Photo credit: World Bank

Finance

A Call for High-Quality, Scaled-Up Finance that Meets the Needs of Developing Countries

AT COP27, COUNTRIES NEED TO:

- Demonstrate tangible and credible progress from developed countries—especially the G7—toward delivering $600 billion cumulatively by 2025. This progress must include a roadmap for increasing transparent, accessible, and grant-based finance for adaptation, and ultimately result in parity between adaptation and mitigation finance by 2025.
- Provide clear finance targets for mitigation, adaptation, and loss and damage finance. In so doing, recognize the role of the private sector and other non-state actors while maintaining the indispensable role of public finance from developed countries at the center of the new collective quantitative finance goal. This must draw from lessons learned, science, and the needs of developing countries, while acknowledging that trillions will need to be mobilized in order to achieve a 1.5°C-aligned transformation.

CONTEXT AND RATIONALE

The financial obligations and commitments of developed countries under the UNFCCC processes, stated in Articles 4 and 11 of the convention and continued in Article 9 of the Paris Agreement, are the current anchors of international public climate finance and a critical symbol of trust, international cooperation, climate justice and solidarity.[1] However, as noted "with deep regret" at the 26th Conference of the Parties of the UNFCCC (COP26) in 2021, the failure of developed countries to meet the $100 billion goal by 2020, feeds into the credibility gap and hamstrings the ability of developing countries to plan further climate action.

1 Independent Expert Group in Climate Finance. 2020. *Delivering on the $100 Billion Climate Finance Commitment and Transforming Climate Finance*. https://www.un.org/sites/un2.un.org/files/2020/12/100_billion_climate_finance_report.pdf.

In looking into the future, including in the process of determination of the New Collective Quantified Goal on Finance (NCQG), the provision, mobilization and access to public and private climate finance are critical to meet the goals of the Paris Agreement and achieve a 1.5°C-aligned transformation that is estimated in a range of US$4.5-5 trillion annually by 2030 in the form of financing, international cooperation, and investments.[2]

In this context, what is now needed ahead of and at COP27 is advancing and delivering the financial obligations under the UNFCCC in a manner that aims to rebuild trust and contribute to a just, resilient transition in developing countries; building on the lessons learned on the current $100 billion mobilization goal (backward-looking perspective) and delving into what these lessons mean for designing and establishing the NCQG by 2024 (forward-looking insights). Simultaneously, the chapter is underpinned by the premise that, ultimately, a transformation of the global financial system is needed for a low-emissions and resilient development consistent with the Paris Agreement's long-term goals. The transformation of the financial system may not happen only through the UNFCCC processes, but the UNFCCC processes play a major role in making it happen.

There is sufficient global capital and liquidity available to close global investment gaps for the 1.5°C transition.[3] However, this global capital is currently misallocated; and what is directed to climate action is not only highly insufficient, but also has generated fundamental inequities in access to finance, including costs, terms and conditions, and economic vulnerability that disproportionately affect developing countries. The capacities of developing countries, especially those of the most vulnerable, will remain limited and lagged to support adaptation and mitigation actions and respond to associated losses and damages without strengthening enabling conditions, including finance. Meeting the financial obligations and commitments under the UNFCCC processes is the starting point, but the requirements go far beyond. The financial architecture needs to transform to channel the required trillions of dollars for mitigation and adaptation, align finance investments with the Paris Agreement, support responses to losses and damages, and address and solve the financial access barriers that developing countries face.[4] Delayed climate investments and misalignment of investment activity will lead to significant carbon lock-ins, stranded assets, and other additional costs.[5]

Although current global climate finance flows remain extensively focused on mitigation (i.e., more than two-thirds of climate finance is directed to mitigation), they are still highly insufficient to achieve the emissions-reduction goals across all regions and sectors[6] and with developing countries having the most significant finance gaps,[7] including the least amount of mobilization. While, on average, global mitigation investments are expected to increase by a factor of three to six, starting at $250 billion to $1.5 trillion from current investments flows, in developing countries it must increase by a factor of four to eight for specific sectors like the agriculture, forestry, and other land use sector.[8] Accelerated financial support for developing countries, especially those most vulnerable, from public and other sources is critical to enhancing mitigation action and addressing the previously mentioned inequities in access to finance and economic vulnerability to climate change in developing countries.[9]

At the same time, fossil fuel investments and subsidies in carbon-intensive activities remain very high, the latest biennial assessment and overview of climate finance flows of the Standing Committee on Finance estimated fossil fuel investments in 2017–18 amounted globally to $977 billion and fossil subsidies to $472 billion in 2018.[10] Those are greater than the climate-adaptation and mitigation activities combined ($83.3 billion[11]), as per OECD estimations, however, the assessment process of this OECD figure is challenged by developing countries due to its composition where more than 75 percent of all climate finance is constituted by loans.

