

Submission for the New Collective Quantified Goal on Climate Finance (NCQG)

Pursuant to the decision of CMA3 session during COP26 in Glasgow, November 2021, on “New collective quantified goal on climate finance” (FCCC/PA/CMA/ 2021/L.17, Para. 17), The Nature Conservancy (TNC) herewith submits its views on the objective in line with paragraph 15 and 16, as follows:

EXECUTIVE SUMMARY

Noting paragraph 16, the New Collective Quantified Goal on Climate Finance (NCQG) will take “into account the needs and priorities of developing countries and include, inter alia, quantity, quality, scope and access features, as well as sources of funding, of the goal and transparency arrangements to track progress towards achievement of the goal”.

In addition to **finding a new quantitative post-2025 target that far exceeds \$100 billion USD**, the NCGQ should consider the type of financing:

1. **Developing countries need access to a wider variety of financing, particularly grant-based financing or other innovative financing strategies** (such as debt-for-climate/nature swaps that may assist countries in securing low-cost or concessional debt).
2. **Allocations of finance must be equitable, particularly for overlooked and underfunded areas of climate, such as nature-based solutions (NbS) and adaptation.**
3. Lastly, it is often difficult for the public sector alone to meet these NCQG targets. Therefore, **the inclusion of private sector funding and use of public-private partnerships will be vital in achieving the NCQG.**

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INTRODUCTION

Since the finalization of the Paris Agreement at COP26, it is now more important than ever that appropriate and adequate finance is mobilized to ensure our climate goals can be achieved. Climate finance is key to ensure successful implementation of Nationally Determined Contributions (NDCs), particularly for developing countries that have limited resources and/or conditional NDCs. In accordance with Article 9, paragraph 3, the NCQG shall be determined prior to 2025 ‘from a floor of 100 billion USD per year’ and ‘developed countries intend to continue their existing collective mobilization goal [of 100 billion USD per year] through 2025’. **The NCQG provides a renewed opportunity to strengthen climate finance for mitigation, adaptation and loss and damage, and in line with the Paris Agreement’s goal to limit warming to 1.5 °C.**

This submission offers insight into the financing needs and gaps that can inform the new quantity and quality of the NCGQ. TNC also advocates for innovative financing mechanisms that move beyond loans or assist countries in reducing debt via debt-for-climate/nature swaps. In terms of scope and access, furthering **the scope of adaptation and NbS funding will be essential, alongside greater direct access funding**. NbS are defined by the UN Environment Assembly as ‘actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems, which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services and resilience and biodiversity benefits.’¹

Moreover, **continued private sector engagement is needed to increase sources of climate finance**. TNC offers tangible solutions that are already implemented that can be scaled to effectively target financial opportunities using NbS for both mitigation and adaptation and meet developing country needs to address climate change.

FINANCING NEEDS AND GAPS (Quantity and Quality)

Immediate action is needed on climate finance to fill in the gaps we have seen from IPCC and other reports. One study already completed by the Climate Policy Initiative stated that ‘an increase of at least 590% in annual climate finance is required to meet internationally agreed climate objectives by 2030 and to avoid the most dangerous impacts of climate change.’² The NCQG may decide to undergo a needs assessment of developing countries to create a science-based goal on its post-2025 goal, and this should adhere to the principle of common but differentiated responsibilities in accordance to Article 9. Currently, the **Standing Committee on Finance (SCF) will be including forward-looking information on climate finance in their progress report** for this year³ and its report should be taken into consideration to assess the new quantity of the NCQG. **Contributions by developed countries must far exceed 100 billion dollars USD to meet the needs of developing countries.**

¹ [UNEP, 2022](#)

² [Climate Policy Initiative, 2021](#)

³ https://unfccc.int/sites/default/files/resource/ProgressReport_Outline.pdf

Beyond quantity, quality and type of financing should also be considered. **A wider variety of financing is required to ensure that climate finance is effective for developing countries, particularly in moving away from loans.** The same Climate Policy Initiative study showed that an overwhelming majority of climate finance was raised as debt (61%) and equity investments at 33% of climate finance. Grant-based financing only took up the remaining 6%.⁴ In light of a looming debt crisis, countries are heavily interested in finding new financing mechanisms and reducing debt whilst forwarding sustainable development. **It is therefore imperative that within the NCGQ more grant-based financing is issued and new innovative financing strategies, such as debt-for-climate/nature swaps that may assist countries in securing low-cost or concessional debt (Box 1). Other financing strategies are listed below.**

