertheless, debt for climate and nature swaps can provide an attractive financing option in appropriate circumstances. The potential to standardise and scale them up will be considered by the Expert Review on Debt, Nature and Climate.

New forms of debt linked to climate or sustainability goals

Over recent years there has been increasing interest in various forms of thematic 'sustainability-linked' bonds (SLBs). These are debt instruments which make the interest rate or principal payable (or both) conditional on whether or not the issuer meets predetermined Key Performance Indicators (KPIs) related to sustainability objectives. Borrowers that meet their climate or sustainability targets are rewarded with a discount on the bond's coupon. Such securities can often be attractive to international investors committed to supporting sustainable development.

Most SLB issuances have so far been by private sector borrowers: there gas been a rapid growth in volume from $9 bn to $100 bn between 2020 and 2021 (Monnin *et al*., 2024). But sovereign SLBs have now also been issued by Chile and Uruguay. Sovereign SLBs represent an attractive solution for developing countries to tackle both debt and climate challenges at the same time.

The design of sovereign SLBs poses a challenge. It is obviously important that the right ambition level is set for the KPIs to be achieved, and the penalty/incentive system is appropriately weighted. The World Bank has published recommendations on market best practice to ensure integrity and third-party consultation and verification (Flugge *et al*. 2021), and the International Carbon Markets Association has provided a comprehensive list of potential KPIs (International Carbon Markets Association, 2023). Alignment with existing international ESG standards, including the EU Taxonomy, is likely to prove particularly helpful in gaining market acceptance. Sustainability-linked debt is one of the issues to be addressed by the Expert Review on Debt, Nature and Climate.

7 New forms of international taxation

7.1 The taxation agenda

Most of the proposals discussed in this report so far aim to squeeze more financial flows out of existing or enhanced allocations of money in government budgets. But such budgets are highly constrained, in both developed and developing countries. There are many claims on public funds, not all of which can be fulfilled. It is therefore logical for debates on international financial architecture reform to turn their attention also to potential new sources of revenue. If these can be identified and successfully implemented – and the revenues earmarked for investment in sustainable development – the total pie available will be larger. In turn this will make it easier to allocate more money to sustainable development spending.

In general taxation is *not* a field of international collective action. National finance ministries tend to guard jealously their prerogative to raise taxes as they see fit, and are not prone to collaborating with other countries on them (beyond cross-border technicalities like avoiding double taxation). Even within the European Union, only Value Added Tax and excise duties on certain products are harmonised across the member states, and then only minimum rates (European Union 2024).

Nevertheless, over the last decade, international tax cooperation has increased. In particular, the Organisation for Economic Cooperation and Development (OECD) has developed a significant set of measures to combat the problem of 'base erosion and profit shifting' (BEPS). This is the technique whereby multinational companies are able to avoid tax by shifting their accounting profits from higher to lower tax jurisdictions. The OECD estimates that BEPS practices cost countries $100-240 billion in lost revenue every year, equivalent to 4-10% of the global corporate income tax revenue. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately (OECD, 2024).

The OECD/G20 Inclusive Framework on BEPS now commits over 145 countries and jurisdictions to implement fifteen agreed actions to tackle tax avoidance, improve the coherence of international tax rules, ensure a more transparent tax environment and address the tax challenges arising from the digitalisation of the economy (ibid).

An important part of the OECD programme is the 'Two-pillar solution to address the tax challenges arising from the digitalisation of the economy'. Pillar One, if it comes to fruition, will allow countries to tax multinational corporations based on their revenues in each domestic market. It is intended to prevent the proliferation of Digital Service Taxes (DSTs) and relevant similar measures, avoid double taxation and excessive compliance burdens, and enhance stability and certainty in the international tax system.

Under Pillar Two the OECD has established a floor on corporate tax competition. This will ensure a multinational enterprise is subject to tax in each jurisdiction at a 15% effective minimum tax rate regardless of where it operates. In this way, in principle, a level tax playing field is meant to be established across countries – though a number of loopholes in the design mean that this may not happen in practice (EU Tax Observatory 2024).

Although the OECD's BEPS programme involves 145 countries, it was developed primarily by

its 38 member states. As a group of higher-income countries these are not representative of the wider international community. In recent years there has therefore been a move to bring international tax cooperation under the United Nations.

In November 2023 the UN General Assembly approved a resolution, brought by the Africa Group, stating that 'efforts in international tax cooperation should be universal in approach and scope and should fully consider the different needs and capacities of all states'. Although most OECD member states opposed the resolution, it was passed by a recorded vote of 125 in favour to 48 against, with 9 abstentions (UN, 2023). In February 2024 the UN duly started on the negotiation of the terms of reference for a new Framework Convention on International Tax Cooperation. A key focus will be tackling tax evasion, particularly the use of so-called tax havens, and the equitable taxation of multinational corporations in the jurisdictions in which they operate.

A second movement in recent years has been the search for new taxes and levies (sometimes called 'innovative financial mechanisms') to raise finance for development and climate spending (Wemaëre *et al.*, 2023a, Global Citizen, 2024). Two possible principles have generally been thought to be appropriate for such taxes. One is the 'polluter pays' principle, under which it is argued taxes should be levied on activities responsible for causing climate change. Proposals have included taxes on the extraction and/or supply of fossil fuels or the profits made by them, and on the emissions produced by shipping and aviation. It has also been noted that reducing or eliminating subsidies on fossil fuels could release funds for climate spending.

