



Submission on the Ninth Technical Expert Dialogue and the First Meeting Under the Ad Hoc Work Programme

Boston University on behalf of the Task Force on Climate, Development and the IMF

Dear Co-Chairs Fakir and Gilbert,

We are pleased to provide you with this submission on behalf of the Boston University Global Development Policy Center, a research center at Boston University, an admitted delegation under the UNFCCC. This submission reflects our mission to advance financial stability, human well-being and environmental sustainability across the globe and draws on our extensive body of research.

This submission proposes three topics for discussion at the ninth technical expert dialogue and the first meeting under the ad hoc work programme: 1) the quantum of the NCQG in light of rigorous analysis of climate finance needs, 2) the composition of the finance under the NCQG, with particular attention to the role of debt, and 3) the relationship between multilateral development banks and the NCQG. These three topics do not constitute an exhaustive list of topics that should be discussed.

In each of these topics, the technical expert dialogues and the ad hoc work programme should work towards proposed language that is clear, detailed, and transparent. Paragraph 8 of the Copenhagen Accord, while an important step forward in formalizing climate finance arrangements, left significant ambiguity on the composition and delivery of the \$100 billion dollars. Decision 5/CMA.4 acknowledged the need to take into account “quantity, quality, scope and access features, as well as sources of funding, of the goal and transparency arrangements to track progress towards achievement of the goal.”¹ Enumeration of the contours of all these elements in the NCQG would facilitate trust and a shared understanding of parties’ adherence to the NCQG in coming years.

1. The quantum of the NCQG in light of rigorous analysis of climate finance needs

The NCQG aims to contribute to accelerating the achievement of Article 2 of the Paris Agreement, increase the ability to adapt to the adverse impacts of climate change and foster climate resilience, and make finance flows consistent with a pathway towards low greenhouse

¹ Decision 5/CMA.4, para. 9

gas emissions and climate-resilient development.² An adequate quantum for the NCQG is a necessary—but not sufficient—element of its ability to achieve these aims, and the scale of finance that developing countries need to achieve the NCQG’s stated aims can be measured through evidence-based research. Technical experts are well placed to contribute rigorous analysis on the necessary quantum of the NCQG.

While several such analyses have been conducted, we would point to the Independent High-Level Expert Group on Climate Finance’s (IHLEG) analysis as particularly rigorous and pertinent to the NCQG. The IHLEG analysis finds that emerging markets and developing economies other than China face a climate finance gap of \$2.4 trillion per year by 2030.³ It also finds that \$1.4 trillion of this sum must come from domestic resource mobilization while \$1 trillion would come from external finance.⁴ Although some modification of that number may be necessary if the NCQG’s recipient base differs from the IHLEG analysis, this needs-based estimate of \$1 trillion in external finance maps closely onto the aims and terms of the NCQG. It also reflects the scale of structural transformation needed to make countries low carbon, socially inclusive, and resilient to climate change and other shocks.⁵

Carbon pricing continues to be viewed as a major source of revenue that will help to finance the transition to a low-carbon pathway, however, governments need to orient their macro-fiscal frameworks towards resource mobilization, investment and structural change supported by international finance. The focus on carbon pricing discounts the imperative for massive international and domestic resource mobilization that will be required and the spillover impacts of climate policy across borders. Furthermore, the existing evidence shows that carbon pricing alone is unlikely to foster the speed and orderliness in the transition.⁶

2. The composition of the finance under the NCQG, with particular attention to the role of debt

In addition to a clear quantum, the NCQG will need to offer clear direction on the composition of finance in order to enable accountability and transparency and to fulfill its mandate.⁷ Building on the IHLEG report, the G20 Independent Expert Group (IEG) estimated that the \$1 trillion per year in external finance needed by emerging market and developing economies other than China by 2030 must consist of \$500 billion from external official sources and \$500 billion from private

² Decision 5/CMA.4, para. 7

³ Songwe V, Stern N, Bhattacharya A (2022) Finance for climate action: Scaling up investment for climate and development. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science.

