



ALLIANCE OF SMALL ISLAND STATES

SUBMISSION

TOPIC: NEW COLLECTIVE QUANTIFIED GOAL ON CLIMATE FINANCE

MANDATE(S)

Decision 1/CP.21: *'[The COP] also decides that, in accordance with Article 9, paragraph 3, of the 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;*

Decision 14/CMA.2: *'[The CMA] decides to initiate at its third session (November 2020), in accordance with Article 9, paragraph 3, of the Paris Agreement, deliberations on setting a new collective quantified goal from a floor of USD 100 billion per year in the context of meaningful mitigation actions and transparency of implementation and taking into account the needs and priorities of developing countries;*

Agrees to consider, in its deliberations referred to in paragraph 1 above, the aim to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent'

Decision X/CMA.3" ***'[The CMA] invites Parties, constituted bodies under the Convention and the Paris Agreement, the operating entities of the Financial Mechanism, climate finance institutions, observers and observer organizations, and other stakeholders, particularly from the private sector, to submit their views on the objective in line with paragraph 15 above and on the elements referred to in paragraph 16 above via the submission portal by February and August 2022'***

6th March 2022



INITIAL VIEWS

ON THE OBJECTIVE AND ELEMENTS OF THE NEW GOAL

AOSIS welcomes this opportunity to present its preliminary views with a focus on the conceptual framework of the NCQG and the process. We intend in our next submission in August 2022 to elaborate on the substantive elements on the NCQG based on the aforementioned conceptual framework.

OBJECTIVE OF THE NEW GOAL

AOSIS is of the view that deliberations of the new collective quantified goal on climate finance ('NCQG' or 'the new goal') and the new goal itself must reflect the urgency of transformative action especially given the present risks and impacts with global warming at 1.1 °C, and the future risks and impacts of exceeding the Paris temperature goal in the 2030s, which the Intergovernmental Panel on Climate Change has projected will have severe and irreversible impacts¹ and, in some cases, existential consequences.

AOSIS further recalls that '*the efforts of all Parties will represent a progression over time, while recognizing the need to support developing country Parties for the effective implementation of this Agreement.*'² Therefore, the NCQG needs to be framed in way that will address what would be needed in the near term to ensure:

- higher ambition in developing country Party actions in order for all Parties to collectively and effectively pursue efforts of limiting the global average temperature increase to below 1.5 °C³ [mitigation]
- developing countries have increased abilities to adapt and foster climate resilience to the worst-case projected temperature scenario⁴ [adaptation]
- enhanced support for developing countries on a cooperative and facilitative basis to address loss and damage associated with the adverse effects of climate change⁵ [loss and damage]
- efficient access to financial resources through enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States⁶ [readiness]
- support for the implementation of Article 13 of the Paris Agreement and for the building of transparency-related capacity of developing country Parties on a continuous basis⁷ [transparency]

¹ IPCC, 'Climate Change 2021: The Physical Science Basis - Working Group I Contribution to the Sixth Assessment Report: Summary for Policy Makers' (2021), p 21

² UNFCCC, *Paris Agreement 2015*, Art 3

³ UNFCCC, *Paris Agreement 2015*, Art 2(1)(a) & 4(5)

⁴ UNFCCC, *Paris Agreement 2015*, Art 2(1)(b)

⁵ UNFCCC, 'Decision 2/CP.19' (2013), para 5(c); and UNFCCC, *Paris Agreement 2015*, Art 8(3)

⁶ UNFCCC, *Paris Agreement 2015*, Art 9(9)

⁷ UNFCCC, *Paris Agreement 2015*, Art 13(14) & (15)



- enhanced support for strengthening the capacity and ability of developing country Parties, in particular countries with the least capacity, such as the least developed countries, and those that are particularly vulnerable to the adverse effects of climate change, such as small island developing States, to take effective climate change action⁸ [capacity building]
- strengthened cooperative action on technology development and transfer at different stages of the technology cycle, with a view to achieving a balance between support for mitigation and adaptation⁹ [technology]

A near term focus will allow for the integration of urgency in the NCQG, and periodic as well as other reviews of the adequacy of the new goal based on the best available science and knowledge, and the needs and priorities of developing countries.

Since what will be needed will depend on varying factors and how countries implement their commitments under the Paris Agreement, there must be a recognition of some level of flexibility built into the new goal. This can be done through framing a goal as a floor. In short, we must aim for a new goal that is responsive to the urgent needs required for limiting global temperature increases to 1.5 °C and can flex to respond to needs as emission reductions and impacts progress. It is clear from the Convention and the Paris Agreement that this burden is not that of developing country Parties. The provision of climate finance from developed countries to developing countries is enshrined in these treaties.

