ABU
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New Collective Quantified Goal

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

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1. Introduction

In the context of the implementation of the Paris Agreement, climate finance represents a core element of its effectiveness[1]. ABU is of the view that Article 9.3 of the Paris Agreement is a key tool to achieving the goal of consistency of finance flows with a pathway towards low GHG emissions and climate-resilient development. Assisting developing countries in their mitigation and adaptation commitments, as well as ultimately achieving the Paris Agreement's goals, will indisputably depend on the efforts to scale up timely, adequate, new and additional climate finance and ensure its effective deployment, including through leveraging of larger private finance flows[2].

This submission presents the group's preliminary considerations on (I) the needs and priorities of developing countries; and (ii) access features in the context of the Ad Hoc Work Program on the New Collective Quantified Goal on climate finance.

2. 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". On the mobilization of climate finance, Article 9.3 establishes that "as part of a global effort, **developed countries should continue to take the lead in mobilizing climate finance** from a wide variety of sources, instruments and channels, noting the **significant role of public funds**, through a variety of actions, including supporting country-driven strategies,

[1] https://www.researchgate.net/publication/339087827_Paris_Agreement_Article_2_Aims_Objectives_and_Principles
[2] https://www.researchgate.net/publication/336650734_Objective_Article_21

and **taking into account the needs and priorities of developing country Parties**. Such a mobilization should represent a **progression beyond previous efforts**". 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.

- The importance of addressing the needs and priorities of developing countries is also present in COP decisions, including decision 2/CP.15, adopted at COP15, in which developed countries committed to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 **to address the needs of developing countries**. Moreover, as per its mandates in Paragraph 53 of Decision 1/CP.21, Decision 14/CMA.1, and Decision 9/CMA.3, the NCQG shall consider the needs and priorities of developing countries in the implementation of the Paris Agreement, in the context of sustainable development and poverty eradication.
- There are few assessment reports that aggregates relevant information on current climate-related needs and priorities of developing countries. Under the UNFCCC, the Standing Committee on Finance First Needs Determination Report[3] indicates that, among the NDCs submitted to the Paris Agreement as of 31 May 2021, 153 Parties included 4,274 needs, with 1,782 costed needs identified across 78 NDCs, cumulatively amounting to USD 5.8–5.9 trillion up until 2030. In the BURs, 62 Parties indicated 2,044 needs, of which 535 needs are costed, cumulatively amounting to USD 11.5 trillion.
- On its turn, the report "*Mind the gap: An estimate of climate finance needs by developing countries to fund their NDC commitments*"[4] identifies a total of more than US$ 7.8 trillions as the level of identified needs by the current NDCs of developing countries in mitigation, adaptation and cross-cutting activities.
- All the available reports on needs and priorities stress that developing countries face a great number of challenges related i.e., to costing needs, institutional limitations, availability of data.

[3] https://unfccc.int/topics/climate-finance/workstreams/needs-report
[4] https://static.aviva.io/content/dam/aviva-investors/main/assets/views/aiq-investment-thinking/2022/08/mind-the-gap-an-estimate-of-climate-finance-needs-by-developing-countries-to-fund-their-ndc-commitments/mind-the-gap-en.pdf

Table 1. Aggregated information on needs and priorities of developing countries

Report	Identified quantum	Challenges identified
SCF NDR (2021)	From US$5.82 to 11 trillion by 2030.	Institutional coordination, including the lack of specialized institutions within ministries with the mandate to spearhead climate change actions, and the involvement of ministries other than the environment ministry in climate change planning in the needs identification process; costing needs, in particular deriving cost estimates for climate adaptation and enhancing resilience needs, and, in this context, deriving cost estimates for averting, minimizing and addressing loss and damage needs; capacity gaps, including limited availability of granular data at the sector and subsector level; lack of specialized national institutions to spearhead the means of implementation under the Convention; limited detailed guidance on the structure and content of reports submitted to the UNFCCC resulted in needs with varying levels of detail across countries.
Aviva (2022)	US$ 7.8 trillions by 2030.	Monitoring, reporting, and verification (MRV) frameworks to track flows of climate finance in the country; Difficulties developing a credible pipeline of projects in support of each NDC sectoral commitment; Shifting political circumstance; Technical assistance needs; Chronic staff shortages and the lack of budget for training and developing internal technical capacity; Lack of access to the information required to determine the projected costs and effects of mitigation and adaptation activities; Limitation in terms of engagement and participation by the private sector in the process of development of NDC documents;High levels of (real and perceived) financial risk in "green" investments; Lack of fiscal, financial, and regulatory incentives; Lack of awareness by the private sector of the Paris Agreement and the national level commitments; Lack of capacity in terms of technical skills in climate change. Lack of structure and systems for planning and budgetary processes for climate mitigation and adaptation projects; Developing countries' financial institutions are not well equipped to engage effectively with international sources of climate finance such as the Green Climate Fund; Need for assistance with mapping past years' climate-related expenditures and existing national-level climate finance flows; among others.

