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Beyond Pledges: Adopting the SDG Club Model for Transformative Global Action

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KEY POINTS

- Extensive additional funding is required to meet the SDGs. While domestic resources in developing countries must be enhanced, advanced economies will need to step in especially for climate adaptation and loss and damages.
- Lack of trust and of willingness to make binding commitments stand in the way of UN-led multilateral agreements and comprehensive initiatives.
- Given slow multilateral process, smaller partnerships of countries with higher ambition on climate and wider SDG goals have started to emerge.
- The author proposes the creation of an SDG Club as a voluntary platform for ambitious countries to speed up delivering on the SDGs. Based on the existing Climate Club, an SDG Club approach can meaningfully complement existing multilateral processes, enhance trust and develop scalable models for multilateral action.
- The Climate Club itself could be extended and deal with issues raised by Carbon Border Adjustment Mechanisms and divergences in carbon pricing.

CONTEXT

The global community has defined ambitious goals for the attainment of economic, social and environmental objectives, the 17 Sustainable Development Goals (SDGs), with a focus on Emerging Market and Development Countries (EMDC).

Achieving these objectives requires extensive funding in the coming decades: a study has estimated a total annual need of $ 5.4 trillion by 2030 compared to a current level of $ 3 trillion.[1] The bulk of the funding will have to be provided by domestic resources by raising effective rates of taxation and mobilising private investments in the EMDC countries themselves. Economic reforms that stimulate economic growth and expand the tax base will be essential. At the same time, Advanced Economies (AE) will also have to chip in to provide sizeable transfers to countries suffering from the impact of climate change – loss and damage along with adaptation financing – and to provide instruments that de-risk private investments, particularly in mitigation.

DIFFERENT PRIORITIES BLOCK PROGRESS

The progress in international negotiations to deliver on targets has suffered from the divergent priorities in attaining the SDGs. EMDCs and Low-income Countries (LICs) are focused on initiatives that promote economic growth and wider social goals as well as compensation for costs related to climate changewithin their own countries i.e. domestically oriented SDGs. By contrast, AEs tend to be more focused on having EMDCs adopt stringent mitigation targets, as AEs will account for a steadily declining share of total emissions in the coming years.[2]

This has created something of a stalemate with slow progress in the negotiation process steered by the UN institutions. AEs are reluctant to make firm pledges to provide finance in the absence of clear commitments to ambitious pledges to reduce emissions from EMDC. In turn, EMDC are reluctant to make such pledges in the absence of agreed funding to compensate for past and future losses resulting from climate change, and of initiatives to deal with or reduce such costs (adaptation). As a result, while the sequence of COP meetings continuously produces incremental results, the framework is not conducive to defining the compromises and solutions that are needed to deliver on the ambitious and required goals.

As a recognition of this challenge, a multitude of open, opt-in partnerships consisting of countries with ambitious climate and wider SDG goals have been put in place in recent years with joint participation of EMDCs and AEs.

This note aims to suggest a way ahead in developing such platforms for cooperation.

1 See The Paris Agenda to Deliver on a New Global Financing Pact (Paris Summit, 2023)
2 See also Reforms for a 21st Century Global Financial Architecture (Brookings, 2024)that includes a discussion on the dilemmas presented not necessarily by conflicting objectives but by different priorities.

THE CLIMATE CLUB AS A BUILDING BLOCK

The Climate Club concept is already well established in climate diplomacy with Germany and Chile as key sponsors. It has promoted an approach that focuses on the hard-to-decarbonize industrial sectors facing international competition and accounting for about a quarter of CO2 emissions. The Climate Club is an open framework with simple requirements: interested countries only need to be committed to the Paris Agreement and have this commitment reflected in their Nationally Determined Contributions (NDCs) as well as their goal to reduce emissions, particularly in the industrial sector. They also need to be actively involved in international collaboration to deliver results.[3]

The club's work focuses on 1) developing joint methods and metrics for measuring carbon footprints for energy-intensive industries, 2) promoting near-zero emissions technologies for these industries, and 3) dealing with carbon leakage.[4]

INCLUDING CARBON BORDER ADJUSTMENT MECHANISMS IN THE REMIT OF THE CLIMATE CLUB

The question is whether the remit for the Climate Club could be widened.