⁴ *Id.*

⁵ Gallagher K, Bhandary RR, Ray R, and Ramos L (2023) Reforming Bretton Woods institutions to achieve climate change and development goals, *OneEarth* 6(10)

⁶ Task Force on Climate, Development and the IMF. The International Monetary Fund, Climate Change and Development

⁷ Decision 5/CMA.4, para. 9

finance mobilized.⁸ Of the \$500 billion from official external sources, the IEG assumes \$180 billion is concessional while \$320 billion is non-concessional.⁹

Careful technical analysis of the necessary division between private and public finance as well as grants, concessional lending, and market-rate lending will be necessary to ensure that the NCQG fulfills the climate finance needs it aims to address. Attention to debt will be critical. Loans represent a large majority of climate finance in the IEG estimates. Loans also represented a large majority of climate finance under the \$100 billion goal—77.5% of public and private finance in 2021 according to OECD figures.¹⁰

Assumptions of capital costs, debt sustainability, and private capital mobilization will be critical to determining the appropriate composition of finance under the NCQG. Interest rates have risen significantly in recent years, contributing to rising debt levels in low- and middle-income countries and reducing their ability to depend on private finance and market-rate lending. Of 108 emerging market and developing economies analyzed in recent research from our center, 62 are in or at risk of debt distress, 33 are rated below “investment grade” or face borrowing costs higher than projected growth rates, and just 13 have relative capital market access.¹¹ Likewise, an IMF working paper estimated that only seven out of 29 low-income countries that have cost estimates in their national adaptation plans actually have the fiscal space to make those investments.¹² Private capital mobilization rates have also historically been low in developing countries: the World Bank mobilized 0.8 to 1 according to the October 2023 Global Financial Stability Report.¹³ The presence of these conditions—high interest rates, high debt distress, and low private capital mobilization ratios—would require a greater share of climate finance coming through concessional and grant-based public finance and reduce the share that could come from private finance.

3. The relationship between multilateral development banks and the NCQG

Multilateral development banks (MDBs) already played a significant role in the provision of climate finance under the \$100 billion goal, and they will likely account for a significant share of finance under the NCQG as well. Multilateral public finance accounted for 43% of climate finance mobilized by developed countries in 2021, with a significant share of that coming from MDBs.¹⁴ MDBs have already started expanding the scale of their lending through balance sheet optimization measures. They have also increased the share of their lending going towards climate change: the World Bank, for example, has set a climate finance target of 45% of its lending by 2025. The IEG report estimates that MDBs should provide an additional \$260 billion per year in

⁸ Summers L, Singh, N.K. et. al (2023) The Triple Agenda: Report of the Independent Experts Group on Strengthening Multilateral Development Banks

⁹ *Id.*

¹⁰ OECD (2023), Climate Finance Provided and Mobilised by Developed Countries in 2013-2021: Aggregate Trends and Opportunities for Scaling Up Adaptation and Mobilised Private Finance, Climate Finance and the USD 100 Billion Goal, OECD Publishing, Paris, <https://doi.org/10.1787/e20d2bc7-en>.

¹¹ Ray R and Simmons B (2024) Now or Never: Mobilizing Capital for Climate and Conservation in a Debt-Constrained World

¹² Chamon, M, et. al (2022) Debt-for-climate swaps: analysis, design, and implementation

¹³ IMF (2023) Global Financial Stability Report: Navigating the High Inflation Environment

¹⁴ OECD (2023)

official financing by 2030, approximately \$156 billion of which would go towards climate action.¹⁵ In other words, MDB climate finance alone could soon exceed the \$100 billion that constituted the entirety of the previous climate finance goal.

Given the importance of MDBs to future climate finance flows, the NCQG should clarify several elements necessary to transparent accounting and effective delivery of MDB climate finance. First, the technical expert dialogues and ad hoc work programme can advance clarity on what MDBs count as climate finance, a topic that has been subject to significant debate.¹⁶ Second, these processes should discuss methodologies for imputing climate finance provided by MDBs to specific countries.¹⁷ Third, the NCQG should distinguish between different types of finance provided by MDBs, which use varying criteria to determine the degree of concessionality offered.

¹⁵ Summers L, Singh, N.K. et. al (2023)

¹⁶ See, e.g., Oxfam (2022) Unaccountable Accounting: The World Bank's unreliable climate finance reporting

¹⁷ See, e.g., OECD (2023) p. 18