The other possible principle is that of 'ability to pay', under which it is argued that new taxes should fall on those with high incomes and/or wealth. The two leading candidates have been taxes on financial transactions (such as in shares and foreign exchange) and taxes on very wealthy individuals (a 'billionaires' tax'). Some proposals (such as a tax on the windfall profits of oil and gas sector companies) can be categorised under both principles.

Most of the debate about possible new taxes assumes that they would need to be agreed internationally. While there is nothing stopping any individual country from introducing a new tax, and spending the revenues on sustainable development and climate action, it is widely assumed that significant sums can only be generated if all or many countries do so together. In many cases a unilateral tax would risk causing competitive disadvantage to the country introducing it, and therefore only taxes introduced by multiple countries at the same time would be politically feasible.

But this highlights the fact that very few of the taxes suggested for development and climate spending are strictly speaking international taxes. Countries would need to agree them internationally, but national Finance Ministries would be responsible for actually introducing them as domestic policy. Of the taxes discussed below, only the maritime emissions levy would constitute a truly international tax, in the sense that it would be collected by an international agency and the revenues could be distributed without passing through national Treasuries.

The fact that most of the proposed taxes would actually be levied by national Finance Ministries points up a potential weakness in the case for them. There is no guarantee that a nationally-collected tax will be spent on sustainable development or climate action, and especially not in other countries. Once collected by a national

Treasury, all revenue looks alike, and can be spent however the government of the day sees fit. Of course, the international agreement to levy a new tax could include a commitment by participating countries to spend part of it on sustainable development and climate action in developing countries. But it would also need to insist that such spending must be additional to what was already being spent in that field. Otherwise national Finance Ministries could merely claim that the new revenue was funding such expenditure, without actually spending any more. Negotiating the requisite transparency arrangements to ensure that the revenues raised were indeed providing new and additional funds might be as difficult as the basic agreement to introduce the tax.

It is for this reason that the international maritime emissions levy has been seen in some quarters as the most likely candidate for a new tax to raise revenue for climate spending. At the New Global Financing Pact Summit held in Paris in June 2023, a proposal for such a levy was supported by a wide range of countries, with the stipulation that some of the proceeds should be directed towards climate spending, particularly in vulnerable countries (Paris Pact for People and Summit, 2023).

At the same meeting, France, Barbados and Kenya proposed that an international taskforce should be established to look at all the possible taxation mechanisms which could raise revenue for new spending on sustainable development and climate action. The Taskforce was subsequently launched at COP28 with the additional support of Spain, Antigua and Barbuda and the African Union Commission (Global Solidarity Levies Taskforce, 2024). It will assess a range of possible new taxes for their feasibility, their potential to raise revenue, their economic impact and their distributional costs and benefits. The Taskforce will report in advance of COP30 in November 2025.

7.2 Taxes under consideration

Maritime emissions levy

International shipping accounts for around 3% of global anthropogenic GHG emissions, more than 1 Gt of CO_2 equivalent, and it is estimated that this could increase by up to 130% by 2050 (on 2008 levels) unless additional measures are taken to decarbonise the shipping sector (Wemaëre *et al.*, 2023b, Comer and Carvalho, 2023).

Accordingly, in July 2023 the International Maritime Organisation (IMO) established a process to evaluate a levy on shipping emissions, in support of a long-term aim of achieving net zero emissions in the sector by or around 2050. The assessment will report in 2025.

The use of revenues from a levy was not specified in the decision. A number of countries have stated that they are not only in favour of such a levy but would wish to see a proportion of the revenues redistributed for climate action, especially to climate vulnerable countries. A number of small island states argue that a shipping levy could provide a permanent source of revenue for the UNFCCC Loss and Damage Fund. But it is important to note that the core assumption within the shipping sector is that the revenues would be used within the sector itself – that is, to support shipping companies decarbonise their operations (Lo, 2024).

A shipping emissions levy would be most easily collected at fuel bunkers, where ships fill up with fuel. It would be collected by the fuel supplier, and then the assumption is that it would be passed on to the IMO itself for distribution. Because fuel bunkers are located in some countries but not others, it would not go through national Treasuries. But national authorities could audit tax compliance.

In their 2021 paper which initiated the current process within the IMO, the Marshall and Solomon Islands proposed a levy of $100 per tonne of CO2 equivalent, which would equate to approximately $300 per ton of fuel (Wemaëre *et al.*, 2023b). They suggested that the levy rate should be reviewed every five years and increased as necessary to further reduce or eliminate the price gap between conventional fossil fuels and low- and zero-GHG technologies and fuels. They argued that such a levy could be combined with a regulatory global fuel standard.

The scale of revenues which a shipping levy could raise depends both on the tax rate, and the extent to which it incentivised ship owners to shift towards fuel efficient technologies and lower-emission fuels. The World Bank estimates that a 100$/tCO2e levy would raise over $60 billion per year (World Bank 2022). In total, even as the levy led to full decarbonisation of the shipping sector by 2050, cumulative revenues from a 100$/tCO2e levy could amount to $1-2 trillion (Baresic *et al.*, 2022).

If, by way of illustration, one-fifth of the revenues were used outside the shipping sector for climate action in developing countries, that would imply initial annual revenues of upwards of $12 billion. (This would be likely to decline over time as the incentive effects of the levy took hold, unless the tax rate were raised to compensate.)

