## Concept Note on Innovative Financing Objectives for COP 28

### "Global Solutions" are needed for global problems.

We are at a critical point in human history where we need multilateral cooperation on a scale never seen before to reduce global greenhouse gas emissions. This paper focuses on how we can foster such cooperation by enabling countries which are less developed and most vulnerable to climate change to grow their economies on the back of investment in a new clean energy economy, in part funded from revenues derived from the sale of fossil fuels.

We must keep the rise in global temperatures below 1.5 degrees to reduce the chance of passing certain tipping points. While the information we have for the Global Stocktake process shows we are not on this path, at the same time rapid advances in digital, clean energy and transport technologies, show we can meet our emissions reduction targets. Ensuring that this new sustainable industrial revolution is spread to every part of the world will help us avoid protectionism in new clean energy markets, will increase the security of supply for every continent by diversifying supply options and will reduce the forced migration being caused by climate change and recent economic shocks and conflicts.

### Radical Reform

Radical reform of the global financial system will be needed if we are to provide the necessary climate finance for mitigation, adaptation, capacity building and loss and damage. We can see from the challenges in reaching consensus on the agenda for COP28 that our path to progress is far from guaranteed. However, international initiatives such as the Bridgetown Initiative[i], the conclusions at the latest G7[ii] and G20[iii] meetings, the Paris summit[iv] and the recent Africa Climate Summit[v] give us hope and show there is an appetite for such change.  The ongoing evolution process in the World Bank Group, and similar initiatives in regional development banks, demonstrate that the imperative to respond to the most pressing needs of people and the planet is understood and being acted on. There seemed to be broad agreement in each gathering on the need for system change to enable the necessary investment in clean energy development in developing and emerging economies as developed economies accelerate their transition from reliance on fossil energy.

**Disproportionate Disadvantage**

An assessment of the delivery of the SDGs show that we are falling behind in our efforts to lift people out of extreme poverty. World levels of hunger are back to where they were in 2005.

Some 15% of countries are currently in debt default and 45% are at risk of becoming so. Their predicament has been exasperated by compounding blows in recent years. During the pandemic, developed countries were able to apply an economic stimulus equal to 25% of their GDP. In middle income countries that figure was 7%, and in the lower income countries it was only 2%. The same countries are now obliged to pay the higher global interest rates that have been introduced, to reduce the inflationary environment resulting from the stimulus packages and by the breakdown in global supply chains during the pandemic. While dealing with this problem the same countries were hit hardest by the energy and food price rises caused by the war in Ukraine. These countries tend to be those that most immediately affected by climate change and that also experience experiencing the highest levels of forced migration.

**COP28 Agenda**

Our task in COP28 is to deliver as ambitious an outcome as possible to reassure people we can meet our goals at a time when the evidence of climate change is all too real across the world. We should be ambitious and close out existing commitments while also setting up new initiatives to be progressed in future meetings and in other international fora.

The cover decision and conclusions from COP must provide real certainty on delivering the existing $100 billion climate finance commitment while building momentum behind the reform of our multilateral financial institutions and financial markets to support a just energy transition. We should set the goal of tripling of renewable power and doubling of energy efficiency by 2030 and show how we can rapidly deliver on the 2030 methane reductions pledged at COP26 and chart a global pathway to net-zero $CO_2$ emissions in order to halt global warming. Those goals have to be accompanied with a clear pathway to the orderly phase out of fossil fuels, particularly ceasing investments in new coal power plants and the winding down of existing coal facilities. There will also have to be clarity on the role of abatement technologies in hard to decarbonise sectors, which shows that this is not a means of avoiding the necessary end to new fossil fuel exploration and extraction. In addition, we must instil real trust that new sources of finance can be raised to meet our climate goals.

**A Mosaic of Solutions for Innovative Finance.**

Several innovative sources of financing have already been proposed by a variety of countries, NGOs and academics to contribute to or build on the existing UNFCCC funds[vi] (GEF/ GCF/ SCCF/ LDCF / AF) and should be up for discussion at COP28 with a view to their progression.

1. A 1% levy on aviation revenues could raise $8billion per annum (IATA 2023)[vii] and could be targeted at support for Loss and Damage in the most vulnerable countries. Such a levy could be introduced on a voluntary basis immediately, with staged introduction of the charges, starting with business class revenue. Similar examples of such taxes do not appear to hinder the countries who use them or companies or passengers who pay them.

2. The International Maritime Organisation agreed in July[viii] 2023 that a that a levy on the emissions from shipping (in the decision text, "an economic element […] on the basis of a pricing mechanism") would be among the options to be further considered. We should look for broad support for the initiative in COP28 with a view to it being agreed next year.

3. Reform of the Multilateral Development Banks "Triple Agenda[ix]" was recommended in the G20 to eliminate poverty, boost prosperity and contribute to global public goods by tripling investment by 2030. It can be achieved by creating a third funding mechanism and increasing available capital. This should be built on a platform of reform, increasing pace of delivery, higher risk taking, and optimisation of balance sheets as recommended in the G20 capital adequacy frameworks.

4. The global climate challenge needs to have global solutions that are fit for local actions. At COP 28 we could initiate a feasibility assessment of a global carbon tax or financial transaction tax to meet the challenges ahead. This study could include analysis on how future revenue might be allocated from regional pricing mechanisms such as CBAM and ETS.

