A Submission from RMI's Climate Finance Access Network on Views on the New Collective Quantified Goal

Responding to the CMA's invitation for observers to provide their views on the objectives of the ad hoc work programme specified in paragraph 15 and paragraph 16 of decision 9/CMA3, in light of discussions on the NCQG at TED1 and TED2 in Cape Town and Bonn, and in anticipation of TED3 and TED 4 in Manila and Sharm el-Sheikh, the Climate Finance Access Network (CFAN) (hosted by RMI) is pleased to submit views on substantive issues in the NCQG discussion as well as the future of the process. While the submission is made by CFAN, Climate Analytics, Global Center on Adaptation, Climate Finance Group for Latin America and the Caribbean, and Oxfam Germany have provided valuable contributions to it. It builds on an initial framing article published in May 2022 "New Collective Quantified Goal Process: Are We Asking the Right Questions?" and discussions at a follow-up webinar on the topic.

Outset and framing

Based on our analysis of the delivery of and lessons learned from the US$ 100 billion goal, we believe the NCQG must be principle-based and ambitious. It must promote the provision and mobilization of climate finance that is meeting the needs and priorities of recipient countries, is equitable, accessible, evidence-based, and above all, transformational, while pursuing gender-responsive, participatory and inclusive approaches that focus on the needs within countries, especially of local communities.

It is our understanding that the NCQG deliberations and its final arrangements will have a role in giving direction for finance to be provided and mobilized to enable developing countries implementing their efforts to mitigate, adapt and address loss and damage, and for making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. This means the NCQG will have a key role in implementing Articles 9.1-9.3 and 2.1.c of the Paris Agreement- and this should also be reflected in the formal provisions of the new goal.

To this end, this submission will provide inputs on the needs and priorities of developing countries, timeframe of the goal, sources, instruments, the role of climate finance actors, access to climate finance, and transparency arrangements.

Needs and Priorities of Developing Countries

NCQG process will have to undertake considerable analysis of reports, studies, and data

In order to agree to an output-based goal and respond to the needs of developing countries, the NCQG process must review various reports, studies and data available to understand and reflect the needs of developing countries. It is critical to have a comprehensive understanding of the needs of developing countries have in their efforts to contribute adequately to the achievement of the Paris Agreement's goals, because these needs, must form the quantitative baseline for the NCQG. National reports and commitments such as the Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), National Communications, Biennial Update Reports (BURs) and Adaptation Communications are crucial resources for assessing the needs of developing countries. These are useful vehicles because they benefit from established support mechanisms and represent a national level needs assessment. Additional important high-level reports that Parties must consider include, but are not limited to, the first UNFCCC report on the determination of needs of developing country Parties related to implementing the Convention and the Paris Agreement (NDR, 2021), the UNEP adaptation gap reports, and reports of the Intergovernmental Panel on Climate Change (IPCC).

The finding from the NDR indicates that as of May 2021, NDCs from 153 parties had identified climate finance needs — ranging from financial and capacity building to technology development and transfer — of US$5.8–US$5.9 trillion through 2030[1]. A UNEP analysis of recent studies on adaptation costs and countries' submissions to the UNFCCC predicts that the adaptation needs alone in developing countries are in the upper limit of the estimate of the 2016 Adaptation Report of $140–300 billion by 2030 and $280-500 billion by 2050[2]. With regards to loss and damage, best estimates suggest that current loss and damage costs are between $116-435 billion and will rise to $290-580 billion in 2030, and $1-1.8 trillion in 2050[3]. The NCQG process should help consolidate the current climate finance needs landscape.

