



Finance and Intended Nationally Determined Contributions (INDCs): Enabling implementation

LEAD AUTHORS

Merylyn Hedger

Smita Nakhoda



Overseas Development Institute

203 Blackfriars Road
London SE1 8NJ

Tel. +44 (0) 20 7922 0300
Fax. +44 (0) 20 7922 0399
E-mail: info@odi.org.uk

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Introduction

Intended Nationally Determined Contributions (INDCs) were intended to be a way to clarify how each Party to the United Nations Framework Convention on Climate Change (UNFCCC) could contribute to averting dangerous climate change and demonstrate progress from their current position. INDCs could potentially be a way in which all countries can make concerted efforts to build strong and transparent domestic foundations upon which to pursue a path to decarbonisation and enable them to set higher ambitions, post Paris (Boyd et al., 2015a and 2015b).

Much analysis of INDCs to date has understandably focused on the ambition and, in the case of mitigation, the likelihood of achieving goals in the context of current policy and economic trends (e.g. Ricardo and CDKN, 2015). Many INDCs have now been submitted. They vary considerably, reflecting national circumstances. The contributions of many developing country Governments are linked to the provision of finance and other support. Most developed countries that have submitted their INDCs have moved little from their existing positions on mitigation. Most analysts agree that the current offers will not be adequate to keep climate change within 2°C (e.g. IEA, 2015, Boyd et al., 2015a and 2015b). Moreover, there is often a difference between what governments commit to and what they actually do. Finance, technology and capacity can be the difference between achieving – or perhaps even exceeding – commitments, or failing to meet them. This paper reflects on the current and potential role for finance in INDCs as we move forward.

What are INDCs?

The concept of INDCs originated in Warsaw 2013, when the Conference of the Parties (COP) invited *all* Parties to ‘initiate or intensify domestic preparations for their intended nationally determined contributions’ (1/CP.19, para. 2 (b)). The Lima Call for Climate Action agreed at COP20 reiterated the invitation to Parties to develop and communicate INDCs as their contribution to achieving the objective set out in Article 2 of the UNFCCC. INDCs were to be prepared without prejudice to any formal agreement. The Least Developed Countries (LDCs) would reflect their special circumstances in their information on strategies, plans and actions.

Very little guidance on what should be included in INDCs was agreed (particularly on how adaptation might be presented). At COP20, Parties agreed that the information may include (see 1/CP.20, para. 14):

- quantifiable information on the reference point (including, as appropriate, a base year)
- timeframes and/or periods for implementation
- scope and coverage
- planning processes
- assumptions and methodological approaches, including those for estimating and accounting for anthropogenic

greenhouse gas (GHG) emissions and, as appropriate, their reduction, and

- How the Party considers that its INDC is fair and ambitious, and how it contributes towards achieving Article 2 of the UNFCCC.

After intense discussions it was agreed that Parties may also consider communicating their ‘undertakings in adaptation planning’ or consider including an adaptation component in their INDC.

INDCs were also supposed to represent an advance on current mitigation efforts, and prevent backsliding. Parties were due to communicate these in advance of COP21 and if possible in the first quarter of 2015.

While Parties discussed whether they should include other elements such as finance, technology and capacity building, they reached no agreement on how these issues should be addressed in INDCs. In the absence of clear or precise guidance on the scope and content of INDCs, governments have had substantial discretion to choose what to include, and to signal their own priorities.

Not everything can be expressed in an INDC, of course, and many countries have complementary processes underway that reflect on these issues in more detail: for example, the US government issued a comprehensive climate action plan to complement the concise action proposed in its INDC. There are also many existing and possible new systems for reporting on action including national communications and biennial updates in which detail on finance might be included. While INDCs may become the primary means by which action in a post-2015 climate regime is achieved, how they will figure in the Paris Agreement remains moot. Many non-governmental observers have argued for ongoing reporting, which would be subject to revision on a cyclical basis (e.g. Oberthur et al., 2015). The IEA has called for five-year revisions (IEA, 2015). As the Executive Secretary of the UNFCCC Secretariat has stated:

On their own, the INDCs received before Paris are not going to keep us below a 2 degrees Celsius rise this century. But they underline a sharp and positive departure from business as usual and will form the essential foundation to reach that ultimate goal if governments agree to clearly ramp up ambition over time. (UNFCCC, 2015)

