THE ENERGY AND RESOURCES INSTITUTE
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DISCUSSION PAPER

Financing Just Transition

Synergies between NCQG and JTWP

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Financing Just Transition:

Synergies between NCQG and JTWP

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Suggested Citation

Shrivastava, M.K and Biswas, D.A. (2024). *Financing Just Transition: Synergies between NCQG and JTWP*. Discussion Paper. The Energy and Resources Institute, New Delhi. pp 14.

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Introduction

The ultimate objective of the Paris Agreement is to achieve transition to a low-carbon climate resilient economy both at global as well as national level. Any transition is prone to concerns regarding its distributional impacts. Insistence on the justness of transition, process as well as outcomes, is a matter of ethical substance in comparing the shift from existing distributional patterns to the new pattern of burdens and benefits emerging during and out of the transition process. The guiding normative principle, arguably, is to aim for reducing existing inequalities, or, at least, to not exacerbate them. From the planning perspective, this requires consideration of the second order effects of transition interventions and protection against any negative implications thereof. The distributional concerns while achieving the objectives of the Paris Agreement are hence integral to climate change negotiations. Article 2.1.c of the Paris Agreement extends these concerns of justice to the agenda of climate finance which must be "consistent" with the ensuing low-carbon and climate resilient development pathway: a just transition must be enabled by just finance.

The relevance of the concept has also come up in discussions across various work streams such as the Sharm el-Sheikh Mitigation Ambition and Implementation Work Programme, the Glasgow-Sharm el-Sheikh Work Programme on the Global Goal on Adaptation, Standing Committee on Finance (SCF) and SCF Forums, Lima Work Programme on Gender, Nairobi Work Programme on Impacts, Vulnerability and Adaptation to Climate Change, and so on.

The two agenda items in climate change negotiations on operationalizing the Paris Agreement, namely the New Quantified Collective Goal on climate finance (NCQG) and the Just Transition Work Programme (JTWP) are the avenues to discuss the various dimensions of financing a just transition. The negotiation track on the NCQG was established in 2015 by the Paris Agreement through para 53[1]:

> "[I]n accordance with Article 9, paragraph 3, of the [Paris] Agreement, developed countries intend to continue their existing collective mobilization goal through 2025 in the context of meaningful mitigation actions and transparency on implementation; prior to 2025 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall set a new collective quantified goal from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries"

The negotiation track on the JTWP was established later, in 2022 at the COP 27 through para 53 of decisions 1/CP.27 and 1/CMA.4[2]:

> "[E]stablish a work programme on just transition for discussion of pathways to achieving the goals of the Paris Agreement outlined in Article 2, paragraph 1, in the context of Article 2, paragraph 2."

Further, the scope of JTWP was outlined in para 52 that:

> "[J]ust and equitable transition encompasses pathways that include energy, socioeconomic, workforce and other dimensions, all of which must be based on nationally defined development priorities and include social protection so as to mitigate potential impacts associated with the transition, and highlights the important role of the instruments related to social solidarity and protection in mitigating the impacts of applied measures."

The JTWP marks a significant advancement in mainstreaming the concept of just transition within the UNFCCC negotiation process, expanding upon its brief mention in the 2015 Paris Agreement. It also provides an avenue for reflecting country concerns regarding just transition. As many as 38% of countries that have submitted their Nationally Determined Contributions (NDCs) towards implementing the Paris Agreement have explicit references to just transition principles, while this figure reaches 57% for Long-Term Low-Emission Development Strategies (LT-LEDS).[3]

The JTWP and NCQG, however, are two separate negotiation tracks with different timelines for concluding their work. A decision on NCQG is expected at COP 29 in 2024 whereas the JTWP process is in its early stages. While there is tentative cross referencing to the issues being discussed within the two negotiation tracks, they are not structurally embedded into each-other, potentially undermining the effective implementation of the Article 2.1.c of the Paris Agreement. More so in case of the Article 2.2 which emphasises that the Paris Agreement must be "implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances", the cornerstone of justice in the UNFCCC process.

While it is critical to decide on the NCQG at the earliest, it runs the risk of not being consistent with the demands of just transition, particularly when the JTWP is still evolving. It is critical therefore that the scope of revisiting the NCQG in the light of the future outcome of the JTWP process. This discussion paper therefore explores the options of structurally aligning the NCQG and JTWP with each-other.

This paper explores how the NCQG and JTWP can be better synergized and argues that learnings from the JTWP can crucially inform the NCQG process towards ensuring financial resources are scaled appropriately and its various modalities are calibrated to ensure a just and equitable transition. By incorporating these considerations, it can enhance ambition and mainstream just transition within the multilateral process, potentially prioritizing just transition pathways in climate action. The NCQG, thus, has the potential to be a vessel to execute transition pathways in a just and equitable manner.

