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Building new foundations: Reimagining the International Financial Architecture

Views and proposals from civil society

A climate finance architecture fit for achieving the new collective quantified goal

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A climate finance architecture fit for achieving the new collective quantified goal

By Avantika Goswami and Sehr Raheja

2024 is the year of climate finance. At the Conference of the Parties 29 (COP29) in Baku, Azerbaijan, Parties to the United Nations Framework Convention on Climate Change (UNFCCC) are expected to determine a new climate finance goal. The New Collective Quantified Goal (NCQG) on climate finance is due to come into force from 2025. It is expected to be a goal that reflects the needs and priorities of developing countries, to catalyze climate action.

Although the NCQG will be an outcome of the multilateral UNFCCC process, it is situated within the broader context of the global financial system and finance architecture. Thus, to arrive at a goal that is fit for purpose and serves the needs of developing countries, it is crucial for the landscape of international finance to support its implementation. This chapter outlines the key markers that could characterize a climate finance structure capable of supporting the achievement of the NCQG.

A moral imperative

One estimate by Indian economist Utsa Patnaik finds that, over a period of 200 years, the British government may have siphoned about US$ 45 trillion out of India, which is roughly 15 times higher than the annual Gross Domestic Product (GDP) in the United Kingdom (UK) today.[1] The economic impacts of colonization stalled India's development for decades, the effects of which are likely being felt even today. India is still a growing economy and is notably better off than many of its neighbours in the Global South, but it is still working to achieve prosperity for all its citizens. Roughly 30 million Indians do not have access to electricity, and 780 million people lack access to clean fuels for cooking. Meanwhile, per capita energy consumption stands at one third of the world average.[2]

In terms of greenhouse gas (GHG) emissions, India has contributed only 3 percent of historical carbon dioxide emissions over the past century.[3] However, due to its role as the third largest greenhouse emitter, with rapidly growing energy demand, the need to decarbonize is also urgent.

There is no doubt that India will reap multiple benefits if it grows on a low-carbon, climate-resilient path. One major benefit would be avoiding being battered by the worst impacts of climate change. In 2023, India experienced extreme weather events on 318 out of 365 days – roughly one disaster every day.[4] The resulting losses and damages pile up on top of what is already a former colonized economy trying to play catch up, like much of the developing world.

1 https://www.livemint.com/Companies/HNZA71LNVNNVXQ1eaIKu6M/British-Raj-siphoned-out-45-trillion-from-India-Utsa-Patna.html
2 https://ourworldindata.org/energy-access
3 Narain/Goswami (2021).
4 https://www.downtoearth.org.in/environment/anil-agarwal-dialogue-2024-begins-cse-dte-release-2024-state-of-india-s-environment-report-94722

It is in this context that the moral imperative for adequate and high-quality climate finance to be transferred to the developing world becomes undeniable. Climate finance may lack a formal definition in political fora, but it must be viewed as reparations for the unfettered use of fossil fuels by industrialized economies. This has fuelled a crisis affecting all countries – some more severely than others – and is reversing development gains in the developing world.

The Global South is disproportionately affected by climate change

Countries that contribute the least to climate change are most vulnerable to its impacts. According to the World Bank, 74 of the lowest income countries emit only one-tenth of the world's GHG emissions.[5] However, over the last decade, they have already experienced about eight times as many natural disasters.[6]

Moreover, poorer countries are among the worst hit economically due to climate change: losses and damages from climate change have been concentrated in these countries (see Table 1).

Developing countries require finance for the transition away from fossil fuels, so that they can continue to meet development goals without significantly raising planetary GHG levels.

Climate finance needs and gaps

In 2009, developed countries committed to jointly mobilizing US$ 100 billion per year of new and additional financial resources for developing countries' climate action by 2020.[7] In 2015, this goal was extended to 2025. It was at this juncture that countries decided that a new climate finance goal would succeed this commitment, which would be decided prior to 2025.[8] This new finance goal is the so-called New Collective Quantified Goal (NCQG).

The NCQG assumes significance for many reasons. One of the most important reasons is that its precursor, the US$ 100 billion commitment mentioned above, represented a drop in the ocean compared to actual climate finance needs.[9]

Table 1:

Poorer countries are hit harder economically by climate disasters

Country/region	Impact	Damages as % of GDP
Germany	**Floods in 2021**	**0.9 %**
British Columbia, Canada	Heatwave 2021	3–5 %
Europe	Heatwaves 2003, 2010, 2015 and 2018	0.3–0.5 %
Dominica	Hurricane Maria 2017	226 %
Pakistan	Floods in 2022	9 %
Vanuatu	Tropical Cyclone Pam 2015	64 %

Source: Goswami/Rao (2023), see p. 8 for detailed sources.

