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A quantum to match the climate challenge

Summary

The New Collective Quantified Goal on Climate Finance

The NCQG quantum should respond to the evidenced needs of developing countries. This is crucial to allow them to raise ambition in the 2025 round of Nationally Determined Contributions and get the world on track to achieve the goals of the Paris Agreement.

A global macroeconomic analysis can project the best-case scenario for delivering global climate and development goals, from which an estimate of investment needs for climate action in developing countries can be extracted. Such an analysis should incorporate a feasible approach to achieving mitigation and adaptation goals while managing loss and damage, as well as a strategy for resilient development and tackling inequalities.

Based on modelled projections using the United Nations Global Policy Model, developing countries require around $1.1 trillion for climate finance from 2025, rising to around $1.8 trillion by 2030.

Provided that key reform and coordination efforts are undertaken in global economic governance to support developing countries' growth and development outlooks, developed countries could anticipate a funding equivalent of three quarters of the investments* needed in developing countries for climate mitigation and adaptation, as well as supporting their response to loss and damage as a consequence of climate change.

Accordingly, the NCQG contribution target for developed countries would be $0.89 trillion in 2025, reaching $1.46 trillion by the fifth year of implementation.

Table 1
NCQG estimate, USD billion

		2025	2029
(A)	Investment needs for Adaptation and Mitigation in developing countries	956.4	1,508.0
(B)	DRM contribution**	220	347
(C)	External Financing Needs (A-B)	736.4	1,161.0
(D)	Support for loss and damage	150.0	300.0
(E)	**NCQG (C+D)**	**886.4**	**1,461.0**

Source: UNCTAD Secretariat calculations based on the United Nations Global Policy Model.

* For the purposes of this report, investment is understood as the activity of building productive assets, as a result of which productive capacity is increased. Thus, needed investment in developing countries is understood to include both public and private, domestic and international investments, whether profit-returning or not.

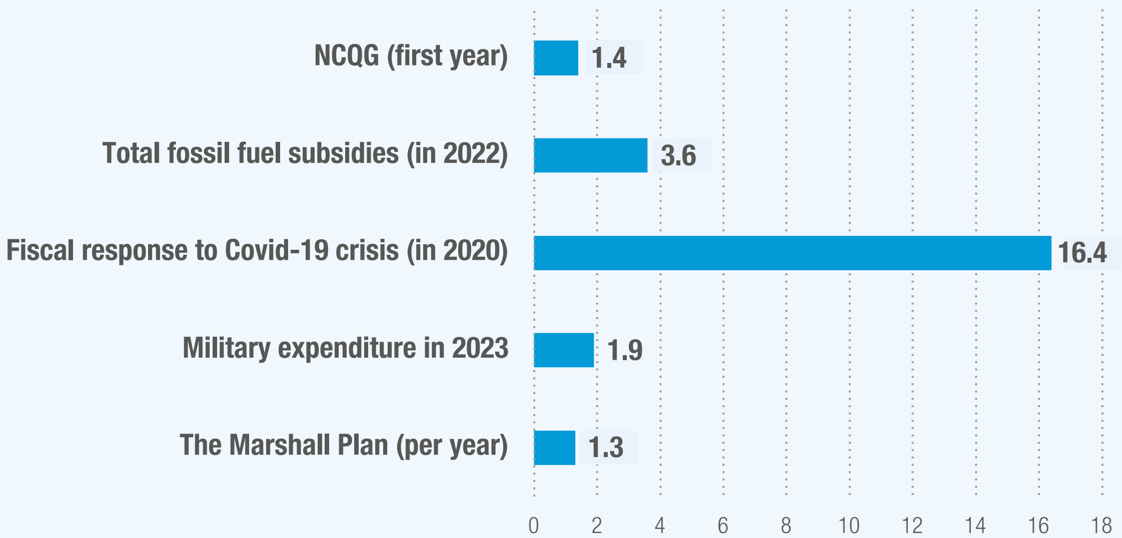
** Covering around 25 per cent of climate finance needs with Domestic Resource Mobilization (DRM) in developing countries represented the upper-bound in the best possible scenario.

This would imply a target of around 1.4 per cent of developed countries' Gross Domestic Product (GDP) per year from 2025 until 2030 when the target should be reviewed.

While a target of 1.4 per cent of developed countries' GDP may seem large compared to current climate finance flows to developing countries, it is doable when compared to other significant expenditures, both historical and contemporary.

For example, military expenditure of NATO countries* was 1.9 per cent of developed countries' GDP, fossil fuel subsidies in developed countries was 3.6 per cent, and Covid-19 fiscal response in developed countries was 16.4 per cent.

Figure 1
NCQG compared to other expenditure
(as a percentage of GDP of developed countries)



Source: UNCTAD secretariat calculations, based on various sources.**

* Average military expenditure of NATO countries was used as a proxy in the absence of data for military expenditure of developed countries.

** NCQG was calculated using the UN GPM; Total fossil fuel subsidies for nine developed countries (Australia, Canada, Germany, France, Italy, Japan, South Korea, United Kingdom and United States) was calculated from Simon B, Liu A, Parry I and Vernon N, (2023). *IMF Fossil Fuel Subsidies Data: 2023 Update.* Working paper, IMF, Washington, DC.; Fiscal response to Covid-19 crisis in 2020 includes data on additional fiscal spending and foregone revenue, and was taken from the IMF Database of fiscal responses to Covid-19, available at: https://www.imf.org/en/Topics/imf-and-covid19/~/media/Files/Topics/COVID/FM-Database/SM21/revised-april-2021-fiscal-measures-response-database-publication-april-2021-v3.ashx; Data on military expenditure refers to average military expenditure of NATO member states, taken from Tian N, Lopes da Silva D, Liang X, and Scarazzato L, SIPRI Fact Sheet, April 2024, *Trends in World Military Expenditure, 2023.* The data on the Marshall Plan was taken from Tarnoff C (2018). *The Marshall Plan: Design, Accomplishments, and Significance.* Congressional Research Service 7-5700 www.crs.gov R45079.

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