Briefing

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Policy pointers

COP26 signals the start of negotiations for a post-2025 climate finance goal. Progress reports on the current US$100 billion goal can help least developed countries (LDCs) and other Parties identify persistent challenges and lessons to apply in the negotiations.

To pave the way for successful negotiations on the post-2025 goal, Parties should agree a structured process at COP26. This could include a clear roadmap and annual milestones that support reaching agreement by 2024.

At COP26, Parties must agree a means to build consensus on what qualifies as climate finance and how to count it, as well as move towards common and robust approaches for identifying 'climate specificity', to prevent ambiguity, overestimation and double counting.

It is vital that the new goal provides greater climate finance to LDCs. This should be grant-based and prioritise adaptation. If donor countries enter negotiations with this understanding, and honour current commitments, they can begin to rebuild lost trust.

The elusive US$100 billion: will COP26 reboot trust and pave the way for a more ambitious finance goal?

In 2009, developed countries pledged an ambitious target for climate finance: "a goal of mobilizing jointly USD100 billion dollars a year by 2020 to address the needs of developing countries". But over a decade later, specialised reports show that the goal remains unmet. Collective ambition for US$100 billion remains one of the biggest issues to resolve before November's COP26; the countries promised this support expect the commitments made to 2020 to be honoured. Their confidence in developed nations' ability to meet their pledges will be a defining factor as Parties begin negotiations on a new and more ambitious post-2025 climate finance goal at COP26. This briefing provides a status check on the US$100 billion goal — with particular reference to the least developed countries (LDCs) — and summarises the LDC Group's initial perspectives and priorities for the post-2025 target.

Developed nations' collective pledge to provide US$100 billion of climate finance per year by 2020 was made to support developing countries manage the effects of climate change and build greener economies. The original pledge was reaffirmed by the Paris Agreement in 2015 and extended to run to 2025. The US$100 billion goal should have been met by the close of 2020, but expert reports conclude that this has not been achieved.

This hangs heavy in the air as the UN's 26th United Nations Climate Change Conference (COP26) draws close. Climate finance will be a central point in negotiations, particularly the US$100 billion goal. Developing countries, including the LDCs, have a clear and consistent message: commitments made to 2020 must be met. Donor countries should present a credible delivery plan before 1 November to reboot the global South's trust in the process.[2]

Rebuilding confidence in the ability of developed nations to deliver on past promises will be pivotal to COP26, where Parties will seek to establish the framing for negotiating a new and more ambitious post-2025 climate finance goal. This briefing provides a status check on progress towards the US$100 billion goal, with particular reference to the LDCs, and looks forward to early negotiations of the post-2025 goal, assessing the LDC Group's early views and priorities.

COP26 will establish the framing for negotiating a more ambitious post-2025 climate finance target

The US$100 billion goal: a status check

Specialised reports have concluded that wealthy nations remain a significant way off achieving the US$100 billion goal. The Organisation for Economic Co-operation and Development (OECD) progress report, published in December 2020, included detailed analysis up to 2018.[3] A few weeks ago, this was complemented by a short update containing aggregate trends with data from 2019.[4] Oxfam's Climate Finance Shadow Report 2020 was released in October 2020.[5] Both studies found that while climate finance has increased in recent years, a significant shortfall remains in the overall mobilisation goal. The OECD estimated that climate finance reached US$79.6 billion in 2019, up by 2% from US$78.9 billion in 2018 (itself an increase on US$71.2 billion in 2017). Oxfam offered a considerably bleaker estimate of just US$19–22.5 billion in public finance specifically targeting climate action from 2017–2018.[6]

Although climate finance provided specifically to LDCs increased from 2016 to 2019, the figures are less encouraging when seen in the context of total volumes. The OECD asserts that climate financing for LDCs represented only 14% of total funds during the 2016–2018 period — a low and inadequate share considering their particular vulnerabilities and estimated adaptation needs.[7] In 2016, a UN Environment Programme report estimated that by 2030 the annual global cost of adaptation alone is likely to be in the range of US$140–300 billion.[8]

The OECD report also shows that developed countries are increasingly favouring loans over grants to provide climate finance to developing nations.[9] Between 2013 and 2018, the share of loans in total public finance provided grew from 52% to 74% (falling minimally in 2019)[10] while the amount given as grants remained relatively static. Most concerning is the fact that loans are increasingly becoming a form of climate finance offered to the poorest countries: from 2016 to 2018, they accounted for 66% of all climate finance provided to LDCs. These loans were granted for mitigation as well as adaptation, which largely supports activities that do not generate revenue. Due to its nature, adaptation relies heavily on grants, yet government grants represented only 33% of public climate finance for the LDCs from 2016 to 2018.

