GLOBAL ECONOMIC GOVERNANCE INITIATIVE

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Negotiating in the Dark?

HOW TO ACCOUNT FOR MULTILATERAL DEVELOPMENT BANKS IN THE NEW COLLECTIVE QUANTIFIED GOAL

TIM HIRSCHEL-BURNS

EXECUTIVE SUMMARY

At the upcoming 29th United Nations Climate Change Conference (COP29) in Baku, Azerbaijan in November, parties are expected to agree on a New Collective Quantified Goal (NCQG) to replace the $100 billion climate finance goal set in 2009.

The $100 billion – in addition to being met two years late – left open significant questions on what counts as climate finance, the meaning of mobilization, distribution of responsibility among contributors and allocation to recipients, sources of finance, and how to differentiate between grants, concessional loans and non-concessional loans. The NCQG will have to improve on the shortcomings of the $100 billion goal and acknowledge that the climate finance landscape has changed significantly since 2009. Most notably, multilateral development banks (MDBs) have emerged as the engine of growth of climate finance.

Though the Sharm El-Sheikh Implementation Plan that came out of COP27 called on MDB shareholders to align MDB finance towards Paris Agreement goals and substantially increase climate finance, the evolution of MDBs' climate finance has largely taken place outside the UN Framework Convention for Climate Change (UNFCCC). Instead, MDBs' boards, their joint climate finance methodology and climate finance accounting by the Organization for Economic Co-operation and Development (OECD) have all played important but insufficiently coordinated roles.

Without a solid understanding of the role of MDBs in climate finance, UNFCCC members will be negotiating in the dark at Baku. This policy brief argues that the NCQG must account for the nuances

of MDBs' climate finance if negotiators are to agree upon an ambitious and effective new global climate finance goal.

Key Findings

- MDBs are the fastest growing source of climate finance, according to the OECD. Reported climate finance from MDBs more than tripled from 2013-2022, and MDBs accounted for more than half the growth in climate finance mobilized by developed countries since 2013.
- Two factors are driving the increase in MDB climate finance: first, MDBs report that they are dedicating a greater share of their financing to climate change, and second, MDBs are increasing their overall financial capacity.
- A novel calculation reveals that it is entirely plausible that, under the OECD's current accounting methodology, developed countries could exceed $100 billion in climate finance exclusively through MDB climate finance in the near future—even without sources like bilateral climate finance and multilateral funds like the Green Climate Fund.

Policy Recommendations

To ensure that MDB climate finance plays a sufficient and appropriate role in the NCQG, the NCQG should aim to accomplish three targets.

- First, the NCQG should send a clear signal about the importance of MDB finance and push MDBs to increase their climate ambition in support of an overall quantum much larger than $100 billion.
- Second, negotiators should differentiate finance based on its cost to recipient countries to create an adequately nuanced NCQG and preserve countries' debt sustainability. Options to achieve this include setting specific sub-targets for grants, below-market rate loans and market-rate loans, or by calculating grant-equivalency based on loans' degree of concessionality.
- Third, the NCQG is an opportunity for governments to finally agree upon a robust definition of climate finance and ensure consistency and transparency in climate finance reporting.

The $100 billion goal's lack of nuance or attention to sources of finance facilitated a situation where climate finance was often low quality, redirected from other development priorities or relabeled as climate finance with unclear justification, and fell far short of climate needs.

COP29 presents a critical opportunity to course-correct, but thus far, the NCQG debate has paid curiously little attention to the fastest-growing source of climate finance: MDBs. If MDBs are to play the right role, the NCQG must be written to account for the nuances of MDBs' climate finance, further leveraging their already substantial potential for collective climate action.