---

2 Climate Policy Initiative. 2021. *Global Landscape of Climate Finance 2021 Preview*. climatepolicyinitiative.org/wp-content/uploads/2021/10/Global-Landscape-of-Climate-Finance-2021.pdf.

3 IPCC (Intergovernmental Panel on Climate Change). 2022. *Climate Change 2022 Mitigation of Climate Change*. https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_FinalDraft_FullReport.pdf.

4 Finance barriers include inadequate assessment of climate-related risks and investment opportunities; regional mismatch between available capital and investment needs; country indebtedness levels; economic vulnerability; and limited institutional capacities (IPCC 2022).

5 IPCC. 2022. *Climate Change 2022 Mitigation of Climate Change*. https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_FinalDraft_FullReport.pdf.

6 Ibid.

7 Ibid.

8 Ibid.

9 Ibid.

10 Standing Committee on Finance (SCF). 2021. *Summary by the Standing Committee on Finance of the Fourth (2020) Biennial Assessment and Overview of Climate Finance Flows*. https://unfccc.int/sites/default/files/resource/54307_1%20-%20UNFCCC%20BA%202020%20-%20Summary%20-%20WEB.pdf.

11 Organisation for Economic Co-operation and Development (OECD). 2022. *Aggregate trends of Climate Finance Provided and Mobilised by Developed Countries in 2013–2020*. https://www.oecd.org/climate-change/finance-usd-100-billion-goal/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020.pdf.

Progress on aligning financial flows with a low-emissions and resilient development pathway and reducing misallocation of capital is slow. Therefore, focusing only on increasing climate finance under the UNFCCC processes will not be enough to meet the long-term goal of the Paris Agreement. It is critical to consider the broader picture of financial flows in the real economy and the financial system and align them with the mitigation, adaptation, and resilience goals.

While the UNFCCC processes cannot change the global financial architecture and the real economy on its own, they can deliver the existing financial obligations and commitments and provide the right signals and benchmarks about what other stakeholders need to do in abiding with the legal nature of international treaties such as the UNFCCC and the Paris Agreement, including with their long-term goals—in particular, the need to transition toward a 1.5°C world. These processes can tailor this delivery in a way that responds to the current needs and challenges faced by developing countries. The processes can craft and establish an NCQG that learns from the past and builds for the future. The processes can also guide and foster the transformations that need to happen within the UNFCC and outside, on the global financial sector.

TWO AREAS FOR URGENT ACTION

At COP27, countries need to lay the groundwork to be on track with delivering finance and to foster a paradigm for finance to enable greater ambition in mitigation, adaptation, and loss and damage response with the strong lead of developed countries since their financial obligations have not been met.

By COP27, countries need to make progress in two areas:

The First Area of Action

- *Demonstrate tangible and credible progress from developed countries—especially the G7—toward delivering $600 billion cumulatively by 2025. This progress must include a road map for increasing transparent, accessible, and grant-based finance for adaptation and ultimately result in parity between adaptation and mitigation finance by 2025.*

A backward- and a forward-looking perspective should be considered for delivering the $100 billion per year commitment. This section focuses on both and argues that building for the future must be based on past lessons. The reported mobilized climate finance not only provides critical lessons for the deliberations on the NCQG (see next section), but it also gives pivotal guidance for delivering the $100 billion commitment in subsequent years through 2025. The legitimacy of the goal is no longer linked solely to meeting the agreed quantity. The legitimacy is also determined by the quality and composition of the delivery and the transparency and accessibility arrangements.

