

Use Global Stocktake to Ensure Equitable Flow of Climate Finance

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Summary

- Current climate finance transfers from developed to developing countries inadequate
- Mismatch between finance transfers from developed countries and finance needs of developing countries which raises equity concerns
- Equity implications of emerging financing mechanisms like Just Energy Transition Partnerships (JETPs) not clear
- JETPs need more transparency on source & terms of funding, share of responsibility between donors and recipients in governing the programs, and evaluation framework to measure progress
- Need to use Global Stocktake (GST) process to ensure equitable flow of climate finance from developed to developing countries
- Incorporate frameworks to assess climate finance flows on the basis of equity in the GST process

Introduction

Making finance flows consistent with pathways towards low greenhouse gas emissions and climate-resilient development is one of three long term goals of the Paris Agreement, an Agreement that is to be implemented in an equitable manner.ⁱ The primary vehicle for parties to achieve this is through the exchange of climate finance. Yet, as the current GST is likely to reveal, equitable distribution of such climate finance is not happening. Finance flows in the energy sector can reveal the current status quo and future trajectories of climate finance as it accounts for the majority of the flows. We highlight here the reasons for inequities in climate finance flows and argue that the Global Stocktake (GST) process can be used to address these equity concerns.

Equity in Climate Finance

Climate finance has remained a fraught area of climate negotiations due to a range of issues. The first is the range of definitions of climate finance, and the inability to thus far establish a common definition at the UNFCCC.ⁱⁱ While these definitions share several commonalities, there remains important differences. These differences can greatly affect the characteristics and availability of climate finance. Specifically, there remain extant 'grey areas' concerning what should be included within a definition of climate finance, especially when it involves forms of private or blended finance and funding projects which could result in stranded assets in the future.ⁱⁱⁱ Secondly, there

are mismatches between the reporting cycles of the individual sources of climate finance and the timeframes in which aggregate assessments of such sources take place.^{iv} Consequently, it can take years to judge the extent to which climate finance promises have been fulfilled.^v Thirdly, even if one had an accurate estimate of the extent of climate finance, parties disagree starkly on how climate action can be financed in an equitable manner.

The one type of climate finance with the biggest equity implications is the finance transfers from developed to developing countries. The obligations of developed countries to finance mitigation and adaptation actions in developing countries, as laid out in Article 9 of the Paris Agreement, remain far from fulfilled. Developed parties have fallen short of collectively mobilising USD 100 billion each year to developing parties which has been an ongoing source of contention at international climate negotiations.^{vi} It is not just the volume of climate finance that is important, it is also the form it is in. Here, it is pertinent to note that there is a gap between mitigation finance which tends to be loan-based, in comparison to adaptation finance which tends to be more grant based.^{vii} Despite these shortcomings, climate finance flows for clean energy have been rising. Energy is a major source of emissions and a primary area where developed countries contribute to climate finance. For example, in 2021 OECD Development Assistance Committee (DAC) Members provided USD 5.7 billion of energy-related climate finance.^{viii} This was distributed in various concessional forms and across variable geographies and energy contexts. Given the prominent role of energy financing in climate finance flows it is no surprise that it has been a source of innovation with several key equity implications as the Just Energy Transition Partnerships (JETPs) reveal.

Innovative climate finance: The case of JETPs

The 26th UN Climate Change Conference of the Parties (COP 26) was marked by a climate finance leapfrog as a strong commitment for Energy Transition emerged through Just Energy Transition Partnerships (JETPs). The first of these JETPs was announced for South Africa which involved USD 8.5 billion of development assistance for three to five years. It was supported by an International Partners Group (IPG), i.e., France, Germany, the United Kingdom, the United States, and the European Union through various mechanisms including grants, concessional loans, and investments and risk sharing instruments (including to mobilise the private sector). Unlike other climate financing models, JETPs specifically aim to accelerate Energy Transition, mainly in emerging countries that rely heavily on fossil fuels. JETPs embrace the concept of “just transition” which has not been the key focus of earlier financing mechanisms. The long-term vision of JETP’s involves ensuring just, equitable and inclusive outcomes for all stakeholders affected by decarbonisation.

