Submission to the Standing Committee on Finance call for evidence for NDR2
June 2024

The following is a submission to the UNFCCC Standing Committee on Finance's call for evidence on "information and data for the preparation of the second report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement". This submission is made by the IMAL Initiative for Climate & Development, on behalf of itself as well as 350.org, both members of the UNFCCC ENGO Observer Constituency.

This submission posits that it is crucial to differentiate between the overall needs of developing countries, and those needs of developing countries which should be met via provision and via mobilization of finance by developed countries. Wherever possible, the needs determination reports should aim to capture such a differentiation, and developing countries should clearly quantify their expectations of developed countries in terms of provision and in terms of mobilization, as part of nationally determined contributions and other national policies – with a view to best informing collective targets for climate finance.

This submission provides indication of grant-equivalent needs of developing countries which should be met via provision of finance by developed countries, looking across (i) mitigation, (ii) adaptation, and (iii) loss and damage. **On the basis of conservative estimates drawn from the needs literature, this submission offers the provisional conclusion that developing countries need developed countries to provide at least approximately $800 billion USD per year in climate finance in grant-equivalent terms**[1] **(implying a floor of approximately 1.5% of their GDP) — as the public finance provision component of a wider mobilization effort.**

I. <u>Mitigation:</u> Estimated need for developed country provision of at least $300bn/year in mitigation finance in grant-equivalent terms.

A. Finance needs for investment in new energy systems

Recent analysis on the basis of IEA data suggests international provision should start from around $80-120bn/year[2] in grant-equivalent terms, as part of the necessary investments in new energy systems associated with pathways toward a net-zero energy sector in 2050.[3]

[1] This estimate and the contents of this submission draw heavily upon Sieber and Erzini Vernoit (2024), forthcoming, and its review of the relevant literature on needs.
[2] Ibid.
[3] The authors of this analysis note, however, that such an energy pathway may be consistent with keeping warming below 1.5 Celsius, it does not provide total certainty of this — and more rapid transition with greater finance would provide a higher probability of securing this outcome.

This analysis is based on IEA assumptions as well as additional assumptions[4]: (i) that, of the $1.9tn/year needed according to the IEA (not including China), ratios of private finance to public finance follow IEA assumptions (60:40) such that $600bn/year is the additional public finance needed in developing countries not including China by 2030 (according to the IEA)[5]; (ii) that, of this, a third to a half should come from international sources; and (iii) that this international public finance includes some mix of non-concessional, concessional, highly concessional, and grant-based finance equating to a 40% grant equivalence (recalling the IMF's standards for concessionality).

B. Finance needs for just transition and early fossil fuel phaseout

A mitigation quantum based only on the figures above would be incomplete — omitting key costs, such as early fossil fuel phaseout and just transition social spending, which necessitate higher levels of public finance. The CSER calculates over $200 bn/year in needs to support developing countries in a just transition away from fossil fuel extraction, but this does not cover the whole energy transition.[6] It does not address power generation phaseout costs for example, where one study from iFOREST calculates costs of $55,000-$160,000 per megawatt of coal capacity decommissioned, not counting wider worker/community costs.[7] While not specifying external finance needs in grant-equivalent terms, the IHLEG posits needs of $40-50bn/year in grants and concessional finance for early coal phaseout and $50-100bn/year in MDB finance and concessional finance for target programmes and safety nets for just transition.[8]

When costs of just transition and an equity-based fossil fuel phaseout are factored in, it is clear that the quantum required for energy transition aligned with 1.5C would become much higher. Adding these costs to the IEA-derived $100bn median figure above for finance for new energy systems, a conservative estimate of total needs could come to over $200bn/year in grant-equivalent terms for a just energy transition (including early fossil fuel phaseout).

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[4] Recalling the UNFCCC, developed countries "shall also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures".

[5] International Energy Agency. (2023). Net Zero Roadmap: A Global Pathway to Keep the 1.5°C Goal in Reach. IEA, Paris.

[6] Civil Society Equity Review. (2023). An Equitable Phaseout of Fossil Fuel Extraction: Towards a Reference Framework for a Fair and Rapid Global Phase Out. equityreview.org. https://www.equityreview.org/extraction-equity-2023

[7] Chandra, B. (2023). Just Transition Costs and Cost Factors: A Decomposition Study. International Forum for Environment, Sustainability and Technology (iFOREST), New Delhi, India.

[8] Songwe, V., Stern, N., & Bhattacharya, A. (2022). Finance for climate action: Scaling up investment for climate and development. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science.