Scope of JTWP

Climate justice is fundamentally linked to effective climate change governance and the UNFCCC serves as the indispensable global platform for establishing a comprehensive, legally binding international agreement to combat climate change. Article 3 acknowledges the diverse starting points of different countries and emphasizes the need for flexibility. The UNFCCC is grounded in principles of climate justice, aiming to establish a fair distribution of responsibilities to prevent inequal sharing of burden.[4] However, the politics of negotiations in the UNFCCC process, outcomes, or the lack thereof, has often been controlled by actors who hold superior political and economic power over vulnerable Parties[5,6,7].

As a result, climate justice concerns withing the UNFCCC have more-or-less remained the same with key issues such as historical responsibilities, climate debt, holding beneficiaries accountable and justice to vulnerable countries who have not contributed to climate change remain pertinent in negotiations today[8].

The need for a just transition was set out in the Paris Agreement's preamble citing 'the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities' alongside addressing issues related to environmental integrity and climate justice. The Solidarity and Just Transition Silesia Declaration, adopted at COP24 in Katowice, Poland, in 2018, marked a significant milestone in the recognition and promotion of just transition as a critical aspect of the global effort to address climate change. Since the Paris Agreement, the scope of just transition, however, has evolved from its early articulation as "a just transition of workforce"[9] to the systemic shifts towards making decarbonization inclusive and aligned with development priorities at all levels. There is a growing emphasis on just transition in national climate action plans, with more countries acknowledging the social and economic implications of the shift to low-carbon and resilient economies. It is widely recognized that a global shift towards low-carbon pathways may fail to address pre-existing inequalities within energy markets and the broader socioeconomic landscape[10]. Transition to a low-carbon climate resilient economy may also inadvertently create new injustices and vulnerabilities. The evolving literature on just transition therefore highlights the need to shift the focus of low-carbon transition pathways from a purely technological perspective to one that incorporates a deeper engagement with socioeconomic challenges, prioritizing sustainability, and equity.[11] A just transition approach should not be compensatory in nature but comprehensive in addressing existing social and economic injustices that have emerged from the existing status quo, i.e., the fossil fuel-based industry.[12]

The IPCC's Sixth Assessment Report (AR6) emphasizes on protection of vulnerable populations and low income countries, mitigating the effects of the transformations and overall equity and notes that a " [just] transition processes will have to respond to several preconditions and structural inequalities related to climate finance, energy poverty, vulnerabilities and the broader macro-economic implications associated with managing the debt burden, fiscal deficits and uneven terms of development in developing countries"[13]. Further, "resource shortages, social divisions, inequitable distributions of wealth, poor infrastructure and limited access to advanced technologies can constrain the options and capacities for developing countries to achieve sustainable and just transitions".[14] A just energy transition must prioritize inclusivity and address the equitable distribution of benefits and burdens associated with the transition . The transition of global energy systems is creating significant social opportunities as well as challenges for workers, suppliers, communities, and consumers worldwide, and these impacts are likely to intensify in the coming decade. The uneven distribution of low-carbon energy technologies and the associated increase in electricity prices raise serious concerns about environmental justice and energy poverty. Furthermore, the shift towards net-zero emissions is raising concerns about the distribution of job losses and gains, as well as the quality of new green jobs. Additionally, the broader economic impacts on communities heavily reliant on unsustainable activities are becoming increasingly apparent. Asset closures can have severe consequences for local economies, affecting their ability to invest in a sustainable future. The transition would particularly be challenging for fossil fuel dependent developing economies as they are likely to face "reduced fiscal incomes given a low demand for oil and consequent fall in oil prices".[15]

Yet, from an operationalization and governance perspective, there has been no political consensus or a collective narrative on the topic so far. This is also evident in the diverse approaches to just transition reflected in the 65 NDCs that mention it[16]. So far, discussions and outcomes regarding just transition have primarily taken the form of technical strategies and recommendations developed by various working groups and committees, operating outside the realm of formal political negotiations and lacking concrete actions or commitments.

The launch of the Just Transition Work Program (JTWP) at COP27 marked a significant step forward in addressing the social and economic dimensions of the transition to a low-carbon economy. The COP28 established the modalities and terms of reference for the JTWP, facilitating its implementation and fostering collaboration among Parties. The JTWP emphasizes on prioritizing the delivery of means of implementation, such as capacity-building, climate finance, and technology development and transfer, for facilitating just transition pathways and enhancing international cooperation and support, particularly for developing countries. At its core, the JTWP aligns itself with the core principles of Article 2 of the Paris Agreement in strengthening the global response to climate change in the context of sustainable development acknowledging the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.

The JTWP offers a unique opportunity to address existing gaps in operationalizing just transition as a global initiative and a platform for weaving a common narrative around the scope of just transition pathways. The programme aims to assess, design and scale up pathways to achieve the goals of the Paris Agreement in a way that is just and equitable for all, and leaves no one behind and that, most notably, learning from the work programme will be used to inform other relevant workstreams and processes such as the second global stocktake[17].

