Views on the New Collective Quantified Goal

EVIDENCE SUBMISSION

Ian Mitchell

The Center for Global Development (CGD) is a think tank based in Washington DC and London. CGD works to reduce global poverty and improve lives through innovative economic research that drives better policy and practice by the world's top decision makers.

This short note highlights the key flaws in the current measurement of the quantified goal, and identifies options for a successor that would address these issues.

Current climate finance goal

The shortcomings of the current $100bn climate finance goal, and its related measures have been well-documented, many since the outset of the target. Many of these issues relate to the lack of an agreed measure and baseline for the target, and who is responsible, and the new goal offers an opportunity to address this.

Criticisms of the current goal include: that much finance is loans not grants; that finance has been 'committed' but not 'disbursed'; and that the supposed balance between 'adaptation' and 'mitigation' has not been achieved. These are all valid criticisms that have undermined the quality of the finance provided, and the measurement of progress.

But two other criticisms are more fundamental. First, despite long-standing commitments that climate finance should be "new and additional" in practice, new research from CGD and others have confirmed that nearly half of the finance was not additional to levels in 2009 and much has come from redirecting or rebadging aid (official development assistance, ODA). Recipient countries have seen climate finance grow, while support for other development objectives have fallen. This does not appear to be the intent of the target, and I return to opportunities to address this below.

Second, there was no attribution of who should pay what towards the $100bn. Whichever way you look at it, most observers think the US should contribute around 40 per cent. Though in practice, it's contributing little more than 2 percent of the target amount. It's impossible to be held accountable, or to enforce a commitment when it's unclear who should be providing it. And tracking fulfilment of bilateral commitments once they are made is fraught.

The OECD has arguably determined the default measure of climate finance through its data collection and regular report. These are both very valuable but the method and data reflect the views of the OECD members, and a better and more timely approach to monitoring is important. It would be more appropriate for a broader group of countries to be involved in these decisions. A good starting point would be some effort on alternative approaches to measurement.

As parties well-understand, to collectively and simultaneously transform 197 economies requires a level of trust, and the current approach to the target and to measurement undermines this trust.

This evidence submission argues therefore that substantial effort should be invested to explore alternative structure and approaches to the design of the target and measure (the level of any target is clearly connected, but can be separate).

Alternative approaches to a collective quantified goal

I set out four broad possibilities that tackle at least one of the above major issues. Clearly, these are not fully developed proposals, and each merit fuller elaboration. The first two tackle the issue of measuring additional finance; and the latter two are clear about which countries should contribute; though there is also potential to combine the ideas.

1. A combined target for climate *and* development finance

This target and measure would consider the combined levels of concessional climate finance, and development finance. It could be calculated on a grant equivalent basis, and the baseline would be provided by the existing levels of Official Development Assistance (ODA), plus the concessional element of climate finance not already included in ODA. A figure could also be added for mobilised private climate finance; or this could be assessed separately.

- **Pros**: clarity on total concessional resources, ensuring additionality; avoids artificial split between adaptation and development finance
- **Cons**: may need extra commitment on the proportion that is climate-focussed; private climate finance provision would need special treatment

2. Set separate targets for mitigation finance, and other development finance, including adaptation finance

By having two targets, this would provide clarity on the balance expected. As mitigation finance is needed to reduce emissions, it would also clarify how much of that finance would be made available by providers. This proposal has some similarities to [Norway's proposal] to separately measure its spending on 'global public goods' from its development spending.

This approach would recognise that mitigation finance—which helps countries reduce emissions and has a benefit to all of us (a 'global public good') is very different to finance for adaptation and development which are virtually indistinguishable and are for the benefit of the recipient.

Mitigation finance could be private, or much-less-concessional public finance—allowing that finance to go much-further than grants. It could be targeted where it can do the most for emissions reductions (likely middle income countries), without demands to ensure its grant-based and goes to the poorest countries (where mitigation opportunities may be more limited).

Meanwhile, development and adaptation finance could have a separate goal. This would be reserved for the poorest countries most exposed to climate. It would be measured in much the same way as Official Development Assistance; starting with the current total as a baseline.

- **Pros**: clarifies expectations on the 'balance'; ensures mitigation finance does not displace development finance
- **Cons**: draws a distinction between mitigation and adaptation when in some spend both objectives are tackled

3. Set climate finance targets based on a share of GNI

This would expect provider countries to contribute a certain portion of their economies to climate finance, representing an increase on current levels.

This mirrors the approach of the UN target for Official Development Assistance set at 0.7 per cent of Gross National Income (GNI). This ties contribution clearly to a country's economic capability. Still, as is seen by the UN target, few manage to achieve it; and it may be unfair to expect already-generous providers to further-increase their contribution. Still, expectations for increases could be scaled according to the current level of provision, with those providing over 1 per cent of GNI in ODA providing little if any extra, and those providing under, say, 0.2 per cent providing significantly more.

- **Pros**: clarity on who should provide finance; consistency with existing frameworks
- **Cons**: integrating with existing levels involves potential complexity; not clear GNI should be the only factor determining contribution

4. Base climate finance contributions on emissions

A more fundamental and powerful climate finance target would tie climate finance contributions to current levels of emissions by countries. This would have two major advantages—first, it would provide a clear and strong incentive for high emitters to reduce emissions. Two, it would make clear who should be providing climate finance. The Paris agreement expects countries to achieve net zero by 2050—so, all parties could expect their climate finance contributions to cease when this was achieved (or to move to pay for damage for historic emissions).

It's worth noting that this is not the same as a global tax on carbon which providers are forced to pay into a common put—rather, because the climate finance providers would retain discretion over how they disbursed their finance, even if the amount were mandated (note also that a true carbon tax would need to apply to those individuals and companies actually creating emissions so they faced its incentives). It is also, by definition, "common but differentiated" in terms of its contribution. It would also bring in the wider group of countries who are polluting.

There are several issues that would need to be resolved—in particular, what happens about historic emissions; whether all countries contribute at the same level and time-frame; and what happens to those countries that don't pay.

All options will be politically difficult to agree—but the incentives are so well aligned to the problem, that it could be powerful in reducing emissions..

- **Pros**: excellent incentives; clarity on who should be providing
- **Cons**: need to resolve adjustments for historic emissions

Concluding remarks and related issues

This evidence submission provides some starting points for an improved approach to a quantified climate finance goal. As well as the design of the target, there are issues of how progress will be tracked and by whom, what mechanisms exist for enforcement as well, of course, of what will work politically.

Hopefully this process can lead to new and ambitious thinking about the contribution of a new quantified goal.

I'm grateful for very useful comments from my colleagues Ranil Dissanayake and Mark Plant. All views and any errors are mine.