The OECD and Oxfam studies also demonstrate that the provision of finance is far from meeting a 50:50 allocation between adaptation and mitigation, despite this being a principle widely accepted and enshrined in the Paris Agreement and a long-standing demand from LDCs and other developing nations. While support for adaptation has increased over the years, mitigation still receives the vast majority of finance — 70% of the total provided in 2018 to developing countries overall while adaptation finance amounted to only a fifth (21%).[11] OECD figures for 2019 indicate only a marginal increase in adaptation finance.[12]

Box 1: Elements to support negotiation of the post-2025 goal

A structured process for negotiations will ideally include a roadmap, with clear milestones towards an agreement at COP29 in 2024 and key deliverables set for each year. For example:

- At COP26, agree a roadmap outlining clear milestones towards reaching agreement in 2024
- By COP27 (2022), agree on sources of input
- By COP28 (2023), consider the new goal based on science and needs of developing countries, and
- By COP29 (2024), agree on the post-2025 climate finance goal.

Laying the foundations for greater ambition

The Paris Agreement specified that a new, collective, quantified post-2025 goal for climate finance must be agreed in advance, with US$100 billion per year as the floor. At COP26, officials will start negotiations to set the goal. Parties then have less than three years to reach agreement on this crucial issue. This timeframe is not as generous as it sounds; climate finance is usually one of the 'crunch' issues in negotiations and a new goal will be among the most politically sensitive to resolve. For the LDC Group, COP26 must at a minimum see countries agree on a structured process to guide deliberations over the next three years (see Box 1).

However, as LDCs and others enter into negotiations, their experiences of trying to access the elusive US$100 billion will be front of mind. We suggest that this experience can be usefully harnessed, alongside the assessments on progress towards the current goal by the OECD, Oxfam and others, to provide the LDC Group with useful lessons to draw on as discussions commence. These could be key in helping to overcome three persistent areas of challenge, which we explore below.

1. Definitions and clarity

Assessment of the US$100 billion goal is hampered by ambiguity in the language used to describe the goal and what can be counted towards it, from the original wording in the Copenhagen Accord onwards. The original pledge stated that developed countries will "jointly mobilise" US$100 billion from a wide variety of sources (public and private, bilateral and multilateral, including alternative sources of finance), but it lacked any precision around expected proportions from each source.[13] Looking to 2025, it will be important for Parties to agree how they might come to a shared understanding of what qualifies as climate finance and how to count it. This will involve harmonising the different operational definitions of climate finance currently in use, or at least reaching a consensus on the elements that will count as climate finance under the new goal.

In terms of seeking greater clarity for the post-2025 goal, the following three issues are worthy of consideration at COP26 and beyond:

Private finance mobilised by public funds. Countries must agree whether the new goal should be met solely through public finance, or if it should also include finance mobilised from the private sector. For instance, should investments in electric vehicle and charging infrastructure count as climate finance?

Financial instruments. The use of loans in climate finance has been contested; recipient countries can ill-afford to cover significant loan repayments and interest. For the Africa Group of Negotiators, climate finance should focus on grants rather than loans because they can have a revenue-generating nature.[14] The Alliance of Small Island States has also stressed the critical role of grant-based finance for adaptation (as opposed to repayable instruments), especially in the context of the COVID-19 pandemic, which caused many island states to face unprecedented debt challenges.[15,16]

Additionality. There is agreement that climate finance should be 'new and additional',[17] but a lack of clarity on what this means. There is no agreed baseline against which any claim of additionality could be made. Provider countries might, for example, consider that additional resources consist of newly disbursed or committed finance in the reporting year; some might use 2009 as the baseline year; or some might understand that additional flows would be those that exceed the target of 0.7% of gross national income (GNI) for official development assistance (ODA), agreed by developed countries. This lack of consensus makes it increasingly difficult to disentangle climate finance from traditional ODA flows, and raises concerns around potential double counting.

