New Goals on Climate Finance: A need for 2QTD Mechanism

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Abstract

EThe paper intends to present some important aspects from developing countries' points of view for setting up the new collective quantified goal of mobilizing finance for global climate actions during the post-2025 period. The committed long-term finance mobilization target from developed countries to deal with the risks from climate change remained abysmally low and far from the actual requirement. Several studies and reports highlighted that if there is further delay in initiating requisite climate actions, the higher would be the future costs both for mitigation and adaptation. The developing nations are putting their requirements in the UNFCCC in the range of trillions of dollars. To fulfil these vast needs and priorities of developing nations, the new goal will play a critical role. In this regard, the goal should integrate four essential characteristics, namely, qualitative, quantitative, temporal, and dynamic mechanisms.

Keywords: Climate Change, Climate Finance, New Collective Quantified Goal, UNFCCC

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Introduction

Determination of the post-2025 target of mobilization of financial resources for climate action is the primary fundamental question in front of the Standing Committee of Finance (SCF) of the United Nations Framework Convention on Climate Change (UNFCCC). Until now, arguments on climate finance mainly centred on the target of USD 100 billion mobilization from developed to developing nations; although this target has never been met. As per the Organisation for Economic Cooperation and Development's (OECD) estimate, the total climate finance provided and mobilized by developed countries in 2020 was USD 83.3 billion, of which USD 68.3 billion was from public sources (OECD 2022). However, OXFAM challenged this number and claimed that the actual value of climate assistance provided was around a third of the OECD's estimate for 2020 (OXFAM 2022). The UNFCCC – SCF, in its Fifth Biennial Assessment and Overview of Climate Finance Flows report (2022), also showcased the shortfall of USD 100 billion mobilization target by developed countries. The report presented the climate-specific financial support based on the preliminary data collected from the Annex II Parties through bilateral, regional and other channels, with USD 40.2 billion in 2019 and USD 40.1 billion in 2020.[1]

With regard to the post-2025 mobilization target, limited studies exist on determining the New Collective Quantified Goal (NCQG) on finance mobilization, which was agreed upon by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA). Decision 1/CP.21 (para 53) decided to set the new goal from the floor of USD 100 billion per year, considering the needs and priorities of the developing nations. Pauw et al. (2022) recommended a detailed assessment of needs and priorities to inform the post-2025 target and suggested having asub-target for grants. Delayed efforts to fulfil the needs will increase the resource requirement bymultiple folds, both for mitigation and adaptation actions (Sanderson and O'Neill 2020).

This paper presents a possible approach that should follow to determine the new goal, mainly for developing nations where the availability of resources is far from the actual need. The new goalshould develop higher transparency and accountability to feed the increasing demand at an appropriate scope, scale, and speed.

Why to set the new goal on finance mobilization for climate actions?

The worldwide call for stepping-up climate actions is louder than ever. However, global action onclimate change is contingent on the delivery of timely and adequate finance. The UNFCCC, adopted in 1992, recognized the pivotal role finance plays in climate actions and mandates countries in Annex II (Industrialized countries) to provide financial resources including for the transfer of technology needed by the developing countries to take climate actions. Though three decades havepassed, climate finance discussions still lack a precise and adequate system of accounting modalities for financial resources. Limited clarity on the definition of climate finance is impeding transparent estimation of the mobilization of climate finance by developed countries. The core parameters of climate finance, as per the UNFCCC, have to be new and additional, climate-specific finance with an emphasis on grant elements and public finance that need to take care of both adaptation and mitigation objectives of the developing country's climate actions. To ensure higher transparency, Article 9 of the Paris Agreement obligates the developed country Parties to provide 'ex-ante' and 'ex-post' transparent and consistent information on

[1] Details available at https://unfccc.int/documents/619173

support for developing country Parties through public interventions biennially. Unfortunately, the reports submitted by the developed countries are also not doing justice to the obligations in several ways—the 26th and 27th versions of the COP direct SCF to continue its work on the definition. In line with this, the international climate regime sets in motion a serious discourse on the Scope, Scale, and Speed of climate finance required to take climate actions effectively. This lack of transparent rules leads to incomparable amounts being reported by countries applying their own discretion and judgment.