- A specific gap related to aggregated data on needs and priorities that should be addressed through the NCQG is the accuracy of regional information. For instance, Latin America and the Caribbean tend to have low reported climate finance needs mainly due to the lack of costed estimates in the region's NDCs and national reports, including National Adaptation Plans (NAP). The very fact that the region has not been able to identify nor cost specific adaptation needs for oceans and coastal zones is symptomatic of the urgency of providing technical assistance and capacity building, including for creating a pipeline for quantifiable projects and assessing costs and associated climate risks.
- All the reports also point out that developing countries struggle to identify and cost adaptation needs compared to those in mitigation. The SCF NDR indicates that, although adaptation needs are mentioned more often, they tend to be presented in a qualitative rather than a quantitative manner. The AVIVA report corroborates this assessment by stating that the ratio of mitigation to adaptation costed-needs is 3 to 1, being associated costed-needs of mitigation (US$5.85 trillion) nearly three times greater than those of adaptation (US$1.95 trillion). Bearing this in mind, ABU is of the view that the NCQG should provide support to developing countries in increasing their capacity to collect, analyze and cost climate adaptation needs, including though their NAPs and TNAs, while also building capacity to map investment opportunities and design bankable projects for adaptation.

2.1. NCQG TED 3 on needs and priorities of developing countries

- The Third Technical Experts Dialogue on the New Collective Quantified Goal was held in Manila, Philippines, from 6th to 9th September 2022. According to the Co-chairs' reflection note5, TED 3 should focus on the needs and priorities of developing countries, as well as the sources of climate finance and the role of different actors. Here are some key takeaways from ABU on the third dialogue:

[5] https://unfccc.int/sites/default/files/resource/CC_Reflections_Note_TED2.pdf

1. NCQG is a developed countries' commitment for the provision of public funding and their leadership in mobilizing climate finance to developing countries;
2. NCQG shall take into account the needs and priorities of developing countries in the implementation of the Paris Agreement, in the context of sustainable development and poverty eradication;
3. NCQG shall be established within the framework (objectives, principles, etc.) of the UNFCCC and its Paris Agreement. It should, as per Article 2.2 of the Paris Agreement, reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances;
4. The gaps of data on the assessment of needs and priorities of developing countries should not represent a barrier to advance the deliberations of the NCQG, in particular its quantitative aspects. The quantum of the NCQG shall not be below USD 100 billion per year and should consider that best available science points out that a transition towards 1.5ºC actually requires figures around trillions of USD needed by developing countries to address climate change.
5. The NCQG should take a bottom-up approach when assessing the evolving needs of developing countries, allowing Parties to identify and set their own priorities regarding mitigation, adaptation, and loss and damage.
6. Capacity building and technical assistance for developing countries are and will continue to be, in the context of the commitments of developed countries to provide means of implementation, key to increase capacity to cost needs, prioritize activities and design project pipelines and bankable projects, in particular for adaptation. The NCQG should allow for enhanced support for capacity building for developing countries in line with Article 11 of the Paris Agreement.
7. The NCQG shall address the gaps identified relating to the sources of financing for mitigation and adaptation activities in developing countries through the provision of public financing of developed countries (the core component of the new goal), without excluding complementary funding to be potentially mobilized from other

sources (the complementary component of the new goal), including the private sector and multilateral development banks.

8. As for the complementary component of the NCQG, developed countries should incentivize their private sector to mobilize climate finance towards developing countries. The level of maturity and overall characteristics of the private sector vary considerably among regions and among developing countries. In many developing countries, the private sector is not a source of mobilization, but also a claimant of climate finance and climate-related capacity building. It is important to create the appropriate business environment to direct private investments to climate-resilient sectors. The NCQG should increase awareness by the private sector of the Paris Agreement and the national-level commitments and also support the strengthening of developing markets through technical assistance and cooperation.
9. The instruments used under the NCQG should be context-specific and responsive to the NDCs and the needs and priorities identified in other national communications of developing countries.
10. The resources to be both provided and mobilized under the NCQG should take a strong focus on grant-based resources to avoid exacerbating the levels of indebtedness of developing countries;

We ask the UNFCCC Secretariat to reflect these elements in the technical paper of the NCQG as per paragraph 18 of decision 9/CMA.3.

3. Access features of the NCQG

- As for the accessibility features of the NCQG, one needs to bear in mind that the mismatch between current finance flows (USD billions) and current assessed needs and priorities of developing countries (USD trillions) leads to an environment of shortage of and limited access to available climate financing. Although we recognize the upward (although slow) trend in the mobilization of resources to developing countries, in the context of the

NCQG, the definition of an annual quantum around USD trillions will be fundamental to address the shortcomings of accessing these resources.