The United Arab Emirates Just Transition Work Programme

Parties at the first high-level ministerial roundtable on just transition held at COP28 emphasized the need for a comprehensive, inclusive, and pragmatic approach to just transition. They acknowledged the importance of tailoring solutions to specific national contexts, fostering stakeholder engagement, implementing suitable financial mechanisms, and understanding the diverse sectoral and community impacts of the transition. The first dialogue under the JTWP explored opportunities, best practices, and challenges in achieving the Paris Agreement goals through just transition pathways, focusing on the role of national-level policies like NDCs, NAPs, and LT-LEDS. Further to this, the second dialogue held discussions to understand how to ensure support for people-centric just transition pathways to empower all actors and segments of society by unpacking the full range of means of implementation.

The COP28 provided a concrete structure for further elaboration on the various dimensions of just transition through the United Arab Emirates just transition work programme,[18] to conclude its work in 2026. The key elements of the UAE Just Transition work Programme focus on just transition pathways fully consistent with the entirety of Article 2 of the Paris Agreement covering three aspects:

Scope of just transition

» Energy, socioeconomic, workforce and other dimensions, based on nationally defined development priorities and inclusive of social protection to mitigate second order effects
» Opportunities, challenges and barriers relating to sustainable development and poverty eradication
» Just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities,

Scale of transition

- Consistency between nationally defined development priorities and global transition to low-emission and climate resilient economy
- Approaches to enhancing adaptation and climate resilience at the national and international level

Governance

- Under the guidance of the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation through a joint contact group
- Inclusive and participatory approaches to just transitions that leave no one behind, including through social dialogue, social protection and the recognition of labour rights
- International cooperation as an enabler of just transition pathways towards achieving the goals of the Paris Agreement
- Inform the second global stocktake and other relevant processes
- Annual high-level ministerial round table on just transition

At the 60th session of the Subsidiary Bodies, however, the negotiations faced a deadlock. Developing countries advocated for a strengthened JTWP with a clear work plan and activities, while developed countries pushed for a focus on implementing the global mitigation goals agreed upon at COP28, including the phase-down of fossil fuels. The developing country proposal by G77 and China of adding 'a work plan' for the programme was strongly opposed by developed countries.

Scope of NCQG

In 2010, at Cancun, the developed country Parties had agreed to provide USD 100 billion per year by 2020 from the floor of USD 30 billion during 2009-2012. This was for the first time a quantified goal on climate finance was established. The Paris Agreement called for an enhanced New Collective Quantified Goal on climate finance to be agreed by 2025 from a floor of USD 100 billion per year.

Estimates of investment and financing needs for climate action vary widely due to differences in scope, methodology, data, and estimation techniques, but provide a range to better understand global needs. The UNFCCC's second Needs Determination Report (NDR) notes that climate finance in the range of USD 5.012-6.852 trillion would be required cumulatively until 2030 to support developing nations to achieve their stated Nationally Determined Contributions (NDC). In 2022, the UNFCCC's Standing Committee on Finance noted that the current global climate finance flows only account for 31–32 percent of what is needed to align with the well below 2°C or 1.5°C goal trajectories outlined in the Paris Agreement. Another estimate shows that climate finance flows must increase by at least five times annually, as rapidly as possible to prevent the worst impacts of climate change[19]. The outcomes of the first Global Stocktake (GST) also indicate that despite increased climate finance flows from developed to developing countries, a significant funding gap persists. It is crucial for developed countries to fulfil their historical responsibility and address the evolving needs of developing nations and the second NDR report provides a timely update on the financing needs of developing countries outlined in their NDCs, given the current context of climate finance. However, it is important to note that off the 142 Parties that have submitted NDCs, only 98 countries have reported costed needs, which indicates that the needs would be significantly higher than quoted.

The essential purpose of NCQG is to help financing climate action in developing countries. It is therefore expected that the various challenges faced by developing countries in mobilizing finance become central to the scope of the NCQG. These include the gap between the finance needed and finance currently available, barriers to accessing finance including higher cost of capital and lending rates, limited availability of domestic public finance, unwillingness of private finance to come forward for climate action, a mitigation bias in climate finance flows, difficulties in accessing climate finance, and so on. Since the responsibility of providing the scale of finance is that of developed countries, their views on how this finance may be mobilized are also on the negotiation table. These negotiations are also taking place in the background of divergent views on whether the developed countries met their Cancun commitments and what is to be defined as climate finance. Broadly, the NCQG agenda covers the following contentious issues:

a. Quantum of finance

Developing country blocks including the Arab Group, African Group of Negotiators and Like-Minded Developing Countries, have asked that the goal be in the range of USD 1-1.3 trillion per year so far in line with the needs of the NDCs. Developed countries have held of determining the quantum until other modalities such as structure, contributor base and timeframe have been decided citing that further clarification is required to propose a quantum.