A focus on finance as a means to implement INDCs has the potential to help realise the necessary expansion of ambition and effectiveness that all agree is needed. INDCs can present succinct summaries of national efforts in the negotiations, and can be used as an interactive way to communicate key national priorities. In this context, developed countries could buttress their calls for greening global investment frameworks and mobilising private investment in low-emission and climate-resilient action by

Box 1: Finance in the UNFCCC: a brief overview

The provision of ‘climate finance’ for developing countries has become an increasingly central issue in negotiations on international climate policy since the convention was agreed in 1992. Developed countries have contributed the most to the global accumulation of GHG emissions, and developing countries bear less historical responsibility. Specific commitments on climate finance were articulated in the 2009 Copenhagen Accord and affirmed in the 2010 Cancun Agreements. Developed countries pledged to provide finance approaching US\$30 billion between 2010 and 2012, in the context of meaningful and transparent action to be taken by developing countries. Developed countries would also mobilise US\$100 billion per year from public and private sources by 2020. In addition, the need to achieve ‘balanced finance’ for adaptation was recognised, with an emphasis on the needs of particularly vulnerable countries, including small island developing states (SIDS), Least Developed Countries (LDCs), and African countries. Parties also agreed to create the Green Climate Fund (GCF) as a new financing mechanism for the UNFCCC (Nakhouda and Norman, 2014). At COP20 there was agreement on the need for a coherent integrated approach. The Lima Declaration states:

... that the protocol, another legal instrument or agreed outcome with legal force under the Convention applicable to all Parties shall address in a balanced manner, inter alia, mitigation, adaptation, finance, technology development and transfer, and capacity-building, and transparency of action and support. (UNFCCC, 2014a)

These issues are now being negotiated and embedded in the Paris negotiation text with various formulations of developed countries’ obligations to provide financial, technological and capacity-building support, reiterating previous agreements. There are contested issues about definitions and precise implications which are still being negotiated.

outlining steps they themselves will take to achieve such goals. Such an emphasis could also strengthen confidence that their proposed contributions will in fact be met. Developing countries in turn need to be clearer about what measures they will take. Greater clarity regarding proposed actions and associated financial needs could help to strengthen the case for continued international climate finance from developed countries, while also prompting attention to the realities of implementation.

Why focus on finance now?

The UNFCCC and other negotiations including on Finance for Development and the Sustainable Development Goals mark 2015 a watershed year for international policy. While there seems to be increasing convergence on several possible elements of a Paris Agreement, there are still major differences to be reconciled on the sources and levels of finance. Even if developed countries do mobilise US\$100 billion of finance by 2020 from a variety of sources (as agreed in Copenhagen), it will not be enough to meet the full cost of low-emission climate-resilient development in developing countries.¹ Furthermore, there is little point in pumping international money into climate-compatible development, if wider investment in recipient countries continues to support a ‘business as usual’ (BAU) trajectory. The final outcome text of the 2015 Financing

for Development conference recognised, that funding from all sources – public and private, bilateral and multilateral, as well as alternative sources – will need to be increased for investment in many areas, including low-carbon and climate-resilient development.²

Making the transition towards low-emission and climate-resilient development, as is required in all countries, takes time and iteration, and is subject to frequent policy changes. Institutional changes and the strengthening of environments to enable climate-compatible finance are often needed -- in all countries. The UK, for example, established a Green Investment Bank to accelerate its transition to a greener, stronger economy. The Bank was first proposed in 2009, but took several years before it was operational. Even in 2015, debates on the role and powers of the Bank are under debate, and subject to intense political scrutiny

Making INDCs implementable

While recognising that there are some contested issues regarding the inclusion of financial issues in INDCs, the lack of coherent information on mobilising and utilisation of resources undermines their effectiveness. There has been a history of incomplete fulfilment of pledges by developed countries from previous agreements on climate change agreements (OECD, 2013). In part these pledges have

1 See for example http://articles.economicstimes.indiatimes.com/2015-07-14/news/64406029_1_green-climate-fund-indcs-climate-change

2 From para. 60 of the final text of the outcome document adopted at the Third International Conference on Financing for Development, Addis Ababa, 13–16 July 2015, and endorsed by the General Assembly in its resolution 69/313 of 27 July 2015.

often proved more aspirational than achievable because insufficient consideration was given to the practicalities of attaining policy change at the national level. Where analyses have been undertaken, they have revealed problems from project to programme level as gaps in capacities exist at all levels (Hedger, 2013; Hedger et al., 2011). So there is a case for developed countries to explain how they will achieve their own mitigation pledges and translate aspirations into action on the ground, including capacity and institutional needs that may strengthen the enabling environment for climate finance to make a difference.