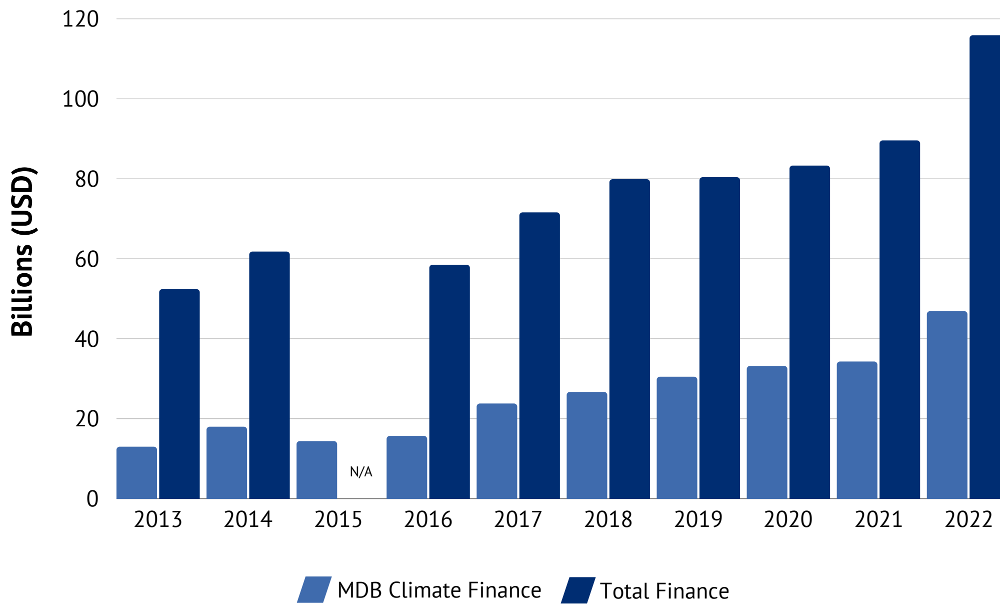
INTRODUCTION

The Organization for Economic Co-operation and Development (OECD) recently announced that, two years after the original 2020 deadline, developed countries met and exceeded the $100 billion per year target for climate finance for developing countries (OECD 2024).[1] Beneath that topline figure lay an underreported trend that is vital to understanding the present and future of climate finance: multilateral development banks (MDBs) have been the engine of growth of climate finance.

[1] The OECD's reporting framework is not universally accepted, and flaws with the $100 billion goal and climate finance reporting will be discussed in later sections of this policy brief.

As seen in Figure 1, in 2022, the latest year for which the OECD has provided data, MDBs accounted for 40 percent of the climate finance attributed to developed countries, surpassing bilateral public climate finance to become the largest source of climate finance reported by the OECD (OECD 2024). Even more notable is the speed of the increase in MDBs' climate finance: according to the OECD, MDBs have accounted for more than half the growth in climate finance mobilized by developed countries since 2013, the first year for which the OECD published such data. Since 2013, the OECD finds that the amount of climate finance from MDBs has more than tripled, reflecting a faster rate of growth than any other source of climate finance, as shown in Figure 2.

Figure 1: The Growth of MDB and Total Climate Finance Reported by the OECD



Source: OECD 2024.

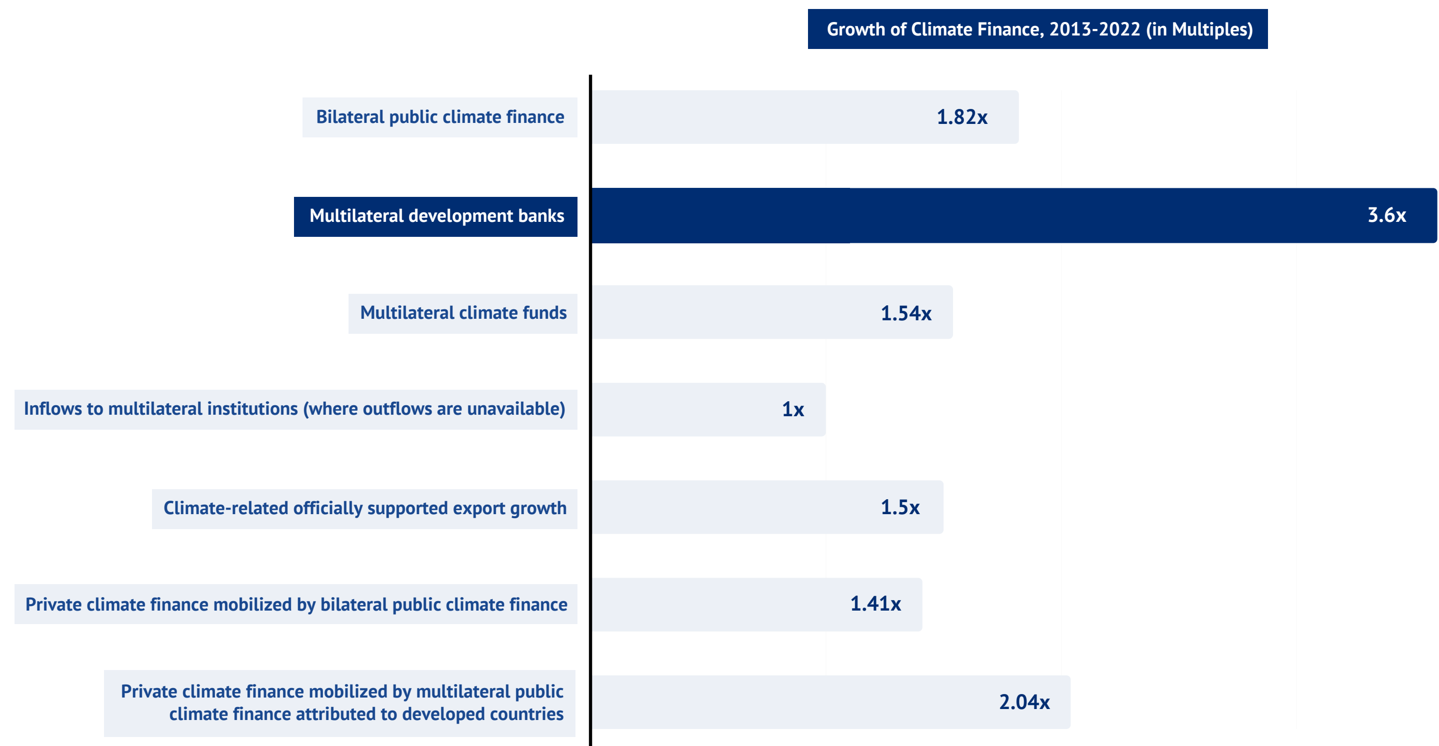
Note: The amount of MDB climate finance listed only refers to what the OECD counts as MDBs' contributions to multilateral public climate finance attributed to developed countries, not the OECD's figures for private climate finance mobilized by MDBs.