AOSIS is also of the view that the new goal must not only address quantum. Lessons learned from the current goal of USD 100 billion per year exercise reveal the paramount importance of the quality of climate finance, especially for SIDS and LDCs. Accessing finance, therefore, should not result in a cost to a developing country Party.

AOSIS recognizes that while the new goal is principally directed to developed country Parties, the new goal would also need to consider any private climate finance mobilized through public interventions. It should be also noted that the UNFCCC-adopted definition of climate finance and tracking methodology would need to be developed and applied to ensure said finance is in fact climate finance. Moreover, the Intergovernmental Panel on Climate Change ('IPCC') stated that '*leveraging private finance in developing countries is often more difficult because of risk (perceived and real) to investors, reducing the pool of potential investors and/or raising the cost (interest) of investment*'.¹⁰ On that basis, current private climate finance mobilization structures would marginalize SIDS as a particularly vulnerable grouping to climate change. Given these circumstances, access to, and quality of, this type of finance for SIDS would need to be addressed principally and urgently in the context of the NCQG.

Additionally, AOSIS sees the need for the consideration and adoption of certain principles to guide the implementation of the NCQG which will focus on concepts from the Paris Agreement and Convention such as accessibility, ambition, effectiveness, and predictability. These principles will supplement the more detail technical framework of the NCQG.

Against this backdrop, AOSIS envisions deliberations of the NCQG addressing the definition, scope, and thematic areas. Under each thematic area, consideration of quantum, quality and access would be appropriate (See *Figure 1*).

⁸ UNFCCC, *Paris Agreement 2015*, Art 11(1) & (3)

⁹ UNFCCC, *Paris Agreement 2015*, Art 10(6)

¹⁰ IPCC, 'Sixth Assessment Report: Climate Change 2022: Impacts, Adaptation and Vulnerability' (2022), Chapter 17, p 4



ELEMENTS OF THE NEW GOAL

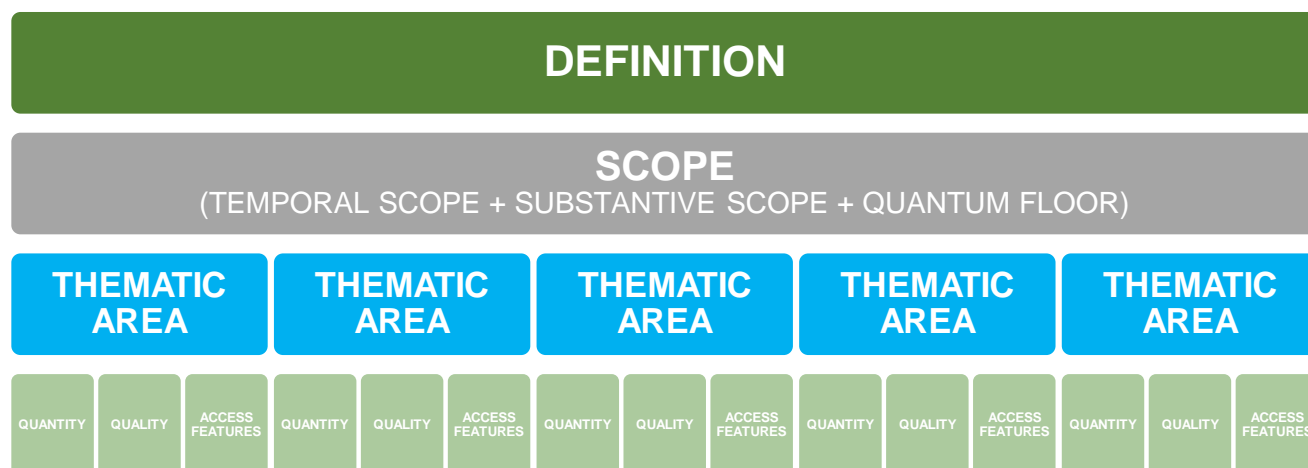


Figure 1: Conceptual Framework for the New Collective Quantified Goal on Climate Finance

Scope

Quantum Floor: New goal and its sub-goals shall be phrased as a floor of the decided quantified amount noting that said floor cannot be below USD 100 billion per year (i.e. Goal – At least USD XXX trillion per year).

