Introduction

The transformation required to actually achieve the Paris Agreement’s long-term goals requires profound and radical changes to the global economic system, to the ways we produce and consume, and to the resources we use to enable economic growth. In a context of accelerated population growth and unprecedented urban growth which significantly increase the demand for energy and resources, this transformation is meant to be a revolution, one that calls for innovative thinking and new models of development, models that at their core are climate-resilient and capable of driving and mainstreaming decarbonization.

The process of setting a new collective quantified goal on climate finance represents a unique opportunity to delineate how finance flows are made consistent with these new models and revamp the climate financing system, with an underlying strategy towards effectively stimulating accelerated prototyping and scaling of these new solutions capable of the kind of disruptive innovation urgently required, particularly in the developing world while favouring economic recovery options that are climate compatible. The climate crisis needs a system designed to marshal the investment, financing, market and consumption choices of relevant stakeholders – governments, development finance institutions, commercial financial institutions, private equity, venture capital, infrastructure funds, institutional investors, credit rating agencies, corporate actors, households and project developers – to foster climate-compatible development pathways. Setting a new collective goal encompasses an opportunity to guide demand for low-emissions and climate-resilient finance and to scale availability of climate-compatible finance as we approach 2030 – when global emissions must be reduced by 45% with respect to 2010 levels, as per the findings of the Intergovernmental Panel on Climate Change (IPCC) and in setting out trajectories to reducing emissions to net zero by 2050.

Climate finance, driven by international cooperation provided and mobilized by developed countries, is vital to support developing countries in transitioning, in a just manner, towards low emissions, resilient development. The sectoral and economic transformation that this transition entails is on a scale and within a
timeframe faster than any in human history. This transition depends on plans and policies, not only to phase out polluting sectors but also for the creation of new jobs, new industries, new skills, new investments and the opportunity to create a more equal and resilient economy that is respectful of human rights, to ensure that no-one is left behind when designing and aligning policies and investments with these new development models.

In order to fulfill the long-term finance goal of the Paris Agreement and enable this transition, it is important to look at all financial flows — public and private, domestic and international — and ensure that international cooperation, enabled through the multilateral system and the very definition of the new collective goal on finance, directs support to the transition to a net-zero greenhouse gas emissions, climate-resilient world.

Low-emissions, resilient transitions can be consistent in the long run with strong growth given the productivity gains from emerging energy-efficient, renewable technologies and a strong driver of job creation and job upgrading. Co-benefits could include improved air quality and health in cities resulting from diminished fossil fuel combustion, broader fiscal reforms, debt reduction or investment in nature and Sustainable Development Goals, as well as reduced economic risks from slowing climate change, pursuing social justice and poverty eradication. Also, building climate resilience can boost macroeconomic performance by limiting expected GDP losses. This new goal on finance opens up a window of opportunity to foster this innovative thinking into a pathway of 1.5°C for all.

2020 was the first milestone for the achievement of the USD 100 billion mobilization goal by developed countries. There is no official UNFCCC report on the delivery of this goal by the year 2020, however, the Oxfam Report, the OECD Report on Climate Finance and the mandated report by the UN Secretary General were presented in late 2020 and conclude that global climate financial flows have increased significantly in the last 10 years. As per the most optimistic accounts (OECD), it reached 79.6 billion in 2019. However, the USD 100 billion threshold has never been reached and there are gaps that require to be acknowledged and addressed in relation to the quantity, quality and composition of the delivery of this goal — and as a basis for the determination of this new goal, in order to rebalance these gaps, in particular in relation to the following information:

i. Currently, 66-70% of financial flows go to mitigation action. Adaptation is underfunded (20-25%). So is loss and damage related to climate impacts. An increment to adaptation and loss and damage funding cannot be in detriment to mitigation finance.
ii. Loans are the main source of mobilized finance (74-80% as of the latest information), deriving in increasing levels of indebtedness and worsening the fiscal burden of developing countries, where the cost of debt has already been raised due to climate vulnerability and more recently due to the COVID19 pandemic.

