Financing Climate Action: iGST Discussion Series

Surfacing perceptions of equity in the finance themes of the Global Stocktake

Laetitia Pettinotti, Yue Cao, Sarah Colenbrander, Mizan R. Khan, Raju Pandit Chhetri and Charlene Watson

ODI Think Change
Prakriti Resources Centre
ICCCAD International Centre for Climate Change and Development
iGST Independent Global Stocktake

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About the independent Global Stocktake and the Finance Working Group

The Independent Global Stocktake (iGST) is a consortium of civil society actors working together to support the Global Stocktake (GST), the formal process established under the Paris Agreement to periodically take stock of collective progress toward its long-term goals.

The iGST aligns the independent community – from modelers and analysts, to campaigners and advocates – so we can push together for a robust GST that empowers countries to take greater climate action.

The Finance Working Group (FWG) of the independent Global Stocktake (iGST) is an open partnership bringing together a range of expert perspectives from the global north and south on the progress made toward financing climate action. The FWG aims to support and independently benchmark the official UNFCCC Global Stocktake (GST) process.

The Finance Working Group is organized around two complementary themes: the consistency of finance flows with low-emission, climate-resilient development, as outlined in Article 2.1(c) of the Paris Agreement; and the provision of support to developing countries to mitigate and adapt to climate change.

The group is co-chaired by Charlene Watson of ODI and Raju Pandit Chhetri of Prakriti Resources Centre. For more information, visit: www.independentgst.org

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+ Executive Summary

The principle of equity is articulated in the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement. It is operationalised by differentiating Parties' obligations, including those need to mobilise and are eligible to receive climate finance. The current architecture, however, faces challenges in the mobilisation and provision of, and access to, climate finance – in part due to ill-defined goals and targets. Developed countries have fallen short of climate finance provision goals, which are in and of themselves far short of the financing needs of developing countries, both in terms of the quantity and nature of funds.

The Paris Agreement requires a collective assessment of progress towards its purpose and long-term goals every five years. The first Global Stocktake (GST) is under way, to be completed in 2023. It is intended as part of the ratchet mechanism whereby Parties assess, review and improve on their nationally determined climate targets. The GST is required to take stock of collective progress *in the light of equity*. How this will be achieved and progress towards equity assessed is yet to be seen. This is particularly true for the financing themes of the GST, which deal both with developed countries' obligations to mobilise climate finance for climate action in developing countries (Article 9), and the universal pursuit of the climate-consistency of all finance flows (Article 2.1c).

As a scoping exercise by the Finance Working Group (FWG) of the independent GST (iGST) – an umbrella data and advocacy initiative seeking to bolster the official GST process – this paper explores perceptions of equity and fairness in financing climate action through the analysis of 12 key respondent interviews. Further research will delve into the problem statements elicited by this paper. The paper finds a number of common threads and linkages in respondent perceptions, namely:

- The discussion of equity and fairness oscillates between practical challenges of climate finance implementation and underpinning constructs.
- The current architecture of climate finance has many illustrations of inequity and unfairness.
- The notion of power and how that power is exercised underpins the concepts raised by interviewees.
- Double standards are perceived when it comes to making finance flows more broadly consistent with climate objectives.
- Perceived contradictions fuel distrust of the current climate finance architecture.
- There are agendas and norms external to the UNFCCC which affect equity in financing climate action.
- Overwhelmingly, interviewees felt that equity and fairness cannot be achieved under the current climate finance architecture.

The GST offers an opportunity to examine whether developed countries are fulfilling their climate finance pledges, whether those pledges are ambitious enough and what more

needs to be done in financing climate action to meet the temperature goals of the Paris Agreement. This analysis highlights, however, that as an exercise to understand collective progress, the GST will need to accommodate multiple viewpoints and even diverging worldviews when fulfilling its mandate to address equity in finance themes. Additionally, the GST will need to be rigorously transparent in the choices it makes, and civil society – including the iGST – can help the GST to allow for, or even construct, pathways towards equity in financing climate action.

+ 1. Introduction

Equity in the UNFCCC is rooted in the principle of 'Common But Differentiated Responsibility' (CBDR) (UNFCCC, 1992). The 2015 Paris Agreement reinforces CBDR and the respective capabilities of countries, as well as including reference to human rights, gender equity and intergenerational equity in its preamble (UNFCCC, 2015).

The concept of justice is not directly referred in the UNFCCC. The Paris Agreement does note 'the importance for some of the concept of "climate justice"' and seeks a 'just transition' of the workforce in the pursuit of climate targets (UNFCCC, 2015). While several types of justice exist in the literature – distributive, procedural, recognition, compensatory, restitutive, corrective or neo-liberal (Khan et al., 2020; Ciplet and Roberts, 2017; Fraser, 1998; Ikeme, 2003; Klinsky and Dowlatabadi, 2009; Rawls, 1971; Young, 1990) – the academic and policy literature on the UNFCCC system mostly relates to distributive, procedural and neo-liberal, market-based justice (Khan, 2015).