- ABU is also of the view that the definition of the scope of the NCQG should, at least, enhance access to climate finance in order to improve the scale of funding, reduce processing time for project development, project approval, and disbursement of funds, simplification of bureaucratic procedures and learning curves in reference to both UNFCCC climate funds and other sources of climate finance. Enhancing transparency of the processes to use current channels and access sources of finance will also be important.
- The Fourth Biennial Assessment of Climate Finance Flows from the SCF indicates that developing countries still struggle to access climate finance, being multilateral climate funds the most challenging source of finance to access compared with private finance (second most challenging), MDBs and DFIs (third) and bilateral sources (fourth)6. Indeed, the current landscape of climate finance from multilateral funds is complex and fragmented. Each fund has its own requirements, modalities, and strategic and operational priorities that haven proven extremely difficult to master for developing countries. Some constraints include:

    - The Global Environment Facility (GEF) has now, after its 8th replenishment process, USD $5.33 billion in pledges, being USD 852 million to fund climate projects. Nonetheless, GEF project cycles tend to be too slow with a long approval process in the Fund and prolonged time in the implementation phase. The coordination with intermediary agencies as a channel to present project proposals to the GEF should also be improved to avoid creating additional burden developing countries related to capacity building in project design and country ownership.[7]

[6] https://unfccc.int/sites/default/files/resource/54307_1%20-%20UNFCCC%20BA%202020%20-%20Summary%20-%20WEB.pdf
[7] file:///V:/T8%20Financiamento/Financiamento%20UNFCCC/NCQG/Leituras/World%20Bank-%20Access%20or%20impediment%20to%20climate%20finance.pdf
Power, Responsibility, and Accountability: Re-Thinking the Legitimacy of Institutions for Climate Finance. Athena Ballesteros, et al. World Resources Institute. November, 2009

- The Green Climate Fund (GCF) has a strenuous, time-consuming accreditation process – as recent GCF Independent Evaluation Unit reports have demonstrated. The language of the GCF procedures is also hard to follow in developing countries, which lack the capacity and support to engage with the Fund. Other challenges faced include limited direct access modalities, transaction costs in the disbursement and implementation of projects, high demand for historic information in the context of limitation of data.

- In the complementary component-side of the NCQG, Multilateral Development Banks (MDB) can also play a relevant role in enhancing access modalities. As we learn from the 4th BA, these banks already support developing countries in their needs-identification processes with the provision of financial and technical support. According to the MDB 2020 Report on Climate Finance[8], “in 2020, MDBs committed a total of US$ 66,045 million to climate finance", being US$ 38,009 million developing countries. Nonetheless, the 4th SCF BA also points out that MDBs have mostly financed mitigation activities and used concessional loans as major instruments. This evidences that financing intermediaries are less able to finance small-scale projects, as would be the case for many adaptation proposals, given the higher transaction costs involved.

- The NCQG should not place climate funds at institutions over which developing countries have limited ownership, restricting direct access to funds or damaging contributor-recipient dynamics of climate finance.

- The NCQG should provide targeted support for developing countries to respond to the adverse impacts of climate change in an effective and equitable manner.

- 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.

- Few innovative instruments have been utilized so far, which indicates a low tolerance to risk in many channels of finance. The new goal should provide us with the opportunity to foster innovative finance instruments, including debt swaps, Payment for Environmental

[8] https://www.miga.org/sites/default/files/2021-08/2020-Joint-MDB-report-on-climate-finance_Report_final-web.pdf

Services, and blended finance to achieve the Paris Agreement's goals. The NCQG should also accelerate the development of low emissions technologies, while guaranteeing their access and transfer to developing countries and support the de-risking of sustainable investments that are country-driven and context-specific, especially considering the national economic, social, and institutional circumstances of developing countries.

3.1 Relevant questions for TED 4

ABU would like to suggest to the co-chairs, in preparation for TED 4, to consider the following questions:

a. How international aid agencies can improve their bilateral finance modalities, in particular for adaptation activities?
b. How developed countries can guarantee adequacy and predictability in the flow of funds and the importance of appropriate burden sharing amongst them in the context of the NCQG?
c. How to facilitate access to existing climate funds and reduce bureaucracy and exaggerated project approval criteria?
d. How to structure the NCQG to allow for a periodic review of its key components, ensuring its adequacy based on the best available science as well as a progression beyond previous efforts?
e. How can access to climate finance for developing countries in relevant Funds be improved through the NCQG?
f. How can developed countries and relevant Funds improve access to climate finance for capacity building to cost the needs and priorities of developing countries in the NCQG?
g. How will developed countries and relevant Funds improve developing countries´ ownership in relevant institutions?
h. How can the NCQG incentivize low and flexible access requirements for funding, including low or zero co-participation and costing fees?

i. How can developed countries and relevant Funds foster the use of innovative instruments in the context of the NCQG?
j. How can developed countries and relevant Funds help de-risking of climate investments in developing countries in the context of the NCQG?