b. Sources of finance

The inclusion of private finance in the NCQG remains a subject of ongoing debate, with differing views on its potential and limitations. Developed countries like the US, EU, and Australia generally encourage the mobilization of private finance to supplement public funding. They advocate for leveraging private sector resources to scale up climate action, particularly in developing countries. Developing countries represented by groups like the G77+China and AOSIS, while acknowledging the potential role of private finance, emphasize the primary responsibility of developed countries to provide public finance. They caution against relying solely on private sector financing, which often comes with market-based returns and may not prioritize the needs of vulnerable communities. Other groups like AILAC and India recognize the potential role of private finance but highlight the need for careful consideration of its limitations and the importance of public finance as the primary source of funding for climate action.

c. Quality of finance

The nature of financial instruments and tools used to deliver climate finance impacts its quality. The discussions surrounding the sources of finance have yielded diverse viewpoints. While all Parties agree on the need for public finance/grant-based finance/concessional finance to support the NCQG, there are differing views on the prioritization of recipients for these funds, i.e. either to prioritize all developing countries or special status for the most vulnerable countries. While there's a broad consensus on the need to leverage diverse financing instruments, including blended finance and innovative instruments, to address the scale of global climate challenges, concerns remain about the potential burden on developing countries. Parties like the LMDC, USA, Australia, EU, AOSIS, Group SUR, AILAC, Switzerland, Japan, Canada, Pakistan, India, and New Zealand have expressed support for exploring these instruments, but it's crucial to ensure that they complement, rather than substitute, traditional public finance flows. The design and implementation of these instruments must be carefully considered to avoid unintended consequences and ensure they are aligned with the principles of equity and fairness.

d. Structure of the NCQG

The question of whether the NCQG should have a single overarching goal or separate sub-goals for adaptation and loss and damage and the very inclusion of loss and damage in the NCQG remains unresolved among Parties. Developed countries like the US, EU, and Australia favour a multi-layered NCQG with sub-targets for mitigation, adaptation, and public finance mobilization. Developing countries, including the G77+China and LDCs, advocate for a sub-goal specifically addressing loss and damage. However, countries like the US and Switzerland oppose including loss and damage as a specific sub-goal within the NCQG. Furthermore, it is yet to be determined whether the NCQG will function as an annual goal or an overarching investment goal. This divergence in views highlights the ongoing debate on the structure and priorities of the NCQG.

e. Contributor base

Developing countries advocate for aligning the contributor base with Article 9 of the Paris Agreement, emphasizing historical responsibility of the developed countries. Public finance contributions from developed countries through budgetary allocations therefore is the core demand of developing countries as it is seen as the only way to ensure that climate finance is 'additional' and 'predictable'. In contrast, developed countries propose expanding the contributor base to reflect current economic realities. Countries like Switzerland and Canada have suggested using metrics like gross national income and cumulative emissions to determine contributions. This divergence highlights the ongoing debate on fairness and equity in climate finance.

f. Timeframe

Parties have expressed varying views on the timeframe for the NCQG. While some, including the LMDC, African Group, Group SUR, Arab Group, and India, advocate for a five-year target, others like Australia, EU, LDCs, AOSIS, AILAC, and Switzerland propose a ten-year timeframe. The USA, G77+China, EIG, Japan, UK, Canada, Pakistan, New Zealand, and Russia have not yet presented concrete proposals regarding the timeframe. Furthermore, discussions regarding the scope of review and revisions aligning with the final timeline is another contentious topic that is yet to be determined.

g. Transparency

There is a significant divide among Parties regarding the definition of climate finance. Developing countries advocate for a clear definition to improve transparency and tracking. While there's broad agreement on using the Enhance Transparency Framework (ETF) and biennial assessments to track climate finance, the lack of a consensus on the definition of climate finance remains a major challenge.

To enhance the quality of climate finance mobilized through the NCQG, it's crucial to establish key principles that will guide its implementation. These principles should be reflected in the final agreement to ensure that the NCQG delivers on its promises. Although the NCQG may not fully address all the financial challenges faced by developing countries, it can serve as a catalyst for broader reforms in the international financial architecture. To maximize the impact of the NCQG, it should prioritize setting an ambitious goal for climate finance from developed to developing countries. This focused approach can help build trust, foster cooperation, and unlock the necessary ambition to address climate change effectively. How parties conclude on this critical topic, is yet to be determined at Baku.