The economic and distributional impacts of a shipping levy are difficult to identify precisely. (The IMO assessment is attempting to do this.) A levy on emissions would be passed on by shipping companies to those using their services. In turn – with the exact impact dependent on the competitiveness of the relevant markets – these costs would appear in the prices of the goods shipped, and these additional costs would later appear in the prices of all the goods and services made with those goods. The ultimate incidence of the levy (who would effectively pay it, after its costs had passed through various complex supply chains) is therefore difficult to specify. Goods themselves shipped might experience a noticeable price increase. But for most goods and services, given the small proportion of their cost derived from the shipping costs in their supply chains, the impact on final consumers in most countries is likely to be very small.

Distributionally, the impact of a shipping levy would clearly fall much more sharply on countries heavily dependent on shipped imports than those for which this is less true. In effect this means that small island states and least developed countries would experience a much larger increase in costs than economies which manufacture more of their own goods.

The simplest way of dealing with this would be to effectively exempt small island states and other severely impacted countries from the tax. This would be most easily organised via a rebate scheme from the revenues. While the levy would be uniformly applied to all ships, a proportion of the proceeds could be differentially redistributed to countries according to the degree of negative impact (Wemaëre *et al.*, 2023b).

In general, the incidence of the tax is likely to be relatively progressive. Households on higher incomes consume more goods than those on lower incomes and will therefore pay a higher proportion of their income on the tax. But this could still leave low income households facing additional costs which could push them further towards, or into, poverty.

It is difficult to say at this point how likely it is that the IMO will decide to implement an emissions levy. Two factors will be important. First, an

emissions levy is not the only policy on the table aimed at decarbonising the shipping sector. The IMO is also considering various regulatory and voluntary measures aimed at encouraging fuel efficiency and decarbonisation, and it may decide to adopt one or more of these instead of (rather than combined with) a levy.

Second, the IMO's member states are divided on the desirability of a levy. Among developed countries, the European Union is in favour: having already agreed to place the European shipping sector inside the EU Emissions Trading Scheme, it is keen to see a global level playing field established with all shipping companies subjected to an effective tax. At the IMO the proposal is being promoted by a group of climate vulnerable countries, led by the Marshall and Solomon Islands; they argue that a levy could provide funds for climate loss and damage (Lo, 2024). But at the same time, a number of large emerging economies, including China, India and Brazil, have indicated publicly that they are opposed altogether to a shipping levy.

Aviation levies

The aviation industry contributes around 2.5% of global GHG emissions, and this figure is rising rapidly. At its pre-Covid traffic growth rate of about 5% a year, and assuming fuel efficiency improvement of about 1.5% per year, it is estimated that the aviation sector could use up one-eighth of the entire remaining global carbon budget available if the increase in global average temperature is not to exceed 1.5C (IPCC, 2021).

Like shipping emissions, emissions from the aviation sector are (directly) untaxed. Indeed, taxing aviation fuel is formally illegal under the Chicago Convention which has governed the regulation of the international aviation sector since 1944. This has made the International Civil Aviation Organisation (ICAO) historically much less wiling to countenance emissions levies than the IMO. As in the shipping sector, recent years have seen moves within ICAO to improve the fuel efficiency of aircraft and to introduce biofuels as a complement to carbon-heavy aviation kerosene. But unlike the IMO, a levy on emissions has so far not been successfully put on the ICAO agenda (Transport and Environment, 2019).

For this reason efforts to tax the aviation sector have focused on passenger rather than fuel levies. In 2006 a number of countries adopted the proposal for an International Airline Passenger Levy (IAPAL) made in the 2005 UN Declaration on Innovative Sources of Financing for Development, in order to finance health programmes in low- and middle-income countries. In France, for example, the solidarity levy applies to passengers departing from French airports (collected as part of airport duties), with a progressive rate varying from €1 to €40 depending on the class of air travel and destination. Some other countries also have air passenger duties, levied at different rates depending on the distance of the flight and class of seat. In the UK, for example, the rates vary from £7 to £607 per ticket.

In principle, an international air ticket tax could be collected by airlines and distributed to ICAO, with the revenues then available for use both within the aviation sector to support decarbonisation efforts, and for redistribution to developing countries to support wider climate action. In practice, however, the likelihood of a mandatory international tax being agreed is very low.

Groups of countries could, however, decide to introduce such a tax and use the proceeds for international climate spending. Because flights from different countries are not in general in

direct competition with one another, such taxes would not (by and large) cause flights to 'relocate' to low tax jurisdictions as might happen with unilateral taxes in other sectors. The European Union has included intra-European flights within the EU Emissions Trading Scheme since 2012.

Overall, aviation taxes are progressive: people on low incomes tend not to fly at all, and those on higher incomes fly the most. However many developing countries, in particular, are concerned that aviation taxes would be economically and socially damaging, particularly in relatively large and remote countries and those dependent on tourism where flying is an economic necessity.

One proposal to make passenger duties more progressive, therefore, is the 'frequent flyer levy', under which the tax rate would vary according to the number of flights an individual passenger takes in a defined period (Zheng and Rutherford, 2022). Varying the levy based on flying frequency would meet both 'polluter pays' and 'ability to pay' criteria, focusing the tax on wealthier frequent flyers rather than on people who fly only occasionally. It would likely be more politically attractive because it would help ensure that people with lower incomes are not priced out of air travel because of climate policy.

