Issue: New Collective Quantified Goal (NCQG)
Deadline:29/03/2024
Title: Parties, constituted bodies under the Convention and the Paris Agreement, the operating entities of the Financial Mechanism, climate finance institutions, observers and other stakeholders, including from the private sector, to submit views in advance of each technical expert dialogue and meeting under the ad hoc work programme
Mandate: FCCC/PA/CMA/2023/L.10, para. 14

Contact: thomas.tayler@avivainvestors.com

About Aviva Investors

This submission is from Aviva Investors, the asset management arm of Aviva, a UK headquartered financial services company. Representatives from Aviva have been attending the UNFCCC COP for over a decade and have been very active in recent COPs, including through secondment into the High-Level Climate Champions' team (COP26), co-chairing workstreams within GFANZ and at the UK Transition Plan Taskforce, and most recently with a divisional CEO participating in COP28's finance day and our Group CEO chairing the finance day activity at CBD COP15.

Submission

We welcome the opportunity from the co-chairs to submit views in advance of the ninth technical dialogue and meeting under the ad hoc work programme.

As an institutional investor, and participant in the global financial system, we emphasise the importance of the signals sent from the NCQG to support the mobilisation of private finance in support of mitigation and adaptation priorities in all countries, and particularly for emerging markets and developing economies (EMDE). Private finance mobilisation is also recognized as critical to support the preparation by Parties of their next round of Nationally Determined Contributions and the revision of 2030 and 2035 goals to align with a science-based pathway towards net zero emissions that will provide the best possible chance of limiting end-of-century temperature increases to no more than 1.5 degrees Celsius above the pre-industrial average.

Given the right regulatory and policy environment, private finance has the ability to efficiently allocate capital to accelerate the transition in support of achieving those goals and the implementation of NDCs alongside sustainable development, economic growth, and price and financial stability. Conversely, if NDC ambition and implementation remains insufficient, policy and regulatory signals are not forthcoming, and investment is not available to support the transition, the risks to the stability and ultimately functioning of the financial system are significant in a warming and more volatile world. Private finance actors therefore have a vested interest in supporting the mobilisation of capital as a means to mitigate these systemic risks and to engage with governments and policymakers to seek the correction of market failures that undermine efficient capital allocation and pricing of risk.

A stepping-stone to making all finance flows consistent with the Paris Agreement

Acknowledging that the NCQG starts from a baseline of the $100 billion target, it should also seek to build a bridge between current flows of climate finance and the achievement of the goals of Article 2 of the Paris Agreement. In particular, the NCQG should be a means of bringing about the goal of making all financial flows consistent with pathways towards low greenhouse gas emissions and climate-resilient development, in the context of sustainable development and efforts to eradicate poverty, as espoused by Article 2.1.c. To better understand the progress made, and the levers needed to support the achievement of the goal of finance flow consistency, better tracking not only of flows of climate finance,

but of all financial flows is essential. It is only by measuring the scale of total finance flows that the proportion of them that are consistent with the Paris goals, and also those that continue to flow towards "*high-emissions activities and infrastructure that lacks resilience*"[1] can be understood and necessary policy and incentive corrections be made. For example, the $1.27 trillion of climate finance identified by the most recent CPI analysis[2] represents around 1% of global GDP, which means analysis of the flows representing the other 99% and their impacts is critical. The OECD already capture many of these flows, beyond their monitoring of the $100 billion, and might be well placed to undertake this research, monitoring and reporting to support the NCQG and Sharm el Sheikh dialogue on Article 2.1.c.

A needs-based approach

In addition to an overarching aim to make all financial flows consistent with the aims of Paris and build on the $100 billon commitment, the NCGQ must recognize the needs of developing Parties to support the implementation of their NDCs, to adapt to the effects of a warming planet, and to support their sustainable and low-carbon development. The recognition in the UAE Consensus of the complementarity of Article 9 and Article 2.1.c of the Paris Agreement and that one is not substitute for the other is a key starting point here. The analysis of the second report of the Independent High-Level Expert Group on Climate Finance[3] identified the need as being $2.4 trillion per year for EMDE outside of China, of which $1 trillion needs to be private finance. Setting the NCQG with these needs in mind, and the imperative to use the NCQG to mobilise private finance to, in effect, increase by 10-fold the current flows of climate finance, is a critical backdrop to this year's work.

A whole of government, whole of economy approach

The Synthesis Report ahead of the First Global Stocktake emphasised the need for a "whole of society" approach to implementation of the Paris Agreement. A "whole of government", "whole-of-economy" approach is needed[4] in the implementation of not only Paris commitments and NDCs, but also the co-benefits of concurrent implementation of the Kunming-Montreal Framework on Biodiversity and the Sustainable Development Goals. We believe that governments, in building the approach to the NCQG as well as preparing their revised NDC commitments and setting implementation pathways for commitments made, can embrace the emerging momentum in the private sector behind producing, implementing, and reporting against transition plans to set out how corporate and financial institutions will evolve their businesses to react to and drive the transition, manage risks and seize the considerable opportunities that it presents[5]. Mobilisation of and deployment of climate finance and creation of enabling environments for its deployment and efficient use would be a key element of a comprehensive and strategic plan from all governments, whether providers of or recipients of climate finance. The NCQG needs to speak not only to public finance flows, but all sources, which can be mobilised by consistent and strategic signals that could be provided by a national transition plan.