5 Nishio (2021).
6 https://www.weforum.org/agenda/2023/01/climate-crisis-poor-davos2023/
7 UNFCCC (2009).
8 UNFCCC (2015).
9 Kozul-Wright (2023).

The UNFCCC Standing Committee on Finance (SCF), the nodal body within the UN climate framework for finance-related matters, authored a Needs Determination Report (NDR) in 2021.[10] The report analyses submissions made by countries about how much financing they need for implementing their climate plans under the UNFCCC and the Paris Agreement. The report found that the Nationally Determined Contributions (NDCs) of 78 developing countries estimated their costed needs to be between US$ 5.8–5.9 trillion cumulatively until 2030. Of all the needs identified by countries, not all were costed – approximately 40 percent were costed, and this was only across 78 NDCs. So, the estimate represents a fraction of all needs. An amount reflective of more countries, as well as more costed needs, is likely to be far higher. The US$ 100 billion per year commitment is a fraction of this conservative estimate.

Other estimates have also been made. A report by the Independent High-Level Expert Group on Climate Finance concluded that Emerging Markets and Developing Countries (EMDCs) other than China will need US$ 1 trillion per year in external financing alone until 2030.[11]

While the needs of developing countries are in the trillions, climate finance has not kept pace. The Organisation for Economic Co-operation and Development (OECD) has tracked the provision of climate finance from developed to developing countries under the US$ 100 billion commitment. In their 2024 update, the OECD reported that developed countries met their goal for the first time in 2022 – they provided and mobilized US$ 115.9 billion for developing countries.[12]

Apart from the fact that this delivery was too little, too late, a closer look at the quality of finance that constitutes this figure raises several questions.[13] For instance, about 70 percent of the public finance provided was in the form of loans, adding to the debt burden of recipient countries. To make matters worse, in previous years, analysis of the OECD figures by the civil society organization (CSO) Oxfam have revealed that the amounts are vast overestimates: the OECD has said that developed countries mobilized US$ 83.3 billion in 2020. However, Oxfam considers the real amount to be closer to US$ 21–24.5 billion, when considering grant-equivalent amounts and other factors.[14] This vast difference is owing to the lack of a clear, agreed-upon definition of climate finance. What gets counted as climate finance varies by entity, and those losing out are almost always economies that are already vulnerable.

Looking at data for all climate finance flows as reported by the Climate Policy Initiative (the OECD reports on flows from developed to developing countries specifically) paints a telling picture. In 2021 and 2022, the average annual climate finance flows globally were about US$ 1.3 trillion – only 1 percent of global GDP.[15] Although this is an increase compared to previous years (US$ 439 billion more), the distribution of climate finance is imbalanced. As the report highlights, the United States (USA), Europe, Brazil, Japan, India and China together received 90 percent of the increased funds. But even within these geographies, climate finance gaps remain. Crucially, the finance flowing to more climate-vulnerable countries has shown paltry progress: the ten countries that were most affected by climate change between 2000 and 2019 received just US$ 23 billion, which is less than 2 percent of total climate finance.[16]

10 UNFCCC Standing Committee on Finance (2021).

11 Songwe/Stern/Bhattacharya (2022).

12 OECD (2024).

13 https://www.downtoearth.org.in/climate-change/rich-nations-finally-delivered-on-100-billion-climate-finance-pledge-in-2022-finds-oecd-report-experts-flag-issues

14 Oxfam International (2023).

15 Climate Policy Initiative (2023).

16 The ten countries most affected from 2000 to 2019 were Puerto Rico, Myanmar, Haiti, Philippines, Mozambique, The Bahamas, Bangladesh, Pakistan, Thailand and Nepal, see Climate Policy Initiative (2023), p. 36.

Unfit for purpose: International Financial Architecture hinders climate ambition in the Global South

Given that climate finance provision is currently inadequate, as well as being unevenly distributed across regions and themes (for example, adaptation efforts receive significantly less funding),[17] there are many systemic barriers that are hindering sufficient access to climate finance for developing countries. Two key obstacles to accessing adequate climate finance include high debt burdens and the high cost of capital, particularly for green technologies.

