**Submission by India to ad-hoc work program on NCQG on work plan for 2023**

**(February 2023)**

As per the decision adopted by COP21 (1/CP.21, para 53), a New Collective Quantified Goal (NCQG) is to be set, before 2025, from a floor of USD 100 billion per year while taking into account the needs and priorities of developing countries. Later, an ad hoc work programme on the NCQG was established in COP 26 involving Technical Expert Dialogues (TEDs) to be organised from 2022 to 2024. Four TEDs are to be conducted every year.

In the four TEDs organised before COP27, Parties communicated their views on the new goal. They highlighted not only the quantitative but qualitative aspects of the goal. Key elements highlighted so far are quantum, quality ensuring a predictable flow of funds at a concessional rate, avoiding debt distress in the developing world, achieving a balance between mitigation and adaptation, access, transparency, and synergy with other processes (such as Global Stocktake), strengthening financial mechanisms, and catalysing private finance.

It has been highlighted that the needs of developing countries are in trillions, and concessional finance is crucial to avoid debt distress among developing countries. The Standing Committee of Finance, in its first report on the determination of the needs of the developing country Parties related to the implementation of the Convention and the Paris Agreement (2021)[1], mentions that requirements are in the range of USD 5.8 trillion to USD 12 trillion. The need for climate finance is immense, even when the estimates do not capture all the identified needs. Therefore, it is essential to underline that an ambitious new collective is imperative in achieving the NDCs.

There are several estimates of resources required to meet the Net zero targets set down by countries. It is estimated that USD 4 trillion per year needs to be invested in renewable energy up until 2030 to be able to reach the goal of net zero emissions by 2050[2], and investment of at least USD 4–6 trillion[3] per year will be required for a global transformation to a low-carbon economy. The OECD estimates that USD 6.9 trillion a year is required up to 2030 to meet global climate and development objectives[4]. Further, it is estimated that adaptation could require yearly investments of USD 160-340 billion by 2030 and USD 315-565 billion by 2050[5].

The global climate finance flows need to catch up with the resource requirements. According to the Fifth Biennial Assessment report, global climate finance flows were USD 803 billion in 2020. Public climate finance flows from developed to developing countries increased to USD 40.1 billion per year on average for 2019-20, 6 per cent higher than in 2017-19. The estimates by the OECD of climate flows to developing and emerging economies in 2020 were USD 83.3 billion. They find that climate finance flows have continued to be inadequate in both scale and type in addressing developing countries' financing challenges. Another assessment, following a different approach, reports much lower figures.

The public sector, represented by domestic, bilateral and multilateral sources, is vital in financing climate mitigation and adaptation. It has a role to directly finance climate action and catalyse private finance at reasonable cost and scale. The magnitude of financial resources required to meet global challenges necessitates exploring innovative ways to mobilise private sector financial resources through a mix of concessional and non-concessional loans, equity participation, guarantees, dedicated trust funds and de-risking mechanisms. It will be helpful to have a full-fledged technical seminar on instruments during the upcoming TEDs. The seminar should be representative involving the multilateral financial institution and developed and developing countries' domain experts/resource persons. Such a seminar can enable meaningful and focused discussion in TEDs.

Further, during the upcoming TEDs, it will be crucial to focus on the timeframe, as it cannot be separated from the quantum required. These two are not mutually exclusive, and getting a fix on both timeframe and quantum will be crucial. As of now, there are estimates available for climate finance requirements. Depending on the timeframe selected, either these available estimates can be used, or a think tank can estimate the finance requirements. Such think tanks can consider current estimates while projecting future needs. The SCF may be mandated to update the estimates or review them from time to time based on the revised NDCs/BURs/NCs, thereby ensuring the Parties driven approach. Under Article 4.19 of the Paris Agreement, parties agreed "to strive to formulate and communicate long-term low greenhouse gas emission development strategies (LT-LEDS), mindful of Article 2 taking into account their common but differentiated responsibilities and respective capabilities, in the light of different national circumstances." Such long-term strategies of the developing nations should also be considered while deciding the new goal.

Post the above; it will be crucial that access-related issues are addressed. There is an urgent need to strengthen institutional capacities, governance mechanisms, and planning frameworks to improve access to global funds. Capacity development of Direct Access Entities (DAEs) will be equally crucial given their role in implementing projects on the ground. Regional DAEs can also be promoted to aid vulnerable developing nations with limited capacity. Adequate financing for pre-project preparation is critical to improving the project pipeline.