There is every reason to think that MDBs will continue to play an increasingly central role in climate finance. The ongoing evolution of MDBs is motivated in large part to make MDBs more effective at addressing cross-border challenges like climate change. A 2022 speech from US Secretary of the Treasury Janet Yellen is widely seen as kickstarting this evolution process (Yellen 2022). The Sharm El-Sheikh Implementation Plan soon followed, adopted at the 27th UN Climate Change Conference (COP27) in 2022 and calling on MDB shareholders to align MDB finance towards Paris Agreement goals and substantially increase climate finance (UNFCCC 2022).

While there are many positive aspects to MDBs' growing attention to climate change, legitimate questions have also been raised about the quality of their climate finance (Cichocka and Mitchell 2022), transparency and accounting (Farr, Morrissey and Donaldson 2022; Kenny 2023), as well as its alignment with climate justice principles (Casado Sanchez and Botts 2024).

These questions are very timely. United Nations Framework Convention on Climate Change (UNFCCC) members will decide on the New Collective Quantified Goal (NCQG)—the climate finance goal to succeed the $100 billion—in November at COP29 in Azerbaijan. Without a solid understanding of the role of MDBs, they will be negotiating in the dark.

Figure 2: Growth of Sources of Climate Finance, 2013-2022



Source: OECD 2024.

Note: 2013 marks the first year of OECD reporting.

WHAT ARE MDBS?

MDBs are banks formed by a group of countries that provide financing towards development purposes. The World Bank is the largest MDB but there are many others, most of which are regional or sub-regional development banks. While MDBs offer longer-term finance at a lower cost than private lenders, finance typically comes as loans, though MDBs also offer some grants. As they are backed by creditworthy nations, MDBs typically have excellent credit ratings and can borrow money on capital markets at low rates (Humphrey 2023). By then lending these funds to developing countries with just a small markup to cover staff costs and provide financial buffers to MDBs, MDBs can effectively pass on their credit ratings to developing countries with weak credit ratings that would face higher borrowing costs on the market. Unlike commercial banks, MDBs allocate financing based on development objectives rather than profitability. However, MDB lending has not always been effective at achieving these objectives (Wang and Xu 2024) and has historically paid insufficient attention to avoiding negative social repercussions (Bretton Woods Project 2019).

Aspects of MDBs' financial model are well suited to addressing climate change. Climate action, including renewable energy installation and adaptation investments, require high upfront costs and long return periods. While markets have not acted with sufficient speed or equity to meet climate goals, MDBs can help provide these long-term investments, especially in developing countries that would face prohibitive rates or be unable to borrow on the market at all (Ray and Simmons 2024). MDBs are also able to provide countercyclical finance, an important feature to ensuring climate

investments continue during downturns (Lee and Aboneaaj 2021). And importantly, because they leverage funds on capital markets, they can provide significantly more financing than what member countries put in: for example, from 1944-2020, the International Bank for Reconstruction and Development (IBRD)—the largest branch of the World Bank—provided over $750 billion in loans based on just $18 billion in paid-in capital (Humphrey 2023).

HOW DOES THE OECD COUNT CLIMATE FINANCE FROM MDBS?

The OECD provides regular updates on the progress made by developed countries in meeting the $100 billion goal under the UNFCCC. In determining how much finance from MDBs counts towards the $100 billion, the OECD's accounting reflects two things: what share of MDBs' total financing counts as climate finance and what share of the finance can be attributed to developed countries.

To determine what counts as climate finance, MDBs apply a joint methodology, which uses different approaches for mitigation finance and adaptation finance (EIB 2023b, EIB 2022). Recommendations for improving the methodology and its implementation are discussed in following sections, but if applied properly, MDB work that "avoids, reduces or sequesters greenhouse gas emissions, or promotes efforts to achieve these goals" counts towards mitigation. Adaptation finance is defined as "reduc[ing] the risks or vulnerabilities posed by climate change and increas[ing] climate resilience" (EIB 2022). For adaptation finance, MDBs only count the components of projects specifically contributing to adaptation. For mitigation, sometimes only certain components of the project are counted as climate finance, while other times, entire projects are counted as such.