In order to assess needs, NDCs must be fully costed, to this end capacity and data gaps to quantify needs should be addressed

One of the main limitations of NDCs is that not all NDCs have been fully costed, especially regarding differentiating between support needs (via grants and concessional finance) and investment needs (via efforts to mobilize such investments, public or private) and especially for adaptation needs and loss and damage needs. Further, the first Needs Determination Report from the Standing Committee on Finance reported a lack of comprehensive data on all climate needs. This is especially true in LDCs and SIDS that may lack the financial and human resources, institutional capacities, data, and methodologies to fully cost or collect data on their NDCs. Most of the costs identified in the NDR are related to mitigation needs, which does not mean that countries require less support for adaptation, instead estimating the cost of adaptation interventions is more difficult in some countries. Further, NDCs and NAPs do not necessarily include the needs of all sectors, stakeholders, including indigenous communities, regional governments, and cities. These limitations of NAPs and NDCs must be addressed, as well as potential ways to backstop or enhance the assessment and quantification of needs. The NCQG deliberations must consider how developing countries, especially those that are capacity and resource constrained, can be supported more comprehensively in identifying, assessing, and costing their needs, particularly those included in NDCs.

Timeframe of the NCQG and regular adjustments

The Goal should have a time horizon with regular revision touchpoints synched with other Paris Agreements cycles and processes such as NDCs and the GST

A key element to discuss when setting the NCQG is the timeframe of the goal as the duration of the goal will determine how much money is needed. The goal should also consider changes in needs and priorities of developing countries through time. Parties should consider for example a 2050 horizon and mid-term goals—to align with Net Zero and other NDC targets—with touchpoints for revision and adjustment every 5-10 years. The timing of these touchpoints should be synchronized to align with other key processes such as the NDC revision cycles and the Global Stocktake (GST).

[1] UNFCCC Standing Committee on Finance. *First report on determining the needs of developing country Parties related to implementing the Convention and the Paris Agreement.* 2021.

[2] UNEP. *Adaptation Gap Report 2021.*

[3] Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage. 2019

Targets/Sub-targets

The new goal should have independently defined subgoals for mitigation, adaptation, and loss and damage

While the Paris Agreement comprises an adaptation goal, it is not quantified nor is it a finance goal, and there are significant discrepancies between the amount of finance provided for adaptation and projected needs. CPI's Global Landscape on Climate Finance report shows that in 2019/2020 only 7% of climate-related financial flows was allocated for adaptation, in contrast to 90% for mitigation and 2% for dual impact projects. Regarding climate finance provided or mobilized by developed countries in the context of the US$100 billion a year goal, the OECD reports that in 2020, only a third was provided for adaptation. As there continues to be an imbalance of resources allocated for adaptation and mitigation, with no formal provisions related to the allocation of climate finance to address loss and damage at all, we echo the call of many developing country Parties on the need for thematic subgoals/targets.

These subgoals would permit the NCQG to better respond to specific needs for the different thematic areas. Thus, we recommend creating separate subgoals for adaptation, loss and damage, and mitigation. It is especially critical that the NCQG have a target for addressing loss and damage, as loss and damage has not yet been an explicit and agreed goal of global climate finance. We believe that just setting a ratio that suggests a specific percentage of funds to mitigation vs adaptation vs loss and damage creates the risk that the full scope of needs will not be met in any category. Rather, we suggest that a quantified absolute amount target for each subgoal should be established independently and based on developing country needs and science.

Sources, Instruments and Role of Public and Private Climate Finance Actors

Climate finance must be more predictable

The discussion surrounding sources of climate finance and the role of climate finance actors will be pivotal in shaping the NCQG. All climate finance sources, no matter their origin, should be predictable, traceable and dependable, allowing developing country partners to factor the finance into their planning. This principle—predictability—must be woven throughout the discussions on climate finance sources and the roles of various actors, or the quality of the finance will be compromised. Ideally all sources of finance that are to contribute to achieving the NCQG need to have clear actors attached to them related to who is responsible for their delivery. In order to understand the sources and roles of climate finance actors, Parties must have a candid discussion on what will count towards the NCQG, including the relationship between Official Development Assistance (ODA) and climate finance. This also requires a clear understanding of what (proportion of) provided or mobilized finance will be considered as contributing to the NCQG. For instance, it should be clarified that for funded programmes or projects that pursue various objectives (as is often the case in development co-operation), only those components that specifically aim for mitigation, adaptation or loss and damage outcomes would be considered contributing towards the NCQG (and thus be reported correspondingly).