In light of the above discussions, the following work plan is proposed:

- TED-5: Discussion on the timeframe
- TED-6: Discussion on Quantum based on the assessments already available with projections of future requirements
- TED-7: Technical Seminar involving resource persons followed by TED on instruments for mobilising timely and adequate financial resources at scale and a reasonable cost
- TED-8: Deliberation on access issues with the view to enable scale and predictability of fund flow

**Submission on questions posited by co-chairs:**

*1. Which topics should be covered in 2023, and in which order, to arrive at a more substantive outcome this year, particularly on recommendations for the various aspects of the goal;*

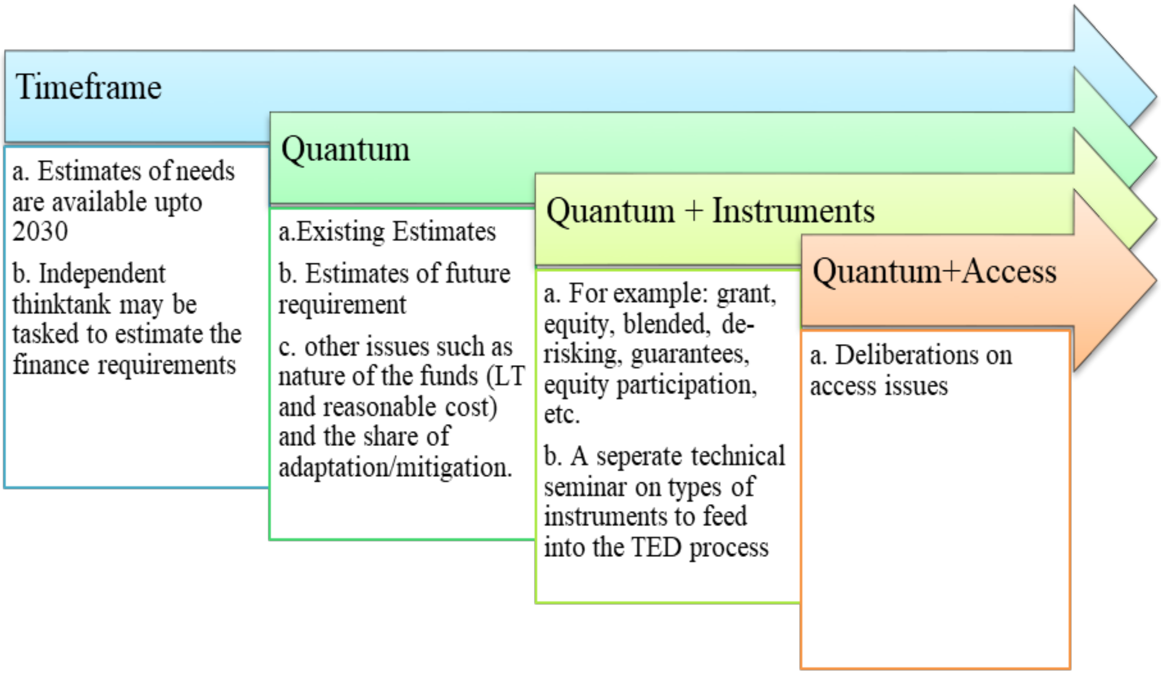
Recommendations on various aspects of the goal:

- Timeframe and quantum: A time frame is essential to determine the quantum. Estimates of needs are available for the period up to 2030; such assessments can be used to set the goal up to 2030. The Needs Determination Report highlights that the resource requirement is USD 6-11 trillion. This provides a floor for the requirements.
- An independent think-tank may be tasked to estimate the finance requirements. Such a think tank can consider current estimates while projecting future needs. The SCF may be mandated to update the estimates or review them from time to time based on the revised NDCs/BURs/NCs, thereby ensuring the Parties driven approach.
- **Sources:** NCQG must represent a progression beyond the pre 2020 climate finance goal. Funding sources cannot be voluntary provider of funds since voluntary contributions are not predictable and cannot service legal commitments under the Convention.
    - The ‘polluter pays principle’ and ‘respective capacities’ should determine the extent of contribution by the developed countries. The sharing of contribution, therefore, could be based on their contribution in the damage and on their respective capabilities. It is important that new collective quantified goal is predictable, transparent and connected with the level of climate action commitments of the developing countries. The commitment once made should be mandatory to make it serve a legal commitment under the Paris Agreement (in keeping with Article 9.1 of the Paris Agreement). As far as the role of private sources is concerned, the private pool of capital can only play a catalytic and a supplementary/co-financing role. Onerous expectations cannot be placed from the private sector since it is guided by profit motive and short termism. Private sources therefore cannot supplant but only supplement the public finance

commitments due by the developed world.

