How much should developed countries pay for climate action?

In 2009, developed countries committed to paying $100 bn every year. They have not done so — and with the climate bomb ticking, negotiators are working on a new global climate finance budget ahead of COP29 in Baku this November

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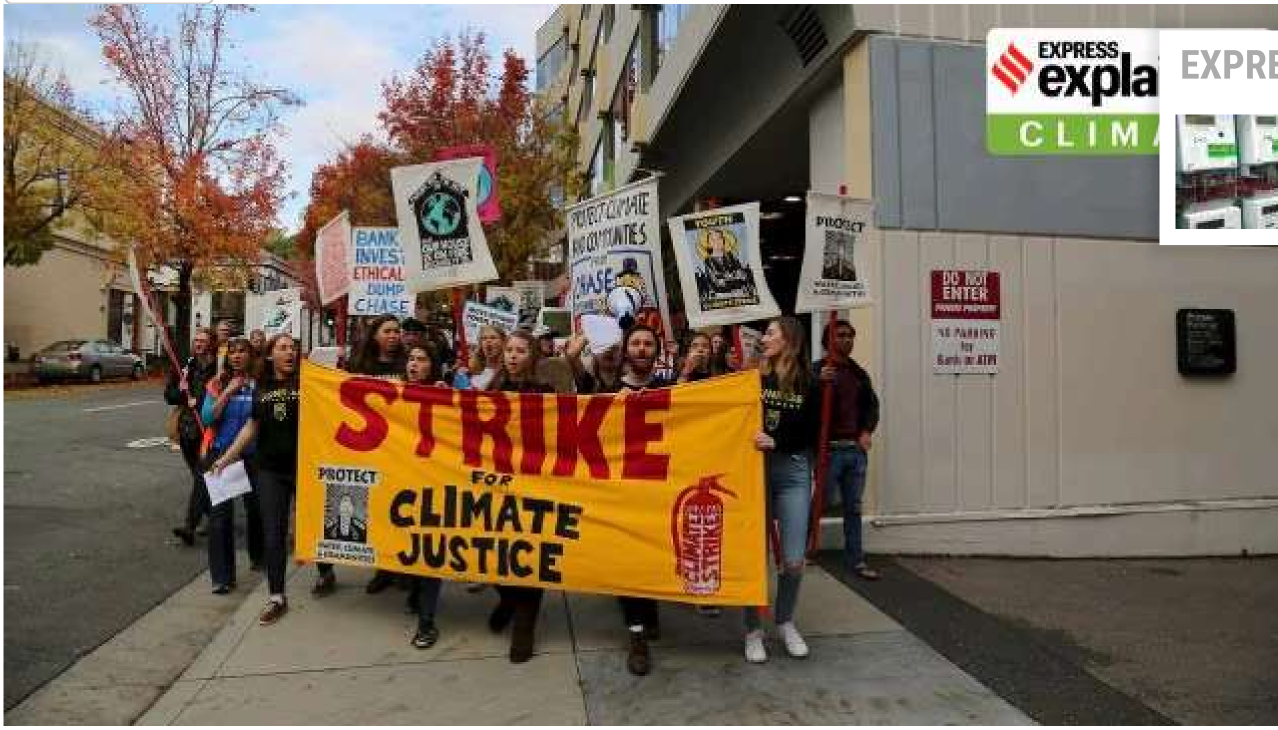

Young activists and their allies led a climate strike in San Rafael, California, to demand action on climate change in 2019. (Wikimedia Commons)

The 2022 climate change conference in Sharm el-Sheikh decided to set up a Loss and Damage Fund to help developing countries recover from climate disasters.

The Dubai conference last year was all about Global Stocktake, or GST, a review of ongoing climate action, which resulted in the first ever explicit acknowledgment of the need to "transition away" from fossil fuels, and a promise to triple global renewable energy capacity by 2030.

This year, the focus is on finance . The expression that is likely to be heard most frequently in climate conversations and at COP29, scheduled for November 11-24 in Baku, Azerbaijan, is NCQG — or New Collective Quantitative Goal (on finance).

What is the New Collective Quantitative Goal?