A first step would be to become actively engaged in the debate on how to deal with Carbon Border Adjustment Mechanisms (CBAM). The EU version of it is to be implemented in its definitive regime from 2026 onwards. The technical and policy challenges associated with its implementation are all related to the core objectives of the Climate Club such as defining common metrics for energy-intensive industries, dealing with carbon leakage and developing effective and collaborative instruments to promote near-zero emission technologies for these industries. This includes the tricky question of how to deal with trading in carbon-intensive production between countries with differences in carbon prices and notably trade between AEs and EMDCs.

A WIDER CLIMATE CLUB REMIT

A logical further step is to engage in a wider debate on how to resolve the aforementioned dilemma between the priorities of EMDCs and AEs. In particular, it could focus on how countries with different carbon prices and stringency of NDCs can find effective ways of cooperating. Some key facts would underline the potential win-win outcomes from such cooperation[5]:

SDG finance: Effective carbon pricing of energy-intensive industries can serve as a new mechanism for financing the SDGs. The allocation of the new revenues could be tilted towards EMDCs, thus mitigating the criticism LICs have raised against the EU's CBAM.[6] In other words, any revenues associated with forcing EMDCs/LICs to charge carbon prices to exports to AEs could be designated to be recycled to EMDCs. It will be the consumers in AE who pay the cost as globally applied carbon pricing on a given industry will be passed on to them.

Linking the creation of carbon markets to carbon leakage and the setting of NDCs: The idea behind carbon markets generally is that marginal costs of abatement (MAC) may differ between countries committed to the Paris Agreement. Hence, a country with a high MAC could pay a country with a low MAC to deliver a part of its NDC: if the MAC in the former country equals $ 150, it would benefit from swapping part of its NDC with the latter country where the MAC may reach only $ 50 per ton of abated greenhouse gas (GHG).

Yet, countries with high MAC would see little interest in swapping obligations with countries that are just deliberately limiting their NDCs and then sell abundant low-cost options for abatement for a profit. Ideally, the process of defining NDCs should consider both developing needs in the common but differentiated responsibilities (CBDR) context and mitigation costsin the given country circumstances.

A simple way of doing this would be to define minimum levels of national carbon prices that are differentiated across countries, for instance by GDP per capita. Projections by the International Energy Agency based on the concept of CBDR suggest that carbon prices in EMDCs with net zero pledges will have to reach $ 90 per ton by 2030 to match their NDCs.[7] This is by and large the same carbon price embedded in projections for the EU ETS system covering energy intensive manufacturing but much lower than the marginal carbon price required to deliver on more stringent NDCs in AEs in the coming decades. This reflects again the simple fact that AE can work with higher carbon prices in non-trade exposed sectors thanks

3 Criteria for membership are outlined in Climate Club Governance Arrangements (Climate Club, 2023) with the OECD acting as a secretariat.
4 See Work Programme 2024 (Climate Club, 2023)
5 The win-win options are discussed in How to deal with carbon and (potentially) trade intensive industries: reflections on the EU CBAM and the Climate Club. (Næss-Schmidt, 2024). Forthcoming
6 They have claimed that a CBAM conflicts with agreed burden sharing principle (common but differentiated responsibilities, CBDR), according to which the suggested carbon prices in general will be higher in AEs than EMDCs.
7 See IEA World Energy Outlook 2023 (IEA, 2023), Annex B, table B.2.

to lower risk of leakage.

If we accept this premise, it becomes clear how an overall financial and economic framework for cooperation in reducing global GHG emissions could look like:

- A carbon price floor, at national levels, as a function of GDP per capita[8] with revenues recycled to help finance the countries' own economic needs and used to compensate lower-income families for the degressive nature of carbon pricing.[9] The carbon price floor could be "soft" in the sense of leaving governments some freedom to put in place the mix of policies that can deliver on the NDCs. For trade-intensive industries, more binding carbon pricing floors would be preferable to avoid carbon leakage.
- CBAMs become easier to operate because energy-intensive industries at a global level will be taxed close to the minimum level within the Climate Club members, reducing leakage and trade frictions.
- Carbon markets can be established based on fair principles, exploiting genuine opportunities for low-cost abatement in different countries, including the use of natural sinks. In other words, carbon trading will to a larger extent be based on additional efforts in the country exporting abatement as a counterpart to less costly mitigation efforts and/or higher climate ambitions in the country buying the credit.

Finally, this framework will provide insurance a priori or at least a justified expectation that financial transfers to EMDCs/LICs are part of an overall agreement that is fully consistent with the CBDR principle. Everyone provides a calculated contribution to reducing global emissions while the richer countries accept to shoulder the bulk of the financial burden associated with compensation for the costs of climate change.

The probability that the global community soon collectively agree to such a package is low.

