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Argentina. Brazil. Uruguay

## **New Collective Quantified Goal**

*Submission by Brazil on behalf of ABU (Argentina, Brazil and Uruguay)*

Brasília, March 15th, 2022

### **1. Introduction**

ABU understands that guaranteeing new, additional, predictable and adequate climate financing to developing countries is key to achieving our NDCs' goals as well as sustainable development, particularly in the context of recovery from the COVID-19 pandemic. The provision of means of implementation under the Paris Agreement must be operationalized in a balanced manner between mitigation and adaptation, reflecting the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.

We recall Article 2, paragraph 1, of the Paris Agreement that “aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty”, and specifically, on its point c) on the need to “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”.

If we want to keep 1.5°C alive, we need to estimate the costs of the implementation of the NDCs, especially in developing countries, assess both the traditional and innovative means of implementation and devise a roadmap for the implementation of a new collective quantified goal, which includes mechanisms to keep track of its fulfillment, in order to ensure the enabling conditions for climate action in the context of a just transition. The Ad Hoc Work Programme on the NCQG is, therefore, of utmost importance towards the imperative to enhance ambition for and through climate finance as an enabler to mitigation and adaptation goals under the UNFCCC and the Paris Agreement.

This submission presents the group's preliminary considerations on the way forward to a successful Ad Hoc Work Programme on the New Collective Quantified Goal.

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## 2. Lessons learned from the 100 bn goal

At COP15, developed countries committed to a goal of “mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries”. The amount would come “from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance”<sup>1</sup>. This commitment was reassured by decisions 1/CP.16 and 2/CP.17, which established a work programme on Long-Term Finance (henceforth LTF) to “contribute to the on-going efforts to scale up the mobilization of climate change finance after 2012; [...] [and] analyze options for the mobilization of resources from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources and relevant analytical work on the climate-related financing needs of developing countries”<sup>2</sup>.

The LTF process was crucial to ensure accountability and tracking of the developed countries’ USD 100bn goal. It has highlighted, nonetheless, the very shortcomings to the fulfillment of climate finance commitments under the UNFCCC and its Paris Agreement. The information reported by developed countries lacked the necessary completeness, clarity and consistency, despite some improvements in the last reports. This is related to the very absence of a common definition on climate finance under the Convention.

The Glasgow Climate Pact noted “with deep regret that the goal of developed country Parties to mobilize jointly USD 100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation has not yet been met”. It also urged “developed country Parties to fully deliver on the USD 100 billion goal urgently and through to 2025” and emphasized “the importance of transparency in the implementation of their pledges”. The failure to deliver on the USD 100bn was also reported through the OECD report “Climate Finance Provided and Mobilised by Developed Countries”<sup>3</sup> and the UNSG Independent Expert Group on Climate Finance. The reports indicated an upward direction of climate financing in recent years, while also stressing that public climate finance from developed to developing economies increased by 63%, from US\$39.6 billion in 2013 to US\$62.2 billion in 2018<sup>4</sup>. However, the documents do not provide accurate analysis on the quality of the amount mobilized and provided, recognizing a great level of uncertainty on mobilization of private,

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<sup>1</sup> <https://unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf#page=4>

<sup>2</sup> [http://www.ciesin.columbia.edu/repository/entri/docs/cop/FCCC\\_COP17\\_dec02.pdf](http://www.ciesin.columbia.edu/repository/entri/docs/cop/FCCC_COP17_dec02.pdf)

<sup>3</sup> <https://www.oecd.org/env/climate-finance-provided-and-mobilised-by-developed-countries-aggregate-trends-updated-with-2019-data-03590fb7-en.htm>

<sup>4</sup> [https://www.un.org/sites/un2.un.org/files/100\\_billion\\_climate\\_finance\\_report.pdf](https://www.un.org/sites/un2.un.org/files/100_billion_climate_finance_report.pdf)

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bilateral and multilateral financing. What is indisputable in the reports is the urgent need to scale-up overall resources to tackle climate change, in particular in the context of a sustainable recovery from the COVID-19 pandemic, through long-term transformation consistent with more ambitious “NDCs”.

