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Foundational Structures of The GCA: Membership, Incentives, and Institutions

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As a global challenge, climate change needs a global response, enhanced collaboration and actions that take the different needs and challenges faced by different countries into account. Reflecting the systemic approach that is required for tackling the climate change challenge, the Global Climate Alliance (GCA) – with its structure and institutional framework – should mainly act as an enabler. It should have a strong focus on strengthening cooperation at the sectoral level, bringing all key actors – including policy makers – to sit at the same table. Together, they should co-create and shape their transformation pathways toward net-zero.

In this way, countries entering the GCA would become part of a staged membership model, which reflects individual member countries' needs and challenges, their level of ambition and commitments – while setting goals, especially for decadal targets and the target-year for reaching net-zero.

The GCA aims to become an inclusive and open alliance for all countries, with differentiated membership criteria. Such an Alliance should immediately raise transformational targets for its members, focusing on the world's major greenhouse gas (GHG) emitters. As part of the Alliance and following the common but differentiated responsibilities (CBDR) principle, Global North countries will have significant accountability for providing large-scale financial and technological assistance to the Global South. The Alliance design should provide strong financial incentives for Global South and North member-countries to cooperate for mutual benefit, while simultaneously preventing carbon leakage by non-members.

Minimum Requirements for a Country to Join the GCA

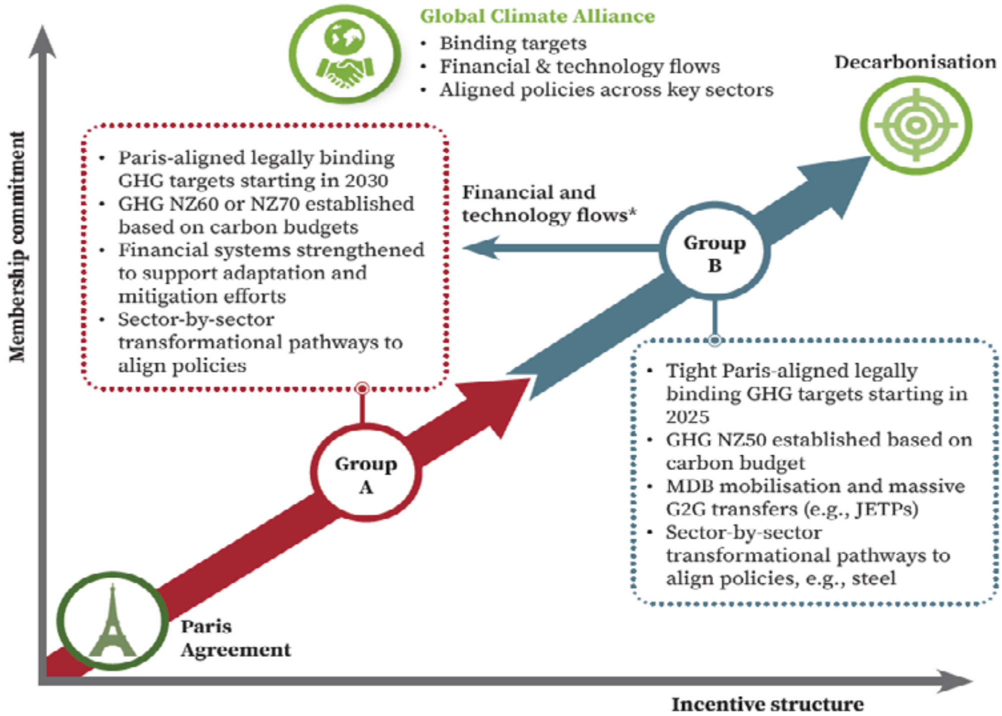
1. Statutory/legally-binding, Paris Agreement-aligned, economy-wide, GHG emissions reduction targets – starting in 2030 for Group A or 2025 for Group B. Decadal commitments to GHG emissions reduction that are based on either statutory net-zero goals, or a fair-share estimation based on global carbon budget – both consistent with the 1.5°C goal.
2. Detailed and evidence-backed sectoral transformation plans, in line with the countries' decadal commitments.