The International Council on Clean Transportation (ICCT) has modelled both a flat rate and a frequent flyer passenger duty, levied on a global basis, aimed at raising $121bn a year (ibid). This is the figure estimated by ICAO to be required in annual investment in decarbonisation technology to achieve a 1.75 °C-compatible aviation emissions reduction pathway to 2050. The ICCT estimates that a global frequent flyer levy (FFL) would generate 81% of revenue from people who take more than six flights a year, and 67% from high-income countries, versus 41% and 51% under a flat tax. Thus, the levy would shift the tax burden from occasional flyers to frequent flyers, and from lower-income countries to high-income countries, relative to an undifferentiated duty. Such a FFL would raise 98% of its revenue from the richest 20% of the global population.

Fossil fuel taxes

As the principal source of greenhouse gas emissions, fossil fuels are the obvious focus of efforts to raise taxes for climate spending. The consumption of fossil fuels is already effectively taxed in many countries, either through differential levies on the generation of electricity or through emissions trading schemes. On the other hand, fossil fuels are also widely subsidised, both in their production and consumption. The IMF estimates that in 2021 (before the Covid pandemic) explicit fossil fuel subsidies totalled a little over $0.5 trillion globally, with that figure rising to $1.2 trillion in 2022 in response to the energy price shock (IMF 2024). One obvious source of revenue from fossil fuels, therefore, would be a reduction in such subsidies.

Two kinds of proposal for increasing the taxation of fossil fuels to raise money for development and climate action have been proposed.

One is for a global agreement to levy a tax at the point where coal, oil and gas are extracted from the ground. Described as a 'climate damages tax' by some of its proponents (Sharma and Hillman, 2024), a Fossil Fuel Extraction Levy is envisaged as a global tax imposed on oil, gas and coal producers. It would be charged for each ton of coal, barrel of oil or cubic meter of gas extracted, at differentiated rates dependent on CO_2 content. Such a tax could provide a new and predictable source of finance while increasing the price of fossil fuels, and thereby incentivising energy efficiency and the

use of alternative energy sources. If the revenues were used in whole or in part for development climate action, it would ensure that the companies whose products are responsible for causing climate change contributed to meeting the costs of loss and damage, adaptation and mitigation. Revenues could also be used to offset the social impact that higher energy prices would have on poorer households.

A levy of this kind could in principle raise very considerable revenues. The campaign coalition Stamp Out Poverty proposes a tax introduced at a low initial rate of $5 per tonne of CO2e, increasing by $5 per tonne each year until 2030 to $50 a tonne (ibid). They estimate that this would raise approximately $210 billion in its first year, rising over time.

Such a tax would have a negative economic impact on fossil fuel producing countries. For low and middle income countries this could be addressed by leaving the revenues in-country, while high income countries contributed, say, 50% to UN climate funds.

Up to now, there is no experience of applying a global tax on fossil fuels. However, the two International Oil Pollution Compensation (IOPC) Funds constitute a relevant precedent for the feasibility of such a levy on the extraction of fossil fuels (Wemaëre *et al*., 2023a). The IOPC Funds provide financial compensation for oil pollution damage resulting from oil spills from tankers, financed by contributions paid by entities involved in the sea transport of oil.

A fossil fuel extraction levy would probably require agreement under the auspices of the UNFCCC, with countries either then transferring the revenues to UN climate funds, or being required to adopt measures to oblige coal, oil and gas companies in their jurisdictions to do so. Any such proposal would almost certainly be opposed, not only by the major fossil fuel producing countries, but by others fearing the impact on energy costs and prices. The use of the revenues to compensate low and middle income countries would need to be carefully designed if such opposition were to be overcome.

An alternative proposal focuses on the windfall profits of oil and gas companies (Wemaëre *et al*., 2023a). A windfall tax is a tax on an unforeseen large profit occurring due to special economic conditions, which is made without any additional effort on the part of the company concerned and which may be regarded as excessive. In principle a windfall tax is temporary, being removed when profits return to 'normal' levels.

According to the International Energy Agency, global petroleum revenues averaged around $1.5tn a year before 2021, but rose to $4tn after the energy price shock of 2022 (Guardian, 2023b). Following this, many developed countries instituted windfall taxes on oil and gas companies, with the revenues used to subsidise consumer prices.

The scope to increase these to raise additional revenue for international climate spending looks limited. And since windfall taxes are (at least in principle) temporary they would not provide a secure source of climate finance. It would also be necessary to ensure that revenues collected by national Treasuries were then provided to the relevant international climate funds.

Given the political difficulties of both these proposals, a simpler proposal has been made by a group of former world leaders (Guardian, 2023b). This is for a voluntary levy on oil and gas revenues by high income countries with state-owned energy companies. Being state-owned,

such companies tend to be relatively lightly taxed: their profits go into government budgets. The proposal is that a small share of these profits should be voluntarily given by their governments to international climate funds, in recognition of the windfall profits they have earned in the last few years. There are five high income countries with state-owned oil and gas companies: Saudi Arabia, Norway, the United Arab Emirates, Qatar and Kuwait. A voluntary levy of 3% of these countries' state-owned petroleum export earnings could raise $25bn for international climate funds (Brown, 2023).

These proposals to tax the fossil fuel sector all suffer from the obvious problem is that, even if countries agreed to them, the revenues would go to national Treasuries and separate decisions would then need to be made to reallocate some or all of the money to international development and climate spending. A much simpler mechanism would be to require oil and gas companies to spend the money themselves.