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4 Shelag Whitley, Joe Thwaites, Helena Wright and Caroline Ott, *Making finance consistent with climate goals. Insights for operationalizing Article 2.1 c of the UNFCCC Paris Agreement*, December 2018, p. 6
6 These costs are above and beyond the rates attributable to macroeconomic and fiscal fundamentals. For example, in the last ten years, climate vulnerability has cost V20 countries an additional US$62 billion in interest payments alone, including US$40 billion in additional interest payments on government debt, that is that for every USD10 paid in interest by V20 countries (Afghanistan, Bangladesh, Barbados, Bhutan, Burkina Faso, Cambodia, Colombia, Comoros, Costa Rica, Democratic Republic of the Congo, Dominican Republic, Ethiopia, Fiji, The Gambia, Ghana, Grenada, Guatemala, Haiti, Honduras, Kenya, Kiribati, Lebanon, Madagascar, Malawi, Maldives, Marshall Islands, Mongolia, Morocco, Nepal, Niger, Palau, Palestine, Papua New Guinea, Philippines), an additional dollar will be spent due to climate vulnerability, in UN Environment, Imperial College Business School and SOAS University of London, *Climate Change and the Cost of Capital in Developing Countries: Assessing the impact of climate risks on sovereign borrowing costs*, 2018
iii. The USD 100 billion goal is insufficient to ensure that climate finance enables climate action in developing countries towards a 1.5°C world. Climate finance and climate investments, as well as financial resources in general, need to be aligned with the Paris Agreement and significantly increase in the next years so to move from the billions to the trillions of dollars of climate compatible finance and investments.

The 2018 SCF Assessment Report estimates climate finance flows for 2017-2018 around USD 775 billion, out of which USD 48.7 billion are multilateral and bilateral financing and only USD 14.5 billion have been destined to adaptation. Out of these figures, it is relevant to underline that the GCF, the central piece of climate funding of the climate regime, has raised a total of USD 17.83 billion as of 30 June 2021 and funded 177 projects in 147 developing countries. The funding for adaptation projects remains largely insufficient, and the World Bank report points out that without adaptation and good development, climate change could force more than 100 million people into extreme poverty by 2030. The global poor and with it the number of food insecure people have been estimated to increase by at least 2% for any % point slowdown of the global economy derived from the current health crisis. Moreover, the OECD, the World Bank and UNEP estimate that USD 6.9 trillion a year is required up to 2030 to meet climate and development objectives.

At the same time, it is also underlined that fossil fuel investments add up to USD 977 billion and fossil fuel subsidies to USD 472 billion per year while losses from natural catastrophes amount to USD 339 billion (Figure 1).

Figure 1. Net Climate Finance

This is a very unbalanced picture of current financial flows, one that illustrates that for addressing climate

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7 UNFCCC Standing Committee on Finance, 2020 Biennial Assessment and Overview of Climate Financial Flows, 2021, UNFCCC
8 UNFCCC Standing Committee on Finance, 2018 Biennial Assessment..., p. 6, 13, 54, 63, 64, 80
11 OECD, UNEP, WBG, Financing climate futures. Rethinking infrastructure, 2018, p. 1
12 UNFCCC Standing Committee on Finance, 2020 Biennial Assessment...
13 UNFCCC Standing Committee on Finance, 2018 Biennial Assessment..., p. 13
change, it does not suffice to scale up climate funding, rather a more comprehensive approach of net climate finance\textsuperscript{14} would be desirable so as to gradually eliminate financing and investments towards fossil fuels and lead to avoiding locking in, while low-emission technologies receive a sustained increase in financing and just transition policies are put into work. In essence, it is necessary to pursue to transition to what has been called Paris-aligned development cooperation (i.e. that does not undermine the Paris Agreement but rather contributes to the required transformation, that catalyzes countries’ transitions to low-emissions, climate-resilient pathways, that supports the short- and long-term processes under the Paris Agreement and that proactively responds to evidence and opportunities to address needs in developing countries)\textsuperscript{15}.

Mounting debt in most developing countries further complicates the context. With reduced fiscal space due to the social and economic consequences of the COVID-19 pandemic, many countries are left without options to access capital markets and dealing with looming sovereign credit downgrades. For instance, in 2020, Latin America and the Caribbean faced the sharpest economic contraction (-7.7% and -20% respectively in GDP and investment growth) within the developing world. Without exception, all countries in the region have experienced a deterioration in their fiscal situation and an increase in general debt levels. As things stand, the debt of the general government at the regional level is expected to rise from 68.9% in 2019 to 79.3 of GDP in 2020, making Latin America and the Caribbean the most indebted region in the developing world and the region with the highest external debt service relative to exports of goods and services at 57\%.\textsuperscript{16}

