Mercy Corps Submission to the UNFCCC on the New Collective Quantified Goal

Mercy Corps welcomes the opportunity to respond to the call for Parties and Observer Organizations to submit views on the needs and priorities of developing countries concerning the new collective quantified goal (NCQG). The people and communities where Mercy Corps works are on the frontlines of the climate crisis. They are more exposed to extreme weather events; disproportionately reliant on natural resources for their livelihoods; and least able to cope with, and adapt to, shifts in weather patterns and negative environmental impacts. As an organization rooted in humanitarian action, we prioritize response to and recovery from disasters –from extreme weather events to climate-fueled conflict and displacement. Alongside this, we apply our expertise in harnessing the power of market systems and good governance to scale solutions that enable communities to access and apply the knowledge and tools they need to transform in the face of acute disasters and the climate crisis.

Action on climate change adaptation is lagging, particularly in the most climate vulnerable countries, and fragile states. Fragile states receive significantly less adaptation finance relative to other Least Developed Countries (LDCs), despite being highly vulnerable to climate change and having less readiness to respond to climate impacts. Moreover, developed countries have failed to meet the goal of allocating 100 billion USD per year to international climate finance. When climate finance contributors fail to meet their commitments, this impacts the level of national climate action developing countries can commit to and implement. The NCQG is an opportunity to change the status quo on international climate finance, by ensuring that future sources of climate finance flow to the most vulnerable countries are accessible to national and local actors, and enhances accountability among developed countries to increase the quantity and quality of finance mobilized and address losses and damages.

Climate finance must flow to the most vulnerable countries. The evidence is clear, adaptation finance is not going to the most climate vulnerable countries and populations.

Mercy Corps analyzed 2019 OECD DAC **bilateral** adaptation flows to fragile states and found that:

- Across the 10 most fragile states according to the Fragile States Index (which includes countries with some of the highest scores of climate vulnerability), only 123 million USD in adaptation financing was provided in 2019. The average amount of adaptation finance within the top 10 fragile states is 12 million USD. In comparison, 20.1 billion USD was mobilized for adaptation in 2019.

Fragile states don't fare much better when seeking to access climate finance from **multilateral** climate funds. The Green Climate Fund (GCF) for example commits to allocating half of its funding to adaptation programming, and half of those funds to priority countries like LDCs, Small Island Developing States (SIDS), and African States. However, if we look at where funds are going within these broad groups of states, there are deep disparities that must be addressed. GCF funding by indicators of fragility suggests a disturbing trend for the most climate-vulnerable countries:

- Within the top 25 fragile states, as ranked by the Fragile States Index, only 8 single-country adaptation projects have been approved by the GCF (a total of USD 266 million).
- It's not just that climate vulnerable countries or fragile states receive less funding from the GCF, but the value of investments is lower. Within the 8 projects in fragile states, the total value of GCF investment was 266 million USD compared to 658 million USD in less fragile states.

These findings highlight a preference among climate finance providers to allocate money towards relatively 'stable' LDCs as opposed to fragile states. Deliberations on the NCGQ must assess the adequacy and effectiveness of adaptation finance in fragile and conflict affected states. **The NCGQ must support the scale-up of adaptation finance according to climate vulnerability and need, and make explicit recommendations that multilateral climate funds like the GCF adopt similar measures.** These provision metrics can help close the gap in adaptation finance channeled to climate vulnerable countries and fragile states.

Increase access to climate finance through multilateral channels. Becoming accredited to the three main climate funds is too slow, bureaucratic, and complex for all but the largest and best resourced entities. As a result, international organizations like UN agencies and multilateral development banks represent the majority of accredited entities. These entities are often based far from the people who are the intended beneficiaries of climate financing, which is problematic as local stakeholders and organizations understand the economic, social, and environmental systems that enable effective climate change adaptation and are critical to meeting development goals. For example, Mercy Corps analyzed the 55 GCF projects that supported flood resilience or flood management programs and found that:

- 40 projects (72 percent) have gone to multilateral organizations like UN agencies, international finance institutions, and development banks (worth a total of 3.37 billion USD)
- Six projects (11 percent) went to national government ministries or finance institutions (worth a total of 301.4 million USD)
- Three projects (five percent) have gone to regional entities (including one financial institution and two NGOs worth a total of 99.8 million USD)
- Three projects (five percent) went to international NGOs (worth a total of 188.7 million USD)
- Three projects (5 percent) went to national NGOs (worth a total of 32.4 million)

While the GCF has financed national and regional projects that support flood and watershed management, the Fund has not significantly invested in locally-led investments and programs. National and local organizations are better suited to implement tailored projects that address climate impacts and can engage deeply with various stakeholders at the local level.