Many oil and gas companies now claim to be investing in renewables as well as in fossil fuels. But globally the International Energy Agency estimates that just 2.5% of petroleum sector capital is invested in renewables, with 97.5% still going into oil and gas (Guardian, 2023a). One option therefore would be for governments which grant licences to the oil and gas industry to set obligations on them to direct a rising percentage of their total investment allocation towards renewables, with a specified subset of that in emerging and developing countries. If the obligation were in the first instance set at the level of companies (such as Total) which already do invest higher sums in renewables, this could not be said to be infeasible. Since all oil and gas companies are already licenced, adding such an investment condition would in principle be much simpler in legislative terms than levying a tax. (It might however, require coordination of licencing across jurisdictions, since oil and gas companies operate in countries other than those where they are headquartered.) And it would automatically mean that the money would be directed towards climate action, without having to hope that the national Treasury reallocated the revenues.

Financial transactions tax

A financial transaction tax (FTT) is a levy put on financial instruments and contracts such as bonds, stocks, options, and derivatives. It can also apply to monetary transactions, in particular foreign currency exchange. The idea of such a currency transaction tax was first proposed in 1972 by American economist James Tobin. He saw it as a way of raising revenue with little or no cost to the economy. The proposal has often been described as a 'Tobin tax' for this reason.

An FTT can raise significant revenues, even with a very low rate, simply because of the daily volume of transactions on financial and currency markets, particularly in developed countries. It is a progressive tax, providing a very predictable source of finance from the wealthiest citizens and firms who can pay, without disturbing financial markets if the levy remains low.

The regulated nature of financial transactions means that FTTs are easy to implement. A number of developed countries, including the UK, already have 'stamp duties' on transactions in financial securities, which constitute effective FTTs. In the US a very small levy on transactions funds the Federal Securities and Exchange Commission. Among developing countries India also has an FTT to generate funds for domestic spending.

After the failure to obtain unanimous support from all member states on an FTT initially tabled by the European Commission in 2011, eleven EU countries have been seeking to establish a regional FTT (to be set at 0.01%), After several years of unsuccessful discussion, the Commission has been planning to table a new proposal in 2024 for an FTT that would create a new 'own resource' for the EU budget. France, Italy and Spain have created domestic FTTs while waiting for European negotiations to conclude; only France dedicates part of the proceeds to international solidarity.

The idea of using a FTT as a source of climate finance was first proposed by the UN High-Level Advisory Group on Climate Financing (AGF) in 2010. The AGF estimated that a globally applied FTT could raise $7-16 billion a year (Wemaëre *et al.*, 2023a). Oxfam estimates that a FTT applied even in just ten member states engaging in enhanced cooperation could generate about $5-10 billion (Oxfam, 2023). In the US, the Congressional Budget Office has estimated that, at a 0.1% rate as proposed by the Democrats in Congress in 2020, an FTT could generate on average $78 billion per year (Wemaëre *et al.*, 2023a).

While over 30 countries have domestic FTTs, moves to agree an FTT at a global scale have never got very far. The proposal now most discussed is a tax levied just on the trading of shares (equities). Nevertheless, most developed countries have been highly resistant, arguing that their financial trading sectors would simply move to countries and jurisdictions not levying the tax.

Taxes on wealthy individuals

In its role as presidency of the G20, Brazil has recently proposed an internationally coordinated tax on extremely wealthy individuals, dubbed a 'billionaire's tax' (Guardian 2024). The proposal for such a tax, levied at an annual rate of 2% of net wealth, has been developed in a report by the EU Tax Observatory (2024). The report notes that there are around 3000 billionaires in the world, many of whom are 'hyper-mobile' individuals able effectively to evade tax by moving certain types of income, including dividends from company shares, through dedicated holding companies. It finds that such loopholes allow extremely rich individuals to avoid certain forms of income tax, resulting in effective tax rates often worth just 0%-0.6% of their total wealth. This compares with the rates paid by most wealthy citizens who do not employ these loopholes, typically between 20% and 50% (ibid.).

It is estimated that a 2% tax levied globally could raise around $250bn a year from the world's 2,756 known billionaires, who together are believed to be worth $13tn (ibid.). The proposal is modelled on the 2021 OECD agreement for a global minimum tax rate of 15% on the largest multinational companies. The billionaire's tax would represent a comparable global minimum tax on the world's wealthiest individuals.

8 Recommendations

This report suggests that finance, economic development, climate and environment ministers from G20 countries and others should engage with and contribute to broader debates around reform of the international financial architecture. They can do this by:

- Supporting efforts at home and internationally to mobilise domestic resources and improve the quality of public expenditure to generate greater and better climate-related investment.
- Supporting the implementation of the recommendations of the G20 Independent Expert Group on Strengthening MDBs to make the MDBs 'bigger, bolder and better'.
- Promoting domestically and internationally a review of the financial regulation of commercial banks and institutional investors, and the guidance given to them, in relation to climate-related investments in EMDEs.
- Supporting efforts to relieve and restructure sovereign debt in countries in or at high risk of debt distress, particularly focused on measures which can expand the fiscal space for climate-related investment.
- Constructively engaging with efforts to assess and introduce new taxation instruments which can raise revenues for sustainable development spending.