Under way since 2021 and to be concluded in 2023, the first GST is central to the successful implementation of the Paris Agreement. The GST is intended to periodically (every five years) assess the collective progress of Parties towards implementation of the Agreement and achievement of its long-term goals (Article 14). The pursuit of equity is embedded in the GST design. It must be done 'in a comprehensive and facilitative manner, considering mitigation, adaptation and the means of implementation and support, and in the light of equity and the best available science'.[1] For the finance themes of the GST, this means it must touch on the adequate mobilisation and fair distribution of committed climate finance, for example, as well as on the nature and speed at which wider finance flows become consistent with low-emission, climate-resilient development pathways (Holz et al., 2019; Watson and Roberts, 2019). This periodic GST process must be undertaken in a participatory and facilitative manner.

The iGST – a consortium of civil society organisations working together to ensure a robust GST for maximum climate ambition – can support the GST in addressing equity considerations in the financing of climate action. This paper from the FWG of the iGST focuses on how equity is perceived in financing climate action. Its findings are intended to help the GST process navigate an emotionally charged and challenging topic. It is based on an analysis of key informant interviews.[2]

The primary focus of this paper is on equity in developed country commitments to provide and mobilise climate finance for adaptation and mitigation in developing countries (as

1 Decision 19/CMA1, para. 1.
2 Twelve key-informant interviews sought to collect views and perceptions about equity and fairness in the finance theme of the GST. The list of interviewed stakeholders was non-exhaustive, but sought to cover the financing of climate action from different angles: from academia, from the negotiations from a LIC or LDC, given their role in administering climate finance or in a non-governmental organisation supporting the GST effort. Further interviews would expand and deepen this analysis.

articulated under Article 9 of the Paris Agreement). Where possible, it also considers implications for the consistency of finance flows (a long-term goal of the Paris Agreement in Article 2.1(c)). After a brief contextual overview of the equity principle in the UNFCCC system, emerging views of equity in climate finance and how it is being conceptualised in the GST (Section 2), the paper outlines perceptions of equity in financing climate action as expressed by interviewees closely linked to the UNFCCC system (Section 3). This scoping paper is intended to inform stakeholders as the GST progresses, as well as guiding further research led by the Finance Working Group by formulating problem statements to be addressed (Section 4). As such, it provides a snapshot of perceptions on the topic of equity in the financing of climate action, and is not intended as a meta review of the topic.

+ 2. Context

2.1 Equity in the UNFCCC and Paris Agreement provisions

The operationalisation of equity in international environmental law was defined, and arguably still is being defined, through multilateral environmental negotiations. At the first global conference on the environment in Stockholm in 1972, paragraph 7 of the Declaration stipulated 'acceptance of responsibility … sharing equitably in common efforts'. In 1992, the UN Conference on Environment and Development in Rio de Janeiro formalised the principle of CBDR in the Rio Declaration (para. 7).

The definition of equity in the UNFCCC (Article 3.1) states that parties will initiate measures 'on the basis of equity and in accordance with their common but differentiated responsibilities based on respective capabilities' (CBDR+RC). The Convention (in its preamble, para. 3) is explicit in what differentiated responsibility means, referring to the disproportionate 'historical and per capita' emissions of developed countries. As such, the CBDR principle implicitly refers to the polluter pays principle: polluters are to assume the cost of cleaning up the pollution they create (Khan, 2015). The +RC principle may be interpreted as referring to developed as well as higher-income developing countries. As such, it implicitly acknowledges a changing emission distribution: few of the countries currently producing the most greenhouse (GHG) emissions are historically responsible for climate change.[3] The concept of +RC further differentiates Parties' role in addressing climate change and in view of equity, acknowledging that some have greater human, financial, governance, innovation and technological resources to lead on mitigation and provide support (Article 4.5) to developing countries in achieving the goals of the Convention (Klinsky et al., 2016).

In 2015, the Paris Agreement introduced the concept of Nationally Determined Contributions[4] of Parties towards global climate change mitigation and adaptation goals 'in light of different national circumstances' (UNFCCC, 2015). Such wording can be perceived as weakening the CBDR+RC by formalising the idea of universal contributions to mitigation and by potentially increasing recourse to subjective interpretations of the language in the Convention and subsequent decision texts (Best, 2008). However, the wording can also be seen as operationalising CBDR+RC in a more nuanced way than earlier provisions given that targets are nationally determined, with the (often unmet) expectation that countries with greater responsibilities and more capabilities should have more ambitious targets (Pauw et al., 2019), while least developed countries (LDCs) and

3 As an illustration, the top five CO2 emitters per capita in 2018 were Qatar, Kuwait, United Arab Emirates, Bahrain and Brunei, but the top historic CO2 emitter countries in 2021 were the US, China, Russia, Japan and Germany (World Bank, 2022; Friedlingstein et al., 2022).