Synergies Between JTWP and NCQG

Finance is a key lever to realizing just transition pathways and need to be scaled appropriately to address the social ramifications of energy transitions and reflect the varied needs of developing countries. According to the IPCC "climate finance in support of a just transition is likely to be key to a successful low-carbon transition globally".[20] The far-reaching adverse impacts of climate change which disproportionately affects the most vulnerable communities who have historically contributed the least to climate change, leading to further second order impacts.[21] Justice concerns in low-carbon transition pathways lie not just in the decline of the fossil fuel-based industry but also in the inequal distribution of burdens and benefits in the process. A just transition goes beyond climate action and considers key elements of the SDGs by ensuring affordable and clean energy, decent work and economic growth, reduced inequalities, and responsible production and consumption. Developing countries face a critical dilemma in balancing the need for development finance with the increasing demands of climate action. The just transition discourse underscores the significant financial and social implications of transitioning to a low-carbon economy, necessitating a scale of effort and investment that surpasses traditional technological transitions. It is essential for just transition pathways to create more equitable responsibilities between developed and developing countries, integrate climate finance with development goals, and prioritize the needs of vulnerable populations in climate action.[22] Underscoring the urgent need for increasing the delivery of means of implementation, the JTWP acknowledges wider second order impacts of climate change that need to be considered, especially when accounting finance needs.

However, discussions around means of implementation for the Paris goals largely revolve around the NDCs, as do the discussions and negotiations around the NCQG. Given that currently only 38% NDCs note just transition principles, that too in qualitative terms and is so far not appropriately accounted for in the NDCs and by extension, the NCQG, the finance is likely to fall short in addressing the socio-economic fallout of transitions. It is important that the means of implementation, particularly finance, are aligned with the needs of JTWP both in scale of mobilization and process of distribution. Abiding by Articles 2 and 3 of the Paris Agreement are at the core of the principles driving the discussions under the JTWP noting that concepts of equity, justice and principles of CBDR-RC are to be central to just transition efforts. These concepts have been echoed in the NCQG process further highlighting the growing gap between the needs of developing country Parties and the support provided.[23] However, as seen at previous COPs and throughout the multilateral process, acknowledgment of these principles does not guarantee its translation into outcomes. While both streams of discussions recognize the importance of 'new and additional' non-debt creating and predictable grant-based finance, by not accounting for just transition pathways, the NCQG misses out on considering the full and incremental cost of transition, a principle central to and an overriding priority of just transition discourse. A NCQG which fails to account for the socio-economic fallout of transition would therefore fail to ensure that 'no one is left behind'.

Clearly, just transition finance goes beyond traditional green, climate, and sustainable finance as it also addresses the social risks, opportunities, and dialogue necessary for achieving climate and broader environmental goals. In the context of climate finance, Parties note that one of the key outcomes of the JTWP would be to streamline the narrative and define the scope of just transition pathways and be an enabler to enhance climate ambition, improve the quality of actions ensure inclusivity and give equal importance to mitigation and adaptation in the pursuit to achieving the Paris goals. Parties have emphasized the critical importance of financing to support the effective implementation of climate policies that integrate just transition principles in developing countries. A substantial increase in new, adequate, non-debt-creating, and predictable climate finance is urgently needed. Grant-based financing will be critical to prevent imposing additional financial burdens on developing countries. International public climate finance, particularly from MDBs and climate funds is crucial for implementing just transitions. Additionally, there is a pressing need to simplify access to climate finance and expand support beyond mitigation to include adaptation and loss and damage, especially for fiscally constrained Parties where support for just transition projects is limited.

Although neither work streams explicitly call for synergy between the two, there are potential opportunities to integrate elements of both the streams to maximize their impact. So far, though developing country blocks including the Arab Group, African Group of Nations, Independent Alliance of Latin America and the Caribbean, Least Developed Countries Group have voiced the need for considering just transition in developing the preamble and principles that would drive the NCQG process moving forward and therefore strongly suggest its inclusion in the quantum,[24] the lack of consensus on the scope of just transition in different contexts within the multilateral space further illude how this is to be executed and implemented within the NCQG and, a consensus on the topic has yet to be reached.

However, the interplay between the NCQG on finance and the JTWP within the UNFCCC process represents a complex but critical synergy that shapes the trajectory of global climate action. The linkages between the NCQG and the JTWP underscore the necessity of harmonizing financial and social considerations in climate action. The NCQG provides the essential resources for climate initiatives, while the JTWP ensures these resources are used to promote social equity and inclusivity. Their mutual influence highlights the need for a cohesive strategy that addresses both the financial requirements and the social impacts of climate action, ensuring that efforts to combat climate change are both effective and just.

Operationalizing Synergies Between NCQG & JTWP

The discussions and negotiations for the JTWP and the NCQG so far reflect the broader challenge of aligning global ambitions with practical actionable steps towards equitable climate action. Looking ahead, the JTWP has the potential to be a framework for deeper, more effective collaboration towards a collective narrative around implementing the Paris Agreement through just transition pathways at global as well as national scales, leading to tangible progress towards a sustainable and equitable future. This potential cannot be realized without a commensurate outcome of the NCQG process. The NCQG must be aligned to the needs of the JTWP outcomes. Currently, the negotiations on the two tracks do not promise such alignment. Their alignment might be a chance outcome as there are unstructured cross references. The lack of explicit alignment between the two may leave the JTWP and NCQG processes, and eventually implementation of the Paris Agreement directionless. It is important therefore to bring the two negotiation processes structurally closer to each-other. It may be done in following ways.