Taken together, the proposals set out in this report have the potential to substantially increase and improve the flows of finance going to low-emission, climate-resilient, nature-positive and include development, as well as enhancing the Paris-alignment of other finance flows. They could thereby foster a more systemic and cooperative approach to achieving the Sustainable Development Goals and the goals of the Paris Agreement.

References

Africa Climate Summit (2023). The African Leaders Nairobi Declaration on Climate Change and Call to Action – Africa Climate Summit 2023. (https://africaclimatesummit.org/resources)

Attridge, S., Getzel, B. and Gregory, N. *et al.* (2024), Trillions or billions? Reassessing the potential for European institutional investment in emerging markets and developing economies. London: ODI. (https://odi.org/en/publications/trillions-or-billions-reassessing-the-potential-for-european-institutional-investment-in-emerging-markets-and-developing-economies/)

Attridge, S. and Gouett, M. (2021). Development finance institutions: the need for bold action to invest better. London: ODI. (https://odi.org/en/events/development-finance-institutions-bold-action-to-build-better/)

Attridge, S. and Novak, C. (2022). An exploration of bilateral development finance institutions' business models. London: ODI. (https://odi.org/en/publications/an-exploration-of-bilateral-development-finance-institutions-business-models/)

Baresic. D. *et al.* (2022). Closing the Gap Report - An Overview of the Policy Options to Close the Competitiveness Gap and Enable an Equitable Zero-Emission Fuel Transition in Shipping. London: UMAS. (https://www.globalmaritimeforum.org/content/2021/12/Closing-the-Gap_Getting-to-Zero-Coalition-report.pdf)

Baylin-Stern A, Berghout N. (2021). Is carbon capture too expensive? Paris: International Energy Agency. (https://www.iea.org/commentaries/is-carbon-capture-too-expensive)

Blended Finance Task Force (2023). Mobilising Domestic Capital to Drive Climate-Positive Growth: Action Agenda, Consultation Version. London: Blended Finance Task Force. (https://www.blendedfinance.earth/domestic-capital-mobilisation)

Bolton P. *et al.* (2022). *Geneva 25: Climate and Debt*. Paris: Center for Economic Policy Research. (https://cepr.org/publications/books-and-reports/geneva-25-climate-and-debt)

Brown, G. (2023). How do we raise trillions of dollars to fight the climate crisis? The answer is staring us in the face. *Guardian,* 25 September. (https://www.theguardian.com/commentisfree/2023/sep/25/we-need-trillions-of-dollars-to-fight-the-climate-crisis-this-is-my-plan-to-raise-it)

Buchner B. *et al.* (2023). Global Landscape of Climate Finance 2023. London: Climate Policy Initiative. (https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/)

Carbon Brief (2023). In-depth Q&A: Can 'carbon offsets' help to tackle climate change? (https://interactive.carbonbrief.org/carbon-offsets-2023/index.html)

Comer, B. and Carvalho, F. (2023). IMO'S newly revised GHG strategy: what it means for shipping and the Paris Agreement. International Council on Clean Transportation. (https://theicct.org/marine-imo-updated-ghg-strategy-jul23/)

Diwan, I., Songwe, V. and Kessler, M. (2024). A Bridge to Climate Action. Paris: Finance for Development Lab. (https://findevlab.org/a-bridge-to-climate-action/)

Diwan, I. and Harnoys- Vannier, B. (2024). The collapse of external finance to developing countries. Finance for Development Lab. (https://findevlab.org/the-collapse-of-external-finance-to-developing-countries/)

Ecker S, Molina GG, Jensen L, Ortiz-Juarez E. (2023). The Human Cost of Inaction: Poverty, Social Protection and Debt Servicing, 2020–2023. United Nations Development Programme.

European Union (2024). Taxation. Website. (https://european-union.europa.eu/priorities-and-actions/actions-topic/taxation_en#)

EU Tax Observatory (2024). Global Tax Evasion Report 2024. Paris. (https://www.taxobservatory.eu/www-site/uploads/2023/10/global_tax_evasion_report_24.pdf)

Expert Panel (2022). Boosting MDBs' investing capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks. (https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf)

Flugge, M., Mok, L. Chi Kiu, R. and Stewart, F. E. (2021). Striking the Right Note: Key Performance Indicators for Sovereign Sustainability-Linked Bonds. Washington DC: World Bank (https://documents.worldbank.org/en/publication/documents-reports/documentdetail/935681641463424672/striking-the-right-note-key-performance-indicators-for-sovereign-sustainability-linked-bonds)

Gallien, M., Lees, A., and Mascagni, G. (2024) 'Getting Targets Right: How Much Revenue can Lower-Income Countries Raise?,' ICTD Policy Brief 6, Brighton: Institute of Development Studies. (https://www.ids.ac.uk/publications/getting-targets-right-how-much-revenue-can-lower-income-countries-raise/)

Global Citizen (2024). Where is the money? 6 ways to scale finance for climate and development needs. (https://media.globalcitizen.org/Finances-for-Development-and-Climate-Report.pdf)

Global Solidarity Levies Taskforce (2024). Website. (https://internationaltaxtaskforce.org/)

Government of Barbados (2022). Urgent and Decisive Action Required for an Unprecedented Combination of Crises: The 2022 Bridgetown Initiative for the Reform of the Global Financial Architecture. (https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf)

Government of Barbados (2023). Bridgetown Initiative 2.0 Highlights Six Key Action Areas. (https://gisbarbados.gov.bb/blog/bridgetown-initiative-2-0-highlights-six-key-action-areas/)