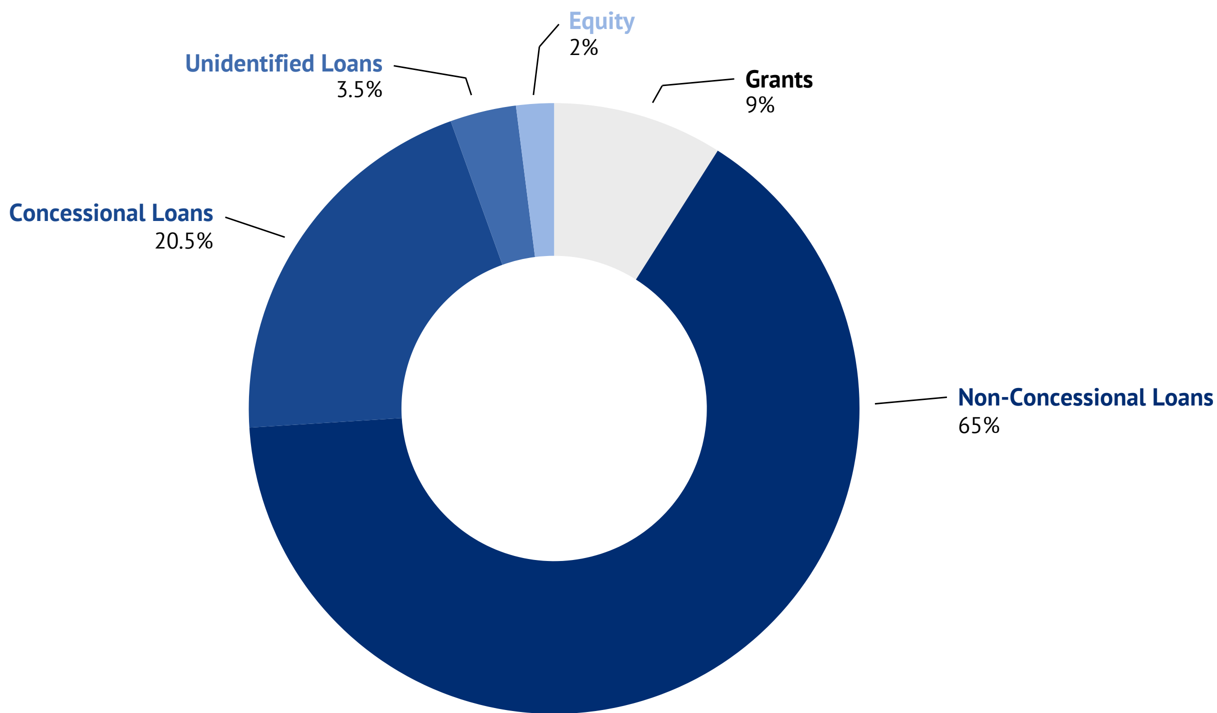
Not all climate finance provided by MDBs counts towards the $100 billion goal. Both developed and developing countries are shareholders of MDBs, so the OECD imputes an amount of climate finance to developed countries based on the shareholdings of developed countries (under the UNFCCC definition) in each MDB—in 2022, that meant that 71 percent of total MDB climate finance was attributed to developed countries (OECD 2024).

The OECD provides additional disaggregation of these numbers, allowing for a more detailed understanding (OECD 2024). The OECD counts MDB climate finance towards the $100 billion goal based on the face value of the finance, with no differentiation between grants and loans. In 2022, just 9 percent of MDB climate finance came as grants, and only 23 percent of climate finance loans were concessional. However, it should be noted that even MDB loans that are considered non-concessional generally come at lower interest rates than those at which countries could borrow on the market.

In terms of the purpose of MDB climate finance, from 2016-2022, 69 percent went towards mitigation, 29 percent to adaptation and 2 percent was cross-cutting (OECD 2024). However, the share of adaptation finance has been increasing in recent years (Neuneubel et al. 2023).