Embed NCQG and JTWP Procedurally

So far, discussions of the JTWP have emphasized the need for addressing climate justice concerns and that 'no one is left behind' prioritize promoting gender, social, and environmental equality, eradicating poverty, fostering decent work and skills training, and advancing intergenerational equity and climate resilience to ensure an effective and equitable transition. Deliberations are underway on how to operationalize these principles. The First Dialogue extensively explored considerations for operationalizing inclusive approaches to developing NDCs, NAPs, LT-LEDS and other policies throughout all stages, including designing and implementing climate action plans.[25] Informed by discussions and conclusions in the JTWP, the NCQG can develop a financial mechanism which can account for inclusive approaches and 'leave no one behind'. To ensure that the JTWP and NCQG processes evolve and get implemented in a mutually reinforcing manner, it is important that the two processes are structurally aligned. Such an alignment could be made effective by complementary COP decisions on the NCQG and JTWP processes mandating that:

a. initiate a formal process to integrate the outcome of the JTWP process into NCQG implementation,
b. ensure the quantum of climate finance, its mobilization and distribution/access of climate finance is categorically aligned with JTWP principles in a manner that guarantees access to low-cost capital at scale to developing countries in a timely manner,
c. the quantum of finance under the NCQG process must be commensurate with the needs for just transition as defined by the individual developing countries,
d. the access modalities to finance under the NCQG process should not put undue burden on developing and least developed countries to the effect that disbursements are delayed, and second order impacts are exacerbated. By no means, it should add to the debt burden of developing countries. In fact, it must lead to easing of debt burden of developing countries.

Country Driven Identification of JT needs in NDCs

Discussions under the JTWP note the critical need to account for the various finance needs of different sectors such as energy, agriculture, transport, etc., to ensure a comprehensive understanding and consideration of support needs within the varied contexts of developing countries. All the discussions above would need to be considered to best determine the true cost of juts transition. The principle of full and incremental cost of just transition should be central here, considering both the social and economic costs alongside the technological costs of transitioning. Conclusions drawn from the outcomes of the JTWP can further influence Parties to align their NDCs along just transition principles and their unique circumstances and developmental priorities. By promoting consistency and comparability in drafting NDCs, a unified understanding of just transition pathways can contribute to building synergies in the global effort to achieve a just and equitable transition to a low-carbon economy. The country driven approach of NDCs framing will also ensure that global efforts are responsive to diverse country needs. To this end, a COP decision on the JTWP could encourage countries to define their just transition needs in their next revision of NDCs. The needs may include, but not limited to, identify second order effects of various sectoral mitigation and adaptation strategies, specific programmes to address differential vulnerabilities of communities, protection needs against the unilateral climate measures by other countries such as the Carbon Border Adjustment Measures, etc. It is critical to note that the advances in the just transition discourse have moved beyond the issue of reskilling and reemployment of affected labour force in the energy transition process and the same should be reflected in the just transition needs in the revised NDCs. Since the NDCs are the pillars of climate action towards the goals of the Paris Agreement and assessing adequacy of the NCQG, a JTWP consistent NDC would ensure that NCQG and JTWP are meaningfully, structurally, and operationally aligned.

Enhancing Adaptation & Resilience

The concept of just transition has predominantly been linked to mitigating GHG emissions. However, the principles of shared responsibility and collective action that apply to mitigating climate change also extend to adapting to future climate conditions. Climate impacts and adaptation measures will disproportionately affect vulnerable populations, who often have limited capacity to adapt. These adaptation actions themselves can also have unequal effects on different groups within society. Discussions under the Glasgow-Sharm el-Sheikh work program (GlaSS) and negotiations for the Global Goal on Adaption, have echoed the critical need for ensuring equity, justice, and locally led adaptation efforts to align with the Conventions and achieve the Paris Goals. The need for globally coordinated action has also been highlighted to enhance the scope and effectiveness of the global goal on adaptation.[26] These discussions are particularly relevant against the historical context of how mitigation efforts and associated finance have often overshadowed adaptation projects leading to a stark imbalance in allocation of resources to address both climate change mitigation and adaptation. The second Needs Determination Report cites that only 16 per cent of costed needs in the NDCs are accounted for as adaptation needs as compared to the 79 per cent associated with mitigation action.[27] Recent reports indicate that the global adaptation finance gap is widening, with developing countries estimated to require between USD 212 billion and USD 239 billion annually for adaptation finance by 2030 and 2050 respectively.[28] This suggests a need for fourfold increase in adaptation finance flows to developing countries compared to the USD 56 billion tracked in 2021-2022. Similarly, UNEP's 2022 Adaptation Gap Report estimates that the annual cost of adaptation in developing countries alone will be between USD 160-340 billion by 2030, suggesting that public funds alone will not be able the address the financial needs.[29]