Emphasis on public finance provided by developed countries in the form of grants for adaptation and loss and damage

Public finance must be provided for developing countries to respond to their needs and meet their priorities. Public finance—specifically in the form of grants for adaptation and loss and damage — should be prioritized to meet needs and ensure equity in climate finance. Developing countries should not have to take on more debt in order to adapt and respond to the impacts of climate change, including in addressing loss and damage.

Who contributes to achieving the NCQG?

The Paris Agreement includes provisions related to responsibilities to provide support and mobilize finance. Developed countries have a moral and legal obligation to provide support (Article 9.1), other countries are invited to contribute on a voluntary basis (Article 9.2), and developed countries are to take the lead in mobilizing finance (Article 9.3). This should also form the formal basis of contributing to the NCQG. That said, countries with responsibility and capabilities comparable to countries currently considered 'developed' could be expected to contribute in a comparable manner – albeit on a voluntary basis, in line with Article 9.2.

Methodologies that have been suggested to determine a fair contribution by developed countries include agreeing on a burden sharing formula between themselves for the provision of public finance under the NCQG.

There should be a distinction between providing support and mobilizing investment

In its formulation the NCQG should consider how to differentiate between a "providing support" element (that would be met through the provision of grants and other concessional finance) and a "mobilizing finance" element (that would be met through mobilizing public and private investment) for developing countries. Experience from the US$ 100 billion goal indicates that a total-based figure combining both elements would be inadequate given the entirely different nature of meeting support needs versus broader meeting investment needs. The "providing support" element should be quantified on a grant equivalent basis, to create clarity on the net support value of provided finance that developing countries can expect. The "mobilizing investment" element would capture the scale of investments contributing countries are aiming to mobilize for the benefit of recipient countries.

Private sector involvement needs to be carefully defined in order to ensure equity, accountability, and follow-through

There is an ongoing concern that overly relying on private sector climate finance mobilization while sidelining the support dimension of the new goal would marginalize those developing countries with low creditworthiness. We believe that the private sector's roles and its limits in contributing to the NCQG, in terms of quantity, quality, types of finance and accessibility should be explicitly discussed, taking into account the lessons learned from the US$ 100 billion goal. Key considerations include how private sector incentives can be shifted to prioritize needs rather than only profit, accountability, and how the private sector's involvement can be structured in a way that ensures equity and proves catalytic in increasing investment. Parties should also make sure that private sector stakeholders are present in these discussions to provide their perspective on what roles are feasible and realistic for the private sector within the context of mobilizing finance for the NCQG.

Additionally, the quality of the finance needs to be addressed, such as whether a certain amount of funding for adaptation will be channeled through the private sector with concessional/ preferential conditions and whether it can be accessed by developing countries whose economy is not well advanced and are perceived to be high-risk. By agreeing on principles to guide the contribution of the private sector, there will be clarity on the role that the private sector will play towards achieving the NCQG. Furthermore, the role of public finance to catalyze and leverage increased private investments and how that is counted towards the NCQG must be considered.

Climate finance under the NCQG should not increase the debt burden of developing countries to meet their resilience building and loss and damage needs.

There will need to be discussions regarding which climate finance instruments to use within the NCQG. Currently, climate finance is 70% loans and 25% grants funding[4]. From a climate justice perspective, the high level of loans, especially when they are non-concessional, threatens to increase the already high debt burden of developing countries. Climate finance, especially for adaptation and loss and damage should not increase the debt burden especially of SIDS, LDCs, African, Asian Pacific and the Caribbean and Central American States who have historically been low-emitter countries but are now heavily impacted by climate change. Using loans also means that developing countries are eventually paying for climate action themselves, reversing the duality of contributing and recipient countries in the Paris Agreement's obligation for developed countries to provide support. Grants should be the main financial instrument for adaptation and loss and damage as well as for mitigation actions in capacity constrained countries. We suggest grants to be provided for projects that don't have a quantifiable rate of investment, such as the majority of adaptation projects. Loans should be limited to projects that in themselves provide scope for returns from which repayments can be made in ways that do not undermine social justice policies and priorities in the recipient countries. This also means that loans need to be designed with arrangements how to avoid debt stress when the projects eventually fail to lead to said expected returns. In any case, the support dimension of the NCQG should be expressed in terms of grant equivalence, to ensure that recipient countries know the actual support value they can (collectively) expect, independent of whether such finance will eventually come in the form of grants or loans.