This is where the Climate Club comes in. The entry criteria could be extended and integrate the agreement to such a package as well as the willingness to commit to:

- Agreeing to NDCs that are consistent with the CBDR approach and carbon pricing as an important aspirational goal in general but more binding for trade-exposed sectors.
- Rich(er) countries to commit to SDG/climate financing consistent with their GDP per capita and share of historical emissions.
- Openness to the use of carbon credits for countries bound by these principles.

To make this operational, there is a need to develop operational concepts and tools defining:

- Objective criteria for determining NDCs and aspirational levels of carbon prices as well as commitments to provide climate finance.
- Concrete computation of what this implies in terms of reducing GHGs in the coming years as well as transfers of climate finance. The sources of climate finance include but are certainly not limited to taxing GHG gases.[10]
- Integration of climate-related policies into the wider development agenda for EMDCs and their implications for economic growth, the ability to raise domestic funding to finance domestic SDGs such as social equality, health and education through higher tax revenues.

The rules of the game would be that joining the Climate Club entails a commitment to going down this route, setting concrete milestones for progress. This includes operational linkages between developing national strategies for reducing GHG as well as wider SDGs and the financing of these goals by domestic and external financing sources. It will become an SDG Club, not "just" a Climate Club.

As the SDG Club concept is a voluntary opt-in mechanism, it can operate with multiple layers of commitment. Dealing with carbon leakage and industrial decarbonization could be the first layer. Partnerships which link SDG financing with binding agreements including the setting of NDP and wider attainment of SDGs could be outer layers moving from a narrow focus on hard-to-decarbonize sectors to attainment of SDGs.[11]

INTEGRATION WITH UN-DRIVEN PROCESS

The SDG Club concept is not proposed as an alternative to the international negotiations to promote and implement the SDGs, including the COP process.

It is intended as an accelerator in which coalitions of ambitious countries can move forward at a quicker pace as opposed to a process where agreement on all points in principle needs to be signed by all countries simultaneously.

8 Also suggested in by the IMF in the G20 Note on Alternative Options for Revenue Mobilization (IMF, 2024).
9 However, one should be careful about characterizing carbon pricing as being degressive and having a higher relative direct effect on the disposable income of low-income households. This may be true for energy for heating, but not for air travel for instance. See also the G20 Note on Alternative Options for Revenue Mobilization (IMF, 2024)
10 See Financing the Global Commons to Achieve the Sustainable Development Goals (Næss-Schmidt et al., 2024)
11 It would be natural to link this initiative with the Coalition of Ministers of Finance for Climate Action and the Carbon Pricing Leadership Coalition for instance, both of which focus on the use of carbon pricing and its integration in national economic development plans.

It should be a key ambition to create models of cooperation that are scalable to meet the challenges. International institutions such as the World Bank and regional development banks can play key roles with respect to providing technical assistance and ensuring that good practices are understood and disseminated quickly.

The voluntary nature entails some limitations. Most notably, it cannot implement new instruments for SDG financing that de facto require something close to global buy-in. In practice, this is unlikely to constitute a serious obstacle, as many of the possible finance instruments do not require such a level of cooperation.[12]

CONCLUSION

The Sustainable Development Goals require massive investment efforts and associated funding in the coming years. The bulk of the funding will have to be provided through domestic resource mobilization in EMDCs, but also AEs should assume a large burden in funding the costs of climate change and help design instruments that can de-risk investments in EMDCs.

There is a substantial risk that a lack of trust and willingness to make mutually binding obligations will delay this process substantially. History shows that it can be difficult to overcome such barriers in the multinational fora, as highly complex and technical issues are negotiated under the principle of nothing-is-settled before everything is settled.

Hence, the proposal to create a practical SDG Club mechanism with multiple layers of cooperation that can create trust and scalable models for the wider global community is a viable option to advance multilateral SDG action.

12 See Financing the Global Commons to Achieve the Sustainable Development Goals (Næss-Schmidt et al., 2024) for details.

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ABOUT THE GLOBAL SOLUTIONS INITIATIVE (GSI)

The Global Solutions Initiative (GSI) works towards a global economic system that benefits people and planet. Rooted in research, GSI brings together policy, academia, civil society, and the private sector to generate insights for better global governance. Founded in 2017, the Berlin-based independent, non-profit organization annually convenes the Global Solutions Summit, which serves as a steppingstone to the G20 and G7 Summits. GSI is led by Dennis J. Snower, Markus Engels, and Christian Kastrop.

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