From ABU perspective, the Ad Hoc Work Programme on the NCQG needs to build from the lessons learned on the USD 100 bn by avoiding making the same mistakes and brushing upon the positive (although few) aspects of that commitment, including the need for:

- (a) mainstreaming key findings of the best available science on the mobilization and the provision of climate finance;
- (b) scaling up adaptation finance;
- (c) a process based on the needs and priorities of developing countries;
- (d) consideration on qualitative and methodological aspects, including a common agreed methodology for accounting climate financed provided and mobilized; annual reports under the CMA to assess progress - detach the fluxes of sustainable finance and climate finance; and a common definition of climate finance under a mobilization goal - taxonomies

### 3. Climate Finance based on the best available science

The NCQG on climate finance needs to build from key findings of the best available science, in particular from the Assessment Reports of the Intergovernmental Panel on Climate Change (IPCC). The recently published Working Group II contribution to the IPCC Sixth Assessment Report (AR6) is of utmost importance in that sense, since it assesses the impacts of climate change, looking at ecosystems, biodiversity, and human communities at global and regional levels. The WGII report clearly states that “the extent and magnitude of climate change impacts are larger than estimated in previous assessments”, being the ecosystems (structure, species range and phenology) and human systems (agriculture, health and wellbeing, cities and infrastructure) in Central and South America highly affected by them<sup>5</sup>.

An important example of a sector affected by climate change is infrastructure. According to the report “Infrastructure for climate action”<sup>6</sup>, from UNOPS, the UN Environment Programme (UNEP) and the University of Oxford, the sector is

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<sup>5</sup> <https://www.ipcc.ch/report/ar6/wg2/>

<sup>6</sup> <https://www.unep.org/resources/report/infrastructure-climate-action>

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responsible for 79% of global GHG emissions, and for 88% of all adaptation costs needed to achieve the UNFCCC and its Paris Agreement's goals. It is also the one sector with the hardest hit according to the IPCC's AR6-WGII report with alarming impacts on food, nutritional and water security in regions such as South America<sup>7</sup>.

According to the IPCC, developing countries also suffer from medium to high impacts of climate change in agriculture and crop production. The importance of food production is clearly highlighted in paragraphs 2 of both the UNFCCC and its Paris Agreement. The importance of the agricultural sector for food and nutrition security and for the economy of many developing countries relates to the imperative of guaranteeing food security and the adaptation of production systems to the impacts of climate change, in line with the ultimate objective of the UNFCCC and the Paris Agreement. A corollary of this approach is the need to focus on adaptation and technology transfer, with a view to diminishing the adverse impacts of climate change and increasing agricultural productivity.

We need to make sure that science-based data and information will adequately inform decision-making processes, in particular when it comes to sustainable and climate investments, especially in assistance to developing countries. Mainstreaming climate risk and improving the quality of its pricing will assist both the public and private sectors in the process to “acquire better technical and financial understanding of risk, establish priorities, shape climate informed investments, and develop instruments to improve risk-pooling and contingency finance”<sup>8</sup>.

According to the UNEP, developing countries still face boundaries to access long-term finance for some low-emission and climate-resilient projects.<sup>9</sup> This trend represents a still not fully explored potential of investment opportunities on initiatives to reduce exposure to climate hazards, particularly for those at highest risk<sup>10</sup>. The Global Commission on Adaptation, for instance, identified USD 1.8 trillion of investment opportunities that would yield benefits of USD 7.1 trillion<sup>11</sup> with relevant use on

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<sup>7</sup> Indeed, a recent study co-sponsored by the Brazilian Ministry of Infrastructure and the GIZ stresses, i.a., that windstorms are one of the most critical risks to ports, considering that 33.3% (7 out of 21) of the Brazilian ports already have “high” or “very high” impact risk in relation to windstorms, which may increase to 76.2% (16 out of 21) in the RCP 8.5 issuance scenario for the year 2050.

<sup>8</sup> [https://files.wri.org/s3fs-public/uploads/GlobalCommission\\_Report\\_FINAL.pdf](https://files.wri.org/s3fs-public/uploads/GlobalCommission_Report_FINAL.pdf)

<sup>9</sup> <http://wedocs.unep.org/handle/20.500.11822/10604>

<sup>10</sup> <https://www.ipcc.ch/report/ar6/wg2/>

<sup>11</sup> <https://gca.org/reports/adapt-now-a-global-call-for-leadership-on-climate-resilience/>

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adaptation measures in infrastructure, water management, early warning systems, improving dryland agriculture crop production, and protecting mangroves<sup>12</sup>.

### 4. Balanced ratio between mitigation and adaptation

Adaptation is a crucial part of the global commitment to combat the adverse impacts of climate change, as enshrined in article 7 of the Paris Agreement. At COP 26 Parties to the UNFCCC and the Paris Agreement highlighted the need for urgent action on adaptation, “including finance, capacity building and technology transfer, to enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change in line with the best available science, taking into account the priorities and needs of developing country Parties”<sup>13</sup>.