Under the UNFCCC, the intent and obligation of climate finance are unambiguous that developedcountry Parties shall provide financial resources to developing countries.[2] Climate finance shouldsupport both the adaptation and mitigation activities of developing countries in accordance with the country's needs and priorities. The Paris Agreement also gives equal weightage to adaptation and mitigation.[3] While the Convention laid out the responsibilities between developed anddeveloping countries in regard to finance, the indication of the size or quantum of finance remainedgloomy. However, the magnitude and enormity of climate finance requirements were recognized in several publications with highly diverse estimates, including the Need Determination Report[4] (NDR) of the UNFCCC. The first NDR (2021), though not providing a precise estimate of the needs of the developing nations, indicates that it ranges from USD 5.8 trillion to USD 11.5 trillion to carry out the committed climate actions.[5]

Moreover, this approximate estimate became dated as many countries, including India, have recently updated their NDCs to achieve deeper emission reductions. October 2022 report by the World Resources Institute estimated a net increase in the requirement of climate finance by USD1.5 trillion from the initial to the current NDCs (Fransen *et al.* 2022). Against this massive need, the annual mobilization of climate finance is falling far short and needs to increase by many folds to limit the warming and adapt to climate change (Buchner et al. 2021). With respect to India's requirement to achieve a low-emission pathway, the document Long-Term Low Emission Development Strategy (LT-LEDS)[6] submitted to the UNFCCC in November 2022 presents estimates in the range of tens of trillions of dollars by 2050. For the gradual transformation of India's energy system, the recent study by Vishwanathan & Garg (2020) estimated a requirement of a cumulative investment of USD 6–8 trillion between 2015 and 2030. Against these monumental requirements, USD 100 billion is minuscule, and there is an urgent need for adequate and timely mobilization of resources.

What are developing nations' demands?

In 2021, CoP26 brought in the much-awaited decision on the NCQG on Finance. Developing countries put forth the argument to consider their needs and priorities as the only primary factor for setting up the goal. The deliberations on this issue started at COP26 in Glasgow, where some countries and country groups came up with the requirement of commitments from Developed Countries. South Africa suggested USD 750 billion annually by 2030 for its climate action. The Like-Minded Developing Country (LMDC) group, along with the African Group of

[2] Article 4.3, 4.4, 4.5, and 4.7 of the UNFCCC

[3] Article 9 of the Paris Agreement

[4] Details available at 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

[5] The estimate is based on the costed needs mentioned in the countries' NDCs, NCs and BURs.

[6] Details available at https://unfccc.int/sites/default/files/resource/India_LTLEDS.pdf

Negotiators (AGN), tabled the requirements of at least USD 1.3 trillion per year by 2030[7] with a balance between mitigation and adaptation and a significant percentage on a grant basis. To formally decide the target, COP26 (CMA-3) established an ad-hoc work programme for the period 2022–2024.

Finance has always been a major dynamic in the UNFCCC climate negotiations. The two cardinalprinciples of the Convention, Equity and Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC), squarely place the responsibility of providing finance for climate actions upon developed countries. Such provision of financial resources to the developingcountries needs to meet their full and incremental cost of climate action. A watershed moment in finance negotiations was achieved in Copenhagen back in 2009 when a mobilization target of USD 30billion for the period 2010–2012 and long-term finance of a further USD 100 billion per year by 2020by the developed countries was mooted. In Cancun in 2010, these numbers were confirmed with the criteria of ‘new & additional’, ‘mitigation and adaptation balance’, and private sectors’ participation in the mobilization of finance. The Paris Agreement in 2015 extended the mobilization period till 2025. It also mandated establishing a new collective goal of finance mobilization from the floor of the USD 100 billion per year target. Meanwhile, the mobilization targettook the shape of a conundrum mainly due to the lack of a multilaterally agreed definition of climate finance.