4 Nationally Determined Contributions (NDCs) were introduced by the Paris Agreement (Art 3 and subsequent Art 4, 7, 9, 10, 11 and 13) as domestically set mitigation and adaptation effort plans. They form the basis for countries to achieve the global collective goals set out in the Paris Agreement. NDCs are submitted every 5 years to the UNFCCC Secretariat and should reflect increasing ambitions (UNFCCC, 2022a).

Small Island Developing States (SIDS), under Articles 3.3 and 4.9 of the Convention and Articles 4, 7 and 9.4 of the Paris Agreement, have flexibility in their emission targets and get preferential treatment.

The emergence of a human rights perspective in multilateral climate negotiations has strengthened the equity provisions of the climate regime. While the Convention does not refer to human rights, the Preamble of the Cancun Agreements, adopted at COP16 in 2010, acknowledges the applicability of a human rights framing, emphasising the need for all Parties 'in all climate change-related actions, [to] fully respect human rights' (para. 8). The Preamble to the Paris Agreement also recognises that 'Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights' (UNFCCC, 2015).

An understanding of what equity means in operational terms for the UNFCCC system results from multiple rounds of deliberations. Heavily linked to responsibilities and capabilities, the concept will likely continue to evolve as deliberations progress and geopolitics change.

2.2 Equity in financing climate action

The pace and scale of the changes necessary for low-emission, climate-resilient sectoral and societal transitions to meet a 1.5 degree Celsius target require significant financial backing. At the same time, insufficient finance for climate action hinders climate ambition and leads to rising costs from losses and damage caused by the adverse effects of climate change. While the financing of climate action refers to the finance flows and levers that can be applied to scale up flows for climate action and scale down flows that are inconsistent with climate objectives (in relation to Article 2.1c), *climate finance* as used in this paper has a specific function in financing climate action in developing countries, as supported by developed countries in light of their obligations under the UNFCCC (Article 9).

Climate finance, in its very existence, stems from the idea of implementing equity as per the UNFCCC system. Implementing equity in climate finance, however, also calls for an understanding of what is equitable in mobilisation, provision and access: how much should there be, given by whom to whom, how and on what conditions? Existing literature indicates that, in its current articulation, the climate finance architecture is undermining equity (Pelling and Garschagen, 2019; Khan et al., 2020b).

The mobilisation of climate finance falls far short of committed funds and actual needs (Carty et al., 2020; Colenbrander et al., 2021). The Convention and the Paris Agreement commit developed countries to provide adequate and predictable financial resources to developing countries in accordance with CBDR+RC. The Convention's Articles 4.3 and 4.4 include principles of climate finance such as 'new and additional' and 'adequate and predictable'. This obligation to provide climate finance has been operationalised through

several multilateral climate finance funds. There were pledges for fast-start finance covering the period 2010–2012 and a pledge to mobilise $100 billion a year by 2020.[5] While what counts as climate finance has not been clearly defined in these pledges, by 2021 developed countries had by all estimates fallen short of the $100 billion commitment (see Box 1) and climate finance remains far below the estimated financing needs of developing countries (UNFCCC, 2021).[6]

The climate accords do not include a way for determining how responsibility for meeting global climate finance targets should be split between developed countries, for example whether a fair share should be assessed based on gross national income, cumulative carbon dioxide emissions and/or population. An analysis of 2019 outflows suggests that only a few developed countries (understood here to map the so-called Annex II countries)[7] were on track to fulfil their responsibilities by 2020, including Germany, France, Japan, Norway and Sweden. Most of the climate finance 'gap' could be attributed to the United States (US), Australia, Canada, Japan, Italy and the United Kingdom (UK) ($2–4 billion each) (Colenbrander et al., 2022).[8]

The provision of finance has not necessarily been balanced between adaptation and mitigation, nor is it without costs. The need to strike a balance between the financing of mitigation and adaptation has been recognised in every COP decision since 2010, including in Article 9.4 of the Paris Agreement (UNFCCC, 2015), and in the latest Glasgow Climate Pact (2021).[9] What balance infers, however, remains undefined. The Green Climate Fund (GCF) – a multilateral climate fund established under the Financial Mechanism of the UNFCCC – has formalised balance within its operation and aims to deliver a 50:50 split between adaptation and mitigation across its portfolio.[10] There is a bias for supporting mitigation in public, private, bilateral and multilateral funding, and even by NGOs in developing countries, possibly as mitigation anywhere delivers global climate mitigation benefit (Chan and Amling, 2019; Khan and Munira, 2021). However, insufficient finance is flowing to adaptation, particularly to the most vulnerable (Doshi and Garschagen, 2020). The OECD (2021) estimates that only 25% of climate finance went to adaptation in 2019, and only 4% of climate finance is estimated to be going to the most vulnerable countries (Chan and Amling, 2019).