However, scaling adaptation finance to developing countries comes with its own barriers[30] ranging from economic and financial barriers associated with difficulty in pricing climate risk and challenges of quantifying non-financial benefits; technical and knowledge based barriers such as gaps in data availability, granularity, and quality, and lack of capacity and expertise to develop adaptation strategies and project pipelines; and institutional and governance barriers leading to access issues including accreditation barriers to access climate funds directly, lengthy review processes by providers of adaptation finance, limited reach to local organisations, and the current global finance architecture not being tailored to the needs of SIDS, LDCs and fragile states. This is further perpetuated by methodological challenges in defining adaption finance and lack of political consensus on its scope which compromises comparability and transparency.[31]

The imbalanced prioritization of mitigation over adaptation has been a key topic in NCQG discussions, with developing countries advocating for specific sub-goals to address this disparity. The quantum of adaptation finance remains uncertain due to methodological challenges in defining its scope. Addressing these challenges is crucial for facilitating progress on adaptation finance. The GGA and JTWP can significantly contribute to shaping the fundamental principles of adaptation finance, fostering a more equitable allocation of resources between mitigation and adaptation. Core justice principles that align to mitigation action must also be considered when considering adaptation efforts and in determining its subsequent financial needs. Critically, this includes principles of procedural justice referring to the degree to which those affected by climate risk and adaptation are recognised and able to fully participate in decision-making processes, and distributive justice referring to how the opportunities and burdens of adaptation outcomes are allocated.[32] While the NCQG negotiations have so far acknowledged the 'special circumstances' of LDCs and SIDS in the context of their acute climate vulnerability and risks, in the context of justice principles and the discussions under the GGA, this would need to involve a more nuanced, inclusive and people-centric approach which is to be country-driven, gender-responsive, inclusive, and fully transparent. Furthermore, in the context on just transitions, financing would need to the costs of building adaptive social protections for enhancing resilience when considering building human capacities.

But beyond the question of quantum, nuanced conversations regarding other significant challenges to scaling and mobilizing adaptation finance have been limited. Groups such as the Independent Alliance of Latin America and the Caribbean have called for the use of de-risking instruments such as insurance products and developing risk-sharing mechanisms to address economic and financial barriers to scaling adaptation finance. Discussions under the JTWP have also so far called for innovative financial instruments to be used for mobilizing finance for similar purposes. Further to this, building a pipeline of projects and ensuring predictability of cash flows will be essential for risk mitigation. Other instruments for enhancing capital towards improving adaptive capacity and resilience pay-for-success contracts, green and climate resilience bonds, asset-backed securities, biodiversity offset markets, and debt-for-nature swaps can be mobilized for addressing other barriers to enhancing adaptation finance.[33]

Report Financing Mitigation of Second Order Effects

Reporting on climate finance flows is fraught with controversies owing to differences over disagreements. A unified understanding of the scope of just transition pathways and their associated financial needs is crucial for streamlining transparency and reporting requirements, enabling effective tracking of progress towards climate goals. The current challenge of incomparable data arising from diverse accounting methodologies can be addressed by establishing a standardized framework for reporting and tracking just transition activities. A COP decision on JTWP, expanding the scope of overseeing the second Global Stocktake process, should include a process of tagging the financial flows to the just transition needs identified in the NDCs by developing countries. Developed countries while reporting their financial flows should inform which of the identified parameters of just transition in the unified framework of JTWP is applicable to a particular financial provision. This would eliminate the debate on the definition of climate finance and allow a comprehensive picture to emerge on just transition finance. It would be critical to also include financing technical assessments to support the just transition needs of developing countries, including the second order impacts of national and international climate measures. The second order impacts should also include the impacts of different financial instruments of accessing climate finance.

Global Economic Reforms

The JTWP and the NCQG would significantly affect the global economy, extending the principles of equity and CBDR to the global economic governance as well, even though in an oblique manner. Accordingly, a JTWP consistent NCQG should be a steppingstone for reform of global financial system which is favourable for climate action in developing countries. The NCQG input paper reaffirms the commitment by Parties to enhance actions reflective of core principles of CBDR-RC, sustainable development, poverty eradication and ensure that transition pathways are carried out 'in a just, orderly and equitable manner'. Parties agree that capacity building is one of the key pillars of the transition, citing it as a critical enabler to climate action. It calls to action Parties, the operating entities of the UNFCCC Financial Mechanism, MDBs, and other finance providers to 'develop policies to significantly increase the share of gender-responsive climate finance by 2035' with several developed and developing countries calling particularly for mainstreaming gender equity and promoting gender-responsive climate finance. The discussions extend to considering the rights, needs and priorities of vulnerable groups like women, youth and indigenous communities to be relevant to building the qualitative elements of the NCQG. Without well-defined goals, commitments, and mechanisms to ensure equitable distribution, the NCQG risks following the same path as the USD 100 billion goal and failing to deliver climate finance equitably.