The developed world had been falling flat in maintaining the responsibility for provision, mobilization and flow of finance all the way. Data shows that even for the pledges, which is expected to be rather ambitious number, the developed countries lag in milliards of miles comparedto the commitments. As per Climate Funds Update estimates (up to January 2022), the pledges by developed countries were only USD 43 billion cumulative, whereas the approved and disbursed climate finance are only USD 28 billion and USD 10 billion, respectively. The imbalance in adaptation and mitigation finance is evident in the skewed preference of climate finance momentum in the latter. The fifth biennial assessment and overview report by the UNFCCC states “Mitigation finance constituted the largest share of climate-specific financial support through bilateral, regional and other channels, at 57% (USD 17.9 billion) whereas Adaptation finance exhibited a meagre rise from 20% (US$ 6.4 billion) in 2017–2018 to 28% (USD 8.9 billion) in 2019–2020. Even among the UNFCCC funds and multilateral climate funds, (driven mostly by approvals in GCF, GEF, and Clean Technology Fund) adaptation fund registered only USD 356 million in new pledges in 2021. Juxtaposed this with the burgeoning pressure upon developing countries to augment the NDCs and enhance climate actions, it was very much apparent that developed countries commit to a new goal of climate finance, which needs to come into play at the earliest.

As per Decision 9/CMA.3 of COP26, the new goal is decided to contribute to and accelerate the achievement of Article 2 of the Paris Agreement, aiming to restrict the temperature rise well below2 degrees centigrade above the pre-industrial level. It was decided that the new goal would take into account the needs and priorities of the developing countries. Four technical expert dialogues per year were decided to conduct under the ad-hoc work programme. Till now a total of five dialogues have been conducted, however, action-oriented outcomes are yet to have arrived.

The key findings of the report by the co-chairs of the work programme submitted during COP27 at Sharm el-Sheikh mentioned that the new goal should include qualitative and quantitative elements, among others, as claimed by the participants of the technical expert dialogues. The reportrecognized that a bottom-up approach

[7] Refer Conference Room Paper by the group of LMDC and the AGN in COP26.

should be in place to set the new goal that takes into accountthe needs and priorities of the developing nations. Side-by-side, there are already a few processeswhich are also likely to influence the new goal, such as global stocktake, enhanced transparency framework, global goal on adaptation, and the works of the Standing Committee of Finance. COP27 acknowledges the need to strengthen the ad-hoc work programme on the NCQG on climate finance in the light of the urgency of scaling up climate action with a view to achieving meaningfuloutcomes from the deliberations on all elements and setting the new goal in 2024, taking into account the needs and priorities of developing countries. On this, along with developed countries, a stronger commitment of MDBs in the form of accelerated investment through various instruments, including grants and concessional finance across sectors and guarantees to enable leveraging of finance, would be critical in achieving the low carbon development target of developing nations.

The importance of the finance mobilization issue in India's G20 Presidency

Considering the importance and urgency of ensuring adequate and timely mobilization of financefor climate action, India's G20 presidency has shown its positive intent by setting the issue as a priority point in this year's discussion to achieve a consensus among the world's major economies. The first Finance Ministers and Central Bank Governors (FMCBG) meeting held during February 24–25, 2023 recognized the importance of scaling up climate finance and mobilization of timelyand adequate resources for meeting the ambitious net zero target. G20 is a group of countries whereboth developed and developing nations took part, and if any consensus is achieved on the mobilization of finance for climate action, that is expected to have a significant influence on settingthe new collective goal under UNFCCC. Along with India's presidency in 2023, two major developing economies—Brazil and South Africa are going to have their presidency of G20 in 2024and 2025, respectively, which may focus on carrying forward this issue before setting up the collective goal.

Possible approach that should be followed to determine the demand

From the Developing country's perspective, the NCQG should integrate four important characteristics to fulfil the needs and requirements of the developing countries, Qualitative and Quantitative (2Q), Temporal (T), and Dynamic (D) mechanism. This would imply:

Qualitative: improved access to grants and low-cost or concessional finance for climate actions, which conform to Article 4.3 of the Convention. The objective should be that climate action shouldnot be onerous for developing countries, who already face a developmental challenge. The word 'collective' should be stressed as a burden for the developed country only. Few developed nations, despite achieving their stages of development are not showing their intent to follow a low-carbon pathway. This will add to their historical responsibility for carbon emissions that lead to an increased responsibility to pay for creating the cause of the damage for many of the developing and small island nations. There should be credibility and predictability and reliability in the provision and flow of finance. Besides the role of developed nations, the criticality of private finance should be stressed in determining the new goal. With massive requirements of resources in mitigation, especially in the renewable energy sector, private finance and private investment can play a catalytic role. As the renewable energy investments offer significant returns, private finance from international sources can be a welcome step in the developing countries. The UNFCCC financial mechanisms such as GCF and other multilateral agencies like World Bank, IMF and ADB can provide this leverage through either project-level investments, accredited access

entities or regional and national development banks. However, adaptation actions, due to their inherent nature, warrant public investments. Catering to the 'polluter pays' principle, developed countries are responsible to provide these resources to the developing countries.