To recap briefly, the proposed GCA comprises two groups:

- **Group A** members who would commit to following net-zero pathways leading to major GHG emission reductions by 2030, and then net-zero emissions by 2060 or 2070.
- **Group B** members who would commit to following net-zero pathways leading to quantified transformative results in key sectors. These could include the shares of renewable energy, public and fossil-free transport, low-carbon buildings, and recycling, as well as the efficient use of materials and near-zero-emission material production. Combined, the commitments to these decarbonisation actions will be designed to achieve major GHG reductions by 2030 and net-zero by 2050 or earlier.

Since the CBDR principle is at the heart of the proposed Alliance, Global North countries are expected to join Group B and Global South countries to join Group A. But a country is free to choose the group it wishes to join – for instance, owing to their 2030 Net Zero target, Maldives could join Group B even though it is not a developed country. Further, all countries can pursue transformative actions based on sectoral cooperation, while obtaining and providing mutual support for such transformative activities.

Illustration 1: Proposed CBDR-based Global Climate Alliance (GCA) Framework



Source: As conceptualised by the authors

Adjunct Members

These will be key actors who will shape the required transformation pathways, including already existing sectoral alliances. Such a GCA multi stakeholder fora would include:

- Policy makers
- Funders and investors
- Civil society organisations (CSOs)
- Industry and businesses, clustered per sector
- Capacity-building institutions
- Existing alliances, such as the International Energy Alliance (IEA), the Global Energy Alliance for People and Planet (GEAPP), the European Tech Alliance, the Global Carbon Alliance, among others.

The GCA can support member countries in achieving their targets in two ways:

1. Through policy and analytical modelling support on their sectoral transformation pathways; and
2. Through unlocking the investments and financing required to make such transformation happen.

The GCA aims to support countries to:

1. **Reach the larger goal – the 1.5°C of the Paris Agreement**
   A large emissions gap remains between what is needed for 1.5°C and current **nationally determined contributions** (NDCs), which are projected to lead to a temperature increase of 2.8°C by the end of the century. In its latest report, the IPCC found that to keep the 1.5°C goal alive, global emissions need to be cut by 43% below 2019 levels by 2030. This requires governments to present and set more ambitious targets. Under the GCA, members would be required to ensure that their targets are in line with the overall targets of the GCA.

2. **Meet implementation needs – and unlock investments and financing**
   Accelerated financial support from developed countries is a critical enabler for enhancing mitigation action in many developing countries and addressing inequities in access to finance, including the cost of finance, financial conditions, and applicable terms. The GCA seeks to address the financing challenge by proposing substantial financial commitments through multiple initiatives. Additionally, it proposes several financial standards and resources for the Global South member-countries, in order to increase investments by institutional investors. A detailed proposal can be found in this paper.
3. **Connect key actors**
   Countries themselves know which sectors are crucial for them. They also know which sectors need to pursue a transformation pathway or accelerate innovation and/or scale up innovative solutions and targets. Any measures here need to be coordinated if they are to unlock long-term private / public strategic investments. The GCA should also support countries on those transformation pathways through analytical modelling.

Together, these will help identify what a multilateral or bilateral collaboration needs to be to accelerate and reach set targets; and how the GCA architecture should be set in order to assist countries and political leaders in making tough decisions. Reaching goals requires strong and close cooperation, seeing the bigger picture and creating new, sustainable trade. With its sector-by-sector, step-by-step approach, the GCA should not act as a platform for signing yet another global GCA treaty. Instead, it should be an enabler for countries to sign long-term, bilateral treaties.

Incentive Structure in the GCA

The incentive structure of the GCA is a simple two-way structure. Nobel Laureate Thomas Schelling had an insightful remark on incentivising developing and least-developed countries (LDCs) to tackle climate change [emphasis added]: "[d]eveloping' countries will experience the greatest adverse impacts from climate change...And for these countries, most vulnerable to climate change, *the most reliable defence lies in development itself"* (T. Schelling 2012).
The corollary of his statement, as written by him is that "it is unlikely that China, India, Brazil, Indonesia, and other large emitters of greenhouse gases can be induced to participate in massive changes in energy supply and use without substantial assistance from the countries that can afford it." The harder challenge, however, as pointed out in (T. Schelling 2009) was how the rich countries would negotiate and "share the cost of contributing resources to the developing world." He yielded, "I can't think of any precedent in the last 50 years for what I suggest. However, the Marshall Plan provides a model whose potential has intrigued me for years." These two observations hold relevance for the design of any climate alliance.

