

Submission by the Republic of Senegal on behalf of the Least Developed Countries Group (LDCs) on the New Collective Quantified Goal

The Least Developed Countries (LDCs) Group is pleased to submit its second submission on setting a New Collective Quantified Goal (NCQG) on climate finance and present its views on the objective and elements of the NCQG in accordance with the invitation in paragraph 17 of Decision -/CMA.3.

The LDC Group looks forward to constructive, collaborative and detailed exchanges that are open, inclusive and transparent.

The Group stands ready to engage with partners on the work of the ad-hoc work programme throughout 2022 to 2024. However, it is fundamental to ensure that adequate resources are made available to secure the effective participation of delegates throughout the entire deliberation process, especially from countries such as LDCs.

Scope of work

Deliberations on the NCQG should focus on:

- (i) Defining a goal in the form of a quantified figure;
- (ii) How to ensure that the NCQG is based on the needs and priorities of developing countries while being science based;
- (iii) Respecting that it is critical that there is a balance between support for adaptation, mitigation and loss and damage;
- (iv) The importance and significance of grant-based finance for adaptation;
- (v) Ensuring that there is improved access features embedded in the new goal, and robust transparency arrangements to track its achievement and compliance.

The LDC Group presents below the views on all core elements of the NCQG including the specific topics to be covered at the 3rd and 4th Expert Technical Dialogues; namely – the needs and priorities of developing countries, the definition of climate finance, the sources of climate finance, the role of climate finance actors, and access to climate finance.

Scope and structure of the NCQG

Understanding needs and priorities of developing countries

The volume of the new goal will require careful consideration. Identifying and understanding the needs and priorities of developing countries should be the guiding pillar for setting the new goal.

NDCs, NAPs and other climate action plans and policies are a good basis for this task. The LDC Group also appreciates the report of the Standing Committee on Finance (SCF) on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement. This report will be an important input in support of our deliberations. It is also equally critical that in deliberating on the NCQG, evidence of the needs of developing countries based on scientific evidence, like IPCC reports, and other relevant UNFCCC reports on this matter are taken into consideration. **Support for further identifying and quantifying needs**

Owing to a lack of data and limited capacity, many developing country reports do not contain cost estimates of the needs, so the true overall financial needs are likely to be much higher. The SCF report explicitly acknowledges the existence of acute information gaps on this regard.

This challenge is particularly evident for adaptation needs; but it is also present for deriving cost estimates for averting, minimizing and addressing loss and damage needs associated with climate impacts.

It is fundamental then to understand present needs and priorities of developing countries and determine how these can be quantified to inform NCQG deliberations. A connected discussion is then *how* support can be provided to developing countries to conduct needs assessments and estimations, particularly for countries with the most limited resources such as LDCs.

LDCs need support for improving domestic planning and methodologies for the identification and estimation of country-led needs, especially for critical areas of actions like adaptation and loss and damage.

A more comprehensive understanding of needs across the different types of climate action will help to crystallise key issues such as : *i.* why support is needed for mitigation, adaptation, loss and damage; *ii.* the adequacy and effectiveness of certain financial instruments to support each type of climate action; *iii.* How the NCQG will differentiate the support dimensions under article 9 versus mobilisation efforts under article 2.1c. The clear articulation of Article 2.1c is critical to understand the financial flows.

Sub-targets for thematic areas

The NCQG should have differentiated allocations between the types of climate action. In consideration of the distinct roles that mitigation, adaptation, loss and damage and cross cutting support play, consideration of sub-targets (or sub-goals) underneath the overarching figure is an option we see necessary to consider.

This more specified way of allocation should correct the disproportionate level of financial support for mitigation efforts over adaptation. Different reports illustrate that the provision of finance is far from meeting a 50:50 balanced allocation. Adaptation has been underfunded for a

very long time and has not been considered a priority issue for developing countries. According to the OECD, mitigation received most of the finance — 70% of the total provided in 2018 to developing countries overall, while adaptation finance amounted to only 21%. The CPI's Global Landscape on Climate Finance report shows that in 2019/2020 only 7% of climate finance was allocated for adaptation, in contrast to 90% for mitigation. The climate finance shadow report, 2020 by Oxfam also reported similar scenario of climate finance.

Loss and Damage

The NCQG should include loss and damage alongside mitigation and adaptation as a sub-target of the goal.