    - A separate technical seminar on types of instruments that can be used to mobilise climate finance can help inform the TED given the massive gap between requirements and funds mobilised so far. Such instruments will require the active role of public funds to ensure that the debt vulnerabilities of the developing world do not balloon.
    - Strengthening the financial mechanisms of the UNFCCC and improving access to financial resources is required for achieving the envisaged NCQG. Ensuring access is a pre-condition for translating mobilisation to actual flows ensuring a predictable flow of funds.
- **Quality of the funds mobilized**: The funds provided should be climate specific, concessional and over and above the existing ODA commitment and should not be counted towards fulfilment of existing national ODA commitments. The quantum mobilized should be for long term finance with a substantial part in the form of grants or grant-equivalence. It is pivotal that the flow of resources is predictable and adequate to allow the developing countries to plan climate action appropriately and enable interventions in keeping with the national priorities of the developing country.
- **Scope:** The new collective quantified goal must cover mitigation and adaptation and the mobilized amount must be provided equally for mitigation and adaptation, including loss and damage (i.e. 50 per cent each for adaptation and 50 per cent for mitigation).
- **Transparency:** Tracking of flows (ensuring climate finance provided is equivalent to finance received by the developing countries)
- **Definition of climate finance:** Essential for counting and tracking flows. The lack of an agreed operational definition for climate finance has resulted in uneven reporting and variable data being provided by developed country Parties on their contributions. It has also resulted in variability in terms of reporting by developing countries with respect to climate finance needed and received. Clarity on the elements of climate finance achieved from the work of the Standing Committee on Finance must therefore duly build into the work of New Collective Quantified Goal.

The Technical Expert Dialogues must keep the essence of these following topics alive when taking on each on each of the themes to be discussed in each TED. These are (i) quantity of the long-term finance, (ii) quality, (iii) scope, (iv)access to and operating mechanism of the finance and (v) the methods of tracking the flows of such finance in a transparent manner as well (vi) temporal scope, and (vii) access modalities (viii) clear milestones on the NCQG.




*2. How the proposed topics could feed into the expected outcome for 2023 to reach an agreement on the new collective quantified goal on climate finance in 2024;*

A focused discussion with a quest to achieve the target assigned for each TED will help ensure the outcome by the end of 2023, feeding into the final decision by 2024.

Proposed work plan:

- TED-5: Discussion on the timeframe for which the mobilisation goal would apply.
- TED-6: Discussion on Quantum based on the assessments already available with projections of future requirements. Other issues such as nature of the funds (LT and reasonable cost) and the share of adaptation/mitigation.
- TED-7: Technical Seminar involving resource persons followed by TED on instruments for mobilising timely and adequate financial resources at scale and a reasonable cost
- TED-8: Deliberation on access issues with the view to enable scale and predictability of fund flow

*3. What specific issues should be discussed, taking into consideration synergies between discussions on the new collective quantified goal on climate finance and related processes (e.g. the globalstocktake, the global goal on adaptation, work on Article 2, para. 1(c)).*

The proposed outlay of the discussion for the four meetings of TED as above will be influenced by global stocktake, global goal on adaptation and Article 2 of the Paris Agreement, of which para 1(c) is a part.

Parties must formalize the relationship between the new goal and existing financial commitments as stipulated in the Convention, the Paris Agreement, and previous COP decisions.

Critical questions to be posed in the TEDs in 2023 for reaching an agreement in 2024

- Linkages between, the NCQG and Or Article 9 (Finance), the Global Stocktake (Article 14), and the Global Goal on Adaptation?
- NCQG's relationship to relevant provisions under Article 4 of the Convention given that Article 9.1 of the Paris Agreement establishes the financial obligations by developed countries under the Paris Agreement in continuation of existing obligations (i.e., those under the UNFCCC)?
- What is the NCQG's relationship to elements of Article 6 of the Paris Agreement?
- How will the NCQG support the implementation of the nationally determined contributions (NDCs) and bring transformations that contribute to limiting global temperature rise?

Clarifying these linkages will facilitate decisions on a process to track progress towards the new goal, not least because the articles mentioned above contain qualifying criteria for climate finance and would influence what to count and how to count it. One distinct option would be connecting the NCQG to the enhanced transparency framework under Article 13 of the Paris Agreement that specifies how Parties must report on progress in their mitigation and adaptation measures and support provided or received.

As far NCQG is concerned, it is imperative that selective reading of article 2 should be avoided. The financial contributions as well as their composition and sources should be disclosed as per Article 9.5 and 9.7 of the Paris Agreement.

Climate Finance is an obligation of the developed world to the developing world owing to their (developed countries) stock of GHG in the atmosphere. Funds have to be grant/concessional basis and <u>hence articles 2 and 9 should be kept in mind together</u>. Processes going under SCF such as the definition of climate finance and Global Stock Take (GST) should be integrated with the NCQG TEDs so as to have better clarity and understanding.

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[1] https://unfccc.int/topics/climate-finance/workstreams/needs-report

[2] World Energy Outlook 2022, International Energy Agency

[3] United Nations Environment Programme. 2022. Emissions Gap Report 2022: The Closing Window – Climate crisis calls for rapid transformation of societies. Nairobi: United Nations Environment Programme

[4] https://www.oecd.org/environment/cc/climate-futures/policy-highlights-financing-climate-futures.pdf

[5] Adaptation Gap Report, United Nations Environment Programme, 2022