Climate Action Network

Submission: Seventh Technical Expert Dialogue (TED7) of the ad hoc work programme on the New Collective Quantified Goal (NCQG) on Climate Finance

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Climate Action Network (CAN) is a global network of more than 1,900 civil society organisations in over 130 countries driving collective and sustainable action to fight the climate crisis and to achieve social and racial justice.

Overview

Due to a lack of progress toward formal decisions, the Technical Expert Dialogue (TED) process has an increasingly urgent role to play in developing options for elements of a decision, to ensure that formal decision-making can happen on the best possible basis.

TED7 must lead to progress towards options for elements on transparency arrangements and the qualitative elements of the new goal. Such progress is especially crucial given the problems caused by inadequate transparency arrangements and the inadequate qualitative scope of the USD 100 billion target. It is vital — not only to the delivery of the Paris Agreement but also the wider credibility of the process under the Convention — that the NCQG integrates lessons learned and moves =toward repairing trust based on enhanced transparency as well as improved quality of climate finance mobilized and provided.

This submission lists potential items for discussion, along with possible formats for that discussion, and provides context for why these are important. In terms of aspects of quality, the submission does not purport to be exhaustive, recognizing that there are numerous elements with respect to the quality of climate finance, including accessibility through devolved financing and a people-centered, human-rights based and gender-responsive approach, but focuses primarily on the significance of grants in the context of the debt crisis afflicting many developing countries. Some options for elements, such as around establishing a grant-equivalent core goal, are essential as a matter of both transparency and qualitative scope.

Recommendations of items for discussion

Items to discuss on transparency arrangements

CAN submits the below as topics that must be discussed at TED7, within the frame of transparency arrangements.

On the transparency of the actual grant-equivalent amount provided or pledged:

1. ***Discussion of lessons from the USD 100 billion, notably ambiguities and divergences over climate finance reporting arising from non standardized or non grant equivalent or otherwise opaque goal-setting and reporting***
   a. This could take the form of presentations by reporting experts (e.g. Oxfam[1] alongside OECD) and testimonials from climate finance recipients, followed by breakout discussions
2. ***Discussion of the state of decisions, modalities, procedures, and guidelines on transparency of climate finance, notably links with the Enhanced Transparency Framework (ETF), definitions of climate finance, and the COP26 decision on common tabular formats mandating reporting of multilateral finance 'inflows' and 'outflows' in separate columns, as well as current relevant negotiations***
   a. This could take the form of a presentation by the UNFCCC secretariat and then collective discussion
3. ***Discussion of ways to avoid opacities under the NCQG, notably facilitating transparent reporting through a "core" public finance goal (discussed at TED6) that would be measured on a grant-equivalent basis***
   a. Expert presentations with proposals could be followed by breakout discussion

On the transparency of additionality of climate finance to past flows:

4. ***Discussion of transparency on methodologies in which Parties assess finance provision under the NCQG that is new and additional, including by noting how much finance is provided additional to 0.7% of national GNI for ODA, as well as ways to make information on additional flows transparent***
   a. This could involve expert presentations plus presentations from countries involved in such methodologies, followed by discussion

On the transparency of burden-sharing expectations:

5. ***Discussion of transparency of contributor approaches for quantifying individual responsibilities, as well as possible burden-sharing frameworks and methodologies, at least on an indicative basis, and whether the NCQG can make progress in this respect, including with proportional metrics based on GDP or other approaches***

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[1] For example, The Climate Finance Shadow Report 2023: Assessing the delivery of the $100 billion commitment - Oxfam Policy & Practice shows that while contributors claim to have mobilized $83.3 billion in 2020 based on OECD analysis, the real value of their spending was —at most— $24.5 billion.

    a. *Expert presentations plus presentations from other international entities with formal burden-sharing frameworks, followed by discussion*

On the support required for determination of needs:

6. ***Discussion of the need for enhancing the quality of information on needs and needs determination processes, and the need for enhancing the support available for such processes.***
    a. *Expert presentations and testimonials from climate finance contributors/recipients and data users, followed by breakout discussions*

<u>Items to discuss on quality</u>

1. ***Discussion of the debt crisis and problems associated with financing via debts and debt inducing instruments instead of grants, across different thematic areas of climate action.***
    a. *Expert presentations and testimonials from climate finance recipients, followed by breakout discussions*
2. ***Discussion of options of qualitative design elements for the NCQG to improve amount of grants and avoid perverse incentives for loans, notably via a grant-equivalent core target, correlating to sub-targets for different areas of climate action***
    a. *Expert presentations, followed by breakout discussions*

Appendix

<u>Context for transparency arrangements</u>

Lessons from the USD 100 billion, notably ambiguities and divergences over climate finance reporting arising from non standardized or non grant equivalent or otherwise opaque reporting

The target of mobilizing $100 billion a year to support developing countries in their climate efforts has been missed[2], but also the opacity around the goal has led to differences of views on the extent of progress made, a lack of clarity on delivery, which has worsened mistrust and divisions between countries. This is where Parties have not been able to come to a common view on delivery — pointing to competing non-agreed reports such as that of Oxfam, that of the OECD, or others. However, the NCQG must avoid these debates at all costs. It presents an opportunity to break with past failures by establishing a new design for a more transparent financial target.