NCQG is a convoluted way to describe the new amount that must be mobilised by developed countries every year from 2025 onward to finance climate action in developing countries. This new amount has to be higher than the $100 billion that developed countries, collectively, had promised to raise every year from 2020, but had failed to deliver.

NCQG is extremely important for developing countries, and discussions on t amount have been ongoing for a couple of years at least. At a two-day meeti concluded in Copenhagen, Denmark, on March 22 — the first minister-level meeting for this year — some technical work to arrive at the NCQG was finalised.

How much money is required to ensure effective climate action?

It has been clear for some time now that the biggest hurdle to a significant scale-up in global climate action is the unavailability of adequate finance, especially in developing countries.

The scale of annual climate finance flows has always been considerably less than the $100 billion that the developed countries had promised to mobilise every year from 2020 onward. But even if that amount were being made available, it would be only a small fraction of the money that is required to enable actions that would keep the world on the 1.5 degree Celsius pathway at least until 2030.

Assessments of current financial requirements run into several trillions of dollars every year.

In 2021, UN Climate Change, the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), said in a report that developing countries would require a total of about $6 trillion annually between then and 2030 just to implement their climate action plans.

An updated version of that report is supposed to come out later this year, an expected to raise this figure much higher.

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The final agreement at Sharm el-Sheikh included some estimates of the scale of financial requirements. It said that a global transition to a low-carbon economy would likely require about $4-6 trillion every year until 2050. Ensuring a tripling of renewable energy capacity, as agreed in Dubai, is estimated to cost $30 trillion until 2030, according to the International Renewable Energy Association (IRENA).

Of course, these are not mutually exclusive sets of requirements. There could be considerable overlaps. But $5-7 trillion every year would mean deploying about 5-7% of the global GDP to climate action. A few years ago, the estimated requirements used to add up to just about 1-1.5% of global GDP. This shows the rapidly rising cost of inaction.

What are the prospects for a realistic new annual climate finance target?

At this point, even the possible amounts under discussion are not in the public domain. But it would probably be too much to expect that the developed countries, which have been unable to mobilise even $100 billion a year until now, would commit to raising an amount that is even remotely close to the assessed requirements.

In a recent submission made to UN Climate Change, India called upon developed countries to ensure that the NCQG was “at least US$1 trillion per year, composed primarily of grants and concessional finance”. India’s submission was one of several inputs that will feed into the ongoing discussions on the NCQG.

At the Copenhagen ministerial meeting last week, Simon Stiell, Executive Secretary of UN Climate Change, urged the developed countries to make climate finance "bigger and better".

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"We are talking trillions, not billions. That is going to require more from all and serious conversations about making new innovative sources real, rather than just words on a page," he said.

Ironically, Stiell's own organisation is facing a severe shortage of funds. "In this talk of climate finance and transparency, I do need to mention that our organisation, the UNFCCC, now faces severe financial challenges… Our budget is currently less than half funded. We are attempting to meet an ever-growing mandate… Our job is to make your job easier, to carry out the tasks you have all agreed we should do, but we can only do this if we have the funding support," he said.

UN Climate Change, which organises dozens of climate meetings every year and facilitates the implementation of various decisions and agreements, depends heavily on contributions from countries and voluntary organisations for carrying out its work.

How will this money be used?

The new amount, even if far from sufficient for the climate challenge the world faces, will be higher than the current commitment of $100 billion, since that is the mandate of the NCQG.

However, the delivery of that amount will be critical. Even $100 billion was considered a decent sum when it was promised back in 2009 — and it could have made a substantial difference if it had been delivered in full in time (from 2020 onward).

The developing countries would like to make sure that a transparent and inclusive process is instituted to monitor and measure whatever amount is finally agreed upon. Unlike the $100 billion figure, which was offered without any consultations, the NCQG will be the result of negotiations, and countries will have better control over compliance.

The way the new sum is distributed across different kinds of needs — mitiga adaptation, loss and damage, and several others — will also be important. C finance flows are currently heavily skewed in favour of mitigation actions, w developing countries have been demanding that more money be made available for adaptation and other activities.

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