A New Collective Goal on Finance consistent with the Paris Agreement Long-Term Goals

The latest scientific information presented by the IPCC depicts a categorical diagnosis: the next years towards 2030 must introduce drastic changes to our development pathways, if we are to prevent catastrophic damage to our Planet and to future generations. With this scenario and all abovementioned information on climate finance and global financial flows, the definition of the new collective goal on finance is called to enable the necessary changes to the financial system, including that of international cooperation, to ensure that we do not surpass an increase in temperature beyond 1.5°C. In order to launch deliberations over this new goal, it is deemed pertinent to pose questions as to how to enable these changes, including:

1. How can this new goal help us reach the Paris Agreement? How can the multilateral process help ensure that in the next 15 years\textsuperscript{17} we shift from the billions to the trillions and ensure that business as usual investments that are high in emissions and/or do not guarantee resilience to climate impacts are being reduced and phased out?
2. How do we direct finance towards carrying out a just transition to low-emissions, resilient development while supporting economic recovery options from the current global health crisis? What is necessary to manage stranded assets as part of this transition?
3. How to operationalize Article 9 through this goal?

\textsuperscript{14} The concept of net climate finance represents the value of climate finance flows minus financial flows to high-emissions and maladaptive activities, which are currently heavily skewed toward dirty investments. Paul Bodnar, Caroline Ott, Joe Thwaites, Laetitia de Marez, Bianka Kretschmer, Net Climate Finance. Reconciling the Clean and Dirty Sides of the Finance Ledger. Discussion Paper, Rocky Mountain Institute, 2017, p.1.
\textsuperscript{15}OECD, Aligning Development Cooperation and Climate-Action: The only way forward, OECD 2019, p. 13
\textsuperscript{17}The Global Commission on the Economy and Climate, The New Climate Economy. Unlocking the inclusive growth story of the 21st century: accelerating climate action in urgent times, 2018. p. 8
4. How can the multilateral funds of the climate regime\textsuperscript{18} play an enhanced role in driving action, mobilizing and aligning finance to the Paris Agreement long-term goals in a scale and speed much larger than the current one?

5. What is the role of public finance, in particular from developed countries, in ensuring this transition and new mobilization pathways? How can we make use of specific financial instruments to address different needs and priorities of developing countries (e.g. public finance, grant-based for adaptation and a combination of instruments for mitigation)?

6. What is the role of multilateral development banks (MDBs), other development finance institutions and development agencies –including central banks and financial regulators-, in aligning financial flows with the objectives of the Paris Agreement? How do we translate public climate-compatible investments into profits? What changes need to be made in the governance of multilateral development banks and other development finance institutions so that they can effectively crowd-in the private sector? What can shareholder countries request from management?

7. Beyond public finance, what other stakeholders and financial flows are to be taken into account? How do we engage with different stakeholders to transform the current trends of financing and investments on high-emitting sectors, particularly the energy sector (reduction and avoidance of locking in) and low-carbon technologies (sustained increase) in line with the long-term goals of the Paris Agreement? How can the United Nations, through the definition and implementation of the new goal, drive actions by these stakeholders?

8. How to take into consideration “the needs and priorities of all developing countries” in relation to mitigation, adaptation and loss and damage? How to address the differentiated needs of regions and subregions of the developing world (e.g. the Caribbean, Latin America, Africa, Middle East, Central Asia, South East Asia, the Pacific)?

9. How to operationalize Article 2.1c as part of the definition of this new goal so that financial flows are consistent with pathways of low-emissions, resilient development?

10. How can private finance be leveraged and mobilized in a much larger scale and rapid pace, considering that the “billions to trillions” agenda is yet to deliver? What are the implications of paving the way to low-emissions, resilient development for business models? What new financing approaches are required? What are the implications and opportunities to ensure that these other actors deliver on Paris-aligned commitments?

11. How do we ensure that commercially feasible technologies are evenly deployed all over the world to enable a technological transition towards a 1.5°C world? How can investments be de-risked and hedged so that private investors can invest beyond developed markets?

12. How can further innovations be financed through public and private sources for both for emissions reductions and resilient development?

13. How would the UNFCCC enable deliberations of the new goal through a technical process that in the end leads to political decision-making? What are the key elements to feed the political outcome of COP26? What milestones shall be achieved to have a successful discussion on the new goal in COP26?