The type of finance provided is also important. Climate finance is often in the form of grants, concessional loans, guarantees or equity. In light of the strain on public budgets following the Covid-19 pandemic, the cost of climate finance – referring to any amounts

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5 Setting of the new collective quantified goal on climate finance is currently under way and should be decided before 2025 (UNFCCC, 2022b).
6 The estimated financing needs of developing countries are not illustrative of the amount that developed countries are obliged to provide to developing countries, but indicate the scale of the gap between climate finance provision and the needs, of which climate finance plays a key leveraging role.
7 Annex II countries include OECD members except for the Russian Federation, the Baltic States, and several Central and Eastern European States (UNFCCC, 2022c).
8 Many of these countries are members of the Umbrella Group which have had emissions rise or remain constant rather than fall since the Convention was established in 1992. The umbrella group of Parties was formed after the adoption of the Kyoto Protocol in 1997 and is made up of Australia, Belarus, Canada, Iceland, Israel, Japan, New Zealand, Kazakhstan, Norway, the Russian Federation, Ukraine and the United States (UNFCCC, 2022d).
9 See https://unfccc.int/sites/default/files/resource/cma3_auv_2_cover%20decision.pdf
10 On a grant equivalence basis (GCF, 2021).

developing countries will have to pay back, for example (below-market rate) interest on concessional loans – is increasingly under scrutiny. This is particularly true for many LDCs, where non-grant finance is highlighted as having potential to exacerbate high levels of indebtedness (Carty et al., 2020).

The access to, lending criteria of and accountability for climate finance has led to procedural barriers. The Paris Agreement states that institutions serving the Paris Agreement and UNFCCC 'shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, particularly for the LDCs and SIDS'.[11] Yet, procedures to access climate finance remain complex and time- and resource-consuming (CFAN, 2020), despite repeated pledges to expedite the process, including at COP26.

Many vulnerable countries have low capacity and limited data and resources to become accredited entities to climate funds, or to develop project proposals. In the case of adaptation, proving the climate rationale of a project (as distinct from a development rationale) has been challenging. Investments in 'hard' adaptation infrastructure such as sea walls, which are easier to identify and tend to be delivered by government bodies, have historically been favoured, rather than 'soft' adaptation infrastructure delivered by local stakeholders, such as capacity-building and raising awareness, which tend to be required in such contexts but are harder to monitor and verify (Fankhauser and Burton, 2011; Khan et al., 2020a).

Accountability for climate finance has historically been structured upwards rather than downwards, so that donor interests outweigh recipient needs (Barrett, 2012; Barrett, 2014). As noted above, accounting frameworks as to what qualifies as climate finance are not consistent across providers and have led to varying interpretations of progress (Box 1). Existing accounting frameworks also do not consistently include the financial contributions made domestically by developing countries towards climate goals (Carty et al., 2020). While the enhanced transparency framework of the Paris Agreement will lead to changes in climate finance reporting by developed and (optionally) developing country Parties, it has not addressed persistent challenges around monitoring, reporting and verification for climate finance, and will continue to allow for a variety of interpretations and diverse assumptions as to what counts as climate finance, to the detriment of effective accountability.

In the climate emergency context, a loose definition for climate finance and related concepts, despite its drawbacks, has enabled progress to project implementation on the ground, moving past lengthy and difficult negotiations focused on what 'climate finance' really means. How countries can or should work to operationalise the Paris Agreement goal to make finance flows consistent with low-emission, climate-resilient pathways more broadly is even less clear (see the iGST Finance Working Group case studies on this

11 Paris Agreement, Article 9.9

topic).[12] While it has been acknowledged that developed countries' progress towards the $100 billion target has fallen short (Glasgow Climate Pact, 2021), and access to climate finance must be improved (CFAS, 2021), the continuation of the status quo in light of the lack of further UNFCCC-led guidance will only lead to additional division and confusion.

Box 1 The $100 billion a year climate finance goal

The lack of an officially agreed definition in the UNFCCC has made tracking volumes of climate finance challenging. Over the years, estimates of developed country progress towards the goal of mobilising $100 billion a year until 2020 in developing countries have emerged. The most commonly used figures include those provided by the OECD and Oxfam (Bos and Thwaites, 2021).

Based on latest available data, the OECD (2021) estimates:

- Total climate finance of $79.6 billion was provided and mobilised by developed countries in developing countries in 2019.
- This included bilateral and multilateral public finance, private finance mobilised by public finance and export credits.
- Public climate finance was $54.5 billion in 2017, $61.6 billion in 2018 and $62.9 billion in 2019.
- Adaptation accounted for 25.2% ($20.1 billion) of total climate finance, while 10.9% ($8.7 billion) was focused on cross-cutting purposes. The remaining 64% focused on mitigation.
- LDCs and SIDS accounted for 19.3% ($15.4 billion) and 1.9% ($1.5 billion), respectively, considering both provided and mobilised climate finance.