Government of France (2023). Summit for a New Global Financing Pact. Website. (https://www.elysee.fr/en/emmanuel-macron/summit-on-a-new-global-financing-pact)

Gregory, N. (2023). Tacking Stock of MDB and DFI Innovations for Mobilizing Private Capital for Development. Center for Global Development. Washington, DC. (https://www.cgdev.org/publication/taking-stock-mdb-and-dfi-innovations-mobilizing-private-capital-development)

Guardian (2023b). Companies still investing too much in fossil fuels, global energy watchdog says. 27 November. (https://www.theguardian.com/business/2023/nov/23/companies-still-investing-too-much-in-fossil-fuels-global-energy-watchdog-says)

Guardian (2023a). Former world leaders seek $25bn levy on oil states' revenues to pay for climate damage. 28 November. (https://www.theguardian.com/environment/2023/nov/28/former-world-leaders-seek-25bn-levy-on-oil-states-revenues-to-pay-for-climate-damage)

Guardian (2024). 'A historic step': G20 discusses plans for global minimum tax on billionaires. 29 February. (https://www.theguardian.com/news/2024/feb/29/taxation-worlds-billionaires-super-rich-g20-brazil)

GSDR – Global Sovereign Debt Roundtable (2023). *Cochairs Progress Report: October 12, 2023*. International Monetary Fund, World Banka and Finance Ministry of India. (https://www.imf.org/en/News/Articles/2023/10/12/pr23348-global-sovereign-debt-roundtable-cochairs-progress-report)

Humphrey, C. and Prizzon, A. (2022). Why and how multilateral development banks should operate in middle-income countries. London: ODI. (https://odi.org/en/insights/why-and-how-multilateral-development-banks-should-operate-in-middle-income-countries/)

Humphrey, C., McHugh, C. and White, E. (2023). Making sense of hybrid capital for multilateral banks. ODI London: ODI. (https://odi.org/en/publications/making-sense-of-hybrid-capital-for-multilateral-banks/)

IEG (2023a). Strengthening Multilateral Development Banks: The Triple Agenda. Report of the Independent Expert Group on Strengthening MDBs, Volume 1. (https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda)

IEG (2023b). The Triple Agenda: A Roadmap or Better. Bolder and Bigger MDBs. Report of the Independent Expert Group on Strengthening MDBs, Volume 2. (https://icrier.org/publications/the-triple-agenda-a-roadmap-for-better-bolder-and-bigger-mdbs/)

IHLEG (2022). Finance for climate action: scaling up investment for climate and development (https://www.lse.ac.uk/granthaminstitute/publication/finance-for-climate-action-scaling-up-investment-for-climate-and-development/)

IHLEG (2023). A climate finance framework: decisive action to deliver on the Paris Agreement. (https://www.lse.ac.uk/granthaminstitute/publication/a-climate-finance-framework-decisive-action-to-deliver-on-the-paris-agreement-summary/)

IMF – International Monetary Fund (2018). Assessing Fiscal Space: An Update and Stocktaking. Washington, DC. (https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/06/15/pp041118assessing-fiscal-space)

IMF – International Monetary Fund (2023). Resilience and Sustainability Trust. Washington, DC. (https://www.imf.org/en/Topics/Resilience-and-Sustainability-Trust)

IMF – International Monetary Fund (2024). Fossil fuel subsidies. Website. (https://www.imf.org/en/Topics/climate-change/energy-subsidies)

International Carbon Markets Association (2023). Sustainability-Linked Bond Principles Voluntary Process Guidelines. (https://www.icmagroup.org/assets/documents/Sustainable-finance/2023updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf)

IPCC Working Group I: the Physical Science Basis -Intergovernmental Panel on Climate Change (2021). IPCC Sixth Assessment Report – Working Group I: the Physical Science Basis. (https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_TS.pdf)

Lo J. (2024). Shipping sector pushes to keep emissions-tax cash for itself. Climate Home. (https://www.climatechangenews.com/2024/03/20/shipping-emissions-tax-cash-for-itself/)

Maldonaldo, F. and Gallagher, K. P. (2022). Climate Change and IMF Debt Sustainability Analysis. Boston, MA: Boston University Global Development Policy Center. (https://www.bu.edu/gdp/files/2022/02/TF_WP_005_FIN.pdf)

Miller, M., Pudussery, J. and Rosenfeld, D. (2023). The role of IMF financing in a climate-changed world. ODI blog. 04 October 2023. (https://odi.org/en/insights/the-role-of-imf-financing-in-a-climate-changed-world/)

Monnin, P., Feyertag, J., Robins, N. and Wollenweber, A. (2024). Aligning Sovereign Bond Markets with the Net Zero Transition: The Role of Central Banks. London: LSE Grantham Research Institute

on Climate Change and the Environment. (https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/03/Aligning-sovereign-bond-markets-with-the-net-zero-transition_the-role-of-central-banks.pdf)

OECD – Organisation for Economic Co-operation and Development. (2024a). Climate Finance Provided and Mobilised by Developed Countries in 2013-2022. Paris: OECD Publishing. (https://www.oecd.org/climate-change/finance-usd-100-billion-goal/)

OECD – Organisation for Economic Co-operation and Development. (2024b). What is BEPS? Website. (https://www.oecd.org/tax/beps/about/)