Quantitative: The magnitude of finance must cater to the enormity of the needs of finance. The Scope, Scale and Speed of finance need to be augmented substantially. There is a need to developinnovative financing options to improve the flow of resources. The role and scope of private finance in climate actions should also have to be explained transparently.

Temporal: Like the actions in climate, the provision, mobilization and flow of finance are of the essence as well. Hence, a time-bound action in resource provision needs to be emphasized. This aspect became more important after experiencing the failed commitments of mobilization of USD 100 billion per year. These two principles are targeted towards the scope, scale and speed of finance that the developing countries, including India, have been emphasizing for a long time. There enormity of the resource requirement and some mechanism to ensure time bound compliance (unlike the USD 100 billion pledge) is the key for this purpose.

Dynamic mechanism: It is quite well accepted among climate experts that the demand for financeand technology will increase with the passage of time. Hence, with the evolving nature of the climate, there should have a well-established mechanism for estimating the financial needs of developing countries in a dynamic manner. The mechanisms for mobilizing financial resources should also evolve with a gap of periods. Deliberation on this in future climate negotiations is vital.The dynamism ofthe NCQG framework can be based on a well-developed formula and framework based on the needs and priorities of developing countries. The mechanism should have a continuous process which will provide feedback to the UNFCCC and the international community based on the requirements of developing countries through the revised NDCs, at equivalent periodic intervals.

Some good sources of feedback are already placed in the UNFCCC system and the Paris Agreement Work Programme outcomes. The Biennial Assessment Report and the Needs Determination report by the UNFCCC, and the Biennial Transparency Report based on Articles 9.5 and 9.7 of the Paris Agreement can give a very holistic idea of the finance momentum both from the demand and the supply side.

Conclusion

Climate change is one of the biggest challenges of our time, which is acting as a major burden to developing nations in following up the development priorities. On the flip side, developing nationscannot ignore these priorities, as without development, these nations will not be able to adapt to the risks of climate change. As is scientifically advocated by the Intergovernmental Panel on

Climate Change (IPCC), the major cause of this climate change is mainly attributed to the global carbon stock for which developed countries are responsible. As clearly mentioned in the IPCC AR6 report, that in near future every region in the world is projected to face further increases in climate hazards, increasing multiple risks to ecosystems and humans. "Hazards and associated risks expected in the near-term include an increase in heat-related human mortality and morbidity (high confidence), food-borne, water-borne, and vector-borne diseases (high confidence), and mental health challenges (very high confidence), flooding in coastal and other low-lying cities and regions (high confidence), biodiversity loss in land, freshwater and ocean ecosystems (medium to very high confidence, depending on ecosystem), and a decrease in food production in some regions (high confidence)." Moreover, it would not be incorrect to admit now

that the climate is not changing; it has already changed. Global concerted efforts, according to the principles of equity and CBDR-RC, are the need of the hour to tackle the negative externalities of climate change.

As finance is the critical enabler in addressing this issue, and the responsibility to mobilize resources rests upon developed nations, it is pertinent now to bring transparency in the flow of finance for climate actions. In this regard, the global stocktake in 2024 under the UNFCCC and the setting up of NCQG in 2025 will play a decisive role. The TEDs are in place to analyse the country's claims and fix up the mechanism of finance mobilization; this paper serves as a policy suggestion with possible characteristics of the new goal of finance mobilization. It suggests the new goal should have to fulfill the quality aspects and its adequacy to serve the developing nations' needs and priorities. The incorporation of the dynamic parameters as proposed in this paper presents an opportunity to continuously evolve and understand the resource requirements of climate actions by developing countries along with a mechanism where the approach becomes bottom up, instead of top down financial pledges just for mobilization. Besides, the new goal should come up with a confirmed time frame. Moreover, as with the passage of time, the requirements of finance are increasing multiple folds due to delayed and inadequate efforts; there should have a dynamic mechanism with a window of correction in goals in future years based on the actual performances with a gap of few years.

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