The OECD's climate finance estimates have been criticised for reporting the face value of financial instruments mobilised instead of the grant-equivalent value (which refers to the net flow of money from developed to developing countries), and for overcounting the climate component of broader development projects (Carty et al., 2020; Weikmans and Roberts, 2019). Adjusting for these factors would indicate less progress towards the $100 billion goal.

Adjusting for grant equivalents, Oxfam (Carty et al., 2020) estimates:

- Public climate finance provided to developing countries in 2017–2018 was $19–22 billion, not $58 billion as estimated by the OECD (average of 2017 and 2018 estimates).
- Of this, only $6–7 billion went to adaptation, as against the OECD estimate of $20.1 billion.

12 See case studies applying a framework of government-led financial levers and analysing progress in the private sector towards climate-consistency of finance flows in Rwanda, Colombia and Switzerland at https://www.climateworks.org/independent-global-stocktake/finance-working-group/

2.3 Equity in finance themes of the Global Stocktake

The GST is intended to periodically assess collective progress towards implementation of the Paris Agreement and achievement of its long-term goals. It is required to do so 'in a comprehensive and facilitative manner, considering mitigation, adaptation and the means of implementation and support, and in the light of equity and the best available science'.[13] In Katowice (2019), Parties further decided that 'equity' and 'the best available science' will be considered in a Party-driven and cross-cutting manner throughout the GST.[14] The GST process must be undertaken in a participatory and facilitative manner.[15]

Means of Implementation and Support (MoIS) is one of the three key pillars of the Paris Agreement, alongside mitigation and adaptation. While MoIS refers to finance, capacity and technology transfer, this paper considers only finance. Furthermore, while MoIS refers predominantly to climate finance provision under Article 9, a specific consideration of the GST is to assess progress towards the long-term goal from Article 2.1(c) to 'make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'.[16] The inclusion of Article 2.1(c) in the GST process is embedded in its technical assessment that will explore opportunities to enhance actions and support towards achieving the purpose and long-term goals of the Paris Agreement (see Watson and Roberts, 2020).[17]

A three-phase process, the first GST started at COP26 in Glasgow and will culminate at COP28 in November 2023. The first stage, information collection and preparation, is under way. The technical assessment stage – starting in June 2022 – will comprise a series of technical dialogues. The third phase, the consideration of outputs, will take place at high level at COP28 itself. There are many open questions for this first GST, not least how equity will be addressed in finance themes, and providing scope for civil society – including the iGST (see Box 2) – to influence the Stocktake, which will set the tone for GSTs to come.

On the one hand, in light of the evolving operationalisation of equity in the UNFCCC and Paris Agreement and the existing challenges in climate finance provision and access, the GST offers an opportunity to critically examine: whether developed countries are fulfilling their finance pledges; whether those pledges are ambitious enough; and what more needs to be done in financing climate action to meet the temperature goals of the Paris Agreement. On the other hand, as the GST remains an exercise to understand collective

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13 Decision 19/CMA1, paragraph 1
14 Decision 19/CMA1, paragraph 2
15 Decision 19/CMA1, paragraph 6. The GST process commits to a Party-driven process conducted transparently and with the participation of non-Party stakeholders in a participatory and inclusive way. While there are clear issues of procedural equity to ensure that all stakeholders have a voice, these are not specifically dealt with in this paper.
16 Paris Agreement, Article 2
17 Decision 19/CMA1, paragraph 3

progress, when fulfilling its mandate to address equity in finance themes,[18] it will need to accommodate multiple viewpoints and even diverging worldviews.

Box 2. The iGST and the Finance Working Group

The iGST, launched in 2018, brings together independent actors – from modellers and analysts to campaigners and advocates – to push for a robust GST that empowers countries to take greater action on climate change.

The initiative includes a set of complementary workstreams that serve as spaces for dialogue and to launch discrete pieces of work. There are four thematic working groups, loosely paralleling each of the main long-term goals of the Paris Agreement – on adaptation, finance and mitigation, with an additional group focused on the cross-cutting theme of equity – and three regional civil society hubs, in Latin America and the Caribbean, West Africa and Southeast Asia. The iGST aims to bolster the importance of the GST process itself by supporting information collection, technical assessment and political considerations at multiple scales, including at subnational, national and regional levels.

The FWG of the iGST is an open partnership that brings together a wide range of expert perspectives from the global north and south. Focusing on the finance-related aspects of the Paris Agreement, 'finance' as used by the FWG encompasses two core, interrelated topics. It considers both the provision of support to developing countries to mitigate and adapt to climate change (Article 9), and the consistency of all finance flows with climate objectives (Article 2.1c).

The ultimate goal of the FWG is to support more ambitious country pledges and domestic actions by 2025, leading to substantial progress towards meeting all three of the long-term goals of the Paris Agreement. To achieve this goal, the FWG's long-term objective is to have direct influence on the UNFCCC GST process through the production of knowledge, outreach and support for appropriate data inputs, and to support a benchmarking of the official GST through the assessment of progress on financing the commitments under the Paris Agreement. It will also support an active, independent civil society on issues surrounding the financing of climate action (iGST, 2022).