Including some attention to finance in INDCs may help for the following reasons.

First, developed countries can use their INDCs to showcase the financial and institutional support being given to domestic efforts to respond to climate change. Explanations of how policies will be implemented (including via regulatory changes that affect finance and investment) would be stronger than merely listing climate change strategies and documents as several INDCs have done to date. Greater transparency might also help to build trust for engagement in climate action. Many of these issues are also relevant for developing countries.

Recent reviews of climate-related public expenditure and institutions in a range of developing countries, alongside a wealth of other studies and national efforts to strengthen domestic arrangements for climate finance, suggest that there is substantial action at many levels, but that these often require further support and strengthening (Bird, 2014; UNDP, 2012).³ Insights from these studies suggest that considering the financial resources needed to implement INDCs as well as articulating measures and institutional changes that might be taken could help to increase the likelihood of achieving intended goals – and indeed open up the possibility of exceeding them (see Box 2).

A modest elaboration of issues of implementation and domestic measures, including finance, might help to strengthen developing countries' case for international climate finance. It might also help to break a recurrent dynamic in the UNFCCC negotiations in which the response to demands that developed countries meet their commitments to scale up climate finance for developing countries is to voice concerns about the lack of clarity about how such funds will be used, to what effect, and about absorptive capacity in the poorest countries. Rather than letting developed countries 'off the hook', attention to these issues might help them to keep their word, and make the case for scaling up support.

Finally, countries have the opportunity to back up the urgent calls for a more holistic approach to greening the global financial system and reduce BAU investment that appear in recent versions of the UNFCCC negotiating text, with some concrete offers of action through their INDCs. For example, all countries might note an intention to make greater efforts to reduce subsidies for fossil fuels, as has been suggested by the IEA and agreed at G20 level. Since the 2009 G20 agreement, little has been achieved.⁴ There is also a recognition of the need to pay greater attention to climate risks (and low-emission development opportunities) in the private sector, and in national regulation of financial institutions (UNFCCC, 2014b). Many countries, developed and developing, are already taking steps to this end, and could reinforce these by referring to such efforts in their INDCs.

What do submitted INDCs show?

Developed country INDCs focus on their mitigation commitments and conform to the Lima information template. Few mention adaptation. There is a brief explanation of legislative frameworks, relevant plans

Box 2: Climate public expenditure and institutional reviews

A methodology has evolved to review how the aims of a country's stated national climate policy are reflected in public expenditure, and how institutions might be adjusted to ensure that financing a response to climate change is coherent across government budgets (Bird et al., 2012; CDDE and UNDP, 2012). This work was pioneered by Nepal in 2011 and, with ongoing modifications to adjust to circumstances, has since been carried out in a number of countries in Asia, the Pacific, sub-Saharan Africa (SSA), and Latin America.

There is a recurring suggestion that national adaptation plans would benefit from greater prioritisation in order to facilitate implementation. Relationships between tax policy and climate change were often overlooked (Bird et al., 2012; CDDE and UNDP, 2012). The second-stage Climate Fiscal Framework approach seeks to strengthen these aspects (Government of Bangladesh, 2014). Bangladesh intends to prepare an INDC implementation road map.

3 <http://www.climatefinance-developmenteffectiveness.org/CPEIR-Database>

4 <http://www.theguardian.com/environment/2015/aug/04/g20-countries-pay-over-1000-per-citizen-in-fossil-fuel-subsidies-say-imf> (accessed 11 August 2015).

Box 3: Finance and INDCs: the Mexican example

Mexico's INDC notes that its commitments to action are dependent on a global agreement on international carbon pricing, carbon border adjustments, technical cooperation, and access to low-cost financial resources and technology transfer – all at a scale commensurate with the challenge of climate change. Mexico aims to move to a low-emissions development pathway, which requires progressive decoupling of carbon emissions from economic growth.