Loss and damage is one of the three pillars of climate action under the Paris Agreement, recognised in article 8 for which scaling up of climate finance is urgently needed.

Currently no financial resources are dedicated to loss and damage, even the extension of the mobilization of 100 billion dollars per year extended until 2025, does not provide coverage for loss and damage. The NCQG should be an opportunity to bridge this gap.

NCQG timeframe and review

The time horizon of the NCQG remains unclear. Some Parties talk about a long-term perspective, looking at 2050, while others talk about a 20–30-year implementation period. No Decision has set a time limit for the NCQG.

For the LDC Group, the NCQG should not be static but conceived as a pathway with intermediate milestones. This target setting modality would facilitate transparency of implementation and periodic review, ensuring that mobilization of climate finance is taking place at the scale and speed required. The NCQG should have a review and adjustment cycle every 5 years to reflect changing needs to increasing climate impacts, based on necessities and science, and that is consistent with the NDC and Global Stocktake cycles.

Considerations about quality of the goal

Balanced support

Discussions around the quality of the NCQG should be informed by article 9.4 of the Paris Agreement, which clearly states that the provision of financial resources should be balanced. As noted above, financial resources provided for mitigation currently surpass by far those for adaptation – addressing the imbalance is a priority for LDCs and a fundamental step to improve the quality of climate finance in the coming future. Setting sub-goals for all pillars of the Paris

Agreement, including loss and damage, would be an important way to advance a more equitable distribution. Article 9.4 also stated the importance of adaptation and grant based financing for LDCs.

Contributors' base

Developed countries should continue to lead in the mobilisation effort. This is a responsibility embedded in article 9.3 of the Paris Agreement. For the LDC Group, the NCQG must not be interpreted as a 'joint effort from all countries' but as an effort to be led by developed countries, with public funds playing a 'significant role', as stated by this provision.

Developing countries will submit programmatic activities to cope with the adverse effects of climate change and losses and damages and would report on support received and used. Non-state actors will provide additional technical and financial supports to address developing country needs.

Sources of finance

Deliberations on NCQG should acknowledge the difference between *provided* finance through public sources and private finance *mobilised* through public interventions, and understand the role that each of these types of support play.

We also require clear understanding of the links between article 9 (support provided and mobilised) with 2.1.c (shifting finance flows). In this context, the formal role of non-state actors to contribute to the NCQG should also be discussed and clarified; especially aspects pertaining to accountability and tracking and their suitability to financing climate actions different to mitigation.

Instruments

NCQG deliberations should acknowledge and address the different types of financial instruments and vehicles through which finance flows to developing countries.

The LDC Group would like to stress the critical role of grant-based finance (as opposed to repayable instruments). Support for adaptation and loss and damage to LDCs must come from public sources and be grant-based.

For instance, we must decide conditions for inclusion of loans as well as grants, and how exactly loans should be counted (face value vs grant equivalent amount).

NCQG deliberations will need to address concerns that climate finance increases the debt burden of the world's poorest countries. The use of loans and their level of concessionality requires careful examination.

Generally speaking, the use of loans (particularly in the case of LDCs) has been contested in the context of the US\$100 billion goal. According to OECD figures, from 2016 to 2018, loans accounted for 66% of all climate finance provided to LDCs. These loans were granted for mitigation as well as adaptation, which largely supports activities that do not generate revenue.

During the 1st and 2nd Technical Expert Dialogues, we heard many Parties calling for innovation. Parties called for thinking about different types of financial instruments such as guarantees and equities to contribute to the NCQG. We remain open to consider the value of different options but at the same time we see it crucial to identify the suitability of such instruments for the different thematic response (mitigation, adaptation and loss & damage) and the capacity of developing countries to provide these instruments.

Transparency

Deliberations on the NCQG should acknowledge and address the difficulties occurring from the variety of definitions of climate finance and the several existing methodologies for tracking climate finance flows. In this sense, the 3rd and 4th Technical Expert Dialogues should achieve greater clarity on what counts as climate finance as well as increase common understanding of methodological aspects such as “climate- specificity” and “additionality”, as well as common understanding and agreement on any “new” principles.

What counts as climate finance

Tracking delivery of climate finance is very difficult without a clear understanding of what counts as climate finance. As part of NCQG deliberations, it will be important to agree on a shared understanding of what qualifies as climate finance and how to count it. This will involve harmonising the different operational definitions of climate finance currently in use, or at least reaching a consensus on the elements that will count as climate finance under the new goal. The LDC Group has presented its views on the definition of climate finance in the past.¹

Climate specificity

A major challenge is the ability of each donor country to use different methods to define the ‘climate specificity’ of their contributions. The current application of the Rio Markers used for bilateral support by the OECD countries gives space for a wide range of interpretations.

