UNCTAD
Palais des Nations 8-14, Av. de la Paix, 1211 Geneva, Switzerland

Date: 10 May 2023

Sixth technical expert dialogue under the ad hoc work programme on the new collective quantified goal on climate finance

Response from UNCTAD - United Nations Conference on Trade and Development

What specific issues should be proposed for in-depth discussion at the sixth technical expert dialogue, with a view to identifying clear options regarding:

How the quantum should be set

1. Evidence-based Targets

- COP27's "Sharm el Sheikh Implementation plan" highlights that a global transformation to a low-carbon economy is expected to require investments of at least $4 trillion to $6 trillion per year.
- It is commonly understood that the $100 bn goal is a fraction of what is needed to support developing countries to achieve climate goals in accordance with the Paris Agreement. In the UNFCCC's recent analysis of financing needs, developing countries require at least $6 trillion by 2030 to meet less than half of their existing Nationally Determined Contributions (NDCs). And yet, developed countries have not been able to meet even the $100 bn target.
- With this information in mind, it is suggested that the quantum be calculated based on evidence, according to the real needs of developing countries.

2. Common Accounting Methodology

- Although official OECD data assessed total climate finance flows from developed to developing countries at $83.3 bn in 2020, Oxfam estimates that the real value is about one third of that, around $21–24.5 bn, as a consequence of no commonly agreed methodology for counting finance contributing to the $100bn.
- This has led to challenges on how to adequately assess total flows, and a possibility of significant overestimations. Furthermore, climate finance continues to be predominantly delivered as loans (including a large share in non-concessional financing), exacerbating sovereign debt issues in developing countries.
- The process of defining the NCQG must learn from these lessons in order to create a common accounting methodology for climate finance flows to increase transparency, accountability and avoid future discrepancies. This should include implementing robust monitoring and evaluation strategies to keep track of its fulfillment.

3. Targets for the three pillars of climate action

- Despite the particular importance of climate adaptation for developing countries, adaptation financing has significantly lagged behind mitigation, making up only of total climate finance.

At COP26, developed countries committed to doubling finance for adaptation by 2025, but little progress has been made, and in fact some Parties have decreased their relative contributions as a proportion of GNI.

- At COP27, progress was made to establish a new facility to support developing countries facing loss and damage, which will require its own targets, financing sources and governance.
- Furthermore, while mitigation, adaptation and loss and damage are all currently under-resourced, they each require different modalities of financing to maximise development outcomes: for example, loss and damage should be primarily delivered in grant-financing, adaptation requires grants or extremely concessional financing as it is largely an unprofitable activity, while mitigation may be comprised of a larger proportion of loan financing or private investment depending on the activity.
- To account for these differences, the NCQG should identify separate targets and accounting methods for each of the three pillars of climate action, using evidence and needs-based assessments:

    - **Mitigation:** According to the IEA, by the end of the 2020s, annual capital spending on clean energy in developing economies needs to expand by more than seven times, to above USD 1 trillion, in order to put the world on track to reach net-zero emissions by 2050
    - **Adaptation:** Estimated annual adaptation needs are $160-340 bn by 2030 and $315-565 bn by 2050, while currently provided financing is estimated at $9 bn to $11.5 billion (Oxfam). According to one estimate, annual needs are as much as $71 bn (UNEP).
    - **L&D:** The adoption of optimal mitigation and adaptation strategies in line with the latest IPCC assessments implies that some loss and damage is still avoidable. Yet, even if these strategies materialize, existing projections anticipate significant unavoidable loss and damage from the locked in impacts from global warming. Depending on success with mitigation and adaptation, loss and damage costs are projected to be as much as $580 billion per year by 2030 (Markandya and Gonzalez-Eguino, 2018).

Mobilization and provision of financial resources, including:

Contributors

- Advanced economies should contribute according to the principle of CBDR-RC, equity and historical responsibility. Individual capabilities of each country should guide the extent of such efforts and thus simultaneously address inequalities.
- Bilateral climate finance provided by developed country institutions, such as aid agencies and development banks, has stagnated over the years and needs to increase to meet climate challenges, including avoiding double-counting and displacing critical development assistance.
- As well as raising ambition on bilateral finance and acknowledging the failure of the $100 bn goal, the NCQG must consider a range of other potential sources of finance available to developing countries.
- Within the quantum, more emphasis must be placed by contributors on finance that does not worsen the ongoing debt distress facing many developing countries.

Sources

- Financing options must be fair, sufficient and politically feasible.
- Multilateral sources of financing must be scaled up. Public institutions would be the most direct way to increase the availability of development finance (UNCTAD 2019). Climate

finance from MDBs should be scaled up and should not only target the technical part of transitions, but also support communities with managing socio-economic impacts and addressing inequality more broadly. This will require enabling more lending with current capital levels as well as expanding MDBs' capital base (UNCTAD 2022).