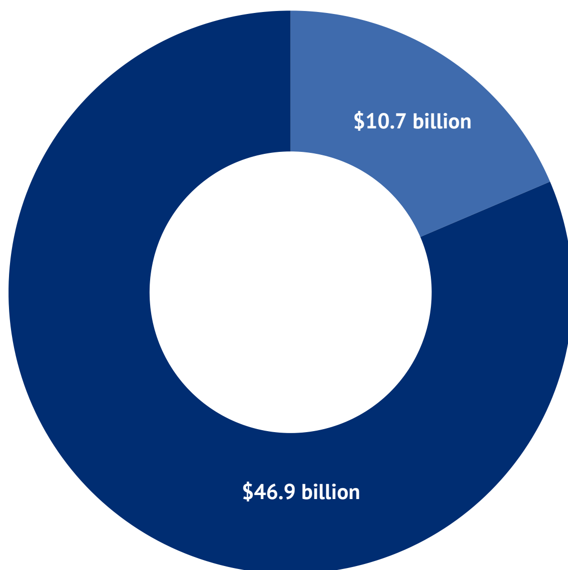
Of all MDB climate finance, 10 percent went to low-income countries, 44 percent to lower-middle income countries, 38 percent to upper middle-income countries, 2 percent to high-income countries and 6 percent was not classified by income group (OECD 2024). The OECD also reports private finance mobilized by MDBs towards the $100 billion goal. While this number is significantly smaller than the amount of climate finance provided directly by MDBs, it still accounts for almost half of all mobilized private finance counted towards the $100 billion goal.

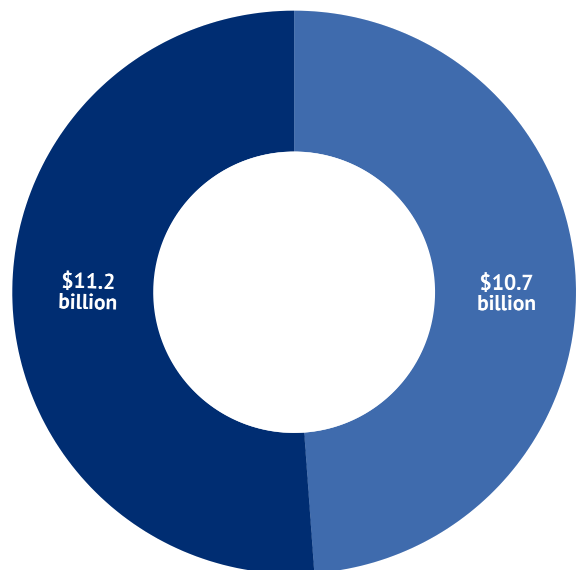
Figure 3: Composition of Climate Finance Provided by MDBs



Source: OECD 2024.

Figure 4: Private Finance Mobilized by MDBs in Perspective





Source: OECD 2024

WHY IS MDB CLIMATE FINANCE EXPANDING?

As noted, reported MDB climate finance has expanded rapidly in recent years, and there is every reason to expect that trend to continue. Two factors are driving the increase in MDB climate finance: first, MDBs report that they are dedicating a greater share of their financing to climate change (EIB 2023b), and second, MDBs are increasing their overall financial capacity (Development Committee 2024).

Climate change has emerged as a priority for MDBs and their shareholders, and they have sought to reflect this priority in their operations. Increases in MDB climate finance date back more than a decade. In 2019, the High Level MDB Statement at the UN Secretary-General's Climate Action Summit set a collective target to provide at least $65 billion per year in climate finance by 2025 (EIB 2019). The launch of the World Bank's evolution process in 2022, as well as similar evolution processes at other MDBs, has further energized efforts for MDBs to do more on climate change (Development Committee 2). As shown in Table 1, all major MDBs have set targets to increase the proportion of their finance that addresses climate change. They have reported rapid progress towards these goals: the World Bank, for example, has reported moving from 18 percent in 2016 to 37 percent in 2022.

Table 1: Climate Finance Overview by MDB

	Reported climate finance to low- and middle-income countries 2022	2022 share of climate finance imputed to developed countries	Share of total 2022 finance reported as climate finance	Target for share of total finance committed to climate finance
African Development Bank	$3.7 billion	African Development Bank: 61.2% African Development Fund: 93.4%	45%	40% of approvals
Asian Development Bank	$7.1 billion	71.6%	38%	75% of committed operations by 2030
Asian Infrastructure Investment Bank	$2.3 billion	28.6%	35%	50% of approvals by 2025
European Bank for Reconstruction and Development	$4.3 billion	91.4%	43%	50% of investment by 2025
European Investment Bank	$4.2 billion	100%	46%	50% of financing by 2025
Inter-American Development Bank	$5.9 billion	73.9%	34%	30% of financing
Islamic Development Bank	$1.1 billion	0%	33%	35% of financing by 2025
New Development Bank	$0.5 billion	0%	28%	40% of approvals 2022-2026
World Bank Group	$31.7 billion	International Bank for Reconstruction and Development: 71.3% International Development Association: 95.9% International Finance Corporation: 65.4%	37%	45% of financing by 2025

Source: EIB 2023b, OECD 2024, Neuneubel et al. 2023.

Note: Because MDBs' definitions of low- and middle-income countries do not align perfectly with the UNFCCC's definition of developing countries, the reported climate finance figures are slightly different from those the OECD would use for climate finance calculations.

