UK Submission: Technical Expert Dialogue 7 (TED-7), September 2023

New Collective Quantified Goal: Quality and transparency arrangements
Mandate: FCCC/PA/CMA/2022/L.19, para. 11 b)

Context

The science clearly shows accelerated action must be taken and that action in this critical decade must support limiting the temperature increase to 1.5°C.

The UK would like to reiterate the collective agreement that the New Collective Quantified Goal (NCQG) is being considered, and shall be decided, under the mandates in 1/CP.21, para. 53; 14/CMA.1; 9/CMA.3, and 5/CMA.4 as presented on the UNFCCC website[1]. The webpage further notes that the NCQG should aim to contribute to accelerating the achievement of Article 2 of the Paris Agreement and its complementarity with Article 9.

Parties have agreed that deliberations on the NCQG are within the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development. Crucially, Article 9.3 of the Paris Agreement states that, in addition to developed country Parties providing support, mobilising climate finance is a global effort and deliberations on the NCQG should take part in this context.

The Enhanced Transparency Framework (ETF) provides for comprehensive reporting across all pillars of the Paris Agreement by Parties, building on Articles 9 and 13, including on support provided and mobilised, needed, and received. The first reports under the Paris Agreement are due to be submitted by 31 December 2024.

The UK Approach

The previous UK submission[2] supported a broad scope for the NCQG, with a four-pillar structure including:

1. A global investment target;
2. An international public mobilisation support target;
3. Quantitative targets representing realignment of finance flows with the goals of Paris; and,
4. Qualitative targets associated with the realignment of finance flows with the goals of Paris.

Building on the UK approach that all four pillars above are needed to fulfil the finance goals set out in the Paris Agreement, this submission provides greater detail on the fourth pillar, supporting **three key principles for the qualitative scope of the NCQG:**

A. Access to climate finance must be improved along with effectiveness, with the overarching goal to keep 1.5°C within reach;
B. The quality of finance should complement its purpose, and the most concessional finance must be targeted at the most vulnerable; and,
C. The principles and transparency of support arrangements agreed as part of the ETF must form the basis for the NCQG in order to place trust at the centre of the NCQG.

Across the four-pillar structure, the NCQG should maximise synergies and co-benefits for people, climate, and nature, including through Nature-based Solutions, supporting delivery of

[1] https://unfccc.int/NCQG
[2] UK Submission, NCQG TED-6, May 2023

the UN Sustainable Development Goals, Paris Agreement and Kunming-Montreal Global Biodiversity Framework.

A. Access to climate finance must be improved along with effectiveness, with the overarching goal to keep 1.5°C within reach;

Access:

There has been significant progress to simplify approvals; promote a programmatic approach; and enhance capacity building to support enabling environments and institutional capacity. Modalities, including Direct Access, have been successful in improving access, and the NCQG should encourage such mechanisms to improve access further. However, there is much further to go if we are to succeed in facilitating access. Climate funds, bilateral contributors, sub-national actors, and Multilateral Development Banks (MDBs) must take action to improve access through mechanisms such as reviewing access procedures, identifying challenges and barriers and putting programmes in place to address these.

Through the Taskforce on Access to Climate Finance, the UK is working with major providers and recipients of climate finance to embed the Taskforce Principles and Recommendations into working practices – these principles focus on responsiveness of country needs and climate vulnerability; transparency and accountability; and harmonisation of processes and alignment of finance. The NCQG should continue this work and facilitate the operationalisation to ensure the issue of access to climate finance has an objective and measurable conclusion. For example, **Parties could consider endorsing an independent body to assess progress on access to climate finance**.

The latest science is clear[3], the time for urgent action is now. The NCQG must bring a step-change to improve access to climate finance. While finance flows and sources should be predictable, to allow recipients to proactively plan and implement climate action, climate finance also needs to be flexible to evolving demands. In line with Article 9 of the Paris Agreement, the NCQG presents an opportunity to shift towards longer-term programmatic financing for nationally determined priorities. The NCQG should mobilise funding from a range of bilateral, multilateral, and private sector sources to support nationally owned, high-quality plans.

Effectiveness:

The NCQG presents a clear opportunity to ensure that climate action is aligned with the most appropriate sources and mechanisms of climate finance. Finance should be targeted to the most effective action that would not otherwise be funded– in **maximising emissions reductions** (static and dynamic), **minimising vulnerability to climate change** (static and dynamic), and **maximising nature benefits**.

In this global effort to enhance the effectiveness of climate finance, we should look to OECD principles of effectiveness as a helpful starting point[4] , in particular:

- recipient ownership;
- transparency and accountability;
- a focus on results; and,
- inclusive partnerships.