The NCQG must analyze how accessible the multilateral climate finance architecture is for countries and organizations working at the national or local level and champion reform efforts. For example, to increase accessibility, there should be one accreditation process for all multilateral climate funds and climate funds should recognize the accreditation of major international donors in the development or humanitarian spaces. In its 2050 Vision, the LDC Group called for at least 70 percent of climate finance flows to be directed to the local level. **Deliberations on the NCQG should be responsive to this recommendation and articulate a vision for locally-led climate finance, with a figure for locally-led action included in the final goal.**

Enhance accountability of climate finance providers to increase the quantity and quality of finance flows. When the 100 billion USD goal was negotiated, stipulations on how much funding individual countries should contribute were not articulated. Developed countries have fallen dramatically short of this goal in 2020 and 2021, and appear likely to do so again in 2022. In its report, *A Fair Share of Climate Finance*, ODI and the Zurich Alliance (of which Mercy Corps is a member) provide a formula for assigning responsibility for the climate finance gap. To allocate responsibility among Annex II countries[1], a country's fair share has been defined based on its gross national income (GNI), cumulative territorial emissions since 1990, and population size. Based on these metrics, only seven countries provided their fair share of climate finance in 2020: Sweden, France, Norway, Japan, the Netherlands, Germany, and Denmark. On the other hand, the United States, Australia, and Canada failed to provide their fair share in 2020, with the United States overwhelmingly responsible for the climate finance gap, having provided only 5% of its fair share. These metrics help clarify where states are falling short and help enhance accountability on the 100 billion goal. **We recommend the NCQG adopt a similar benchmarking approach outlining how much individual countries should contribute to the new long term climate finance goal. Metrics for assessing the quality of climate finance are also notably absent from the current goal, and we would support their inclusion in the NCQG, particularly related to adaptation finance.** For example, while France and Japan provided their fair share of climate finance in 2020, they stand out for the relatively poor quality of their climate finance, typically in the form of loans. The quality of adaptation finance is critical, as climate finance should not serve as an additional form of indebtedness for those who suffer the most. Furthermore, the provision of grants-based financing incentivizes locally-led action and should be prioritized. Finally, the 100 billion USD goal has failed to address the historic neglect of adaptation. **The NCQG much include a standalone adaptation finance goal from 2025, which will build confidence that adaptation finance will increase and become more predictable in the medium and long term**.

The Annex I and II designations have remained unchanged since 1992, despite changes in the socio-economic realities of many developing countries. ODI and ZFRA have developed a new

[1] Annex II countries are mandated by the climate accords to provide financing to developing countries and include the following members: Australia, Austria, Belgium, Canada, Denmark, European Community, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States of America.

methodology to assess which countries should be contributing to climate finance going forward, using per capita GNI and per capita cumulative territorial emissions since 1990. Additional countries not on the Annex II list that cross this threshold include Qatar, Singapore, and Israel. Meanwhile, some countries are already stepping up to provide climate finance, although they do not have an obligation to do so under the climate accords.[2] **As Parties and Observers debate what a new long-term climate finance goal should look like, expanding the contributor base should be part of this discussion.** This will help increase the overall volume of climate finance mobilized each year. Any debate on which countries should form the new contributor base should be evidence-based and grounded in the principles of historical responsibility for climate change and the ability to pay.

Failures to adapt are leading to increasing losses and damages. Large-scale, climate-induced losses and damages are already happening in the Global South, from increasingly intensive rainstorms, cyclones, and floods, to longer drought spells, retreating glaciers, and higher temperatures. These events are resulting in economic and non-economic losses and damages, leading not only to large-scale effects on countries' GDP but also to irreversible losses, including human life and ecosystems, as evidenced by an upcoming report by the Zurich Flood Resilience Alliance. Vulnerable communities, women, and marginalized groups are often most affected by climate-induced losses and damages and may not be sufficiently covered by current efforts.

Governments in the Global South are attempting to minimize and address losses and damages by establishing dedicated policy frameworks. However, while these efforts are being made, countries are facing an array of challenges, importantly due to a lack of resources to cover the full range of adaptation and response activities needed to keep populations and ecosystems safe. Furthermore, the lack of a systematic, harmonized way of comprehensively assessing losses and damages is limiting the understanding of the level of resources needed to provide an adequate response.

Countries in the Global South are the least responsible for the climate crisis while being most exposed to its consequences. New and additional resources, in the form of a finance facility, are vitally important to both minimize and address losses and damages currently faced by vulnerable populations. **The NCQG should include a standalone goal for loss and damage financing that is new and additional to climate and development finance.**

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[2] South Korea, South Africa, Kuwait, Liechtenstein, Bulgaria, Cyprus, Malta, Poland, Slovakia, Slovenia, Czech Republic, Estonia, and Russia.