In this regards, it is worth stressing that the Glasgow Climate Pact noted with concern that the current provision of climate finance for adaptation remains insufficient to respond to worsening climate change impacts in developing country Parties. The Pact urged developed country Parties to at least double their collective provision of climate finance for adaptation to developing country Parties from 2019 levels by 2025, in the context of achieving a balance between mitigation and adaptation in the provision of scaled-up financial resources, recalling Article 9, paragraph 4, of the Paris Agreement<sup>14</sup>.

Nonetheless, the current flows of resources to increase adaptive capacity is not commensurate with the level of ambition required to build resilience and to keep the 1,5°C alive. The OECD report entitled “Climate Finance Provided and Mobilised by Developed Countries in 2013-18” indicates that mitigation continues to represent over two-thirds (70%) of the 2018 total, while adaptation represents only 21% of that amount.<sup>15</sup> The IPCC ASR 6-WGII expresses with very high confidence that “the overwhelming majority of global tracked climate finance was targeted to mitigation while a small proportion was targeted to adaptation” and unequivocally points out that adaptation finance needs estimated are higher than those presented in AR5, while stressing the urgency for “enhanced mobilization of and access to financial resources

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<sup>12</sup> [https://files.wri.org/s3fs-public/uploads/GlobalCommission\\_Report\\_FINAL.pdf](https://files.wri.org/s3fs-public/uploads/GlobalCommission_Report_FINAL.pdf) ;  
<https://iea.blob.core.windows.net/assets/063ae08a-7114-4b58-a34e-39db2112d0a2/NetZeroby2050-ARoadmapfortheGlobalEnergySector.pdf>

<sup>13</sup> [https://unfccc.int/sites/default/files/resource/cop26\\_auv\\_2f\\_cover\\_decision.pdf](https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cover_decision.pdf)

<sup>14</sup> [https://unfccc.int/sites/default/files/resource/cma3\\_auv\\_2\\_cover%20decision.pdf](https://unfccc.int/sites/default/files/resource/cma3_auv_2_cover%20decision.pdf)

<sup>15</sup> <https://www.oecd.org/environment/cc/Key-Highlights-Climate-Finance-Provided-and-Mobilised-by-Developed-Countries-in-2013-18.pdf>

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are essential for implementation of adaptation and to reduce adaptation gaps”<sup>16</sup>. It also indicates with high confidence that “although global tracked climate finance has shown an upward trend since AR5, current global financial flows for adaptation, including from public and private finance sources, are insufficient for and constrain implementation of adaptation options especially in developing countries”. By 2030, adaptation costs should be in the range of US\$140–300 billion per year. Thus, full funding for adaptation would have to be six to thirteen times higher than current levels of international public funding, to avoid a gap in 2030. By 2050, the costs of adaptation could be in the range of US\$ 280–500 billion. The potential gap of adaptation funding will therefore be much larger — on the order of twelve to twenty-two times current flows of international public funding of adaptation<sup>17</sup>.

The IPCC ASR 6-WGII demonstrates with high confidence that “public finance is an important enabler of adaptation” and with very high confidence that “adaptation finance has come predominantly from public sources”. The public sector will be central to scale up adaptation finance under the NCQG, since public institutions and norms have a great potential to create economic incentives to leverage private sector and other stakeholders participation in the provision of targeted climate finance. This relationship needs to be based on the need to ensure new and additional<sup>18</sup> resources directed to low-emission initiatives, building capacity and accelerating climate action.

The NCQG will also have to be consistent with the UNFCCC and the Paris Agreement’s reports and documents, including NDCs, National Adaptation Plans and communications, BURs, BTRs and the inputs provided by their subsidiary bodies, in particular the SCF. In parallel with other relevant sources of information, the new goal needs to encompass physical risk management as one of the main components of the mobilization and provision of adaptation-aligned finance, including through its accurate quantification and pricing to foster adequate economic signals towards a climate-resilient society.

The new goal will also have to be established in a manner that new and additional resources to be provided and mobilized will not come to the detriment of funds directed to financial mechanisms, in particular the Global Environmental Facility (GEF), the Green Climate Fund (GCF) and the Adaptation Fund. We understand that the AF role needs to be reinforced as it is the only mechanism on adaptation finance that assists developing countries.