Temporal Scope: Identification of implementation period for the new goal. The current goal's temporal scope was ten (10) years in the first instance (i.e. 2010-2020), and later extended in 2015 for an additional four (4) years (i.e. 2021-2024). AOSIS is proposing an implementation period for the new goal to be ten (10) years with a waypoint for its periodic review at year 5 and year 10, respectively, in said period. The new goal may be subject to any further reviews on its adequacy based on outcomes from UNFCCC process such as the Global Stocktake and the Periodic Review of the Long-Term Global Goal. Furthermore, sub-goals and intermediate targets are important, especially in the context of an implementation 'road map' across each period.

Frequency of Measurement: Identification of the implementation period and deadline for the mobilization of the quantified amount of the new goal. The current goal is currently measured on an annual basis to determine whether the quantified amount is being achieved.

Substantive Scope: Identification of 'what is climate finance?' in relation to the NCQG and its objective (i.e. to actively contribute to the global climate change response), including what are its thematic areas of focus, and what cannot be deemed as climate finance.

In the context of the overarching framework of the Convention and its Paris Agreement, climate finance is understood as an enabler. Climate finance is a means to an end. As such it enables developing country Parties response to climate change in line with the objectives of the international climate change regime and their needs and priorities arising in this regard. The following are the main thematic areas:

- Adaptation
- Mitigation
- Loss and Damage Response
- Transparency



- Readiness Support for Accessing Climate Finance (*For purpose of the NCQG, readiness support will be a distinct thematic area pursuant to Article 9[9] of Paris Agreement*)
- Capacity Building (*To avoid double counting, this area is cross-cutting across the response type areas of adaptation, mitigation, loss and damage response, and transparency*)
- Technology Development and Transfer (*To avoid double counting, this area is cross-cutting across the response type areas of adaptation, mitigation, loss and damage response, and transparency*)

Based on the understanding of climate finance as a means to a targeted end, it is distinct in nature, and codified to be new and additional finance. As such, AOSIS underscores that:

- Climate finance is distinct and therefore additional to current and future development finance (i.e. official development assistance ['ODA']) and/or humanitarian finance. This understanding is confirmed in Article 4(3) of the UNFCCC outlining that climate finance must be new and additional finance. Development and humanitarian finance can, however, have secondary objectives that are consistent with a pathway towards, or run concurrent and complimentary to, the objectives of responding to climate change under the UNFCCC regime.
- Furthermore, finance that uses ODA eligibility criteria for access is not climate finance. The COP under the UNFCCC has not agreed/established to the use of ODA eligibility requirements for eligibility criteria for accessing climate finance as provided for in Article 11(3)(a) of the UNFCCC 1992. By extension, the current operating entities of the Financial Mechanism (i.e. Global Environment Facility and Green Climate Fund) do not use these requirements.

The application of ODA eligibility criteria inhibits a number of particularly vulnerable developing countries including several SIDS from accessing climate finance. As a result, this shifts the costs of responding to climate change to those least responsible, most vulnerable, and with the least capacity, while alleviating developed country Parties of their legal obligations under the Convention and the Paris Agreement.



Quantum Determination

Quantum of the NCQG would, *inter alia*:

- Be a disaggregated amount under each thematic area;
- Be linked to temperature especially for the three (3) main response types:
 - The quantum under the mitigation thematic area would be linked to funds needed to ensure higher ambition in developing country Party actions in order for all Parties to collectively and effectively pursue efforts of limiting the temperature increase to 1.5 °C, starting with the implementation of the mitigation actions outlined in their Nationally Determined Contributions
 - The quantum under the adaptation thematic area would be linked to the cost of enhancing developing countries' capacity and ability to brace for the climate change and its adverse effects and foster climate resilience at the worst-case projected temperature scenario. This temperature scenario use should be based on the current business-as-usual level of action by all countries.
 - The quantum under the loss and damage response area would be linked to the cost of addressing or responding to loss and damage associated with the adverse effects of climate change in developing countries at the worst-case projected temperature scenario. This temperature scenario use should be based on the current business-as-usual level of action by all countries. While noting the data/information gaps, the current aggregate cost of loss and damage associated with the adverse effects of climate change in developing countries should also be used as the basis for understanding a floor the quantum under this thematic area.

It should be noted as time progresses and during the reviews of the NCQG that a higher temperature increase would warrant an increased quantum across the response types in order to fill the gap of ambition and accurately represent the costs of adapting to climate change and its adverse effects as well as responding to the loss and damage associated with its adverse effects.