According to Debt Service Watch, as of October 2023, the debt service of 139 countries with loans from the World Bank equaled their total spending on education, health, social protection and climate adaptation combined, while in African countries the debt amount exceeded this spending by 50 percent.[18]

In 2023, our analysis found that 16 low- and middle-income countries face higher debt servicing costs in one year than the cost of achieving their NDC.[19]

More recent analysis by the Debt Relief for a Green and Inclusive Recovery (DRGR) Project confirms the state of crisis: 47 emerging markets and developing economies (EMDE) are predicted to default on their loans if they prioritize investments in internationally agreed climate and development objectives.[20] Without adequate debt relief, the report highlights, debt burdens affect expenditures on socio-economic priorities.

Another barrier compounding the impact of inadequate climate finance flows is the unduly high cost of capital, particularly for green technologies that are essential to the energy transition. Developing countries are perceived to have a more "high-risk environment" – an assessment that is subjective, and rests mostly in the control of private credit rating agencies headquartered in the Global North. Countries in the Global South therefore face a higher cost of capital – meaning higher interest rates on loans and higher expected returns on equity are imposed on them – making the cost of investing in these regions far higher compared to their counterparts in the Global North. Financing costs for clean energy projects can be up to seven times higher in emerging and developing economies than in countries in Europe and the USA, according to the International Energy Agency (IEA).[21]

Essentially, the current climate finance target of US$ 100 billion does not reflect the developing world's needs, and climate finance provision so far has been woefully inadequate. Even within the finance that has gone to the Global South, the distribution has been grossly uneven. Moreover, the International Financial Architecture (IFA) providing the context for today's climate finance makes it difficult for developing countries to access such finance – by design.

The NCQG presents an opportunity not just to raise ambition and create a goal that reflects developing countries' needs, but also one that drives a shift in the financial systems that underpin its implementation.

NCQG: A political impasse

The NCQG is due to be decided at Conference of the Parties 29 (COP29) in Baku, Azerbaijan in November 2024. However, determining a goal of such magnitude is no mean feat. Countries from around the world (those that are part of the UNFCCC and signatories to the Paris Agreement) have been working to arrive at consensus through a series of technical conversations and political engagements, as well as negotiations. However, the process has sparked immense debate and disagreement so far.

One of the most contentious issues has been that of the "contributor base" – in other words, which coun-

17 https://www.unep.org/resources/adaptation-gap-report-2023
18 Debt Service Watch (2023).
19 Goswami/Rao (2023).
20 Zucker-Marques/Gallagher/Volz et al. (2024).
21 https://www.iea.org/articles/the-cost-of-capital-in-clean-energy-transitions

tries or stakeholders must provide the money that will constitute the NCQG. Most developing countries, which are comprised primarily of low- and middle-income economies, small island states and least developed countries, have been clear about their vision for the NCQG: that this should be a goal amounting to at least US$ 1 trillion per year and that funding should be provided by developed countries to developing ones. This argument has been premised on the historical emissions that have helped today's wealthy nations achieve the economic status they enjoy now – through unbridled industrial expansion that has led them to become the largest contributors to the climate crisis and global warming.[22]

Although a standardized definition of developed and developing countries is absent from the UNFCCC or the Paris Agreement, within these climate negotiation spaces it is countries that are listed in Annex II of the UNFCCC that are typically considered "developed". These are nations that were members of the OECD at the time of adopting UNFCCC and have obligations to provide financial and technological assistance to developing countries under the Convention. However, many of these wealthier countries in the Global North today are suggesting that the responsibility for NCQG financing should be shared by newly "prosperous" developing economies, which have high annual emissions as well.

This has been a major deadlock in discussions for the new goal. Unsurprisingly, it is a lot of the same countries that indirectly wield power in the key institutions of the IFA: the governance structure of the International Monetary Fund (IMF) is known to be geared in favour of the USA, Japan and Europe in particular, and is characterized by an absence of due representation of countries from the Global South.[23] The World Bank's board also underrepresents developing countries. Its projects have long been criticized for a lack of transparency and accountability from the communities it strives to serve.[24]

This imbalance of power must be corrected urgently both from within and outside the UNFCCC for a successful and just climate finance outcome at COP29 and beyond. The NCQG is going to be both a provision and a mobilization goal. Regardless of the amount that gets decided, developing countries have been united in their demand for public finance to comprise the bulk of the goal. The provision of public finance can be either made bilaterally, through institutions of the UNFCCC financial mechanism (such as the Green Climate Fund), or through multilateral development banks – the largest of them being the World Bank.