An inclusive alliance, with both global North and South countries participating, needs to accommodate two key features in its incentive structure:

- Sufficient financial incentives to incentivise the Global South countries to ramp up climate action or undertake the energy transition; and
- Sufficient incentives to incentivise Global North countries to ensure a committed flow of climate finance to the Global South.

The GCA design attempts to solve this deadlock by building on existing knowledge of coordination mechanisms. Firstly, the financial incentives for developing countries/LDCs shall be concomitant with their ambition for climate action. Thus, if an LDC chooses a more ambitious climate plan, say committing to net zero by 2050, it would be rewarded with higher levels of climate finance or more direct bilateral government-to-government budgetary transfers. This is a direct extension of (Martimort and Sand-Zantman 2016) who observe, "An optimal mechanism can resolve this tension [inducing incentives and ensuring ratification of an Agreement] by setting less demanding effort targets and lower financial contributions" – developed countries would be required to make higher financial contributions only if LDCs/ emerging market and developing economies (EMDEs) take on more ambitious climate action plans which are backed by rigorous analytical work.

To incentivise the Global North countries to contribute, the GCA firstly relies on commercial return-seeking capital to constitute the larger part of climate finance flows. In the paper on climate finance, we reason why this proposition is not only essential but also plausible. The novel blended financial instruments, a host of local Green Investment Agencies (GIAs), and cohesive regulatory norms work toward ensuring seamless flow of private capital. This model will ensure lower budgetary outflows/commitments from the Global North treasuries while leveraging the multilateral development bank (MDB) ecosystem to drive the climate transition in developing economies; the key insight is that lower onus on governmental transfers acts as an incentive for Global North countries to participate in the Alliance.

Secondly, to determine the amount of contribution, the GCA could choose between two proposed mechanisms. The first model, as suggested in (Martimort and Sand-Zantman 2016), posits that an optimal mechanism/ incentive structure, in principle, "can be approximated by a simple menu of options." In practical terms it can be adapted, as follows, for developed countries in the Alliance, which can either choose to:

1. Contribute a fixed amount every year to a multilateral institution of their choice, solely dedicated toward climate finance; or
2. Along with a (lesser) fixed contribution, choose to reward those countries that take greater climate action through bilateral contributions.

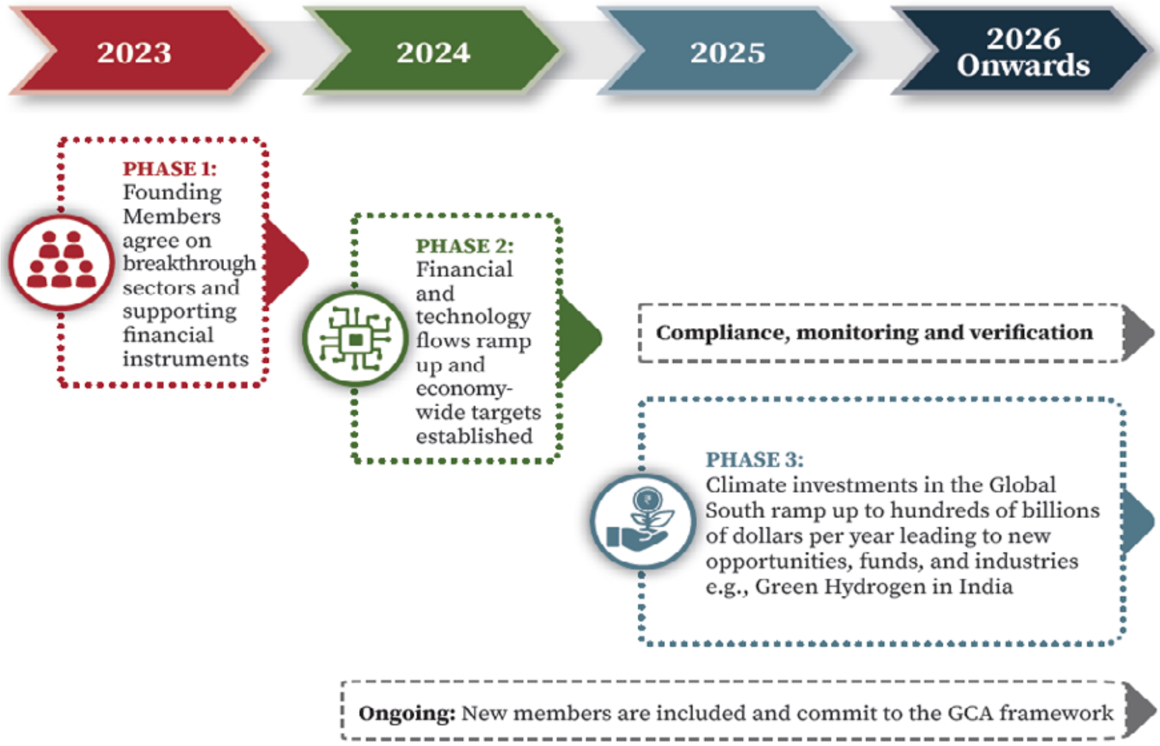
This mechanism doesn't delineate the total contribution to be made, but lays down an incentive structure instead, which would incentivise Global North countries to contribute a proportionate amount to tangible climate action in the Global South.