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<sup>16</sup> <https://www.ipcc.ch/report/ar6/wg2/>

<sup>17</sup> [https://backend.orbit.dtu.dk/ws/files/198610751/Adaptation\\_Finance\\_Gap\\_Report\\_2016.pdf](https://backend.orbit.dtu.dk/ws/files/198610751/Adaptation_Finance_Gap_Report_2016.pdf)

<sup>18</sup> UNFCCC, Article 4.3

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## 5. Needs and priorities of developing countries

According to article 9.1 of the Paris Agreement “Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention”. There is an unequivocal separation of roles when it comes to climate financing, namely developed countries being responsible for the provision and mobilization of resources while developing countries are their recipients. This reasoning must be the core element of the new collective quantified goal.

Therefore, the NCQG needs to be fully responsive to developing countries' needs and priorities when it comes to mitigation and adaptation. The first report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement of the Standing Committee on Finance (SCF)<sup>19</sup> provides us with a good starting point to address the current needs of developing countries, since, for instance, it shows, among others, that national communications indicated 1,137 costed needs cumulatively amounting to USD 8.8–8.9 trillion. Nonetheless, it also points out to the fact that those needs and priorities may be underreported, especially in regions such as Latin America and the Caribbean, due to the lack of accurate information and institutional capacity to assess and quantify climate risks, opportunities and scenarios. Only within the BAU group a total of 623 needs were identified in the various reports to the UNFCCC and the Paris Agreement, although not fully translated into costs. In that sense, the USD 168.2-168.3 billion costed needs identified in NDCs from Latin America and the Caribbean should be taken as highly below of the actual needs on the ground.

We have repeatedly stated that the NCQG should be built from the USD 100bn figure. However, this statement does not precisely shed a light on the amount needed for us to limit the temperature increase to 1,5°C above pre-industrial levels, as determined by article 2.1(c) of the Paris Agreement. Projections on climate financing flows aligned with net zero strategies actually point to figures around USD 4.5 – 5 trillion annually within a conservative estimation scenario<sup>20</sup>. Considering the shortcomings in determining the needs of developing countries, we should even consider at least doubling this amount for the NCQG.

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<sup>19</sup> <https://unfccc.int/topics/climate-finance/workstreams/needs-report>

<sup>20</sup> <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/>

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There is also an urgent necessity to reflect on the quality of the channels, instruments and targeted-sectors of finance provided and mobilized to developing countries. On the channels, we need to ensure that the resources under the NCQG will flow in a timely manner and through low and flexible access requirements, including low or zero co-participation and costing fees. The new goal should also provide us with the opportunity to foster innovative finance instruments, including debt swaps, Payment for Environmental Services, and blended finance, to accelerate the development of low emissions technologies required to achieve the Paris Agreement's goals, while guaranteeing their access and transfer to developing countries, and support the de-risking of sustainable investment, including for greenfield projects<sup>21</sup>, that are country-driven and context specific, especially taking into account the national economic, social and institutional circumstances of developing countries. Moreover, translating observed and projected impacts of climate change on ecosystems and human systems, in particular those related to water, food production and infrastructure, into costed needs will also be crucial to increase investments in and financial flows towards low-emission and climate resilient sectors and initiatives, enhancing developing countries adaptive capacity and promoting an inclusive, just and sustainable transition.

## 6. Methodological aspects, sources and reporting

A first step to ensure clarity and accuracy in the assessment of climate financing in the NCQG relates to disattaching *climate finance* from the broader scope of *sustainable finance*<sup>22</sup> and also from *development finance*<sup>23</sup>. There is no internationally agreed definition on *climate finance*, in particular under the UNFCCC and its Paris Agreement. This is the first and foremost origin of methodological issues to assess the current flows of finance towards mitigation and adaptation initiatives, especially towards developing countries. Without a clear multilaterally agreed definition on climate finance, double-counting, over-reporting and data cohesiveness will continue to be Achilles' heel of any NCQG. Agreeing on a definition can foster positive synergies to the international process of creating standardized taxonomies and regulatory frameworks for finance, which can increase the flow of capital to developing countries and drive a sustainable financial market.

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<sup>21</sup>[https://www.oecd-ilibrary.org/economics/investing-in-climate-investing-in-growth\\_9789264273528-en](https://www.oecd-ilibrary.org/economics/investing-in-climate-investing-in-growth_9789264273528-en)

<sup>22</sup><https://www.unep.org/regions/asia-and-pacific/regional-initiatives/supporting-resource-efficiency/green-financing>

<sup>23</sup><https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/officialdevelopmentassistancedefinitionandcoverage.htm>