Box 1. Debt-for-Nature Swaps

Debt-for-climate/nature swaps simultaneously assist countries in reducing their debt and fund nature-based solutions. A debt-for-nature swap refinances part of a country's sovereign debt and provides reduction in national debt service and funding for conservation to help government commitments to achieve and finance conservation goals. Historically, 12% of debt-for-nature financing came in the form of low-cost or concessional loans⁵. Interest in this space is expected to increase to fund future NbS or related projects. This IMF has recently published a working paper describing the utility of debt-for-climate swaps in driving climate action, creating fiscal space for climate measure, potentially reducing climate risk.⁶

In 2016, TNC partnered with the Seychelles to increase the area of protected oceans from 0.04% of Exclusive Economic Zone (EEZ) to more than 30%, putting aside a part of the ocean larger than the size of Germany. This was achieved by 2020 after comprehensive and inclusive marine spatial planning. This was the world's first debt conversion for marine conservation, resulting in a \$21.6 million USD repayment of a foreign debt in exchange for long-term conservation.

Further, in November 2021, TNC and Belize did a debt conversion that reduced the country's external debt by 10 percent of its GDP (\$190 million USD) and increase funding to protect its oceans. A combination of different planned conservation efforts will achieve protection of 30% of Belize's ocean, making the nation a global leader in implementing ambitious habitat protection goals. The Marine Spatial Plan will help to improve management of all of Belize's ocean (33,710 km² of EEZ). TNC has been at the forefront of innovative approaches to conservation for decades and today we impact conservation in 75 countries and territories.

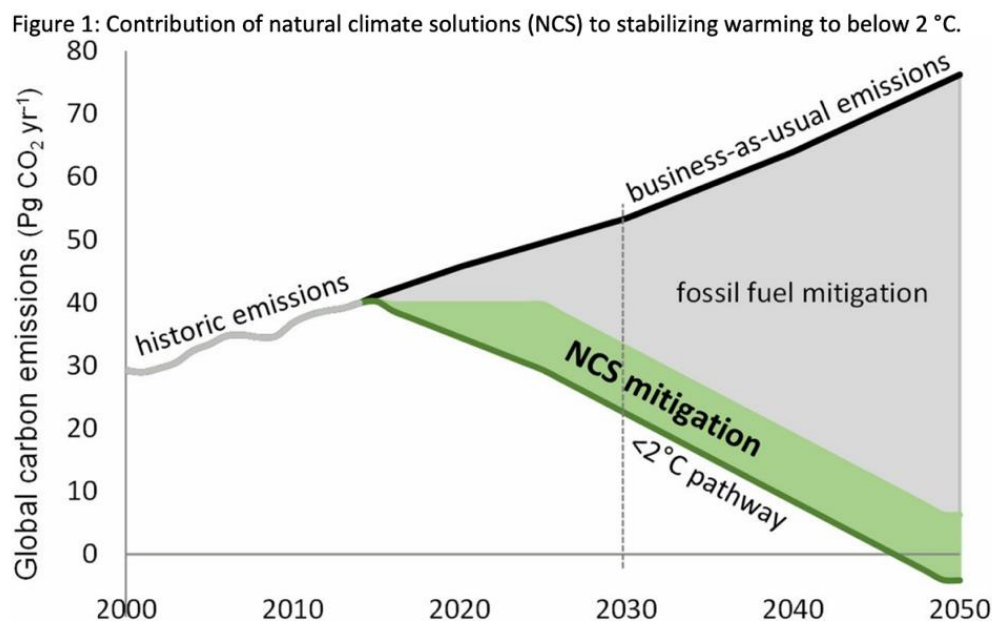
⁴ Ibid.