MDBs are also expanding the total amount of finance they provide. In an environment of huge investment needs (G20 IEG 2023), high interest rates and limited donor appetite to provide funds (Alemayehou and McNair 2024), MDBs have great appeal due to their ability to borrow from the international capital markets on the backs of shareholder capital to provide financing at lower rates than what borrower governments can receive through the market.

There are five main routes to expanding MDBs' financial capacity currently under discussion:

1. **Stretching balance sheets:** Set in motion by the Group of 20 (G20)'s Independent Review of MDBs' Capital Adequacy Frameworks (CAFs), CAF reforms are further along than other mechanisms to expand MDBs' financial capacity. The IBRD—the World Bank's non-concessional arm that lends to middle-income countries—lowered its equity-to-loans ratio from 20 percent to 19 percent and increased limits for bilateral guarantees, enabling $50 billion in additional lending over 10 years (World Bank 2024a). The Asian Development Bank stretched its balance sheet to enable $100 billion in additional lending over 10 years (ADB 2023). Other CAF reforms proposed in the G20 report have yet to be implemented and discussions are underway to make further headway on CAF reforms.
2. **Better valuing callable capital:** MDBs have far more "callable capital" than paid-in capital. Unlike paid-in capital, shareholders have not given callable capital to MDBs but have only pledged to provide it if MDBs faced a severe financial shock and needed to call it in (Humphrey 2024). Callable capital is fairly unique to MDBs, as other financial institutions lack an equivalent form of capital. MDBs have also never actually used callable capital. As a result, credit rating agencies do not always understand callable capital and both they and MDB management are likely undervaluing it. MDBs and their shareholders have sought to provide greater clarity on the value of callable capital (World Bank 2024b). Changes in the valuation of callable capital could ultimately enable significantly more lending without requiring shareholders to contribute a single additional dollar to the MDBs (Humphrey 2024).
3. **Hybrid capital:** Hybrid capital is like equity in that it does not come with a set payback date for principal payments and counts as equity on MDBs balance sheet (Sala and Plant 2024). It resembles a security—such as a bond—in the way MDBs sell it to raise money and buyers of hybrid capital do not get additional votes in MDBs as they would if they increased their capital contributions. MDBs can leverage hybrid capital to lend out several times its value (World Bank 2024c). Multiple forms of hybrid capital have been explored. Seven European countries have committed to buying hybrid capital from the World Bank (World Bank 2024c), while the African Development Bank recently issued hybrid capital to private investors for the first time (AfDB 2024). With hundreds of billions of Special Drawing Rights (SDRs) sitting idle on advanced economies' balance sheets, rechanneling SDRs to MDBs as hybrid capital provides another option (Plant 2024). The IMF recently approved this use of SDRs, though it set a cumulative limit of SDR 15 billion (IMF 2024). Another option would be for central banks to use foreign currency reserves to purchase bonds issued by MDBs (Gallagher and Zucker-Marques 2024).
4. **Concessional windows**: MDBs typically offer non-concessional loans, but they also have concessional arms like the World Bank's International Development Association (IDA). Non-concessional loans are normally priced at the interest rate MDBs borrowed from on capital markets—which is far lower than the rate at which most middle- and low-income countries could borrow on their own—with a small markup. This model allows MDBs to be self-sufficient with their existing equity base. However, MDBs offer concessional loans to poorer countries or, in a recent development, to incentivize investments in global public goods. Concessional lending depends on periodic contributions from shareholders to subsidize the lower rates. Increasing concessional lending depends on shareholders increasing

their contributions (World Bank 2024d). This year's IDA replenishment will serve as an indicator of shareholders' appetite for this option.

5. **General capital increases:** General capital increases are the traditional means of increasing MDBs' lending capacity. Shareholders pay in capital—which comes with voting powers—and MDBs can leverage this equity base to expand lending. The World Bank's IBRD and International Finance Corporation (IFC) last received capital increases in 2018, receiving $7.5 billion and $5.5 billion increases in paid-in capital, respectively. IDB Invest, the Inter-American Development Bank's private sector arm, received a $3.5 billion capital increase in March (IDB Invest 2024). The G20 Independent Expert Group on Strengthening MDBs recommended further capital increases for MDBs (G20 IEG 2023). In comparison to other methods of expanding MDBs' financial capacity, increases in paid-in capital create the least risk for MDBs and provide the most flexibility to design financing appropriate to meet MDB objectives (Humphrey, McHugh and White 2023).

In addition to increasing MDBs, direct financial capacity, shareholders hope that MDBs can do more to facilitate and incentivize private investments. Significantly expanding MDBs' mobilization of private capital has been a high priority for MDBs and their shareholders (Development Committee 2015). However, MDBs have faced significant difficulties in scaling up private capital mobilization, and they current only mobilize $0.60 for each dollar they lend (G20 IEG 2023). In an attempt to increase private capital mobilization, the World Bank has reorganized its guarantees into a single platform (World Bank 2024e), while it has also launched a Private Sector Investment Lab that aims to identify options for scaling up private capital mobilization (World Bank 2023).