18 At the Conference of Parties (COP) 24 in Katowice, Poland in 2018, Decision 19/CMA.1 (Matters relating to Article 14 of the Paris Agreement and paragraphs 99– 101 of decision 1/CP.21), paragraph 36(d) states that the GST will consider information at a collective level on: "The finance flows, including the information referred to in Article 2, paragraph 1(c), and means of implementation and support and mobilization and provision of support, including the information referred to in Article 9, paragraphs 4 and 6, Article 10, paragraph 6, Article 11, paragraph 3, and Article 13, in particular paragraphs 9 and 10, of the Paris Agreement". As such, while this section refers to the means of implementation and support, finance themes of the GST are considered to also include Article 2.1.c on making finance flows consistent with a pathway to low-emission, climate resilient development. See: UNFCCC (2018) Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on the third part of its first session, held in Katowice from 2 to 15 December 2018, Decision 19/CMA.1, Matters relating to Article 14 of the Paris Agreement and paragraphs 99–101 of decision 1/CP.21. UNFCCC. Available at: https://unfccc.int/sites/default/files/resource/CMA2018_03a02E.pdf

+ 3. Perceived equity in financing climate action

Even if there is no agreed definition of principles or benchmarks against which to assess equity, perceptions of this principle are held by negotiators and other stakeholders. Interviewees' perceptions of equity in financing climate action form a web of interconnected values and concepts associated with ideas of fairness and justice. Box 3 illustrates the breadth and overlap of terms elicited through these perceptions. This section identifies common threads and recurrent linkages.[19]

Box 3. Terms used

Key respondents interviewed for this paper used a number of terms when speaking of equity, linking it to ideas of fairness and justice. The terms often overlap and demonstrate the blurred delineation between the three concepts:

- '**Equity**' was associated with recognition, accountability, differentiation, control, distributional issues, constant evolution, and at an outcome level.
- '**Fairness**' was associated with subjectivity, perception, perspective, the concept of equity, and differentiated treatment.
- '**Justice**' was associated with remedy, redress, reparation, historic responsibility, having a fuzzy boundary with equity and an aggregate.

Discussion of equity and fairness oscillated between practical challenges of climate finance implementation and underpinning constructs

From a practical implementation perspective, interviewees noted the importance of who gets to access finance (mostly at the national rather than subnational level), and who gets to set the criteria for receiving finance. These procedural justice issues are particularly being reactivated as deliberations on financing for loss and damage evolve, including the possibility of a new finance disbursement mechanism being set up (see also Pandit-Chhetri et al., 2021).

Interviewees raised another practical point related to scale. The scale at which equity is considered mattered: whether in aggregate, at a national level or at a more granular level such as regional or individual. What is assessed as equitable may be different depending on the scale at which it is considered. This has implications for debates on sub-national

19 All sentences in inverted commas in this section are anonymised quotes.

and local-level climate finance access and the gender considerations around climate finance, for example.

While the concepts above relate to procedural justice in relation to the set-up of the climate finance architecture, concepts of distributive justice were also raised.

Interviewees associated equity with decoloniality (‘we have to ask why South Africa has such a strong coal legacy’) and rethinking capitalism, as well as challenging the understanding of what development is (‘it still corresponds to Western standards’) and ‘the right for all to thrive’ in a context of differentiated capacities.

The current architecture of climate finance has many illustrations of inequity and unfairness, leading interviewees to distrust it

Interviewees frequently mentioned the inadequate volume of climate finance currently delivered to developing countries (the amount provided ‘does not match the scale of finance needed to achieve the 1.5 degree target’); the unpredictability of climate finance flows; and the absence of common accountability metrics for meeting climate finance pledges (‘there has to be reporting and accountability beyond OECD figures – metrics are skewed in favour of contributor countries, but still the $100 billion goal was not reached’).

Interviewees also highlighted that developing countries have had little say in climate finance access criteria, resulting in a shared feeling of unfairness. The setting of climate finance access criteria is connected to procedural justice. Multilateral development banks use official development assistance criteria to attribute climate finance, LDC threshold criteria are determined by the UN, and Annex I and non-Annex I countries to the Convention are based on an income-centred approach: ‘Multilateral Development Banks using ODA criteria and modalities (loans, level of concessionality, etc.) to provide climate finance instead of other attributes. This is driven by the World Bank, and the World Bank board is Northern’.

Criteria that determine the volume of and access to climate finance are perceived by some interviewees as a delaying and diversionary tactic under the guise of transparency. They are also seen as making little sense as developing countries have to prove how much finance they need (in the present), while scientific understanding of impacts is constantly evolving (future), and the mobilisation of finance is framed as a recognition of historic responsibility (past).