An alternative proposal, by Prof. Raghuram Rajan, is outlined in detail in the paper on climate finance. The essential feature of Prof. Rajan's proposal is that financial contributions are calculated by multiplying excess (read 'above global average') per capita emissions of a country by its population and a jointly-agreed carbon price. (Parikh and Parikh 2009) also propose a similar tax and redistribution system based on historical carbon emissions and the principles of redistributive justice. The determination of contributions under the Alliance will be outcomes of the negotiation process. However, these proposals serve as guiding frameworks to reach a mutually-desirable outcome.

Building an Institutional Framework

Bearing in mind the urgency of climate action, and the potential of existing structures, the GCA could be housed within a pre-existing organisation or institution, but with an independent secretariat and governing body. This is recommended in the proposal and can be modified according to the practical requirements of the GCA. The finer details, as well as the funding of the GCA, may be decided during the establishment and negotiation processes. These can be based on other externalities, including the nature of membership, interest of the countries involved, and so on.

Illustration 2: Proposed Timeline for rolling out the GCA.



Source: As conceptualised by the authors.

While there are core differences between the commitment levels of the two member groups of the GCA, both will be governed by the same institutional arrangements. The GCA implementation would be largely dependent on the efficiency of the institutional arrangements. Creating new institutions solely for the GCA would be a tedious, administratively complicated, and cumbersome process. It would not be politically acceptable to develop a new framework from scratch and would considerably delay the establishment process.

Given that the GCA would be initiated by a core group of members – ideally including leading emitters such as the EU, India, and US – initial governance support could be provided by a secretariat under the G20, allowing for rapid implementation of early initiatives.

The GCA should create an institutional framework using a stepwise approach. This will provide it with the required legitimacy. It will offer a platform to enable discussions between financial donors and recipients and allow for airing of sensitive issues such as disagreements over how it should be financed, different assumptions about ambition levels, and so on.

A core component of the GCA would be agreement on the sectoral transformation pathways by the various member countries. Thus, it is imperative that the GCA is made up of working groups on various sectors to support policy alignment. These pathways would require scientific as well as political approval. Decision-making can be facilitated through creating sectoral working groups, consisting of both experts and the political leadership, ensuring the buy-in of political decision-makers from the outset.

The GCA has to ensure that the monitoring, reporting and verification (MRV) processes are based on CBDR principles, but are also consistent in format, data requirement, duration, and frequency. Proper MRV mechanisms will ensure that data systems are compatible, allowing the secretariat and other member countries to track members' progress. The authenticity of the data submitted is also an important issue that the GCA will have to deal with in the future. However, a solution to this may even emerge during negotiations.