HOW COULD DEVELOPED COUNTRIES SURPASS $100 BILLION IN CLIMATE FINANCE FROM MDBS ALONE?

It is entirely plausible that in the near future, under the OECD's current accounting methodology, developed countries could exceed $100 billion in climate finance *exclusively* through MDB climate finance—even without sources like bilateral climate finance and multilateral funds like the Green Climate Fund. The separate question of how climate finance *should* be counted is addressed shortly, and ultimately, it is unlikely that a singular lump sum target like the $100 billion goal will come out of the NCQG. Still, this calculation is illustrative of the direction of MDB climate finance and the effect of the OECD's current accounting methods.

To use a novel back of the envelope calculation, MDBs will almost certainly increase overall financing in the next half-decade. To use one illustrative figure, the G20 Independent Expert Group on Strengthening MDBs recommends that MDBs provide $390 billion in annual financing by 2030 (G20 IEG 2023). If 45 percent of that $390 billion counted as climate finance (a level equal to or below most MDBs' climate finance targets) and 71 percent of the climate finance were attributed to developed countries (the share attributed to developed countries in 2022), the OECD would calculate $124 billion as climate finance provided from developed countries to developing countries.

While all these assumptions could vary, it remains realistic that developed countries could surpass $100 billion in climate finance under the OECD's current accounting techniques. The $390 billion in annual MDB financing by 2030 is the most uncertain variable. The G20 Independent Expert Group report identified this amount as necessary to meet global goals, but the G20 has not endorsed it—the subsequent G20 Leaders' Declaration said "stronger MDBs will be important to our efforts to mobilize financing from all sources for a quantum jump from billions to trillions of dollars for development" (G20 2023). While MDBs and their shareholders have already expanded MDB lending

capacity by tens of billions of dollars per year, tripling lending capacity would require significantly more action.

The 71 percent of MDB climate finance imputed to developed countries could also decrease slightly: a round of general capital increases at MDBs would likely lead to greater shares for developing countries. However, the estimate of 45 percent of total MDB finance dedicated to climate could well be surpassed. Two MDBs already report that they have surpassed 45 percent, four MDBs have set targets to surpass it and others may increase their targets prior to 2030. The World Bank's 45 percent target, for example, was set with a 2025 deadline. Even if overall MDB finance expanded to just $200 billion (rather than the $390 billion recommended by the G20 Independent Expert Group) and 71 percent was attributed to developed countries, OECD accounting would produce a sum of $100 billion if climate finance represented 70.5 percent of total MDB finance—a figure that would require a significant but still plausible shift of MDB operations towards climate or increased flexibility in climate finance accounting standards.

While the exact direction of the different variables is uncertain, the general trend points towards significantly more MDB climate finance. From 2016-2022, before significant reforms to expand MDB climate finance were put in place, MDB climate finance attributed to developed countries by the OECD more than tripled (OECD 2024). The World Bank Evolution Roadmap did not launch until 2022, the same year that capital adequacy reforms kicked off in earnest. Many of the MDBs only set or updated their climate finance targets recently. Developed countries' MDB climate finance would need to roughly double to reach $100 billion. Given that it tripled in the six years before 2022, it is entirely possible that it will double in the eight years following 2022.

WHAT DOES THIS MEAN FOR THE NCQG?

With MDBs' climate finance playing a far more prominent role now than when the $100 billion goal was set in 2009, negotiations will need to design an NCQG that is tailored to account for the nuances of MDBs' climate finance and capitalizes on MDBs as suppliers of low-cost, long-term finance. While MDBs' increased attention to climate change is a positive trend, there are significant questions about how this finance should be reflected in the context of the UNFCCC. The NCQG should recognize that more MDB climate finance is needed, but there are also good reasons for public climate finance to come from sources other than MDBs, and any climate finance counted towards the NCQG should reflect genuine climate investments.

First, the NCQG must identify a way to build on the Sharm El-Sheikh Implementation Plan's call on MDBs to increase their climate ambition so that MDBs can support an overall quantum much larger than $100 billion. The scale of MDBs' climate finance looks far different depending on the benchmark it is held up against. In the context of the $100 billion goal, the $46.9 billion of MDB climate finance attributed to developed countries in 2022 looks quite large. When held up against the $2.4 trillion per year climate investment needs facing emerging market and developing economies other than China by 2030, the need to increase the ambition of MDBs' climate finance is apparent (Songwe, Stern and Bhattacharya 2022). The G20 Independent Expert Group's recommendation to triple MDB finance by 2030 derives from this figure (G20 IEG 2023). They estimate an additional $1.8 trillion per year will be needed to reach $2.4 trillion per year in climate investments, as well as an additional $1.2 billion per year to meet the UN 2030 Sustainable Development Goals (SDGs), creating the need for $3 trillion in additional annual investments. Their report estimates that $1 trillion will have to come from external resources, with MDBs providing $260 billion of this sum ($200 billion non-concessional and $60 billion concessional).