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Building from a common understanding of the key aspects of climate finance under the Paris Agreement, the NCQG needs to be based on a solid and transparent reporting system, based on the Enhanced Transparency Framework, that allows for annual assessments of its fulfillment and for recommendations on periodic adjustments to guarantee it will be fully accomplished in its agreed timeframe. It should also harmonize methodologies of reporting to the CMA, consistent with, among others, the recommendations on methodologies for reporting financial information by Parties as developed by the Standing Committee on Finance (SCF). A solid, transparent annual reporting system of the NCQG will also help improve standardized methodologies and assess data needs and facilitate availability and exchange of data, especially when it comes to information on developing countries. Accurate information on aggregate and country levels will be essential to measure progress of the NCQG and ensure that finance flows are adequately directed to match the needs and priorities of developing countries in an impactful manner, while also avoiding fragmentation. There is further need to collectively improve methodologies for determining and prioritizing needs, including sector specific methodologies and tools.

ABU also understands that a successful outcome from the ad hoc work programme will depend on its ability to put forward a source-targeted approach to the NCQG. The 100bn goal should have mobilized resources from “a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance”. Although we understand that there is no single actor nor source that will be able to alone deliver on the needs of climate financing, the NCQG should be credible and clearly indicate the sources of provision and mobilization of new and additional resources. According to the CPI Global Landscape on Climate Finance 2021<sup>24</sup>, the majority of climate finance — 61% (USD 384 billion) — was raised as debt, of which 12% (USD 47 billion) was low-cost or concessional debt. Equity investments, the next-largest instrument category after debt, came to 33% of total climate finance, up from 29% during the previous period. Grant finance was USD 36 billion or 6% of total flows (compared to 5% in 2017/2018). In our perspective, additionality can only be ensured through grant-based finance as the major source of climate financing and there is a clear need to scale up the share of grant finance in the NCQG compared to the USD 100 bn goal.

The resources to be both provided and mobilized under the NCQG should further take into account the national circumstances of developing countries, including its fiscal space and debt rates. Since debt constraints limit the ability of countries to implement their NDCs, it is important that climate financing does not lead to further indebtedness,

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<sup>24</sup> <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/>

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while also considering debt relief and other measures. It should moreover have clear arrangements to identify the recipients of public finance, a work that can be undergone in conjunction. i.a., with the common tabular formats of the BTR, providing data structured in a common format, easing comparability and machine-readability.

There is also a need to urgently promote innovative financing instruments, including debt swaps, blended finance, Payments for Environmental Services, and issuance of special drawing rights. The NCQG should further be clear on information on the types of financial instruments that will be used to mobilize and provide resources and how they align to the needs and priorities of developing countries and how channels that will be used to mobilize and provide resources, including through the operating entities of the financial mechanism of the Convention and the Adaptation Fund.

Private finance should also play a significant, although not central, role in the NCQG. We need to keep the momentum built from COP 26 on the participation of private actors, including through their ESG Paris-aligned pledges. ESG criteria have become part of decision-making for a variety of stakeholders: companies, investors, financial sector organizations, policymakers and regulatory bodies; so it is of utmost importance to guarantee that business performance is measured not only by its financial KPIs, but also by its ability to integrate ESG factors into its governance, strategy, operations and risk management, including through public initiatives that foster market security, products and risk assessment, including ESG-related concerns.

Nonetheless, the contribution of private finance also needs to be accounted for in a manner that avoids creative finance and ensures additionality. It is also important to create the appropriate economic incentives to direct private investments to climate-resilient sectors, while promoting significant change in their portfolios from high to low GHG emission activities.

Moreover, in order to help review and revise current production and consumption patterns in line with the PA, the NCQG will also have to foster a massive deployment of currently available and new technologies, some of which are yet to be developed. Investment in the development and deployment of climate technologies will absorb a significant share of the scaled-up finance. Obtaining financing for climate technologies is particularly challenging in developing countries due to additional uncertainty and risks that are hard to mitigate in private financial markets, lack of patient and low-cost capital, poor creditworthiness, lack of guarantees and low availability of capital for

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public investment<sup>25</sup>. Technology needs assessments (TNAs) confirm that the most commonly reported economic and financial barriers are the lack of or inadequate access to financial resources and inappropriate financial incentives (UNFCCC, 2013).

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<sup>25</sup>[https://unfccc.int/tclear/misc\\_/StaticFiles/gnwoerk\\_static/TEC\\_documents/204f400573e647299c1a7971feec7ace/ea65db0ca9264cdbaefeb272dd30b34c.pdf](https://unfccc.int/tclear/misc_/StaticFiles/gnwoerk_static/TEC_documents/204f400573e647299c1a7971feec7ace/ea65db0ca9264cdbaefeb272dd30b34c.pdf)