INFOSHEET

Private Climate Finance in the Global South

July 2023

FOUNDATION Development and Climate Alliance

Background

The fight against the climate crisis and a change towards sustainable development are global tasks that can only succeed if we work together.

With the Paris Climate Agreement and the *Sustainable Development Goals* (SDGs) of the 2030 Agenda, the international community committed itself to pursuing these goals globally from 2015 onwards.[1] Among other things, it acknowledges that all countries have a shared obligation to combat both the climate crisis and the biodiversity crisis. The principle of *Common But Differentiated Responsibilities* (CBDR) applies, which points out the differences between states when it comes to how much they have contributed to the climate crisis, and concerns their different responsibilities for global climate change mitigation. Accordingly, the industrialized countries need to make a larger contribution – above all financially – to support developing countries and emerging economies in their efforts to enhance climate change mitigation.

However, all non-state actors that have contributed to the climate crisis through their greenhouse gas emissions – and may still be doing so – are also expected to act in the spirit of climate responsibility. Ambitious action is all the more urgent because government resources are insufficient to successfully protect our climate and promote sustainable development worldwide.

Closing funding gaps for climate protection and sustainability goals

Globally, there is a major shortfall in the financing of climate change mitigation and sustainable development. According to the OECD, even before the COVID-19 pandemic there was a total annual shortfall of approximately US$ 2.5 trillion in the funds needed to achieve the *Sustainable Development Goals* (SDGs). The pandemic caused this total to rise further.[2] It is therefore necessary to increase the financial resources pledged and to bring funding into line with the sustainability goals. Thus, private capital is needed in addition to government funding to achieve the goals of the 2030 Agenda and the Paris Agreement.

The ability of companies to make a ‚fair contribution' here is currently far from exhausted. It is estimated that more than US$ 27 billion could be spent annually on climate financing if only about 140 high-profit companies invested US$ 100 per tonne they emit – which would correspond to a small percentage of their profits but represent two to three times the current total global climate philanthropic spending per year.[3]

Taking responsibility – what does this mean in concrete terms?

The climate crisis is having a particularly strong impact on people and the environment in the Global South, even though they have contributed the least to climate change.[4] It hits poorer population groups there particularly hard, especially since they have only limited possibilities for adaptation to climate change. The consequences of increasing global warming can thus have negative effects on poverty reduction, food security and biodiversity. Effective climate change mitigation can counteract this. At the same time, promoting the SDGs can advance climate protection, e.g. by expanding renewable energies. For this, climate protection projects should always be developed and implemented in partnership with local actors.

In addition, it is possible to invest directly in low-emission and thus climate-friendly solutions in countries of the Global South.[5] The use of fossil fuels can be ‚*leapfrogged*'. For example, financing renewable energy projects (e.g. wind or solar power) in a developing country can make it unnecessary to construct a new coal-fired power plant, and thus avoid climate-damaging GHG emissions.

Private climate finance should primarily support ambitious projects that would be difficult or impossible for the host countries to implement with their own funds (‚*high-hanging fruits*'). In this way, the market can be a driver of innovation and effective climate protection solutions. However, avoiding and reducing one's own GHG emissions must always be paramount.

Why are development impacts important for climate protection?

For projects in the Voluntary Carbon Market to be effective, it is of the utmost importance that they pursue a holistic approach and have a positive impact on other SDGs of the 2030 Agenda in addition to climate change mitigation.

Dovetailing different positive effects on sustainable development means that the projects can achieve a higher level of acceptance locally and thus have a long-term impact. In addition, they often promote other *co-benefits* that have a positive impact on local people and the environment, and protect the climate in the long term. For example, a renewable energy project to build small-scale biogas plants not only has a positive impact on the climate (SDG 13) and contributes to the expansion of affordable and clean energy (SDG 7), it also improves the living conditions of the local people. Women and girls no longer have to collect wood to generate energy. This saves time and financial resources that can be reinvested in their education (SDG 5), in turn contributing to a more equitable and high-quality education system (SDG 4). In addition, avoiding deforestation protects terrestrial biodiversity (SDG 15) and promotes equal opportunities, and quality education can, in turn, have a positive impact on further local engagement in climate change mitigation.

Private climate finance under the Paris Agreement – what has changed?