MDBs' financial model allows them to offer significant amounts of public finance relative to the amount of money donors put in, positioning them as a highly tractable option for scaling up public climate finance. The NCQG is likely to target a quantum significantly larger than $100 billion, and under current political realities it would be difficult to meet that larger goal without major increases in MDB climate finance. Increasing the ambition of climate targets without increasing the financial capacity of MDBs also creates the risk that climate change will crowd out other development priorities. MDBs' ability to expand their climate ambition depends in large part on their shareholders, and the NCQG can offer political momentum to these reforms.

Second, the NCQG should differentiate between different types of public finance, ensuring that climate finance works towards multiple objectives and protects countries' debt sustainability. The insufficient nuance of the $100 billion goal—with no differentiation between grants and loans or mitigation, adaptation, and loss and damage—created perverse incentives. MDB climate finance serves a key role, but it should not replace other forms of finance that are more grant-based or country-owned. Without adequate differentiation in the NCQG, the growth in MDB climate finance could crowd out other types of climate finance, rather than forming part of a complementary scaling up of different sources of public climate finance.

To create an adequately nuanced NCQG and to preserve countries' debt sustainability, negotiators should differentiate finance based on its cost to recipient countries. Options to achieve this differentiation include setting specific sub-targets for grants, below-market rate loans and market-rate loans, or by calculating grant-equivalency based on loans' degree of concessionality. Adaptation and loss and damage financing—also potential focuses of sub-targets—are particularly ill-suited for non-concessional loans. Further, the NCQG's qualitative language could encourage MDBs' lending to be on favorable terms and help advance structural transformation that enables medium- and long-term debt sustainability.

Third, the NCQG must provide safeguards by providing a clear definition of what counts as climate finance and guidance on how it should be counted. The OECD and MDBs' methods of accounting for climate finance are highly debated. For example, Oxfam found that it could not independently verify the World Bank's reported climate finance in Fiscal Year 2020, and the figure could be off by as much as 40 percent (Farr, Morrissey and Donaldson 2022). Findings such as this raise concerns that a significant share of reported finance could come from relabeling standard MDB projects as climate finance rather than a substantive change in MDB operations.

Several reforms could ensure that MDB climate finance reported towards the NCQG reflects genuine climate investments, and the NCQG can facilitate these guardrails even if the granular details of climate finance accounting will need to be ironed out in other fora. MDBs' recent joint announcement of a new common approach to measuring climate results is welcome and, if implemented properly, will make available data such as greenhouse gas emissions avoided, renewable energy enabled and numbers of people gaining access to new adaptation support, such as social protection and emergency preparedness services (EIB 2024).

MDBs should report which projects include climate finance along with detailed climate finance assessments for each such project, including which activities are counted as climate finance and how the amount of climate finance for the activity was estimated, and then document the amount of climate finance actually delivered at project closing rather than relying on figures from assessments done prior to project implementation (Farr, Morrissey and Donaldson 2022). This information should be published in a publicly accessible database. The NCQG will not be able to address the details of the MDBs' joint methodology, but many challenges concerning climate finance reporting

and transparency are not unique to MDBs. The NCQG can provide greater clarity and consistency by including a definition of climate finance, and qualitative language and transparency mechanisms can also set guardrails. Ultimately, climate finance that is counted towards the goal should be additional to existing development finance and only include activities that are specifically climate focused.

CONCLUSION

Thus far, the NCQG debate has paid curiously little attention to the fastest-growing source of climate finance: MDBs. The $100 billion goal's lack of nuance or attention to sources of finance contributed to a situation where climate finance was often low quality, redirected from other development priorities or relabeled as climate finance with unclear justification, and fell far short of climate needs. With only a few months remaining until CO29, there is extremely little clarity on sources of finance, and MDBs are hardly mentioned in the co-chairs' input paper (Gilbert and Fakir 2024).

MDBs will inevitably play a major role in the NCQG, but the NCQG must be written to account for the nuances of MDBs' climate finance if they are to play the right role. It should push MDBs to continue to increase their climate ambition, recognizing that they can serve a key role in the climate finance ecosystem. However, the NCQG should also ensure that MDB climate finance does not exacerbate threats to countries' debt sustainability, crowd out other public climate finance or development finance, or reflect shifts in accounting techniques rather than genuine climate finance. Consideration of the role of MDBs in providing climate finance provokes thorny questions, but if the NCQG is to fulfill its mandate, addressing them is not only unavoidable, but also advantageous.

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