- MDBs and RDBs are excellently positioned to deliver the reliable, long-term, and strategic financing green developmental states[1] require. Developed countries should use their shareholder power to increase MDBs' capitalisation, while also seeking new members to raise their capital base. This can include the use of re-channelled SDRs. These institutions should also implement applicable aspects of the G20's Independent Review of MDB's Capital Adequacy Framework.
- The latest $650 billion allocation of Special Drawing Rights from the International Monetary Fund (IMF) must not go unused in the reserves of advanced economies while developing countries suffer persistent crisis. These resources need to be rechannelled to support climate-resilient development, whether to MDBs or the IMF's new Resilience and Sustainability Trust (RST), provided that critical shortcomings in the RST's design are addressed, or to dedicated climate funds outside these traditional financing arrangements. Further, regular new SDR allocations should be considered so that they can be better targeted to underwrite mounting climate bills before it is too late. To ensure SDRs are channeled to where they are needed most, consideration should be given to delinking the issuance of SDRs from the IMF quota system for new SDR asset classes with specific purposes, such as achieving the SDGs and a just transition.
- In considering the balance between public and private financing sources, we encourage Parties to consider the risks of depending on mobilizing private finance to meet goals, and to consider the opportunities offered by multilateral public finance to address critical gaps.
- Where private finance is mobilized, it is critical that it is sustainable, transparent and affordable, for example with good lending terms that respect the Responsible Lending and Borrowing Principles, transparent, and reportable under UNFCCC. While it is a positive development to see more emphasis on climate-related instruments such as ESG financing, green bonds and climate-debt-swaps, there is a clear and evidenced risk of greenwashing that necessitates increased regulatory oversight, otherwise these tools will become distractions that deepen financing challenges.
- Debt-creating instruments are not a sustainable option in the current context.
    - This means putting particular emphasis on **grant-based sources** of financing. In 2020, 71% of total public climate finance took the form of loans, an 8% increase in volume terms from 2019, whereas grants accounted for 26% of the total (OECD).
    - UNCTAD's Principles on Promoting Responsible Sovereign Lending and Borrowing should be followed in order to prevent further indebtedness.
    - A debt relief mechanism should be put in place in the aftermath of a climate-extreme event and countries facing debt distress must be urgently supported to maintain adaptation financing (as well as other crucial public financing) to prevent a rollback in resilience and development progress.
- Climate finance must be additional to Official Development Assistance (ODA) commitments, and there must be a common understanding of what counts as new and additional.
- New global taxes (recent proposals have included, for example, financial transactions, shipping and superprofits of fossil fuel companies) or levies on certain carbon-intensive activities in developed countries offer an opportunity to consider common global funds for climate purposes. Combined with this should be attention to tackling illicit financial flows

[1] Green developmental State is a climate-conscious developmental State, retrofitted to deal with climate mitigation and adaptation challenges.

(IFFs) and increase tax revenues to mobilize domestic resources – UNCTAD has estimated that $88.6 billion of IFFs leaves the African continent annually.

Integration with Article 2, paragraph 1 (c) of the Paris Agreement

"Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

- There is growing recognition of the strong link between finance flows and GHG emissions. in line with Article 2.1C, progress is required on mandatory measures to move finance flows away from activities that endanger climate, biodiversity and economic stability and into productive, low-carbon investments that can deliver climate-resilient development. This makes realization of the Article 2.1C goal a responsibility at both the multilateral and domestic levels.
- In relation to the NCQG, achieving Article 2.1C will be crucial to improving available and affordable financing for climate action, but it cannot replace the role of proactive ambition from developed countries now, for example in expanding bilateral grants-based flows and using their position in multilateral institutions to increase climate finance flows.
- At the domestic level, developing country governments should ensure that national and international policies reinforce one another. This includes strengthening national capacities (deepen domestic capital markets, improve tax administration, promote development standards on debt sustainability, etc); incorporating the objective of just transition across national development planning; implementing national development plans that guide necessary climate action and sectoral transitions, with an explicit objective to deliver diversification and structural transformation using industrial policy tools such as taxes, subsidies, regulation, and public procurement. Furthermore, policymakers need to deploy National Climate Funds to ensure resources for context-specific transition strategies and should rigorously cost their plans to understand the real financing gap.
- Developing countries are much more constrained than developed countries in terms of policy and fiscal space to implement an expansionary economic recovery. The responsibility for implementing a global, expansionary economic recovery lies predominantly with systemically important developed countries and with international financial institutions that can use their role to both increase climate financing and make the necessary reforms to global economic governance to tackle prolonged structural challenges. Macroeconomic coordination is necessary to provide a climate-sensitive reflation of the global economy that can trigger a positive effect on the growth trajectory of developing countries while advancing full employment in developed countries. Taking these enabling conditions together, it is clear that a more development- and climate-friendly global economic governance is needed to unlock just transitions in the South, as well as to achieve the ambition of Article 2.1C.

What should be the format of the sixth technical expert dialogue, noting that it is shorter in duration compared to the fifth dialogue?

- Circulation of the summary report of the discussions at TED5, publication of the workplan for 2023 and any relevant documents well in advance for parties to prepare.
- Circulation of the leading questions for input well in advance to ensure appropriate time to reflect and provide inputs.
- Civil Society role: ensuring that CS can provide its input with sufficient time and ensuring its access as observers. A possibility for civil society to provide input and feedback on the work program as well.
- Building on success from recent TEDs, ensure adequate time for exchange and deliberation.

For more information contact
Ilaria Crotti
Climate and Development Strategies Unit
Division on Globalization and Development Strategies
Phone: +41 0229171558
Mobile: +39 3518572002
E-mail: ilaria.crotti@unctad.org