Similarly, the same would apply to the wider economy and other actors outside the multilateral process. One of the primary obstacles to scaling up climate finance for a just transition is the financial sector's limited understanding of the multifaceted nature of just transition and the specific projects and activities that could be supported to achieve its goals. A well-defined framework for identifying activities aligned with the just transition principles and pathways would enhance understanding and facilitate efficient investment decisions for lenders and investors committed to supporting this agenda. Precise definitions of eligible just transition activities are crucial for directing sustainable finance towards relevant initiatives and enabling investors to accurately report their contributions to the transition. A transparent classification system can serve as a valuable tool for lenders and borrowers, guiding investment decisions toward projects and economic activities that positively impact the climate, environment, and affected communities. Developing a comprehensive and standardized classification system for just transition activities would require collaboration among stakeholders, including governments, financial institutions, and civil society organizations. This system could be based on a set of core principles, such as equity, inclusivity, sustainability, and climate resilience. By establishing clear criteria for identifying eligible activities, the classification system can help to ensure that climate finance is allocated effectively and contributes meaningfully to a just and equitable transition away from coal.

As discussions on these unfold under the JTWP, the expectation is that the work programme would address these gaps in the meetings to come and facilitate the development of a unified understanding on the scope of just transition finance. Furthermore, its adoption within the NCQG framework would serve as a strong signal to financial systems outside the multilateral space to align with its priorities. MDBs play a significant role here given their financial resources and influence in the global financial order.[34] Recently, the World Bank released a just transition taxonomy which currently lists 57 just transition taxonomy-aligned activities focusing on governance arrangements, people and communities and, repurposing land and assets.[35] The World Bank acknowledges that the list of activities is subject to change to ensure alignment with evolving global sustainability priorities and the latest technological advancements. A similar initiative by the JTWP, potentially later adopted by the UNFCCC and implemented through the NCQG could align and unite the global financial system and its various actors towards a shared goal of just transition.

International Cooperation

Discussions under the JTWP have repeatedly noted that international cooperation will be 'an enabler of just transition pathways towards achieving the goals of the Paris Agreement'. This includes facilitating sharing knowledge and experiences on successful just transition strategies, mobilizing the financial resources required, facilitating technology transfer and make coordinated efforts to address the global challenge of climate change. Through the work programme, a political consensus on various dimensions of just transition including its scope can provide Parties with a guiding framework for further engagements with other Parties, MDBs, and other relevant entities. In developing countries particularly, this would signal to Parties to formulate more ambitious NDCs from a just transition lens to truly determine the true cost of transition and thus pushing for more ambitious mobilization of international climate finance as an enabler.

The interconnectedness between the NCQG and JTWP can go on to significantly influence international cooperation initiatives beyond the UNFCCC, for instance, influence Just Energy Transition Partnerships (JETPs), towards achieving an equitable and fair distribution of finance based on a collective narrative. JETPs had globally emerged as a prominent financing instrument in 2021 to support just transitions efforts through international cooperation to achieve climate and development goals. But despite the promise of potentially being a tool to drive equitable transition in the global south, the JETPs so far have raised questions about the 'fairness' of a just transition. Discussions under the JTWP to define principles and scope of just transition and its adoption in the NCQG process can further guide other international cooperative initiatives.

Conclusion

A unified narrative on just transition can play a crucial role in shaping the negotiations for the NCQG and provide direction to climate finance in the years to come. The JTWP should plays a crucial role in shaping how the NCQG's financial resources are allocated and expanding the scope of climate finance. The Just Transition framework emphasizes the need for investments that not only address environmental sustainability but also promote social fairness. By setting guidelines on boundaries of what types of climate actions should be undertaken and financed, the JTWP can help prevent the perpetuation of inequalities and ensures that the transition to a green economy is inclusive and just. A synergistic approach to JTWP and NCQG negotiations and subsequent implementation would ensure that climate finance be mobilized at necessary scale and channelized into projects that provide equitable opportunities to developing countries and support vulnerable populations. This focus helps ensure that financial resources are not only spent on reducing greenhouse gas emissions but also on creating social safety nets and facilitating equal economic opportunities in a low-carbon economy.

The interconnectedness between the JTWP and the NCQG presents a unique opportunity to mainstream just transition pathways within the multilateral process and ensure tangible progress towards a sustainable and equitable future. The relationship between the NCQG and the JTWP creates a feedback loop where financial resources influence social outcomes, and social considerations influence financial governance. If the NCQG mobilizes substantial funding but does not adhere to JTWP's principles, the transition may be environmentally successful but socially inequitable. Conversely, adherence to the JTWP's principles without sufficient financial backing may result in inadequate support for those most affected by the transition. Therefore, the successful integration of these frameworks is essential for a balanced approach for low-carbon and climate resilient transition where financial and social dimensions are addressed concurrently.

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This Paper has been prepared under a project
supported by a grant from Bloomberg Philantrophies.