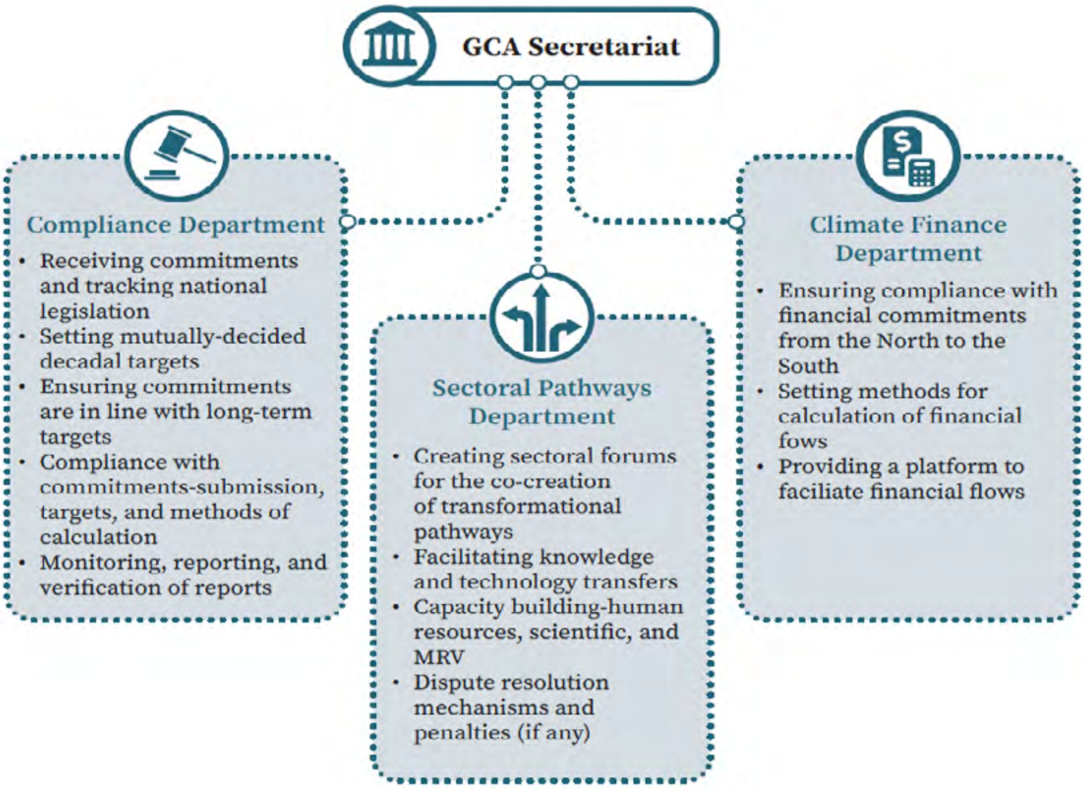
Along with strong MRV mechanisms comes the problem of capacity. It is important that the GCA creates capacity-building solutions for developing countries that allow them to undertake continuous reporting and monitoring. The complexity of the MRV challenge requires a solution based on mutual agreement, support, and the common goal of combating climate change.

Common Vision

As members of the GCA, countries join a 'coalition of the willing'. Members have to agree to the minimum objectives of the Alliance: cooperation and knowledge sharing. These will provide the foundation for the success of the GCA. As a result, the institutional architecture of the GCA should be specifically designed to fulfil its key objectives. The types of support required are not specified, as these will emerge from negotiations between member-countries based on their national interests, mutual agreement on best practices and geopolitical factors.

1. **Reaching the larger goal: the 1.5°C of the Paris Agreement by:**
    - *putting in place commitments and national legislation;*
    - *setting decadal targets;*
    - *ensuring commitments are in line with long-term targets;*
    - *complying with submission of commitments, targets and methods of calculation; and*
    - *monitoring, reporting, and verifying achievement reports*.
2. **Meeting implementation needs and unlocking investments and funding by:**
    - ensuring compliance with financial commitments from the Global North to the Global South;
    - setting methods for calculating financial flows; and
    - providing a platform for facilitating the flow of climate finance.
3. **Connecting key actors on sectoral transformational pathways by:**
    - creating sectoral forums for the co-creation of transformational pathways;
    - facilitating knowledge and technology transfers;
    - transferring scientific advice and modelling expertise from the Global North to the Global South;
    - building capacity – human resources and scientific, as well as for MRV; and
    - providing dispute resolution mechanisms and serving mutually-agreed penalties in the event of continued non-compliance.

Illustration 3: Functional Structure of the GCA Secretariat



Source: As conceptualised by the authors.

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