[3] IPCC Sixth Assessment Report: https://www.ipcc.ch/assessment-report/ar6/
[4] Busan Partnership for Effective Development Co-operation, 2011, https://www.oecd.org/dac/effectiveness/49650173.pdf

B. The quality of finance should complement its purpose, and the most concessional finance must be targeted at the most vulnerable

The NCQG must take into account the full scope of needs of developing country Parties. While grant-based finance plays a catalytic role, to meet the goals of the Paris Agreement and the needs of developing country Parties, grant-based public finance is limited and so cannot be the only piece of the puzzle. The NCQG should seek to maximise all types of financial flows to ensure they leverage the most effective outcomes and maximise the climate action benefits. A range of high-quality instruments beyond grant finance are needed to deploy the climate finance required from various sources. This will require significant scaling-up and appropriate allocation of all types of finance: domestic and international, public, and private.

The NCQG should also encourage targeting climate finance to support the greatest impact based on the source of finance. Domestic Resource Mobilisation, Public Support, the Private Sector and MDBs all play crucial roles and can have enhanced effectiveness and impact when used to support different types of activity. The following examples are demonstrations of how the NCQG can guide the delivery of climate finance to meet its purpose:

i. **Public support**: Grants for adaptation, and limiting debt

Concessional finance has a catalytic role and as such it should be focussed where needs are highest: at country level; by thematic areas; and at the project level.

The recent Summit for a New Global Financing Pact was an important moment to recognise that climate finance should be deployed so as to limit the debt burden of climate action wherever possible. The UK has a strong record in directing grant finance and concessional finance to where they are most needed.

The NCQG should support good practice in the design and quality of finance provided, such as instruments which can preserve fiscal space while enabling climate action, such as Climate Resilient Debt Clauses (CRDCs) which enable more effective use of public finance post-disaster, and which MDBs and other bilateral creditors are also now developing.

ii. **MDBs**, a key source for concessional climate finance

The MDBs are a very important source of finance for developing countries. MDBs also play a significant role both in leveraging private sources of finance for climate as well as public mobilisation, co-investing in projects in tandem with developing country governments.

The UK has championed the MDBs' efforts to scale up climate finance, particularly during and since our COP26 Presidency. MDBs are now the largest collective source of climate finance for developing countries. Partly due to the UK's engagement during our COP26 Presidency, all leading MDBs are set to be fully aligned with the Paris Agreement on their sovereign operations by the end of 2023, with full alignment of non-sovereign operations by 2025.

MDBs are also taking measures to improve the quality of their finance through revisions to their climate finance tracking methodologies, improved climate mainstreaming into other projects, better measurement of outcomes, and an increased focus on partnerships. The NCQG should look to cement this progress and ensure that MDB finance is making the best possible contribution to keeping 1.5 degrees within reach, including through higher standards of climate finance transparency as per calls from the OECD.

The UK has a three-fold approach to strengthening MDB action on climate change:

- increasing the *scale* of climate finance;
- improving the *quality* of climate finance; and
- ensuring the full *alignment* of MDB finance with the Paris Agreement.

The NCQG must also **leverage the implementation of the G20's Capital Adequacy Framework Review recommendations** by each MDB to best use the capital they have and ensure outcomes relevant to climate and development.

C. Transparency Arrangements Under the NCQG

Articles 9 and 13 of the Paris Agreement provide clear context on the centrality of transparency to the delivery of the Paris Agreement. Key to learning the lessons of the $100bn goal will be improving the transparency of climate finance both in delivery and reporting, thereby **putting trust at the centre of the NCQG.**

The NCQG should be based on a framework which not only provides clarity in the provision of funds and their predictability but also regulations that govern them and awareness of current and upcoming funding opportunities. The ETF agreed at COP26 is well suited to delivery in this context, providing a clear framework for transparency of support through reporting from both contributors and recipients. The delivery of Article 9.5 of the Paris Agreement can work in parallel with this in continuing to hold accountability to those parties providing finance on when and how finance will become available to those in need.

In relation to accounting, countries' reporting methodologies must be transparent and clearly explained. The NCQG should encourage continuous improvement in reporting over time, including on the transparent delivery of parties' climate finance, through efforts to harmonise reporting processes and methodologies across different systems collecting climate finance data.

It will further be essential that projects with climate-related spend will only account for those finances and not the whole project spend – mechanisms such as Rio markers will be key to ensure accountability. In addition, to build on the need to put trust at the centre of this new era **the NCQG should provide transparency around the grant equivalence of support. This would adopt the approach used in the Green Climate Fund (GCF) and incentivise grant finance where it is needed.**

TED7 Format

The UK expects that the co-chairs will build on the improvements in previous dialogues and develop a format for TED-7 which will facilitate clear and targeted discussions, with opportunities for all to input, and output recommendations with options ahead of COP28.

The UK would advocate for continued inclusivity and remaining open to observers. The continued use of working groups with feedback in plenary will also be beneficial as we consider that this format provides opportunities for all voices to be heard and ensures that conversations remain targeted.