More than a decade ago, at COP15 in Copenhagen in 2009, developed countries committed to a goal of mobilizing jointly through public interventions $100 billion per year by 2020 to developing countries to address their needs.[12] The goal was made official at COP16 in Cancun[13] and was extended through 2025 at COP21 in Paris.[14] Climate flows have gradually increased since the adoption of the commitment. However, the symbolic target has not been met in any year of the past decade, and how climate finance is mobilized has been less than optimal for developing countries.

The most optimistic scenario estimates that in 2020 a total of $83.3 billion in climate finance was provided and mobilized from developed to developing countries,[15] leaving a gap of almost 18 percent in relation to the original commitment. Moreover, despite the significant economic effects of climate change on financial stability in developing countries and especially those most vulnerable, only about one-third of finance provided and mobilized is funding adaptation options, with over two-thirds going to mitigation options driven notably by finance for energy and transportation and storage.[16] Most developed countries have not made any specific commitments to fund loss

12 Copenhagen Accord. United Nations Framework Convention on Climate Change (UNFCCC). 2009. *Report of the Conference of the Parties on its Fifteenth Session*. Copenhagen, Denmark, December 7–19, 2009. https://unfccc.int/sites/default/files/resource/docs/2009/cop15/eng/11a01.pdf.

13 Decision 1/CP.16. UNFCCC. 2011. *Report of the Conference of the Parties on its Sixteenth Session*. Cancun, Mexico, November 29–December 10, 2010. https://unfccc.int/sites/default/files/resource/docs/2010/cop16/eng/07a01.pdf.

14 Decision 1/CP.21, paragraph 53. UNFCCC. 2016. *Report of the Conference of the Parties on its Twenty-First Session*. Paris, France, November 30–December 13, 2015. https://unfccc.int/sites/default/files/resource/docs/2015/cop21/eng/10a01.pdf

15 OECD. 2022. *Aggregate Trends of Climate Finance Provided and Mobilised 2013–20*. https://www.oecd.org/climate-change/finance-usd-100-billion-goal/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020.pdf.

16 Ibid.

and damage beyond what can be attributed to humanitarian assistance that is far from covering the breadth and depth of current and future losses and damages derived from climate change throughout the developing world. Insurance, disaster risk management, and adaptation finance are the two other referred sources of loss and damage response, which are either being paid directly by developing countries or only covering the focus of avoidance and minimization of their needs.[17] Similarly, only around 26 percent of public finance reported took the form of grants, while 71 percent was loans (concessional and nonconcessional).[18] This has created a phenomenon now known as climate-induced debt, which contributes to rising debt levels and reduced fiscal space for climate action in developing countries. Also disquieting is the increasing trend of diversion of overseas development assistance (ODA) to supporting climate actions. However, the mission and nature of ODA and climate finance have been recognized and agreed as different under the UNFCCC process and beyond. But in recent years, while overall ODA remains stagnant or even goes down, climate finance goes up a little. This amounts to a repackaging of ODA as climate finance and a double injustice to the particularly vulnerable countries, like the least developed and small island developing states.

While the financial needs for climate action in developing countries are much higher, $100 billion per year plays a significant symbolic role. The goal is a commitment and moral responsibility, as well as representing solidarity in a context of common but differentiated responsibilities and respective capabilities from those countries with the highest cumulative GHG emissions in the past. The G7 has a special responsibility to lead the provision and mobilization of climate finance, including by aligning resources within multilateral development banks where they have significant shares and voting power, through a fair share of financial resources among their members and by compensating for several years of underfunding climate action throughout the developing world, particularly from the United States.

Delivery of the $600 billion mobilization goal cumulatively by 2025 should include a road map to cover mitigation adaptation and loss and damage for developing country's needs that should at least accomplish the following objectives:

1. Increasing transparency and accountability of reported data by providing clear information on methodologies and assumptions behind what is claimed as climate finance—disaggregated by type of support to mitigation, adaptation, and loss and damage—and the use of different financial instruments (e.g., concessional and nonconcessional loans, guarantees, equity, etc.) and their corresponding grant-equivalencies, as well as information on the mobilization of private resources so that there is clarity over the geographical, temporal, and financial intervention of public resources to enable said mobilization.
2. Increasing accessibility by enhancing and harmonizing access procedures and infrastructures among bilateral, regional, and multilateral sources of climate funding; addressing the underfunding of adaptation and loss and damage response; and, in particular, addressing the limited access that least developed countries and small island developing states have had to overall climate-finance resources during the past decade.
3. Increasing grant-based finance for adaptation and ultimately achieving parity between adaptation and mitigation finance by 2025 by delivering on the Glasgow commitment to at least double adaptation finance, especially in the form of grants, as well significantly increasing the current proportion that is less than a fourth of total climate finance. Furthermore, delivering the financial pledges from COP 26, since less than half of the amounts pledged has been committed to the Adaptation Fund.