Oxfam (2023). Survival of the richest – How we must tax the super-rich now to fight inequality. Oxford: Oxfam International. (https://policy-practice.oxfam.org/resources/survival-of-the-richest-how-we-must-tax-the-super-rich-now-to-fight-inequality-621477/)

Paris Pact for People and Planet (2024). Website. (https://pactedeparis.org/en.php#retoursommet)

Patel, S. (2024). Averting the crises: how a new approach to debt could raise US$400 billion for climate and nature. London: International Institute for Environment and Development. (https://www.iied.org/21001iied)

Plant, M. (2023). Funding Hybrid Capital at the AfDB Is the Best Deal for SDR Donors. Center for Global Development blog. (https://www.cgdev.org/blog/funding-hybrid-capital-afdb-best-deal-sdr-donors)

Prizzon, A., Josten, M. and H. Gyuzalyan (2022). Country perspectives on multilateral development banks: a survey analysis. London: ODI. (https://odi.org/en/publications/country-perspectives-on-multilateral-development-banks-a-survey-analysis/)

Prizzon, A. and Getzel, B. (forthcoming). Addressing cross-border challenges: what should multilateral development banks do differently? A review of the literature.

Ray R, Simmonds B. A. (2024). Now or Never: Mobilizing Capital for Climate and Conservation in a Debt-Constrained World. Boston, MA: Boston University Global Development Policy Center. (https://www.bu.edu/gdp/2024/02/02/now-or-never-mobilizing-capital-for-climate-and-conservation-in-a-debt-constrained-world/)

Setser, B. (2023). The Common Framework and its discontents. Council on Foreign Relations blog. (https://www.cfr.org/blog/common-framework-and-its-discontents)

Setser, B. and Paduano, S. (2023). The world needs a second channel for using SDRs. Council on Foreign Relations blog. (https://www.cfr.org/blog/world-needs-second-channel-using-sdrs)

Sharma, S. and Hillman, D. (2024). The Climate Damages Tax A guide to what it is and how it works. London: Stamp Out Poverty. (https://www.greenpeace.org.uk/wp-content/uploads/2024/04/CDT_guide_2024_FINAL-1.pdf)

Steadman, S., Gençsü, I., Mustapha, S., Colenbrander, S., and Tyson, J. (2023). Indebted: how to support countries heavily reliant on oil and gas revenues to secure long-term prosperity. London: ODI. (https://odi.org/en/publications/indebted-how-to-support-countries-heavily-reliant-on-oil-and-gas-revenues-to-secure-long-term-prosperity/)

Temple J. (2023). The growing signs of trouble for global carbon markets. MIT Technology Review. (https://www.technologyreview.com/2023/11/02/1082765/the-growing-signs-of-trouble-for-global%20carbon-markets/)

Transport and Environment (2019). UN aviation agency fails again on climate. Press release. (https://www.transportenvironment.org/articles/un-aviation-agency-fails-again-climate)

Voluntary Carbon Markets Integrity Initiative (2024). Website. (https://vcmintegrity.org/)
UNCTAD (2024). A World of Debt. Geneva: UNCTAD. (https://unctad.org/publication/world-of-debt)
UNFCCC – United Nations Framework Convention on Climate Change (2021). First Report on the Determination of the Needs of Developing Country Parties Related to Implementing the Convention and the Paris Agreement. Bonn: UNFCCC. (https://unfccc.int/topics/climate-finance/workstreams/determination-of-the-needs-of-developing-country-parties/first-report-on-the-determination-of-the-needs-of-developing-country-parties-related-to-implementing)
Wemaëre M., Vallejo, L. and Colombier, M. (2023s). Financing loss and damage: Overview of tax/levy instruments under discussion. (https://www.iddri.org/en/publications-and-events/note/financing-loss-and-damage-overview-taxlevy-instruments-under)
Wemaëre M., Vallejo, L. and Colombier, M. (2023b). Designing a greenhouse gases (GHG) levy supporting an equitable low carbon and resilient transition of international shipping under the IMO. Paris: IDDRI. (https://www.iddri.org/en/publications-and-events/note/designing-greenhouse-gases-ghg-levy-supporting-equitable-low-carbon)
Welham B. and Miller M. (2022). Managing a new era of IMF lending conditions. London: ODI. (https://odi.org/en/insights/managing-a-new-era-of-imf-lending-conditions/)
World Bank (2022). Carbon Revenues From International Shipping: Enabling an Effective and Equitable Energy Transition. Washington DC: World Bank Group. (https://www.worldbank.org/en/topic/transport/publication/carbon-revenues-from-international-shipping)
World Bank (2023a). Detox development: repurposing environmentally harmful subsidies. Washington DC. (https://www.worldbank.org/en/topic/climatechange/publication/detox-development)
World Bank (2023b). International Debt Report 2023. Washington DC. (https://www.worldbank.org/en/programs/debt-statistics/idr/products)
Zheng, X. and Rutherford, D. (2022). Aviation Climate finance using a global frequent flyer levy. Washington DC: International Council on Clean Transportation. (https://theicct.org/wp-content/uploads/2022/09/global-aviation-frequent-flying-levy-sep22.pdf)
Zucker-Marques, M. and Volz, U. (2023). Another Lost Decade or a Decade of Action? Debt Relief for a Green and Inclusive Recovery. (https://drgr.org/files/2023/04/DRGR_PB_001-_FIN.pdf)