- Address the need for a balance between adaptation and mitigation
- Address the needs and priorities of developing countries especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States; and
- Be based on key inputs that include UNFCCC Standing Committee on Finance Needs Determination Report, Intergovernmental Panel on Climate Change reports, developing country's relevant climate change plans, policy, and reports (including National Determined Contributions, National Adaptation Plans, National Communications, Biennial Updates Reports), relevant academic papers, and relevant papers from intergovernmental organization



Quality

Quality of climate finance used to track progress against the NCQG would, *inter alia*:

- Be a disaggregated element under each thematic area;
- Have a definition of concessionality in line with the UNFCCC and Paris Agreement that varies depending on the response types:

The quality of climate finance under the mitigation thematic area would have quality ratio which outlines its grant component, and its concessional component. Given the particular vulnerability and special circumstances of SIDS and LDCs under the Paris Agreement, these countries will afford the highest possible grant component of their quality ratio,

The quality of climate finance under the adaptation thematic area would be public and grant-based and would not need a ratio, and

The quality of climate finance under the loss and damage response thematic area would be public and grant-based and would not need a ratio;

- Address the need for enabling debt sustainability by ensuring current national debt levels are not exacerbated by climate finance flows;
- Address the need for additional methods to enhance quality of climate finance beyond normal concessional features. These approaches would include, *inter alia*, minimum mandatory grace periods for repayments, preferential maturity date, and climatic event disaster / force majeure clauses;
- Address the need for a wide range of financial instruments including ones that create fiscal space for developing countries such as debt-for-climate swaps and issuance/allocation of special drawing rights.

It should be noted as time progresses and during the reviews of the NCQG a higher temperature increase would warrant an increased grant provision and concessionality across the response types.



Access Features

The access features of the NCQG would, *inter alia*:

- Be a disaggregated element under each thematic area;
- Outline any potential breakdown for access by channel. For example that a majority of funding for adaptation annually would flow through the Green Climate Fund and Adaptation Fund, and all SIDS would be prioritized for bilateral climate finance access;
- Establish minimum floors for certain types of recipients (such as least developed countries, small island developing States, and local non-governmental organizations)
- Require all climate finance support providers¹¹ to collectively adopt a simplified and harmonized procedure for efficient and simplified access to climate finance, in particular for SIDS. This would include, *inter alia*, shorter timeframes for feedback on submitted concepts and proposals, simplified reporting processes, and flexibility to ensure specific national circumstances can be considered on a case by case basis.

¹¹ Climate finance support providers include governments of developed countries (i.e. bilateral flows), the operating entities of the UNFCCC's Financial Mechanism, multilateral development banks, regional development banks and other international financial institutions



Transparency and Accountability Arrangements

The transparency and accountability arrangements should be in accordance with the Enhanced Transparency Framework's Modalities, Procedures and Guidelines adopted as part of the Katowice Climate Package (Annex to Decision 18/CMA.1) at COP 24, and would, *inter alia*:

- Allow for the accurate and reliable measuring of the 'mobilization' of climate finance which includes: public sector provision of climate finance, and climate finance mobilized through public interventions;
- Use the biennial transparency reports of developing countries (particularly the support received section) and developed (particularly support provided and mobilized sections) as the primary reporting tool in the NCQG transparency and accountability arrangements;
- Outline arrangements for transparency and periodic review to ensure mobilization of such climate finance represents a progression beyond previous efforts, including clarity on the definition of climate finance;
- Establish and apply a standard/harmonized method for tracking what can be counted as climate finance (linked to the established definition and scope);
- Establish and implement a periodic review process of the NCQG in line with our proposed temporal scope for the NCQG mentioned above;
- Consider whether a link should be established with the Enhanced Transparency Framework's technical expert review of the Support Section in BTRs of developed countries providing support, and if so, how would that link be made;
- Consider the need for a monitoring mechanism/entity under the UNFCCC to monitor implementation progress of the NCQG
- Consider how developed countries will be held accountable for ensuring that future iterations of the NCQG after its reviews represents progression beyond previous efforts as they take the lead in the mobilization in line with Article 9(3) of the Paris Agreement



PROPOSED AREAS OF FOCUS FOR THE TECHNICAL EXPERT DIALOGUE PROCESS

AOSIS considers that the Ad Hoc Work Programme should establish a seamless relationship between the technical and the political components of the deliberations of the NCQG. The technical expert dialogues ('TED') in their orientation should focus on the elements of the goal based on a scoping of technical information matching needs and priorities to the Paris goals. As outlined in the conceptual framework, those needs go beyond issues related to quantum. As such, the TEDs would necessarily address the multi-dimensional aspects of the goal. The TED outputs would be the basis of deliberations in the inter-governmental process.