Distrust in the current climate finance architecture means interviewees read manifestations of inequity as manifestations of power

Interviewees noted that rules governing access to finance respond to developed countries’ agendas and norms. The issue of criteria-setting and who shapes and ultimately decides

on eligibility thresholds are important given that receipt of climate finance is conditional on meeting those criteria.

Interviewees perceived an injustice in that developing countries not only bear the worst impacts of climate change yet have the least capacity to deal with such impacts. Interviewees identified another injustice as when financial support is extended, it is conditional on definitions and concepts emanating from countries that triggered climate change in the first place, rather than 'in the control of those who need it'.

An element feeding distrust relates to the absence of what is called recognition justice. In the words of one interviewee, 'recognition justice, which is how ideas of groups are built into modes of analysis, is not talked about much in the negotiations'. The fact that concepts and definitions used in the Convention and decision texts may emanate from a specific group of countries, but is not recognised as emanating in this way, was raised by interviewees as yet another manifestation of power.

Double standards are perceived when it comes to making finance flows more broadly consistent with climate objectives

Interviewees highlighted that as the universal pursuit – i.e. in both developed and developing countries – of the alignment of all finance flows with the Paris Agreement objectives picks up pace,[20] providers of climate finance are still subsidising fossil fuel industries and high-emitting domestic sectors at a rate much higher than they are providing climate finance.

This contradiction can be linked to accountability. It was noted that 'if public fossil fuel finance was accounted for alongside climate finance, we would be in negative territories', but climate finance accounting rules do not include fossil fuel subsidies, undermining trust in the system and supporting the idea of a double standard at work given that finance that undermines climate goals is not taken into account in climate finance accounting.

The perception of contradictions fuels distrust of the current climate finance architecture

Differentiation between countries is needed in order to operationalise equity. Yet interviewees noted that differentiation does not follow the neat delination of developed versus developing countries, which continues to prevail in the UNFCCC system. The pursuit of equity is not having a blanket rule. The differentiation of capabilities between

20 Article 2.1.c of the Paris Agreement commits Parties to 'making finance flows consistent with a pathway towards greenhouse gas emissions and climate-resilient development'.

non-Annex I countries is starting to emerge as a key consideration in operationalising equity.

Interviewees identified cases of variable understandings of equity in climate finance. Brazil, India and China are not historically responsible for climate change, but are currently emitting on a large scale. These countries receive climate finance and even provide some (e.g. China). As said by an interviewee: ‘How to think of China, India, Brazil? They fall squarely within CBDR but have moved on economically since, but still display large domestic inequalities.’

Another example is Iran, which does not receive climate finance due to international sanctions driven mostly by developed countries’ agenda. While oil-exporting Saudi Arabia is eligible to receive climate finance as a non-Annex II country, it does not do so. A respondent suggested that the implicit assumption is that Saudi Arabia is wealthy enough to finance its climate actions without international financial support, while also remarking that ‘someone in Saudi Arabia is not less worthy of receiving support to transition’. Where equity is linked to worthiness, it entails a potential moral judgement about who deserves climate finance, highlighted in the difficult operationalisation of equity in the case of non-Annex II fossil fuel producers.

There is a thin line between the perceived incoherence of equity considerations on one side, and on the other the finely tuned differentiation that can be required to implement equity (‘equity is unjust’). Such perceptions of incoherence can be directly linked to the lack of benchmarks and of corresponding accountability: in the absence of elaborate principles on equity, differentiation can be perceived as unfair.

Some interviewees pointed to possible changes in the climate finance landscape with respect to the impulse of developed countries to widen the climate finance provider base. This dual issue of incoherence and differentiation difficulties will no doubt strongly resurface as a result.

Agendas and norms external to the UNFCCC also affect equity in financing climate action

Processes that shape equity inside the UNFCCC system but which are outside the UNFCCC include World Trade Organization (WTO) rules, and the G7 and G20 agendas. Norms around debt sovereignty and corporate responsibility, for example, shape the capabilities of developing countries to achieve low-emission, climate-resilient development. These factors are connected but external to the UNFCCC: ‘global economy, WTO rules, they are determining how far the UNFCCC can go’; ‘UNFCCC itself is a small part of a larger bundle’.

Matters of intergenerational equity shape additional governance factors external to the UNFCCC. Interviewees noted that implementing intergenerational equity would correspond to an acceptance of the urgency of the system shift required by the climate

emergency, and would lead to an immediate stop or hard shift away from climate damaging activities, entailing a change in investment decision frameworks to embed intergenerational equity in assessment parameters.

Overwhelmingly, interviewees felt that equity and fairness cannot be achieved under the current climate finance architecture

Interviewees deemed trade-offs to be inherent (‘in the context of climate finance, justice and equity is a series of trade-offs’), not least given the scale of interaction with processes and norms outside the UNFCCC that will be needed to adequately finance climate action. A more achievable objective was deemed to be ‘tolerable inequities’: ‘there is always some form of inequity in collective action to get everyone to agree, so the question is, how much inequity is too much before parties stop cooperating?’.