⁵ [Climate Policy Initiative, 2021](#)

⁶ Marcos d Chamon, et al. [Debt-for-Climate Swaps: Analysis, Design, and Implementation](#). IMF Working Paper, August 12, 2022.

MODES OF FINANCING (Scope and Access Features)

Beyond determining how much the post-2025 goal should be, the NCGQ should also ensure that **allocations of finance are equitable, particularly for overlooked and underfunded areas of climate**. One such area is Nature-based Solutions (NbS); although estimates suggest that **NbS have the potential to deliver up to one third of the cost-effective mitigation** needed by 2030, while providing climate adaptation benefits and supporting biodiversity, human health and sustainable development goals, **NbS receives less than 3% of global climate finance**⁷. The demand for NbS is also clearly high: two-thirds of countries included language on NbS for both mitigation and adaptation in their first NDCs. Hence, this funding gap is a real need to forward NDCs. Several donor countries, including France, the UK and Canada, have committed to allocate a significant portion of the climate finance for NbS. We encourage all donor countries to do likewise.



This funding gap can be addressed with a variety of financial opportunities that can be broadly categorized into two types of financing. Firstly, there is a need for **financing green** (covering the costs of implementing the NbS funding gap and other immediate climate finance needs), including increased ODA funding into multilateral institutions, financing carbon markets and investment funds, supply chain management and subsidy reform and more. Second, there is a need for **greening finance** (aligning all financial flows to be carbon-neutral, following Article 2 (1c) of the Paris Agreement), such as through greening sovereign debt and aligning private and public sector flows. Both strategies are illustrated through various examples later in the submission.

⁷ [Ibid.](#)

Adaptation has traditionally also been underfunded, having only received 10% of global climate finance, of which nature-based adaptation comprised only a fifth of the total.⁸ In the final text of the “Glasgow Climate Pact” developed nations were called to “at least double their collective provision of climate finance for adaptation” from 2019 by 2025. Further, as the world continues to warm, the need for adaptation finance will increase and need to scale proportionally. **The need for equitable financing between mitigation and adaptation and the increasing costs that are incurred when action is delayed should therefore be reflected in the NCQG.**

Finally, access remains a difficult issue for developing countries. Developed countries have traditionally prioritized their contributions into multilateral development banks (MDBs), such as the World Bank and Asian Development Bank.⁹ This is likely because they are significant shareholders in these MBDs. However, other multilateral institutions, such as the Green Climate Fund (GCF) or Adaptation Fund, have received the smallest contributions despite their special role in the Paris Agreement. Developing countries have greater say in these funds, such as the grant-based financing of the Adaptation Fund, and also receive direct access funding. One such example is listed below under the GCF and Forest Carbon Partnership Facility (FCPF). Thus, greater investments into these special funds would facilitate access and implementation.

Box 2. Enhancing current public investments to target climate action

Global funding mechanisms such as the Green Climate Fund (GCF) and Forest Carbon Partnership Facility (FCPF) are using billions in public funding to improve country capacity and deliver climate action. The funds should be designed to build the backbone of additional action that can be linked to transformative programs. The Green Climate Fund is building programs to help countries reduce emissions and increase resilience at great scales. The FCPF is implementing national and jurisdictional REDD+ programs with social safeguards and monitoring, reporting and verification (MRV) systems. In October 2021, [Mozambique](#) became the first country in the world to complete verification of carbon credits at the jurisdictional level in an effort to significantly increase the scale of our climate solutions. TNC led the way in helping launch the FCPF and is the only NGO financial contributor in the \$1.3 billion Forest Carbon Partnership Facility (FCPF) trust fund. The success of public investment can also help de-risk NCS projects, making them more attractive for private financing, a key part of to achieving the NCQG (see section below).

INNOVATIVE FINANCING STRATEGIES (Sources of Funding)

While it is imperative that the NCQG provides new and additional financing, it is often difficult for the public sector alone to meet these NCQG targets. In 2019, the OECD revealed that private finance plateaued at around \$14 billion USD since 2017, whilst public climate finance had reached \$63 billion USD¹⁰. Further, a study by the UNEP revealed that private sector investments in NbS

⁸ Ibid.