The LDC Group and other developing countries argue that climate finance must be additional to the 0.7% of GNI target[18] and considered separate from existing ODA.[19] Their chief concern is that if funding is not new and additional to existing ODA, it could mean that it is being 'rebadged' as climate related, or worse, reallocated away from existing priorities such as health or education. For the LDC Group it is crucial that provider countries do not conflate ODA and climate finance but scale up both: climate finance to deal with adaptation and the effects of climate change and ODA to meet wider sustainable development goals.[19]

Box 2: Sources of information on the needs of developing countries

Nationally Determined Contributions (NDCs) contain targets and actions to manage climate change, as well as the financial support needed to implement these plans. Countries are submitting updated NDCs this year and revised goals are likely to lead to fresh projections of the necessary financial support. Malawi's updated NDC, for example, estimates that US$46.3 billion is needed to fully implement the activities planned for 2020–2040, with US$11.1 billion from domestic (unconditional) sources and US$35.23 billion from external (conditional) sources.

The Standing Committee on Finance is preparing the first 'Report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement'. This should provide valuable information on LDC and other low-income countries' financial needs.

The Enhanced Transparency Framework (ETF) — a system designed to track the implementation of the Paris Agreement via the submission of country reports — provides an excellent opportunity to communicate financial support needs. Under the ETF, recipient countries can report on support needs in their biennial transparency reports, starting in 2024.

2. Getting specific

A second major challenge is the ability of each donor country to decide what counts as 'climate finance' and use any method they choose to define the 'climate specificity' of their contributions.[20] Most donor countries rely on data collected using the OECD's 'Rio marker system'[21] to report to the UNFCCC on their financial commitments towards developing countries. The Rio system asks governments to self-categorise their projects as either 'principally' or 'significantly' climate related. Though the Rio markers for climate change have evolved over the years, their use has been problematic, with several studies calling into question the quality of Rio marker data, highlighting that it is prone to significant overestimation.[22] In this system, the full cost of projects and activities can be counted as climate finance even when only part of the budget targets mitigation or adaptation objectives.[22] When agreeing a post-2025 climate goal, it is crucial that countries move towards common and robust approaches for identifying 'climate specificity' to prevent ambiguity, overestimation and double counting.

3. Volume and shape

The volume of the new goal will require careful consideration. The US$100 billion figure was politically determined and, in many ways, symbolic. The Paris Agreement determined that the post-2025 goal must be guided by the needs and priorities of developing countries; for the LDC Group, it is fundamental that the new goal is based on realistic assessments of both. It is therefore important that Parties at COP26 discuss which sources will inform the assessment. We know there are UNFCCC-related processes that illustrate country 'needs' and could support discussions on the new goal more widely (see Box 2).[23]

Debate around the 'shape' of the goal could focus on whether it should be an aggregate one — like the current US$100 billion goal — or one that differentiates between the types of climate action. The distinct roles of mitigation and adaptation mean that a consideration of separate targets for each could be a valuable option, helping to address the consistently disproportionate level of support for mitigation. Parties might also consider whether a target amount could be allocated to a subset of recipient countries based on level of development, for example, to the LDCs, Small Island Developing States and/or Africa. Negotiations will likely address whether the new goal should be an absolute number (like the current US$100 billion target) or conceived more like a roadmap, with intermediate goals. It has been suggested that the latter could include more precise figures in a defined currency, with dates applied to the various stages.[24]

Final reflections

From the perspective of the LDC Group, it is vital that the volume and share of climate finance for adaptation available to its member nations increases. This support must come from public sources and be grant-based. It can be delivered through entities of the UNFCCC financial mechanism (the Green Climate Fund and the Global Environment Facility), through specialised funds such as the Least Developed Countries Fund and the Adaptation Fund, and via bilateral and other multilateral channels. Alongside increased flows of finance, the issue of access must be carefully considered and urgently enhanced. LDCs have the lowest resources and among the highest adaptation needs; it is extremely important that simplified access to these climate funds is further promoted to support them.