In terms of a BAU baseline, Mexico's INDC notes unconditional emission reductions of 21% of GHGs and 51% of black carbon from 2000 levels (25% overall), and conditional reductions of 36% GHG and 70% black carbon (40% overall).

Furthermore, Mexico's INDC has a section on Capacity Building, Transfer of Technology and Finance for Adaptation. Support is needed for the development of Mexico's own technologies as well as for technology transfer. A set of areas is identified where technology transfer would be beneficial for adaptation.⁵

and strategies. For the most part there is no coverage of finance or the means of implementation (MOI) for mobilising national resources for domestic implementation, or providing other resources. Although lists of relevant legislation and policy documents have been included in the INDCs, there is no detail about their financial and institutional implications.

Developing country INDCs are varied. Many countries spell out two levels of mitigation commitment, dependent on a global agreement on the provision of finance and know-how. Others are more vague about expected support for mitigation. China refers to the obligation that developed countries provide US\$100 billion per year from 2020 and wants it increased, but also intends to establish its own fund for South–South Cooperation. All developing country INDCs cover adaptation, in varying levels of detail, and generally refer to the need for international support to undertake it.

Many countries have estimated costs and levels of required support, for example, Kenya, Ghana, Mexico, Morocco and Tunisia and others have referred to the need for further research to establish the funds required. Mongolia raises the role of the private sector. ODI has prepared an overview of how submitted INDCs have

addressed finance which is available as a complement to this paper.⁶

In many cases, countries have not explained how they have estimated the costs of action, or the basis on which they have concluded that international finance is needed. All countries who have included such numbers have calculated costs differently. The methodological challenges associated with the economic assessment of adaptation, including uncertainty are well documented (IPCC, 2014 and Watkiss, 2015). For example the Bangladesh INDC makes reference to cost estimates in a study of the economics of climate change completed with World Bank support more than 5 years ago in 2010, which only covered a subset of relevant sectors, amongst other methodological limitations. South Africa's INDC on the other hand presents a range of costs for low, moderate and high mitigation scenarios for adaptation. For mitigation, estimates are provided to clarify the magnitude of mitigation finance and investment requirements required for specific actions such as decarbonised electricity and carbon capture and storage. These derive from energy systems and economic modelling, though the submission notes that further work is required to prepare detailed business plans for finance and investment. The extent to which international support is essential for proposed actions is not always clear. This means that simply adding up the total estimates of costs of implementation that have been included in some INDCs is too simplistic, and may result in misleading estimates.

What information could countries provide on finance?

How could INDCs (and associated reporting) address finance? Relevant information for developed countries might include:

- Flows of finance and other sources that can be used to fulfil pledges on mitigation targets and an indication of additional possible flows/financing options.
- Information about the implementation of policies, fiscal and regulatory systems, and envisaged changes for domestic actions, which could build trust in the ultimate efficacy of a global agreement (Whitley, 2015).
- Information about incentives and the provision of 'long loud and legal' signals for the private sector to reinforce low-emission and climate-resilient development that may help global economic transformation (UNAGF, 2010; Buchner et al., 2014).⁷

5 <http://www4.unfccc.int/submissions/INDC/Published%20Documents/Mexico/1/MEXICO%20INDC%2003.30.2015.pdf> (accessed 1 September 2015).

6 This overview will be updated weekly through November 2015 as parties submit their INDCs. At the time of publication 62 INDCs had been submitted. Available at <http://www.odi.org/publications/9506-financing-intended-nationally-determined-contributions-indcs-enabling-implementation>

7 <http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300> ;

- While many developed countries have for negotiating reasons separated offers of international support from the climate action they have included in INDCs, they may wish to set out an agenda for increased finance for developing countries.
- Strengthened practice on green finance.

Developing countries, including the LDCs, have an opportunity to present similar information in their INDCs. Given the norm-setting function of the offers that are being made, the signals they send can be highly influential. Developing countries' INDCs could:

- Highlight major gaps in the financing and implementation framework for crucial mitigation and adaptation issues, and specific areas where international support can make a difference
- Showcase extensive work that has already been undertaken to document domestic spending on climate change with indicative budget allocations. Such studies generally reveal that national governments' own expenditure exceeds international support received by a substantial margin (Bird, 2014).
- Articulate their need for financing for low-carbon strategies to help to tackle market failures and to facilitate access to the new global green world with their opportunities for relatively cheap emissions in agriculture, land-use change and forestry (UNEP, UNCTAD, UN-OHRLS, 2011; Bowen and Fankhauser, 2011).