The Paris Climate Agreement has fundamentally changed the framework conditions for the implementation of climate protection projects for the Voluntary Carbon Market. Under the previous Kyoto Protocol, the majority of climate protection certificates were generated in developing and emerging economies. In addition to lower costs, the implementation of climate protection projects there had the advantage that the risk of double counting of emission reductions did not exist due to the lack of national climate protection targets in the host countries. Under the Kyoto Protocol, only industrialized countries had binding targets for reducing their greenhouse gases. This changed with the Paris Climate Agreement: all countries are now committed to climate change mitigation and to submitting *Nationally Determined Contributions* (NDCs) that are as ambitious as possible. This change means that every climate change mitigation measure now theoretically contributes to the implementation of the host country's targets. If the offset certificates generated by this measure are now used, for example, to implement climate protection targets of a company or other states, it results in a double claim of emission reductions. As a result, the ‚increase' in climate change mitigation suggested by emission certificates can no longer be guaranteed, and there is a risk that the climate protection project will displace or replace national measures.[6]

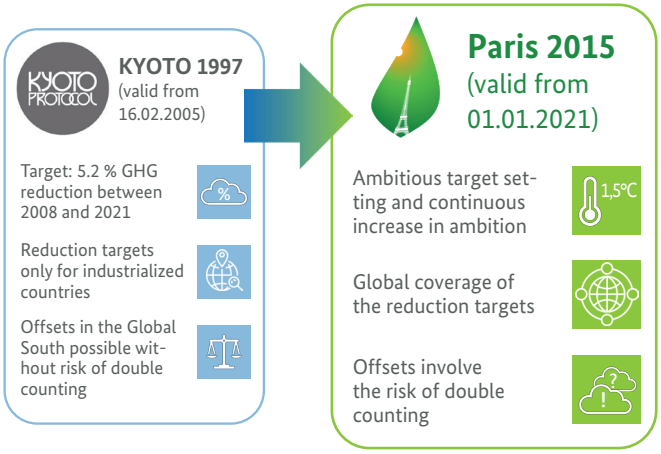


Figure 1: Paradigm shift from the Kyoto Protocol to the Paris Climate Agreement

In November 2021, the so-called Rulebook for Article 6 of the Paris Agreement at the UN Climate Change Conference in Glasgow was adopted. This regulates, among other things, how to ensure that emission reductions in intergovernmental trades are not counted twice – by implementing so-called *Corresponding Adjustments*. This leads to an adjustment of the issuing country's emissions balance by an amount equivalent to the exported emissions. The extent to which this regulation will also be applied to the Voluntary Carbon Market has not yet been conclusively clarified. For GHG reductions to be accounted for in the balance sheet, however, it should also be ensured in the Voluntary Carbon Market that only certificates with *Corresponding Adjustments* are used, thus ruling out the double counting of emission reductions.

Currently, certification standards such as the Gold Standard already make modifications to their certifications and registers to provide certificates with *Corresponding Adjustments*. Similarly, some project developers have begun a dialogue with the host countries of their projects and concluded bilateral agreements on the introduction of *Corresponding Adjustments*.[7]

The Foundation Development and Climate Alliance advises gathering detailed information about the current status before buying emission certificates. Key recommendations for action can be found in our guide 'Article 6 and the Voluntary Carbon Market'.[8] In particular, the financing of climate protection projects should be in line with the country's own climate protection goals or strategy.

Climate neutrality claim

- Ambitious climate neutrality strategy with **integrated reduction targets** is implemented.
- Unavoidable residual emissions are **offset**.
- Offset projects take into account **high quality standards** (e.g. GS4GG).
- *Corresponding Adjustments* are applied.

Contribution Claim

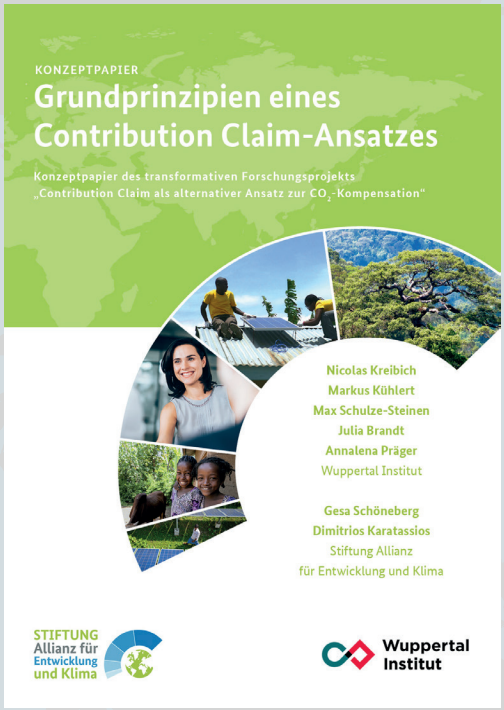
- Ambitious climate protection strategy with **integrated reduction targets** is implemented.
- An **internal CO_2 price** is applied to unavoidable residual emissions and **climate protection measures are financed** in the corresponding amount.
- Climate protection measures take into account **high quality standards**.
- *Corresponding Adjustments* are not necessary.