Interviewees suggested that perceptions of what is deemed ‘fair enough, equitable enough’ have replaced strict accountability as a more practical way of making progress despite disagreement.

+ Conclusion: Problem statements for deeper analysis

Definitional ambiguities have, so far, prevented gridlock in the climate regime and enabled it to advance, albeit slowly. The perceptions of equity in financing climate action elicited in this paper reflect this absence of clear definitions or agreed benchmarks. The GST will need to accommodate multiple viewpoints and even diverging worldviews in its collective assessment of progress towards financing climate action in light of equity.

The GST process will need to be rigorously transparent in the choices it makes in its assessment. This is particularly true given the perceived double standards, imbalance of power and contradictions that have led to broad distrust among developing countries in the climate finance architecture and the pursuit of the climate consistency of finance flows.

Based on the perceptions surfaced through interviews, this scoping paper suggests four problem statements to guide further work by civil society. The FWG of the iGST will advance understanding of these problem statements through two deep dives in 2022, with the aim of using the findings and insights to inform the official GST process.

1. **A lack of commonly agreed benchmarks for equity in climate finance mobilisation, provision and access is contributing to distrust.** Ongoing differentiation of responsibilities and capabilities among parties (e.g. wealthier non-Annex II parties providing climate finance, oil exporters not receiving climate finance) without clear equity benchmarks is perceived as incoherent and unfair. *Could the GST establish principles and/or benchmarks of equity and fairness for climate finance? What does the process of creating these benchmarks entail? How much accountability can benchmarks provide, and for whom?*

2. **Non-Annex II country stakeholders may perceive double standards and feel they are 'rule-takers' in financing climate action**. Even though the existing norms and criteria are born out of the UNFCCC intergovernmental process of unanimous consensus, their operationalisation can be seen to benefit Annex II parties (e.g. fossil fuel subsidies not accounted for in climate finance statistics). Moreover, non-Annex I countries may perceive unfairness as they see themselves as rule-takers of norms and criteria to access finance set by those that caused the climate crisis, while being the ones most affected by climate change impacts and having the least capabilities to cope. *How can the GST contribute towards stakeholders' trust in the climate finance architecture?*

3. **Access to climate finance are deemed unjust and inequitable**. The providers of climate finance follow different rules of allocation and apply varying criteria for financing (e.g. MDBs use ODA rules, while bilateral providers can be more discretionary and follow national foreign policy interests). This leads to certain groups of countries (e.g. MICs, LDCs, SIDS and sanctioned vulnerable countries)

and to groups within countries (e.g. women, indigenous, youth, elderly) having unfavourable access to climate finance, despite their vulnerability to climate change or climate change mitigation potential. *How should the GST assess climate finance provision and access in light of equity given the many different perceptions of inequity, injustice and unfairness already baked into the architecture?*

4. **There remains a lack of clarity on what finance that enables the global transition to low-emission, climate-resilient development pathways is.** This paper has focussed predominantly on climate finance, but recognises strong linkages in agendas and norms external to the UNFCCC affecting equity in financing climate action. Developing countries face higher technology costs and higher costs of capital, and the international financial system continues to assess investment returns on time horizons that put a premium on future generations. Yet the alignment of finance flows with the Paris Agreement (Article 2.1c) can be perceived as double-standards or as a diversion from the provision of climate finance (Article 9). *How can the GST ensure that progress towards the climate consistency of finance flows is defined and operationalised in a way that is equitable and fair, now and in the future?*

The pursuit of equity is permeating discussions and deliberations, though is rarely addressed directly. Stakeholders are associating a multiplicity of concepts to equity in financing climate action. Having surfaced these concepts there emerge clear problem statements that the first GST could seek to acknowledge. If the first GST can spur more equitable outcomes, it will enable stronger collective climate ambition, which remains fundamental in seizing humanity’s rapidly narrowing window of opportunity to stabilise global temperature rise and mitigate the adverse impacts of climate change.

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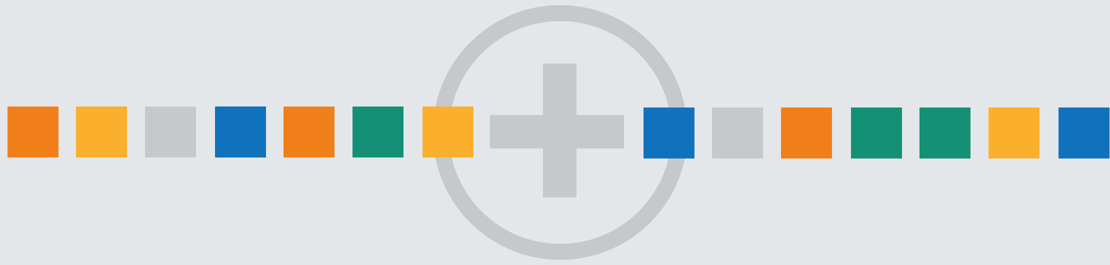

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