The second, related question of how much money an NCQG must provide has also led to strong disagreements between countries – i.e., the issue of the quantum. Developing country groups have suggested figures in the range of US$ 1.1–1.3 trillion per year – an amount that is in line with conservative estimates of needs, as mentioned above. However, these numbers have not seen any constructive engagement from countries in the Global North.

Other than the contributor base and quantum, issues of sub-goals within the NCQG and the role of debt-based finance have been debated. On the latter, at COP28 in Dubai, countries took stock of progress on climate action for the first time through the results of the first Global Stocktake. Among key outcomes, the need for "non-debt creating instruments" for financing climate action in the Global South was acknowledged in the result. Given the state of the burgeoning debt crisis, and the majority of climate finance currently flowing as loans, this was a crucial outcome – one that developing countries are advocating for the NCQG to encompass as well. They have stood united in their ask for a majority of grants-based climate finance, drawn largely from public funds. Improvements in existing mechanisms addressing debt distress, namely the Common Framework of the G20 and the Paris Club and the Global Sovereign Debt Roundtable hosted by the IMF will be complementary to the call for halting the increase in the debt burden of

22 https://www.downtoearth.org.in/climate-change/bonn-climate-conference-2024-imbalanced-texts-imbalanced-outcomes-on-new-climate-finance-target

23 Bretton Woods Project (2019).

24 Bretton Woods Project (2021).

countries through NCQG climate finance provisions. The fact that money has been flowing back to providers of aid because of the use of loans is also telling.[25]

The quality of finance is thus as important as the quantity that gets sanctioned through the new climate finance target.

The road ahead: Adequate, public, concessional

Finance is one of the key enablers of climate action. It is therefore crucial that an ambitious and just outcome is negotiated on the NCQG at COP29. As the largest negotiating bloc in the UNFCCC, the G77 and China mentioned in a statement at the closing plenary at the Bonn climate conference in June 2024 that they "cannot go beyond COP29 without defining the NCQG", and there is a need to "move from conceptual to concrete discussions".[26] The following considerations must be kept in mind as the outcome of the NCQG is being determined.

To truly reflect the needs of the developing world, the level of the NCQG must be in the trillions of dollars annually. This should first be determined for a five-year period until 2030, and then revised upwards.

The statement that no government has enough money to finance trillions of dollars in climate measures is a myth. Billions of dollars are being spent on military funding and environmentally harmful subsidies. While multiple sources of finance are available to fulfill the NCQG, the emphasis must be on international public finance playing the leading role, to ensure maximum accountability, transparency and predictability. The onus cannot remain with the private sector to lead the financing of the climate transition.[27]

The NCQG must be heavily geared towards grant-based and highly concessional financing. For purposes such as adaptation and loss and damage, funding must be in the form of grants. For mitigation, it is necessary that the poorest countries are not burdened by further loans. Instead, larger emerging economies must be offered financing on highly concessional terms to account for the inequities of subjective risk perceptions and the debt crisis.

Fora outside of the UNFCCC that are debating the nuances of other funding streams, such as taxes on shipping and financial transactions and polluter fees on fossil fuel companies, must be linked to the NCQG process.

The NCQG must specify sub-goals for mitigation, adaptation and loss damage to ensure accountability and adequate finances for each climate purpose.

Finance through the NCQG must be directed from developed countries and be made available to all developing countries. Debates on the contributor and recipient base serve as distractions from the central goal of the NCQG.

Developing countries are fighting multiple battles – improving development outcomes, decarbonizing their economies and maintaining competitiveness in a changing green global economy. Simultaneously their backs are being broken by the very real impacts of climate change. And all of this is occurring in a global financial system designed to extract more from them whilst ensuring that their voices are barely heard in governance. Without an ambitious climate finance commitment from historical polluter nations, the demand for more climate "ambition" from countries in the Global South is equivalent to climate apartheid.

25 Harcourt/McNair (2024).

26 https://www.cseindia.org/distractions-and-double-speak-plague-climate-finance-talks-in-bonn-says-cse-12234

27 https://www.wri.org/insights/mdb-climate-finance-joint-report-2022

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