14. What other systemic changes need to occur in the development finance architecture for climate finance to flow to developing countries? What needs to be revised in terms of international finance institutions, credit rating agencies and other actors?

This set of questions frame the relevance for the new goal on finance to be portrayed as a multidimensional one, and not only a single quantitative goal -as it was the case of the USD 100 billion mobilization goal- so that necessary changes are therefore enabled in the context of a transition to 1.5°C. Hence, a quantified goal(s), defined giving a central role to public funding by developed countries, as per Article 9 of the Paris Agreement, should also be supported by a series of qualitative elements including, among others, the following:

\textsuperscript{18} The Global Environment Facility and Green Climate Fund (GCF) as the Operating Entities of the Financial Mechanism of both the Convention and the Paris Agreement; the Least Developed Countries Fund, Special Climate Change Fund that serve both the Convention and the Paris Agreement; and the Adaptation Fund that serves the Kyoto Protocol and the Paris Agreement.
Definition of a set of principles that will govern the goal (i.e. net climate finance, effectiveness, leverage ratio potential and risk appetite, others)

Qualifiers to the quantum:
- Keeping temperature increases to below 1.5°C
- Needs and priorities of developing countries for mitigation, adaptation and loss and damage
- Context of sustainable development and poverty eradication
- Operationalization of Article 2.1c (Annex 2)

Hence, the objective of this new goal on finance should be, in accordance with Article 9 paragraph 3 of the Paris Agreement, to scale up financial support to developing countries’ climate mitigation and adaptation action and address losses and damages derived from climate change, with the aim of keeping global temperature increases to below 1.5°C and building resilience, whilst fostering necessary changes to the financial sector accordingly, so to enable a just transition that takes into consideration the needs and priorities of developing countries.

In the spirit of progressive action embedded in the Paris Agreement, the implementation of the new goal, as well as its conceptualization is to be updated as a result of the technical assessment of each Global Stocktake (from 2028 onwards) in assessing the collective achievement of the purpose and long-term goals of the Paris Agreement, as well as opportunities for enhanced action and support, as envisaged in Article 14 of the Agreement and Decisions 1/CP.21 and 19/CMA.1, as well as on the basis of the best available science, taking into account, among other things, the biennial assessment of climate finance flows by the Standing Committee on Finance.

**Needs and Priorities of Developing Countries**

Now, the effective, high-quality implementation of the Paris Agreement poses significant challenges to all developing countries in comparison to previous climate action derived from the Convention or the Kyoto Protocol by being set in the context of enabling a transition to 1.5°C, including, amongst other, in relation to the:

a. Elaboration and implementation of long-term strategies for low-emissions and resilient development, which include transformation pathways and policy and institutional changes required to make these possible in line with the long-term goals of the Paris Agreement,

b. Progressive and effective formulation, update and implementation of Nationally Determined Contributions (NDCs) consistent with the transformation towards a low emission and resilient development pathway and through the mainstreaming of climate change into national development planning,

c. Identification, planning and implementation of priorities, needs and actions on adaptation by enhancing institutional and infrastructural resilience, in concordance with NDCs, Adaptation Communications, NAPs, NAPAs, and long-term strategies to the adverse effects of climate change and overall risk management and in function of specific national circumstances and vulnerabilities,

d. Enhancement of knowledge and implementation of approaches for averting, minimizing, and addressing losses and damages derived from climate change adverse effects through innovative financial resources and the creation of fiscal space to open up financial liquidity -and that does not lead to compensation or liability-,

e. Planning, innovation, development, assembly, rollout, and operation of climate-compatible, reliable, affordable and modern climate-compatible technologies,

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19 Increasing climate finance while reducing high-emissions finance
f. Establishment, improvement and consolidation of national transparency systems to implement the enhanced transparency framework,

g. Formulation and execution of climate finance strategies for the implementation of comprehensive climate action, including estimation of needs and costs of long-term strategies and NDCs, Adaptation Communications, NAPs, NAPAs, as well as the enabling of public levers to climate finance consistency,

h. Climate change education, training, public awareness, public participation and public access to information,

i. Integration of gender considerations in climate action, and

j. The future implementation of Article 6 market and non-market mechanisms, once they are agreed upon and designed.