C. Finance needs for non-energy mitigation costs

For natural capital, including afforestation and conservation as well as biodiversity but not including sustainable agriculture, the IHLEG posits $175-250bn/year is needed in grants and concessional finance.[9] This, combined with the $200bn figure above for energy transition, suggests needs could be $300bn/year or more, in grant-equivalent terms, for mitigation as a whole.[10]

II. <u>Adaptation:</u> Estimated need for developed country provision of at least $200bn/year in grant-equivalent terms.

The 2023 UNEP Adaptation Gap report estimates developing country adaptation costs at $215bn/year before 2030, based on economic models which assume a degree of loss and damage and of non-adaptation which may not correspond to actual policy preferences. While the Global Goal on Adaptation has not been costed, UNEP estimates developing country needs for implementing domestic adaptation plans at $387bn/year — although this, even according to UNEP itself, would not include the full costs of social inclusion, e.g. gender equality. [11]

On this basis, and based on the assumption that developing countries should not pay for climate change impacts which they did not cause, it would appear to be safe to conservatively affirm the developing countries face provision needs for adaptation of at least roughly $200bn/year in grant-equivalent terms, although this is likely an underestimate, for reasons cited above.

Here, this submission disagrees with IHLEG assumptions, which are understood to be controversial — for example, its apparent assumption that there would be neither a "primary" nor a "secondary" role for debt-free (grant) finance for adaptation and resilience. In this assumption, the IHLEG would be roundly rejected by developing country negotiators[12] and scientists such as the late Saleemul Huq[13]. This issue regarding

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[9] Ibid.

[10] Note this is also roughly consistent with the conclusion of the Energy Transition Council (ETC), which says "Concessional/grant payments, to middle and low-income countries, may need to reach at least $300bn per annum by 2030". See "Financing the Transition: How to Make the Money Flow for a Net-Zero Economy" (March 2023)

[11] United Nations Environmental Programme. (2023) Adaptation Gap Report 2023. unep.org. https://www.unep.org/resources/adaptation-gap-report-2023

[12] See African Group of Negotiators: https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202309281245---Submission%20by%20the%20Republic%20of%20Zambia%20on%20behalf%20of%20the%20AGN%20To%208th%20WS%20of%20the%20Glasgow-SeS%20WP%20on%20the%20GGA.pdf

[13] As cited in: Chartered Institution of Water and Environmental Management. (2021). Prof Saleemul Huq calls out the "climate finance scandal" in an impassioned COP26 speech. ciwem.org. https://www.ciwem.org/news/saleemul-huq-calls-out-climate-finance-scandal-at-cop26

adaptation mirrors a wider issue with the IHLEG assumptions, which may be problematized less for the estimates of overall needs, but more for how this is broken down — how public finance provision needs are estimated within overall needs.[14]

III. <u>Loss and Damage:</u> Estimated need for developed country provision of at least $400bn/year in grant-equivalent terms.

The projected economic cost of loss and damage to developing countries is estimated by the widely cited study of Markandya and Gonzalez-Equino at $290-580bn/year by 2030, and $551–1,016bn/year in 2040, which can be understood in grant-equivalent terms.[15] A $400bn figure, lower than the median, has also been cited by a variety of other organizations, notably Oxfam, which concludes that "financing gap of $400bn a year for climate change-related losses and damages is roughly in the middle of estimates ranging from $200bn to $580bn a year."[16] However, the Markandya and Gonzalez-Equino study does not address the severe costs of non-economic loss and damage, which would lead to significantly larger needs estimates.

While such an estimate of needs appears to not contradict that of the IHLEG, where this submission diverges (again) from IHLEG is in who should be paying for these needs – i.e. the public finance provision needs of developing countries. The IHLEG's own review estimates loss and damage costs alone at $200-400bn/year, and yet the IHLEG suggests that annual grant-equivalent Official Development Assistance (ODA) resources should be increased by only around $100bn/year for overall needs, not limited to loss and damage.

This apparent contradiction likely derives from diverging understandings of who should bear the cost of loss and damage. This submission assumes that developing countries should not pay for climate change impacts which they did not cause, a view aligned with a justice-based approach and broadly held by a variety of actors (with the Oxfam study cited above also apparently taking this view).

On this basis, it would appear to be safe to conservatively affirm that developing countries face provision needs for loss and damage of at least roughly $400bn/year in grant-equivalent terms, although this is likely an underestimate, for the aforementioned reasons.

See also Khan, M. R., & Huq, S. Challenges of Climate Change Adaptation in Developing Countries: Expectations from the G20 Leadership. DCR, 40.

[14] Essentially, IHLEG would appear to be proposing to source the necessary finance 50% from domestic resource mobilization of developing country public money, 30% from private finance, only 20% international public finance, of which most is nonconcessional loans, with only 8% international grant-based provision needs.

[15] Markandya, A., González-Eguino, M. (2019). Integrated assessment for identifying climate finance needs for loss and damage: A critical review. Loss and Damage from Climate Change, 343-362

[16] See Oxfam methodological note on needs determination: https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2023-04/Methodology%20Note%28English%29.pdf