The USD 100bn target was established prior to the agreement in 2014 by the Development Assistance Committee (DAC) of the OECD to introduce a change to the methodology to calculate Official Development Assistance (ODA), whereby the ODA value of loans to the official

[2] (OECD, 2022), Climate Finance and the USD 100 Billion Goal, https://www.oecd.org/climate-change/finance-usd-100-billion-goal/

sector are to be calculated using a grant equivalent measure. The 100bn does not do this, and as a result gives equal weight to loans and grants.

Decisions, and agreed modalities, procedures and guidelines on transparency of climate finance, notably links with the Enhanced Transparency Framework, and the COP26 decision on common tabular formats mandating reporting of multilateral finance 'inflows' and 'outflows' in separate columns, and other relevant negotiations

The NCQG design should consider the Enhanced Transparency Framework (ETF) alongside additional efforts as needed. The ETF established under the Paris Agreement (Art. 13), provides clear guidelines to nations on reporting in two critical domains: action, encompassing both individual and collective efforts, and support, detailing developed nations' assistance to the developing nations. It plays an essential role in helping countries fulfill their commitments: improving data over time, informing climate change policymaking at national and international levels, mobilizing and building capacity, and fostering cooperation[3]. Given the exacting demands of the ETF, developing nations require augmented technical and financial aid, while also necessitating suitable institutions that can help provide information.

Given that the largest proportion of climate finance is provided in the form of loans (including an increasing share of non-concessional loans), it is essential that the grant equivalent of finance be tracked. Particularly by the most prolific loan providers, Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs). These institutions are not accountable to the UNFCCC.

However, the common tabular formats on the transparency of climate finance that were agreed at COP26 mandate that multilateral finance 'inflows' and 'outflows' are reported in separate columns. This makes it easier to determine what the actual contributions from a reporting country to a multilateral institution are (inflows), versus a reporting country claiming an attributable share of the climate finance (outflows) from a multilateral institution. As such, developed countries must ensure that they accurately track the finance they provide to MDBs and IFIs, the financial instruments used to provide finance to the MDB or IFI e.g. grants or loans, and as much as possible track the financial instruments used by the MDB or IFI to disburse climate finance.

Transparency of contributor approaches for quantifying individual responsibilities, as well as possible collective burden-sharing frameworks and methodologies, even if only on an indicative and nonbinding basis, and whether the NCQG can make progress in this respect, including with percentages of GDP or other approaches

Learning from the USD 100bn experience, it is clear that this collective failure was due to the individual failures of some countries to meet their fair share of the USD100bn, whether accounted based on their historical emissions, ability to pay, or other methodologies. The United

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[3] Dagnet, Y., van Asselt, H., Cavalheiro, G., Rocha, M. T., Bisiaux, A., & Cogswell, N. (2017). Designing the enhanced transparency framework, part 2: Review under the Paris Agreement. Washington: WRI. https://www.ourenergypolicy.org/wp-content/uploads/2017/11/designing-enhanced-transparency-framework-part-2-review-under-paris-agreement.pdf

States, responsible for 52% of emissions among Annex II countries, and the world's largest high-income economy, is understood to have provided at most USD 7.6bn in 2020. Meanwhile, the EU, as the largest contributor to public funding, pledged USD 23.04 billion in 2021. Of course, the nature of these contributions, predominantly manifesting as loans rather than grants, is problematic (see a pertinent critique voiced by Oxfam). However, this comparison underlines the crucial importance of transparency on burden-sharing responsibilities to ensure successful delivery of collective targets within the framework of the NCQG.

The need for enhancing the quality of information on needs and needs determination processes, and the need for enhancing the support available for such processes.

The NCQG requires adoption of a needs-based approach, which necessitates empowering and supporting developing countries with the process of needs determination (noting past aggregation work by the UNFCCC SCF). There is enough information available to construct a needs-based NCQG in this cycle, but there is a paramount need to ensure periodic review cycles to allow for improved future determination of needs, with more meticulous and comprehensive assessments of the specific financial requirements for countries' nationally determined climate action.