As part of the trust-building exercise to instrument the Paris Agreement, these needs can be addressed through the new goal on quantitative and qualitative levels to operationalize the obligation of developed countries to provide financial resources to developing countries and their leadership in mobilizing climate finance. Needs of developing countries are factually linked to different temperature scenarios, that is, as the global average temperature increases, so vulnerabilities and risks augment, therefore demanding additional climate finance.

The definition of the quantum should be done through the use of different sources of input, including bottom-up information – e.g. national quantification of needs for the implementation of NDCs – and top down reports and inputs – e.g. Adaptation Gap Report, IRENA’s Report, IPCC SR1.5, SCF Needs Report and its Biennial Assessments of Global Climate Finance Flows, OECD, UNSG and OXFAM Reports on the USD 100 billion goal, amongst others), and to be translated around key thematic areas of climate action, i.e. adaptation, mitigation, loss and damage. These thematic areas could become potential quantified thematic subgoals that combine different financial sources (e.g. public, grant-based for adaptation; public and private for mitigation, public and private for finance, public, grant-based and humanitarian for loss and damage).

**Calendar for the Definition of the New Goal to be agreed in Glasgow**

The definitive measure of success of COP26 for the finance agenda is delivering a clearly defined process to the determination of the new goal on finance, including through the framing of this process under an ambitious objective for the actual implementation of the Paris Agreement. At the very minimum, Glasgow must deliver on the elements outlined in Figure 2 below and as per the draft decision below.
Draft Decision over the New Goal on Finance

Decision X/CMA.3

Initiation of work for setting a new collective quantified goal on finance, in accordance with decision 1/CP.21, paragraph 53 and decision 14/CMA.1

The Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement,

Recalling decision 1/CP.21, paragraph 53 and decision 14/CMA.1,

Also recalling article 9 paragraph 3 of the Paris Agreement,

1. Decides that the objective of the new collective quantified goal on finance, in accordance with Article 9 paragraph 3 of the Paris Agreement, is to scale up financial support to developing countries’ climate mitigation and adaptation action, and address losses and damages derived from climate change, with the aim of keeping temperature increases to below 1.5°C, enhance adaptive capacities and strengthen resilience, whilst fostering necessary changes to the financial sector accordingly, so to enable a just transition that takes into consideration the needs and priorities of developing countries;

2. Decides to launch a process to set the new collective quantified goal on finance through a subsidiary body under the Paris Agreement that shall start its work in the first half of 2022, meeting at least twice a year, and shall report annually to the CMA on the progress of its work so as to complete it as early as possible but no later than 2024 (CMA6) and be co-facilitated by a representative from a developing country and a representative from a developed country;

3. Also decides that this Subsidiary Body shall work based on the objective agreed on in paragraph 1 above and the following roadmap to gradually complete each of the milestones of decision-making identified below for the next 3 years:

Figure 2. Calendar of milestones for the determination of the new goal on finance

<table>
<thead>
<tr>
<th>COP26</th>
<th>COP27</th>
<th>COP28</th>
<th>COP29</th>
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<tbody>
<tr>
<td>• Definition of the challenge ahead (e.g. financing the transition for a 1.5°C world)</td>
<td>• Agreement on the framework of work (identification of actors, options and type of financial flows to be taken into account for setting out the new goal(s))</td>
<td>• Negotiations and agreement of all qualitative elements of the new goal.</td>
<td>• Negotiations and agreement on the quantified dimension of the new goal</td>
</tr>
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COP26: Agreement on the process of negotiation with clear milestones (2022-2024)

COP27: Agreement on the framework of work (identification of actors, options and type of financial flows to be taken into account for setting out the new goal(s))

COP28: Negotiations and agreement on options for the quantitative and qualitative dimensions of the new goal.

COP29: Negotiations and agreement on the quantified dimension of the new goal
2022: Compilation of inputs and negotiation and agreement on a range of options for the quantitative and qualitative dimensions of the new goal

2023: Negotiation and agreement of all qualitative elements of the new goal and joint assessment with the first Global Stocktake

2024: Negotiation and agreement on the quantified dimension of the new goal

4. *Agrees* that throughout 2022 there will be two calls for submissions by Parties to the Paris Agreement,Observers, constituted bodies, in particular the Standing Committee on Finance, and observer organizations, in May 2022 and September 2022, with a view to provide inputs to inform the determination of this new collective quantified goal on finance, including in relation to the needs of developing countries in implementing the Paris Agreement.