Focus on mobilizing all sources of finance

Although the complementarity of the NCQG and Article 2.1.c with Article 9 is essential, and public finance must provide the foundation and certainty that supports the NCQG, it is also important that the NCQG is specifically designed to maximise mobilization of all forms of finance, not solely public funds. It is also essential that the limited public money that is available is used as efficiently as possible, and

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[1] per the Synthesis Report by the Co-Facilitators on the Technical Dialogue of the First Global Stocktake https://unfccc.int/sites/default/files/resource/sb2023_09E.pdf

[2] https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/

[3] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2023/11/A-Climate-Finance-Framework-IHLEG-Report-2-SUMMARY.pdf

[4] https://static.aviva.io/content/dam/aviva-corporate/documents/socialpurpose/pdfs/aligning-the-financial-system-to-net-zero-may-2022.pdf

[5] Further detail is set out in our report "The Tipping Point for Climate Finance" https://www.avivainvestors.com/en-gb/views/aiq-investment-thinking/2023/11/tipping-points/

all levers for the mobilisation of private finance in particular are utilised. The quality of finance as well as the quantum is also important. Given the scarcity of public finance relative to the scale of the needs of developing countries, it is important that the effective use of public finance where it is most needed and the efficient crowding in of other sources of finance, including private capital, are clearly set out in the new goal. A differentiation between type of finance that might include public sources of finance as direct investment, use of public guarantees and blended finance to de-risk opportunities that might otherwise not attract private capital, domestic resource mobilisation, and private finance mobilisation with clear targets that recognize the differences between different sources and where they are most needed, would contribute to a comprehensive NCQG that maximizes impact.

Sending signals to the private sector and aligning the financial system

The overwhelming majority of the investment needed in a nature-positive, just transition will need to come from private finance. There is not a shortage of money in the financial system, but there is a challenge in changing the policy and economic signals, both domestically in each country and internationally, that mean that the incentives in the financial system and the real economy it serves are misaligned with the achievement of global goals.

The $100 billion goal was largely seen by private finance as something that didn't apply to or affect them in their day to day decision making because, other than where public finance was being utilised to change the risk-return profile of a specific asset, project or instrument, it wasn't seen as something that affected risks and valuations in markets and certainly not across the investment time horizons of most investors. It is essential that the NCQG speaks to all actors across all economies and is allied to policy that implements pledges made by governments at COPs and in international for a in a way that changes investment decisions and therefore flows. The pledges made in the Paris Agreement and in the COP outcomes like the UAE Consensus, Sharm el Sheikh Implementation Plan and Glasgow Climate Pact, as well as at G7 and G20 meetings and other multilateral forums do not, of themselves, change the way that finance flows. That will only happen when these words are translated into the kind of domestic policy measures that affect the assessment of future cashflows tied to investments that are considered in making lending, investment and underwriting decisions. There is growing systemic risk linked to the failure to mobilise capital to support the implementation of NDCs in developing countries, and the majority of climate finance flows remain in developed markets. However, if investment is not mobilized for all countries, the risks form a failed transition in some places will have economic and geopolitical spillover effects in all markets, including developed ones, making this a risk issue for all financial market participants.

To increase the effectiveness of the NCQG in mobilizing capital, particularly from private markets, it is important that the regulatory and supervisory environment is made consistent with this goal. The regulatory system and the institutions who oversee it were not designed for the purpose of supporting the climate transition, therefore there are unintended barriers or negative signals within these regulatory regimes that hinder mobilisation of private capital. A system focused on avoiding the last financial crisis is unlikely to be best equipped to prevent the next one, given that history will probably not repeat itself. Similarly, multilateral development banks and public finance institutions were not created with this end in mind, although the reform agenda for MDBs, and the evolution of the World Bank's vision to encompass creation of a world free of poverty *on a liveable planet* is a welcome signal of their seeking to address this. That is not to say that mobilisation of capital should become the goal that uniquely determines regulatory regimes, it is that recognising the need to create a supportive regulatory and supervisory enabling environment in the developed markets that can be sources of capital is necessary to make investment flow. And that by considering the systemic risks of climate change and nature loss and of the failure to finance the transition along a science-based pathway are factors that were not considered in the creation of these regimes but that now should be taken into account alongside more familiar risks. Doing so can help to send signals to financial actors that support their allocation of capital towards markets that they might otherwise avoid and provide a balancing factor in the assessment of

risks and opportunities that is often absent. To press for the necessary changes and avoid fragmentation that would delay efficient capital mobilisation, the bodies of the international financial architecture, particularly those bodies reporting to the Financial Stability Board that bring together the regulators and supervisors of finance, should produce their own transition plans for how they will account in their work for the commitments made by their government stakeholders in agreements like Paris and the Kunming-Montreal Framework. If they find that their current mandates are prohibitive in this regard, or that they need to update their overarching principles of regulation and supervision, they should seek instruction from governments to make the necessary changes to secure their ability to do so. In general, the regulatory systems and institutions were created to meet the prevailing need of the time, and are human constructs, therefore they might be imagined differently to meet this most pressing challenge of our generation on behalf of all those to come.