This should encompass not only the demands for mitigation and adaptation but also considerations for loss and damage incurred by developing countries, with reference to costs to susceptible communities. Implementing a needs-based approach necessitates a multidimensional understanding of needs that extends beyond matching quanta to specific actions, but includes some information on appropriate institutions, instruments, and mechanisms that can facilitate the efficient flow and utilization of allocated resources[4].

Decision 6/CP.23, paragraph 10, requests the secretariat, in collaboration with the operating entities of the Financial Mechanism, United Nations agencies and bilateral, regional and other multilateral channels to explore ways and means to assist developing country Parties in assessing their needs and priorities, in a country-driven manner, including technological and capacity-building needs, and in translating climate finance needs into action. Furthermore, Decision 18/CMA.1 adopts modalities, procedures and guidelines (MPGs) for the transparency framework for action and support under the Paris Agreement, including the provision on reporting of information on financial, technology development and transfer and capacity-building support needed and received by developing country Parties.

The needs-based approach ensures that financial allocations are based on a common understanding of challenges faced. Indeed, the convergence of a needs-based approach with quality and transparency arrangements establishes a solid framework that not only can enhance the impact of climate financing but also engenders confidence among stakeholders, fostering a collective commitment to addressing the global climate crisis.

[4] https://cfanadvisors.org/wp-content/uploads/2022/09/NCQG_Needs_Final-1.pdf

Qualitative scope of the goal

The debt crisis and problems associated with financing via debts instead of grants

Developing countries, particularly those in the South, are particularly vulnerable to climate change, while also facing significant constraints in financing[5]. Despite their limited responsibility for greenhouse gas emissions, they are bearing the full brunt of the climate crisis, but many are having to spend more on servicing creditors than on education, health, or areas of climate action. The majority of these countries have some of the lowest budgetary margins for maneuver, making it impossible for them to cope with the negative effects of climate change. Expecting developing nations to implement development aligned with the goals of the Paris Agreement while developed countries withhold the essential resources required for these endeavors, represents an unjust proposition.

Climate financing as it stands today is not just, with only a quarter of the amount allocated in the form of grants, while the rest is mainly made up of non-concessional loans. A new post-2025 target which encourages loans will exacerbate the debt problem. A significant increase in grants is needed. This year, many developing countries are calling on developed countries to find alternatives for climate finance other than debt-increasing loans[6]. The current landscape of climate finance faces significant issues concerning transparency and fairness. The predominant reliance on non-concessional loans exacerbates the debt burden[7] and widens inequalities.

Options of qualitative design elements for the NCQG to improve fairness and avoid perverse incentives for loans, notably via a grant-equivalent core target

In order to promote a comprehensive and equitable transition, it is essential for the NCQG to substantially increase financial resources in the form of grants[8]. Developing countries are stressing the need for developed countries to place greater emphasis on grants, thereby ensuring adequate funding for the nations most vulnerable to and least responsible for climate change. By adopting such an approach, the NCQG can create a more transparent, inclusive and equitable climate finance model, fostering concrete and collective action to tackle the global climate crisis. Indeed, a core target for public finance, if measured in grant-equivalent terms, would enhance trust and transparency, while responding to the needs of developing countries. Such an approach would help address perverse incentives for loans under the USD100bn, and would help ease the debt burden and facilitate fairer climate action. The grant-equivalent public finance goal could also have a subtarget for disbursement in the form of grants, correlated with thematic sub-goals for adaptation and loss & damage.

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[5] Watson, C. (2023). Options for embedding developing country needs in the New Collective Quantified Goal on climate finance.
https://cdn.odi.org/media/documents/ODI_Embedding_developing_country_needs_in_NCQG_on_climate_finance.pdf

[6] https://www.uneca.org/stories/in-paris%2C-african-leaders-call-for-affordable-financing-to-recover-economies-and-put-the

[7] Oxfam, Climate Finance Shadow Report 2023
https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621500/bp-climate-finance-shadow-report-050623-summ-en.pdf

[8] Ibid.

Qualitative options for the NCQG, such as a grant-equivalent core goal or a subtarget for disbursement as grants, and correlated with thematic sub-goals for adaptation and loss & damage hold the potential to alleviate debt pressure while fostering a more equitable playing field for countries seeking to finance climate action. Indeed, shifting toward grant-equivalent public finance goals would reflect the real value of grants to developing countries and the actual contribution made by developed countries[9]. Nevertheless, of course, properly addressing the debt crisis requires a wider set of measures such as debt cancellation, improved approaches to debt sustainability, and a reform of the financial system to allow more equitable access to capital.

[9] "NEW AND ADDITIONAL" CLIMATE FINANCE: A CONTINUING LACK OF CLARITY, https://unctad.org/system/files/official-document/presspb2015d15_en.pdf