The updated version of the Climate Finance Delivery Plan cosponsored by Germany and Canada to be released ahead of COP27 should amplify these elements, while COP27 should deliver on them by demonstrating progress in the mobilization of $600 billion.

The Second Area of Action

- *Provide a clear structural base of the new quantified collective goal on finance (that can ensure mitigation, adaptation, and loss and damage quantitative and qualitative finance). In doing so, recognize the role of the private sector and other non-state actors while maintaining the indispensable role of public finance from developed countries at the center of the new collective quantitative finance goal. This must draw from science, lessons learned, and the needs of developing countries (for mitigation, adaptation, and loss and damage), while acknowledging that trillions of dollars will need to be mobilized to achieve a 1.5°C-aligned transformation.*

17 Oxfam. 2020. *Climate Finance Shadow Report 2020.* https://www.oxfam.org/en/research/climate-finance-shadow-report-2020.

18 OECD. 2022. *Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013–20.* https://www.oecd.org/climate-change/finance-usd-100-billion-goal/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020.pdf.

The mandates for the negotiation of the NCQG are Article 9.3 of the Paris Agreement and Decisions 1/CP.21, 14/CMA.1, and 9/CMA.3 in which it is stated that the aim of this goal is to accelerate the implementation of Article 2 of the Paris Agreement, and in which developed countries are to lead the mobilization of climate finance as a progression beyond previous efforts, thus with a floor of a $100 billion. Furthermore, this is to be done by noting the significant role of public funds and in the context of sustainable development, poverty eradication, including aiming for financial flows to be consistent with low emissions, and resilient development trajectories. A work program on the NCQG was created in Glasgow last November 2021 to deliver and adopt an outcome on the NCQG by 2024, informed by the needs and priorities of developing countries, including in relation to the quantity, quality, scope, and characteristics of this goal; sources of funding; and monitoring. In Sharm El Sheikh, the first decision on the NCQG will be adopted by and will represent the basis for the rest of this negotiation process by 2024.

The assessment reports on the progress toward achieving the $100 billion commitment, including those of the Organisation for Economic Co-operation and Development, the UN Secretary-General's Independent Expert Group on Climate Finance, the Overseas Development Institute (ODI), Oxfam, and the Biennial Assessment and Overview of Climate Finance Flows Report of the Standing Committee on Finance provide critical lessons learned on the quantity, quality, and composition that should inform the deliberations of the NCQG. The Climate Policy Initiative (CPI), the Standing Committee on Finance (SCF), the United Nations Environment Programme, and the Intergovernmental Panel on Climate Change have concrete information on the size of investments and finance required to ensure a 1.5°C-aligned transition, underlining that the speed of this transition needs to happen now and be accelerated during the present decade with a real sense of urgency and in a scale of trillions of dollars.

Some of these lessons share the following attributes:

1. *Quantity*. The highest range of mobilization of climate financial resources from developed to developing countries during the last decade was reached in 2020 amounting to $83.3 billion.[19] The $100 billion goal has never been met in the last 10 years, and a deficit of almost 18 percent exists in its accomplishment, according to the latest figures. Furthermore, the CPI estimates needs for the 1.5°C transition to be $4.5–$5 trillion annually,[20] while the first SCF report on the determination of needs of developing countries calculates NDC-related cost needs in a range of $5.8 to $5.9 trillion by 2030.[21]
2. *Quality*. Climate finance equals climate-induced debt around the developing world since almost 71 percent of reported public climate finance took the form of loans (concessional and nonconcessional loans) versus 26 percent in grants for 2020.[19] Also, more than 75 percent of climate finance mobilized globally has been through investments that flowed domestically in Western Europe, the United States, Canada, and East Asia and the Pacific,[22] leaving the vast majority of developing countries out of this global mobilization effort. In addition, better access to finance is required. Developed countries can improve such access by considering the success of several funds, like the Adaptation Fund which developing countries have referred as an example of good practices. Also, capacities need to be developed for the recipient countries for readiness to access finance, linked to the scale of resources and the different classifications among those resources.
3. *Composition*. It is widely known that there is a serious underfunding of adaptation, with two-thirds of current climate finance going to mitigation. The UNEP 2021 Adaptation Gap Report estimates that developing countries´ adaptation needs will total $330 billion annually by 2030 and $555 billion by 2050.[23]

