

Climate finance

Good steps, but still a long way to go

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This year's UN Climate Change Conference (COP 27) in Sharm El-Sheikh, Egypt, which ended on 20th November 2022, came with high hopes for the future of climate finance.

Lack of grants

At COP Copenhagen in 2009, the Parties agreed to annually earmark 100 billion euros for emission reduction and climate change adaptation measures between 2020 and 2025 to assist developing countries and emerging economies in their decarbonisation efforts. These countries are particularly vulnerable to the impacts of climate change. Despite the many commitments made, this objective was clearly missed. According to the OECD, climate finance in 2020 totalled only 83.3 billion euros. The UN now estimates that the cost of adapting to climate change for developing countries is likely to reach up to 300 billion dollars annually by 2030. Given this scenario, it is questionable that the decision on the new funding target beyond 2025 has been shelved until the next UN climate conference. The bulk of climate finance comes in the form of concessional and non-concessional loans. This is often counterproductive, as it compounds the debt crises besetting many developing countries, whose state coffers have already been severely strained by the Corona pandemic. Leveraging private investment is crucial, but its suitability needs to be closely scrutinised on a case-by-case basis. The implementation of climate adaptation measures – especially in low-income countries – will depend not only on improving the overall conditions for investments, but also on the expansion of the share of grants and an open-minded assessment of (partial) debt relief. At the same time, it is important to ensure a more balanced funding allocation between climate change adaptation and emission reduction measures.

Pledges of support for particularly vulnerable developing countries

At the heart of this year's UN Climate Change Conference was the question of how the losses and damage caused by climate change can be compensated financially. The countries of the Global South have been advocating for the introduction of a dedicated fund for loss and damage. Given the fears of industrialised nations that this could lead to spiralling compensation claims, prospects for this request achieving any success were originally considered to be slim. All the more surprising then was the decision to establish a fund for climate-related loss and damage that explicitly targets the most vulnerable developing countries. Nevertheless, neither an agreement on the volume of the fund nor a breakdown of which country would contribute to which extent could yet be reached. The successful push by Germany, which together with the other G7 governments and the particularly vulnerable states (V20) has resolved to set up the Global Shield against Climate Risks as part of its G7 Presidency, is another step in the right direction. German Chancellor Olaf Scholz made the announcement that 170 million euros in seed contribution would be provided. Other countries such as France and Canada have also pledged their financial support. Still, the Global Shield can only succeed if sufficient financial resources can be generated. Also newly industrialised countries like China and India, which are responsible for producing high emissions, should be called upon to act.

Partnerships have a key role to play

Partnerships are pivotal in providing technical and financial support to developing countries in their decarbonisation efforts. A prominent example are the multilateral Just Energy Transition Partnerships (JETP) involving selected developing and emerging countries. In its JETP with South Africa, for example, Germany is providing 1.2 billion dollars in support. A further JETP was agreed with Indonesia in Sharm El-Sheikh. Germany is also committed to bilateral climate and development partnerships (P+) to achieve the Paris climate goals together with partner countries, such as Kenya.

Not much more than a first step

With the establishment of the Global Shield and a fund for loss and damage, COP 27 has taken a first step towards safeguarding developing countries against climate risks – even if the concrete details surrounding the initiatives remain unclear. Another ambiguous element is the long-term climate finance goal that goes beyond the 100 billion dollars. No agreement could be reached on this either. A more ambitious approach to climate financing is, however, in the best interest of the Global North, as the impacts of climate change will continue to increase in the future. Given their high greenhouse gas emissions, it is incumbent on industrialised nations to make meaningful contributions in support of vulnerable countries and to honour the pledges they have made.

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