⁹ <https://www.wri.org/insights/developed-countries-contributions-climate-finance-goal>

¹⁰ https://www.oecd-ilibrary.org/finance-and-investment/climate-finance-provided-and-mobilised-by-developed-countries-aggregate-trends-updated-with-2019-data_03590fb7-en

remain small (11%) even though the private sector contributes 60% of total GDP of the G20 countries. **Therefore, the inclusion of private sector funding and use of public-private partnerships will be vital in achieving the NCQG.** There are various innovative financing strategies that involve private sector funding that can be scaled to meet this demand. Some examples of private sector investments and public-private partnerships are included below.

Box 3. Examples of Private Sector Sources of Funding

Insurance: Insuring nature

The major rationale for purchasing insurance is to provide cash transfers, thereby reducing post-event economic consequences of inadequate or untimely action. Insurance contracts represent a promising platform for integrating nature-based solutions, as they (1) put a price tag on risk, (2) provide incentives for risk reduction, and (3) create formalized payout structures. Innovative insurance products provide immediate efficient and effective disaster relief while improving credit ratings and the credit worthiness of the insured, thus supporting private investment.

In June 2019, Quintana Roo's Trust for Coastal Zone Management, Social Development and Security purchased an insurance policy to cover coral reefs and beaches in the Mexican Caribbean 6 against hurricanes (Cat 3 and above). A collaboration between Swiss Re, The Nature Conservancy, and the State Government of Quintana Roo, Mexico includes an insurance policy that encourages conservation and helps cover the cost of repairing a coral reef after severe hurricanes, in turn supporting the reef's capacity to protect the coast from future storms and daily beach erosion. The fund is designed to be able to accept funding from different sources to finance conservation activities, as well as insurance premiums. This type of mechanism has the potential to fund premiums, and vulnerable communities are assisted to proactively protect important natural resources indispensable to the resilience of people, their assets and the local economy. Such insurance instruments can provide both public and private benefits: transferring risk from vulnerable local parties, protecting livelihoods and local economies as well as providing environmental benefits.

Carbon Markets

Carbon markets have seen rapid growth in recent years. The voluntary carbon market (VCM), in particular, has been driven by the growing chorus of net-zero commitments made by companies around the world. A survey by the Taskforce on Scaling Voluntary Carbon Markets—an initiative led by the Institute of International Finance (IIF)—estimated that the voluntary market has an opportunity to grow 15-fold in order to fund up to 1 gigaton of additional emissions reductions per year by 2030.¹¹ Since 2020, market value for the VCM has already experienced a nearly four-fold increase from \$520M to almost \$2B.¹² Natural

¹¹ https://www.iif.com/Portals/1/Files/TSVCM_Summary.pdf

¹² <https://www.ecosystemmarketplace.com/publications/state-of-the-voluntary-carbon-markets-2022/>

climate solution activities, including the protection, management and restoration of forests, wetlands and other ecosystems, make up the bulk of these transactions.

The Nature Conservancy (TNC) has found carbon markets offer immense potential to scale protection for forests. In 2019, we announced the Cumberland Forest Project - a \$130M investment to protect 253,000 acres of land in the United States that will be financed, in part, by the generation and sale of 2 million tonnes of carbon credits. This is the largest land transaction TNC has ever handled using funds from impact investors.¹³ In Africa, TNC's Africa Forest Carbon Catalyst aims to leverage \$10M in philanthropic funding to unlock at least \$300M in direct finance over the next few years to avoid or reduce 20 million tonnes of CO2 annually and create over 5,000 jobs in Africa.¹⁴

For further insight into overall financing strategies, TNC invites readers to view a previous submission to the Standing Committee of Finance:

<https://unfccc.int/sites/default/files/resource/The%20Nature%20Conservancy%20%28TNC%29.pdf>

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¹³ <https://www.nature.org/en-us/magazine/magazine-articles/cumberland-forest-project/>

¹⁴ <https://www.nature.org/en-us/about-us/where-we-work/africa/forest-carbon-catalyst/program-details/#:~:text=The%20Africa%20Forest%20Carbon%20Catalyst.prepare%20to%20successfully%20seek%20investment>

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