¹ LDC submission, May 2022: <https://unfccc.int/topics/climate-finance/resources/standing-committee-on-finance-info-repository#eq-6>

Though the Rio markers for climate change have evolved over the years, several studies have called into question the quality of Rio markers data, highlighting that it is prone to significant overestimation. The methodology used by OECD and the multilateral agencies vary significantly. As part of the deliberations of the NCQG, it is crucial that countries move towards more robust approaches and common methodologies for identifying ‘climate specificity’ to prevent ambiguity, overestimation, and double counting.

Additionality

It is important to ensure that the NCQG remains consistent with existing provisions for climate finance such as Article 9.3 of the Paris Agreement and Article 4.3 of the UNFCCC, demonstrating that sources of finance show progression and are new and additional to ODA.

There is agreement that climate finance should be ‘new and additional’, but a lack of clarity on what this means. There is no agreed baseline against which any claim of additionality could be made. Provider countries might, for example, consider that additional resources consist of newly disbursed or committed finance in the reporting year; some might use 2009 as the baseline year; or some might understand that additional flows would be those that exceed the target of 0.7% of gross national income (GNI) for official development assistance (ODA). This lack of consensus makes it increasingly difficult to disentangle climate finance from traditional ODA flows.

For the LDC Group it is crucial that provider countries do not conflate ODA and climate finance but scale up both: climate finance to deal with adaptation and the effects of climate change and ODA to meet wider sustainable development goals. Deliberations on the NCQG should consider this issue.

Transparency arrangements

For the LDC Group, an important issue for deliberation is about the arrangements to track progress and fulfilment of the new goal which should aim at establishing an effective monitoring system to have clarity on all the financial flows mobilized (public and private). For example, we could consider building on work achieved with the Enhanced Transparency Framework (ETF) and find ways to complement it, ensuring it can capture elements of the NCQG. We could also consider the possibility of establishing something additional, for example, an online platform under the Secretariat to objectively monitor the achievement of the goal with information on the geographical and thematic balance flows, contributions, etc.

Access features

Alongside increased flows of finance, LDCs have repeatedly stressed the need to improve access to climate finance. A consistent message during the 1st and 2nd TEDs was about the importance of enhancing access to climate finance. This was an issue that gathered consensus.

Current mechanisms for accessing climate finance are often slow, complex, resource intensive, uncertain, and projects based. The NCQG presents an opportunity to build on the lessons learned from the US\$ 100 billion and address barriers experienced by developing countries. NCQG deliberations should address *how* the NCQG process can promote enhanced, streamlined and simplified access, particularly for the most vulnerable and capacity-constrained countries.

To enhance access, one option could be creating minimum floors for groups of countries, such as LDCs. The Green Climate Fund for instance applies a 50% ratio of the adaptation finance to be directed towards particularly vulnerable countries, especially LDCs, SIDS and Africa. We would welcome discussions about minimum floors for countries with the greatest needs and the least resources to cope with the effects of climate change.

Similarly, when it comes to supporting impacts from extreme climatic events, a trigger mechanism can be explored for faster release of climate funds to disaster hit country. Project based support accessed through regular funding applications is not adequate for timely addressing impacts from extreme climatic events such as floods, hurricanes and landslides.

On the access modalities, LDCs prefer direct access by the national institutions. This not only helps build capacity of the national institutions but also promote sustained climate actions at the local level. National institutions understand the local context better compared to the international institutions. The benefits and shortcomings of direct access modality must be further explored so the developing countries like LDCs can implement effective climate actions.

Process ahead

By CMA 4, the work programme should reach clarity on the overall structure and qualitative aspects of the goal, as well as the main sources of input to be considered, based on science and the needs of developing countries. The 3rd and 4th Technical Dialogues should be conducive to propose recommendations not only for the high-level ministerial meeting but also for the CMA. The CMA 4 should take a concrete decision on results achieved in the four TEDs held in 2022.

By CMA 4 we should have clarity on next steps and deliverables for 2023 and 2024. We believe that these should be activities that build towards defining the quantum of the goal as well as transparency arrangements based on evidence from inputs to the process.