Additional positive development impacts (SDGs) of climate protection measures must be ensured.

Figure 2: Simplified presentation of various climate protection targets and the associated measures to comply with integral strategies

Risk of double counting in national projects

In principle, the implementation of climate protection projects in Germany is also an important contribution towards achieving the global goal of net zero emissions. Germany has set itself concrete emissions reduction targets, which it intends to achieve through mitigation measures in various sectors. For this purpose, a national greenhouse gas balance is regularly drawn up and published. For example, the level of emissions stored by local forests and peatlands is also recorded. In the case of emission certificates generated in national afforestation or wetland protection projects and used for a company's CO_2 offsets, a double claim can occur if the emission reduction is taken into account both in Germany's national balance sheet and in the company's greenhouse gas balance sheet. For this reason, such certificates cannot be used to offset one's own emissions. On the other hand, investments of this kind can be made and communicated as financial contributions to local or regional climate change mitigation (*Contribution Claims or impact claims*).



For more information on Contribution Claims, see our concept paper 'Basic Principles of a Contribution Claim Approach'.[9] (available in German only)

[1] UBA (2022): Gemeinsame Umsetzung der 2030-Agenda/SDGs und des Pariser Abkommens.
https://www.umweltbundesamt.de/publikationen/gemeinsame-umsetzung-der-2030-agenda-sdgs-des

[2] OECD (2020): Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet.
https://www.oecd-ilibrary.org/sites/6ea613f4-en/index.html?itemId=/content/component/6ea613f4-en#endnotea0z2

[3] Höglund, R. & Mitchell-Larson, E. (2022): Bridging the Ambition Gap: A framework for scaling corporate funds for carbon removal and wider climate action.
https://carbongap.org/wp-content/uploads/2022/11/Ambition_Gap_Report_Nov22.pdf

[4] BMZ (2022): Klimawandel und Entwicklung.
https://www.bmz.de/de/themen/klimawandel-und-entwicklung

[5] BORDA (2021): Klimaprojekte im Globalen Süden. Eine Handreichung mit „Best-Practice"-Beispielen.
https://ben-bremen.de/wp-content/uploads/2021/11/Handreichung-Klimaprojekte-im-Globalen-Sueden_BORDA_2021.pdf

[6] Kreibich, N. & Hermwille, L. (2021): Caught in between: credibility and feasibility of the voluntary carbon market post-2020. Climate Policy 21 (7), 1-19.
https://doi.org/10.1080/14693062.2021.1948384

[7] Siehe z. B. https://www.atmosfair.de/de/uebersicht-kompensieren/integre-kompensation-unter-paris/kompensation-mit-corresponding-adjustments/#1

[8] Michaelowa, A., Keßler, J., Weldner, K. (2023): Artikel 6 und der freiwillige Kohlenstoffmarkt. Wie können die internationalen Kohlenstoffmärkte zusammenwirken?
https://allianz-entwicklung-klima.de/wp-content/uploads/2023/03/2303_Leitfaden_Artikel6.pdf

[9] Kreibich, N., Kühlert, M., Schulze-Steinen, M., Brandt, J., Präger, A., Schöneberg, G., Karatassios, D. (2023): Grundprinzipien eines Contribution Claim-Ansatzes. Konzeptpapier. Wuppertal Institut für Klima, Umwelt, Energie und Stiftung Allianz für Entwicklung und Klima.
https://allianz-entwicklung-klima.de/wp-content/uploads/2023/06/2304_Konzeptpapier_CC.pdf

Foundation Development and Climate Alliance

Chausseestraße 22, 10115 Berlin
Telephone: +49 30 3465573-00
E-mail: info@allianz-entwicklung-klima.de

www.allianz-entwicklung-klima.de