**The Need to go Beyond Existing Supports for Mitigation**

While all the above sources of finance would be of real benefit, they would not deliver anything like the $4.5 trillion the IEA says will be needed to be spent each year early in the next decade on the clean energy transition, if we are to stay on a net zero CO2 pathway. There has already been good work done in initiatives such as the Green Climate Fund, the European Union's Global Green Bond Initiative, and the emerging Just Energy Transition Partnerships (JETPs) which show what is possible and which need to be scaled up and given further support. However developed nation governments on their own do not have the capacity to deliver anything near the scale of climate finance required from Exchequer funding.

It is also clear that the private financial markets are not currently effective in directing the necessary capital to all the areas it is needed. As an example, Africa receives some 60% of solar radiation on land but has less PV panels than are installed in the Netherlands. According to Irena[x] countries defined as "least developed" attracted only 0.84% of renewable energy investments on average between 2013 and 2020.

Therefore, at this crucial time, it is necessary to think bigger about diverting some of the $4 trillion in profit derived from fossil fuel industries each year and create the conditions where some of that profit can be redirected to investment in clean energy alternatives, especially in less developed and more vulnerable countries, where energy access is also poor.

**A Commitment by Fossil Fuel Companies to Invest in Clean Energy: A New Proposal**

Europe has an energy efficiency obligation on energy companies to invest in energy efficiency in a commercial manner, which accelerates energy efficiency but also provides a revenue stream for these companies. This obligation, expanded to a global level, and focussed on the investment in clean energy in less developed economies could deliver significant finance to these economies, but also returns to their investors.

Developed nations and less developed nations could collectively propose a New Clean Energy Investment and Development Commitment at COP 28. It could be initiated on a voluntary basis whereby both national and independent fossil fuel companies agree to scale up such investment under set criteria to those markets with the least access to energy, the highest emissions growth potential, the least liquidity for currency risk and highest interest rate margins for clean energy project finance.

This proposal would back up a number of developments that are already taking place. The UAE announced a $4.5bn investment fund for renewables in Africa at the recent Africa Climate Summit. The Energy Transformation Accelerator (ETA), the WEF Energy Transition Indicator and other initiatives are seeking to expand investments in renewable energy. These investments are not yet at the scale required to deliver a tripling of renewable power by 2030.

**A Transparent Ruleset and Accounting Framework**

This commitment would need to be underpinned by a transparent accounting process and ruleset where prospective purchasers of fossil fuels could see the percentage of a company’s profit that are invested in this commitment. There would be a minimum percentage of total profit invested required to achieve accreditation, and companies that supported additional investment could achieve higher ranking. The reporting framework would be in a globally recognised body such as the UN, World Bank or other appropriate body.

**Purchaser Driven**

These mechanisms could initially be introduced on a flexible and voluntary basis to show proof of concept and expanded thereafter, however given that many products are sold to global markets, this would require a new tracing mechanism to be established. Developed nations, regions, companies, and organisations could insist on this commitment for their supply of fossil fuels, which would in turn create a specialised market for those fuels delivered under this investment commitment. This would in turn create a small premium on those fuels which would likely offset the higher investment risk from the fossil fuel companies operating in higher risk markets. The premium would effectively buy down the higher risk margin in less developed countries.

**Transformation to Clean Energy**

This investment is not a tax. The profits should be deployed as long-term patient capital for project development, either directly or through new investment vehicles which aggregate funding. It could be managed and used in an efficient pro-business investment mechanism and could be complimented by state, MDB and Philanthropic funding support for grid enhancement, improvements to governance and regulatory systems, skills development, currency hedging and other interest rate reduction mechanisms. It could leverage further capital and be used to take some of the early higher risk investments, which could de-risk further investments in time and be deployed in a variety of energy system developments including renewable and storage deployment or expanding the manufacturing supply chains and mineral processing for clean energy technologies. Eligibility criteria would need to be carefully considered to which investment areas would qualify.

These mechanisms could initially be introduced on a flexible and voluntary basis to show proof of concept and expanded thereafter to deliver the scale of development of decarbonisation required to achieve the Paris climate goals.

We hope this proposal can be discussed at COP28 and in other fora such as UN, OECD and G20, where the ideas can be further developed, and an implementation process can be agreed to decisively change the way we address and fund climate action going forward. The drive to create a fungible market in developing and emerging economies for the production and use of clean energy technologies will help maintain open markets, will avoid trade tensions, reduce migration and provide economic opportunities for all continents in a secure and just way.

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[i] https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf
[ii] https://www.consilium.europa.eu/en/press/press-releases/2023/05/20/g7-hiroshima-leaders-communique/
[iii] https://www.india-briefing.com/news/key-outcomes-of-the-2023-g20-summit-held-in-india-29483.html/
[iv] https://nouveaupactefinancier.org/en.php
[v] https://www.un.org/africarenewal/magazine/september-2023/africa-climate-summit-nairobi-declaration-makes-strong-push-accelerated#:~:text=%E2%80%9CWe%20call%20for%20a%20comprehensive,to%20Action%2C%20adopted%20at%20the

[vi] https://unfccc.int/topics/introduction-to-climate-finance
[vii] iata.org/en/iata-repository/pressroom/fact-sheets/industry-statistics/

[viii] https://www.imo.org/en/MediaCentre/PressBriefings/pages/Revised-GHG-reduction-strategy-for-global-shipping-adopted-.aspx
[ix] https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/Strengthening-MDBs-The-Triple-Agenda_G20-IEG-Report-Volume.pdf
[x] https://www.irena.org/Publications/2023/Feb/Global-landscape-of-renewable-energy-finance-2023