At COP27, South Africa published its JETP Implementation Plan (JETP IP) which focused on investments in electricity, new energy vehicles, and green hydrogen. The JETP IP outlined a climate finance need of USD 98 billion which is considerably more than the USD 8.5 billion announced in the COP26 and highlights the large amount of funds required to achieve a just energy transition (Krammer, 2022). This funding gap has also brought back a long-standing

conversation regarding equity in climate finance, mainly regarding the developed countries' contribution in financing mitigation and adaptation in developing countries. In South Africa's JETP package, most funds may come from commercial loans, with grants only accounting for less than 5% of the total funding. This raises significant issues as to whether the country would be able to bear the costs considering its fiscal capacity, and the likely negative impacts of the clean energy transition on its economy. Moreover, South Africa would need to fill the funding gap between what has been promised in JETPs and what it requires for a just transition. For that, the current JETP funders may increase their contribution, or South Africa would need to encourage other countries to join the partnership or seek new funding sources at COP 28. The latter one, however, requires significant negotiation capacity to attract huge public or private investments, which could be challenging for a developing country like South Africa.

Even though South Africa's JETP is ongoing, several key takeaways, particularly from the equity lens can improve future JETPs (i.e., Indonesia and Vietnam). These include clarity about how or when the funding will materialize and how it will be allocated (funding complexity and transparency of flows), the fair share of responsibility between donors and recipients in governing the program, and the importance of a clear evaluation framework to measure the progress. Addressing these concerns would provide a better understanding of the extent to which global partnerships could or should achieve ambitious climate goals by implementing funding partnerships in a manner that reflects equity.

Role of GST in Equitable Climate Finance

It is important to analyze the quantum and nature of climate finance flows occurring internationally, and via emerging mechanisms like JETPs to identify the reasons for inequities in finance flows, and identify strategies that can ensure greater equity in accessing climate finance. This will support the GST process in its aim to assess the implementation of Paris Agreement goals "in the light of equity". The GST process would need to design principles or frameworks that take into account the varied conceptions of equity in order to arrive at a transparent framework for assessing climate finance flows. This can allow parties to collectively meet the ambitious goals of climate action in an equitable manner.

Next Stage

We will explore these equity concerns in climate finance as part of the Early Career Scholars for Inclusive Stocktake (ECSIS) program by producing a working paper prior to COP28. We envisage this will provide a spotlight on the inequities in climate finance flows in the energy sector, and also highlight the equity implications of emerging financing mechanisms like JETPs. This research will also identify strategies to increase equity in finance for climate mitigation, with lessons for future GSTs as well. This working paper is set to be released November 2023.

This policy brief is a product of the [Early Career Scholars for an Inclusive Stocktake \(ECSIS\)](#) program. ECSIS, created by the independent Global Stocktake's (iGST) co-leads for the Mitigation Working Group - Center for Global Sustainability (CGS) at the University of Maryland and the Council on Energy, Environment and Water (CEEW) in India, aims to initiate a network of future academic leaders at frontier stocktaking research. With a specific focus on the Global South, the program seeks to better inform policymakers and cultivate innovative thinking to address diverse climate challenges from cross-cutting perspectives. This year, the program has recruited 10 outstanding early-career scholars from around the world with diverse disciplinary and cultural backgrounds to discuss topics of urgency and relevance to the global stocktake (GST). Their ongoing research projects on the global stocktake address issues including equity in climate finance, financing adaptation efforts in small islands, and the science and policy interface in the context of civil society involvement.

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References

ⁱ Article 2(1)(c) and 2(2) of the Paris Agreement.

ⁱⁱ UNFCCC Standing Committee on Finance (2022) Fifth Biennial Assessment and Overview of Climate Finance Flows, Annex B.

https://unfccc.int/sites/default/files/resource/J0156_UNFCCC%20BA5_2022_Report_v4%5B52%5D.pdf.

ⁱⁱⁱ For example, viewing gas as a transition fuel.

^{iv} The latest climate data available under each of these prongs is 2020 for the Standing Committee on Finance and 2021 for the OECD DAC and CPI.

^v The latest common year of analysis between these three sources is 2020 revealing that triangulation exercises between the three major sources cannot be performed in a timely manner.

^{vi} Bower, E. (2022, October 6) African countries urge rich nations to honour \$100bn climate finance pledge. *The Guardian*.

<https://www.theguardian.com/global-development/2022/oct/06/african-countries-urge-rich-nations-to-honour-100bn-climate-finance-pledge-cop27>

^{vii} UNFCCC Standing Committee on Finance (2022) Fifth Biennial Assessment and Overview of Climate Finance Flows, p.11

https://unfccc.int/sites/default/files/resource/J0156_UNFCCC%20BA5_2022_Report_v4%5B52%5D.pdf.

^{viii} OECD, Climate-Related Development Finance Partner Country Perspective

https://public.tableau.com/views/Climate-RelatedDevelopmentFinanceRecipient2021/CRDFRP?:language=en-US&publish=yes&:display_count=n&:origin=viz_share_link&:showVizHome=no#1.