Accordingly, the four (4) TED annually for 2022, 2023 and 2024 should be focused and build out the different aspects of the goal: quantum, quality, access features, and transparency and accountability. The following are AOSIS's proposed areas of focus for the TED process:

2022: Needs and Priorities (Quantum)

TED-1: Horizon Scanning: Needs

This TED would focus on conducting a credible and initial assessment of the needs of developing countries in the context of pursuing effort to limit increase of global average temperature to below 1.5 °C, and the projected and current impacts of climate change in the near term. While noting that such an assessment will not necessarily be precise at this stage, a starting reference should be the UNFCCC Standing Committee on Finance Needs Determination Report, IPCC reports (including its Special Report on 1.5 °C and 6th Assessment Report), developing country's relevant climate change plans, policy, and reports, etc.

The UNFCCC secretariat should actively engage and promote the TED with other stakeholders from developing countries to ensure that they weigh in on the issue of needs. This would include, *inter alia*, indigenous peoples, local communities and NGOs, representatives of different interest groups (e.g. fisher folks, farmers, industry – tourism, travel, energy, transport, waste).

The TED could help to identify data and information gaps, as well as areas where further research/study is needed. This identification should promote further work in the broader research community in order to augment future periodic reviews of the goal.

TED-2: Heat mapping: Consideration of Needs by Thematic Areas

This TED would be a deep dive of needs organized by thematic areas i.e. adaptation, mitigation, loss and damage response, transparency, readiness support for accessing climate finance, capacity building, and technology development and transfer.

TED-3: Heat mapping: Consideration of Needs by Recipients

This TED would be a deep dive of needs organized by recipients including, *inter alia*, a focus on groups such as SIDS, LDCs, and regions, as well as local NGOs.

TED-4: Assess and Establish Elements of Quantum

Taking into account the detailed discussions and inputs on needs, this TED would seek to aggregate, to the greatest extent possible, a preliminary quantum for the goal. Also, there



should be discussions to address any areas missed, or issues we need to discuss further within the Ad-Hoc Work Programme.

2023: Quality, Access Features, Transparency & Accountability

TED-5: Horizon Scanning: Quality & Access Features

This TED would discuss, *inter alia*:

- Current qualitative composition of what is being disbursed as climate finance?
- From the recipient perspective, what are their concerns on the quality of climate finance currently being provided, [in the context of needs and priorities]?
- From the recipient perspective, what are the current and/or potential instruments or arrangements that can be deployed to improve the quality of climate finance?
- From the support provider perspective, how the types of financial instruments and arrangements being made available as climate finance can be re-oriented to avoid shifting the burden of costs to the recipient which in the case of SIDS has stymied our ability to respond to climate change impacts and our broader sustainable development goals?
- What is definition of 'concessionality' in the context of climate finance?
- What are the challenges and opportunities for addressing these concerns?

In terms of access, since the challenges have been well ventilated, the focus could be on:

- What is working, and
- What is not working and needs improvements?
- What process is needed for all climate finance support providers to collectively adopt a simplified and harmonized procedure for efficient and simplified access to climate finance, in particular for SIDS?

TED-6: Transparency & Accountability

This TED would discuss the transparency and accountability arrangements for the achievement of the NCQG

TED-7: Regional Scoping

Here the focus on gap/opportunities analysis could be targeted at a regional perspective or cross regional perspective. How to ensure that needs of different countries/regions/groups can best be addressed, especially as small island developing States consistently receive the lowest proportion of mobilized climate finance.¹²

TED-8: Assess and Establish Elements of Quality, Access Features, Transparency & Accountability

Having looked at what is available, the gaps, and suitability to address needs of different countries/regions/groups, what guidance could goal provide to address quality, access, and sources for different aspects of the goal. Also, any areas / factors missed?

¹² UNFCCC SCF, 'Fourth Biennial Assessment and Overview of Climate Finance Flows 2020' (2021), p 10.



2024: Finalizing the Package

TED-9: Assembling the Package

This TED will look back on the work on quantum, quality, access features, and transparency & accountability. This will allow for the fine tuning the elements of the goal in this regard.

TED-10 & TED-11: Stakeholder Consultations on the Package

These TEDs will be stakeholder consultations on the proposed package containing the elements of the goal.

TED-12: Finalizing the package

Taking into consideration stakeholder inputs, this TED will consider how can the elements be improved upon, and the TED will provide its final inputs to the Co-Chairs for their final annual report.