Furthermore, developing countries have mentioned with sufficient clarity through submissions and in their interventions throughout this first year of technical discussions over the NCQG that they have three clear common needs and priorities to be covered through this goal:

1. Mitigation
2. Adaptation
3. Loss and damage response

19 OECD. 2022. *Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020.* https://www.oecd.org/climate-change/finance-usd-100-billion-goal/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020.pdf.

20 Climate Policy Initiative (CPI). 2021. *Global Landscape of Climate Finance 2021.* https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf.

21 Standing Committee on Finance (SCF). 2021. *First Report on the Determination of the Needs of Developing Country Parties Related to Implementing the Convention and the Paris Agreement (NDR).* 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.

22 SCF. 2021. *Summary by the Standing Committee on Finance of the Fourth (2020) Biennial Assessment and Overview of Climate Finance Flows.* https://unfccc.int/sites/default/files/resource/54307_1%20-%20UNFCCC%20BA%202020%20-%20Summary%20-%20WEB.pdf.

23 United Nations Environment Programme (UNEP). 2021. *Adaptation Gap Report.* https://www.unep.org/resources/adaptation-gap-report-2021.

The decision to be taken by the CMA in response to this first year of negotiations of the NCQG has a responsibility to deliver the structural base of this goal, by looking at the lessons learned just mentioned and also by actively promoting changes to the UNFCCC and to the global financial architecture, based on the clearly stated needs and priorities of developing countries. In this structural base, the provision and mobilization of financial resources from developed countries should be at the center, as well as their public funding. In addition, key thematic results-oriented subgoals for mitigation, adaptation, and loss and damage response should be predefined. Also, the goal should have a short- and long-term perspective (2030 and 2050). In addition, this decision should highlight the responsibility of developed countries in proving public climate finance and mobilizing this finance through public interventions. The quantitative target should be based on the needs and priorities of developing countries.

Furthermore, the delivery of the quantity, quality, and composition of future climate finance should be constant over time. Developed countries need to provide certainty that all these elements will be met each year. Likewise, it is critical to frame the structural bases on the cost of the trillions of dollars needed for the 1.5°C transition to enable greater climate action, ambition, and resilience without continuing to exacerbate the levels of indebtedness and constraints of fiscal space in developing regions. The NCQG should consider the need to achieve consistency between all financial flows and climate action.

An element that could facilitate the decision on COP27 will be a high-level dialogue on the NCQG to be held during the first days as this will be critical to provide guidance over these elements and to put pressure on developed countries´ high-level representatives over the priorities and urgent needs of developing countries.

CONCLUSION

By delivering urgent action in the following two key areas of climate finance, COP27 can provide a greater sense of trust to a negotiations regime that desperately needs it:

1. *Demonstrating tangible and credible progress from developed countries—especially the G7—toward delivering $600 billion cumulatively by 2025.*
2. *Providing a clear structural base for the goal to ensure mitigation, adaptation, and loss and damage response through quantitative and qualitative finance.*

Such action will also set the pace for a 1.5°C-aligned financial transition that will enable the implementation of the long-term goals of the Paris Agreement while catalyzing, promoting, and facilitating low emissions and resilient development pathways in the developing world. If delivered correctly, these two areas of action can increase the chance to deliver on the overarching objectives of climate action and sustainable development in the next years and decades to come and drive transformational change around the world.

Caribbean Community Climate Change Centre

CENTRE FOR CLIMATE CHANGE & DEVELOPMENT

ICCCAD International Centre for Climate Change and Development

POWER SHIFT AFRICA

TRANSFORMA

WORLD RESOURCES INSTITUTE

For more information, visit wri.org/ACT2025.