What counts as climate financing under the NCQG must be openly discussed

Beyond traditional public and private sources of finance, there are questions about whether innovative financing approaches, such as blended finance mechanisms, debt for nature swaps, issuance of special drawing rights, carbon pricing, levies and taxes, and payment for environmental services, will be included as climate finance under the NCQG. The role of each of these mechanisms under the NCQG must be considered under the guiding discussion of what should count towards the NCQG.

Access

Improving Access procedures need to be an integral part of the NCQG discussions. These need to be streamlined and further harmonized, and support must be provided to enhance data capacity.

There are various climate finance actors with different access requirements that will be involved in delivering the NCQG. Simplifying and streamlining access requirements and the processes of these climate finance actors is key when setting the NCQG. While considering the different sources of finance, it is important to also consider how access to the identified potential sources can be facilitated and simplified so that capacity constrained developing countries can access funding resources. Overall, the application processes of the major climate funds- particularly those that serve the Paris Agreement- need to be simplified and harmonized in order to be responsive to the urgent needs of developing countries and ease the burden on recipients. The NCQG should promote the harmonization of application processes of various public funds and ensure that access is enhanced, expedited and scaled.

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[4] OECD. *Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020*, July2022.

Further, another area to address in enhancing access is providing support for those countries that lack historical climatic, environmental, and socioeconomic data necessary for analyzing climate trends.

Need for increased and decentralized direct access to climate finance to enhance access for indigenous communities, women, and provincial/municipal governments

Another important element of improving access to climate finance is increasing and decentralizing direct access. Direct access needs to be increased, especially at the subnational and local levels. Decentralizing direct access away from just the national level should be conducted with the intention to provide direct access to indigenous communities, women, and provincial and municipal governments.

Prioritization of the most vulnerable and capacity constrained countries

Specific specialized access instruments/ windows for the most vulnerable and capacity constrained countries particularly for LDCs, SIDS and African States should be considered to ensure that these countries have access to climate finance in the quantity needed. Thus, we believe that the NCQG should consider prioritization and establishment of specialized access windows for the capacity constrained and most vulnerable countries.

Transparency Arrangements

NCQG should have a clear, transparent, publicly available tracking mechanism that aligns with and feeds into the enhanced transparency framework.

Another key issue that needs to be considered when setting the goal is tracking and accountability: How can the UNFCCC and Parties make sure that progress against the NCQG is achieved? For tracking, the lessons from the unmet $100 billion goal are essential, as developed countries had set the methodology and parameters for tracking. This led to an opaque and non-centralized tracking system, with concerns around double-counting and overestimation, requiring official numbers to be fact checked in shadow reports, such as Oxfam's Shadow Report[5].

For the NCQG, it is essential to establish a transparent tracking system that is available to the public. One option would be to link it to the Enhanced Transparency Framework (ETF), requiring developed countries to report on the finance provided and mobilized every two years. However, the ETF does not assess whether a goal is met, thus, a system must be put in place in order to track the progress of the NCQG. Further, the SCF's mandate and capacity for mapping and tracking finance flows, including its work of the Biennial Assessment of climate finance flows, should be enhanced and the tracking should be linked to the enhanced transparency framework. With a better tracking system, the NCQG can ensure that Parties deliver on their climate finance obligations and meet the needs of developing countries.

[5] Oxfam. *Climate Finance Shadow Report 2020.*