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Notes

[1] UNFCCC, Information provided by Parties to the Convention relating to the Copenhagen Accord. See: https://unfccc.int/process/conferences/pastconferences/copenhagen-climate-change-conference-december-2009/statements-and-resources/information-provided-by-parties-to-the-convention-relating-to-the-copenhagen-accord / [2] Canada and Germany have agreed to lead developed countries in the development of a plan to reach the US$100 billion target. See: https://www.gov.uk/government/news/ministers-have-renewed-common-mission-for-climate-action-but-more-work-to-do-says-cop26-president / [3] OECD (2020) Climate Finance Provided and Mobilised by Developed Countries in 2013–18. OECD Publishing, Paris. See: https://doi.org/10.1787/f0773d55-en / [4] OECD (2021) Climate Finance Provided and Mobilised by Developed Countries: Aggregate trends updated with 2019 data, Climate Finance and the USD 100 Billion Goal. OECD Publishing, Paris. See: https://doi.org/10.1787/03590fb7-en / [5] Carty, T, Kowalzig, J and Zagema, B (2020) Climate Finance Shadow Report 2020: Assessing progress towards the $100 billion commitment. Oxfam, Oxford. / [6] Oxfam uses a different approach from the OECD to estimate total climate finance, producing a "climate specific net assistance" figure. Oxfam uses the grant equivalence of loans rather than the face value, and a lower estimate for the amount of climate finance attributable to projects identified as being "partially" focused on climate change mitigation or adaptation. / [7] OECD figures for 2019 indicate that finance for LDCs increased from US$12.1 billion in 2018 to US$15.4 billion in 2019. / [8] UNEP (2016) Adaptation Finance Gap Report 2016. / [9] The amount of loans provided to developing countries more than doubled, from US$19.8 billion in 2013 to US$46.3 billion in 2018 (see note 3, p7). / [10] The volume of public loans, which had increased significantly up to 2018, fell from US$46.8 billion in 2018 to US$44.5 billion in 2019 (see note 4, p8). / [11] Note 4, p7. / [12] OECD 2019 figures indicate that adaptation finance increased with an extra US$3.4 billion — representing 25% of the total for that year (US$79.6 billion). Specifically, in the case of LDCs, finance for adaptation has represented more than 40% on average over 2016–2019, which is higher than for other developing countries (see note 4). / [13] Timmons Roberts, J and Weikmans, R (2016) Negotiating the New Climate Finance Accounting Systems. Policy Brief No.3. Climate Strategies. / [14] African Group of Negotiators. Submission, 30 June 2020. / [15] Alliance of Small Island States. Submission, 28 August 2020. / [16] Going into more detail, if 'concessional loans' are included in the post-2025 goal, it is fundamental to clarify whether they will count on a grant equivalent basis rather than face value. This could lead to significant variations in total amounts. This was part of Oxfam's accounting method for its report (see note 6). / [17] Internationally agreed documents such as the Copenhagen Accord (2009) and the UNFCCC (art. 4.3) underscore the need for 'new and additional' climate finance. / [18] Solomon Islands, Submission to the Standing Committee on Finance, 8 May 2020. / [19] Least Developed Countries Group, Submission, 30 June 2020. Also, see Alliance of Small Island States, Submission 31 August 2020; Indonesia, Submission 4 July 2020; Philippines, Submission, 8 May 2020; Vanuatu, Submission 1 May 2020. / [20] Weikmans, R and Timmons Roberts, J (3 December 2017) The international climate finance accounting muddle: is there hope on the horizon? Climate and Development. / [21] OECD, DAC, Rio Markers for Climate Handbook. See: https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf / [22] Note 21, p101. / [23] Chhetri, RP, Dransfeld, B, Harmeling, S, Köhler, M and Nettersheim, C (2020) Options for the post-2025 climate finance goal. Policy Brief. Climate Finance Advisory Service. / [24] Note 23, p8.