This may seem a lot to ask of the INDC process as presently framed. We should be clear that this is merely a listing of options, not all of which may be relevant for all countries. Furthermore, some of these issues might be elaborated in complementary domestic policy initiatives. In addition, many of these ideas may be more relevant for subsequent INDCs (given that many countries have already submitted their INDCs), and ensuing reporting on implementation. But many countries (particularly developing countries) have yet to finalise their submissions, and still have the opportunity to address these considerations. Some submitted INDCs have covered these points at a generic level but without giving a clear picture about exactly what support is provided for what.

As noted, there is a wealth of studies about how climate finance can work better and more effectively (Bird et al., 2013; Whitley, 2015; Nakhoda and Norman, 2014). It is possible to draw up endless lists for information. But that would not be in the spirit of the INDCs, and might one of their main potential strengths in providing concise accessible information from which global trends and comparisons can be derived.

But if countries included a light-touch summary commentary on the implementation strategy for the proposed INDC these could add valuable dimensions to this exercise. Such commentary could cover measures such as indicative allocations of public finance in the near term, together with taxation and other financial regulations or policy that will support the implementation of national actions, including oversight.⁸

Box 4: Possible information for INDCs: examples from developing countries

In Uganda, there is a need to prioritise projects and assess international sources of climate finance (Tumushabe et al., 2015). There is a need to improve the tracking of climate change finance, clarify the mandates of various ministries and improve coordination. Additional capacity is needed in sector institutions. Were funding to be sought for these specific activities it could accelerate delivery of climate change policy.

In Tanzania, the 2012 National Climate Change Strategy represents a significant milestone but it needs to be strengthened if implementation is to be secured with an action plan that includes: (i) the identification of priority programmes; (ii) their budgeted costs; and (iii) the expected sources of funding. In addition, there is a need for better information on climate change spending (Yanda et al., 2013). The INDC route could help to generate the necessary resources.

In Ghana a recent study (Ankomah Asante et al., 2015) found that although the country has a well-developed national policy on climate change, there are several areas that need more support including: resources to develop priority programmes, assess costs and develop a coherent funding strategy and to track expenditure related to climate change. Ghana's INDC now distinguishes the contribution from domestic resources, and what needs to be mobilised from other sources.

Note: these examples were informed by ODI's ongoing work in these three countries to support policy makers to identify climate relevant investment, and strengthen its effectiveness.

⁸ There are several elements in any national resourcing plan: additional public spending (raised domestically, or in the case of non-Annex I countries, through international support), government taxation policies that would change the cost of private-sector activities, and regulatory requirements that affect the cost of implementation (e.g. Canada's sector-based emissions-reduction regulations). The balance between these policy instruments will vary in different countries, and the choice of individual instruments is a national sovereign issue.

Possible elements that might warrant attention to facilitate implementation of INDCs, particularly in developing countries, could include:

- Estimates of current domestic public expenditure on climate relevant actions, ideally by sector.
- Fiscal incentives or shifts in the regulatory framework for financial institutions that might enable realisation of anticipated actions.
- An indication of the key institutions that could be involved in marshalling required finance and investment including for example Ministries of Finance, National Development Banks, Central Banks, and others.
- Mechanisms for linking national spending and budgeting frameworks with implementation of the actions identified, and prospective changes or increases to expenditure.
- Estimates of current international support for climate action, and possible needs for additional support to scale up implementation.

Conclusions

The INDC process has introduced new perspectives into international climate negotiations, and INDCs are presenting compact syntheses of national development strategies and policies regarding climate change with information on the evidence base and methodologies used. Many INDCs have been based on national consultation processes that have enriched understanding of the impacts and possible responses to climate change, which is likely to help national cohesion.

Nevertheless, there is a need to focus on implementation in order to make progress in realising the stated ambitions. Paying more attention to the role of finance (alongside technology and capacity) in all countries could help to achieve low emission and climate resilient prosperity. It could also have the benefit of reinforcing the argument for scaling up international finance, and greening all finance and investment flows. The possibility of a virtuous cycle in which such successful implementation of INDCs then empowers countries to increase the ambition of their actions, will be essential to realise if we are to keep global warming within 2 degrees.

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399

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