



New Collective Quantified Goal Tenth Technical Expert Dialogue and Second Meeting of the Ad- Hoc Work Programme

Mercy Corps Submission, 17 May 2024

Mercy Corps welcomes the opportunity to respond to the call for Parties and Observer Organizations to submit views to the next meetings of the New Collective Quantified Goal on climate finance (NCQG).

The \$100bn goal was a major step forward in that it was the first quantitative target on climate finance flows from developed to developing countries, and clearly reflected the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC). However there have been serious failings in the delivery of that goal. Fifteen years later, Parties have the opportunity to correct this, and ensure climate finance can support the seismic changes required to mitigate, adapt and address loss and damage, in a world that is warming and changing at frightening speed. Without greater finance and increased NDCs, temperatures will rise 2.7°C by 2100¹ which the UN Secretary General has described as a 'death sentence'.

Achieving a robust NCQG is fundamental to achieving the goals agreed in the Paris Agreement. As the second report of the Independent High-Level Expert Group on Climate Finance (IHLEG) states: *'Failure to generate investment and finance of the scale and nature required is to fail on Paris. The consequences would be devastating, particularly for the poorest people. Seizing the opportunity would unlock the growth story of the 21st century.'*²

This submission, built on the lessons from the \$100bn, highlights five key elements to be integrated into the NCQG if it is to be fit for purpose.

1. The NCQG should be built on CBDR-RC

At the founding of the UNFCCC, all countries agreed a shared responsibility to tackle climate change. The framework established the core concept of 'common but differentiated responsibilities and respective capabilities', whereby developed countries, who historically had been the largest emitters of greenhouse gases and benefitted from industrialisation, 'should take the lead in combating climate change and the adverse effects thereof' including providing financial resources to help developing countries reduce their emissions and adapt to the climate crisis.

Since then, the Bali Action Plan (2007), Copenhagen Accord (2009), Cancun Agreements (2010) and Durban Platform for Enhanced Action (2011) have reinforced the principle of CBDR-RC and the requirement of developed countries to take the lead on climate finance.

Most pertinently, the legally-binding Paris Agreement, 2015 states:

- Article 2.2: ‘This Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.’
- Article 9.1: ‘Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation.’

It could not be clearer, then, that CBDR-RC must be at the core of the NCQG and that providing climate finance is binding for developed countries.

The NCQG should:

1. Continue to be based firmly on existing UNFCCC principles, explicitly including language from Article 2.2 of the Paris Agreement on equity and CBDR-RC.
2. Underscore the financial obligation of developed countries to continue to provide financial resources and take the lead in mobilising climate finance.

2. The need for burden sharing and accountability

Accountability and predictability lie at the heart of climate finance. Contributor countries need to know how much climate finance they need to budget for; recipient countries need to know how much they can expect to receive; so there must be predictable finance flows and a mechanism for holding contributors to account. The NCQG must learn the lessons from the 100bn goal which did not incorporate an accountability mechanism. Agreeing to a quantitative goal without a framework to achieve it, clarity over who should be providing what in terms of financing, and no clear methodology or guidelines around accountability, is a recipe for failure.

A **burden-sharing mechanism** was envisaged as far back as 1992 in the UNFCCC: ‘the implementation of developed countries’ financial obligations towards developing countries ‘shall take into account [...] the importance of appropriate burden sharing among the developed country Parties.’¹³ Several countries have already underscored the importance of burden-sharing: for example, the February 2022 submission from the African Group of Negotiators called for ‘agreement on an appropriate burden-sharing arrangement among developed country parties for the provision of financial support based on responsibility and respective capability.’¹⁴

Burden sharing is common in international agreements: for example NATO members commit to spending a minimum of 2% of GDP on defence and UN Member States pay respective shares towards peacekeeping based on, among other things, the relative economic wealth of a country. As climate change is a threat to every nation, it can only be effectively tackled by adopting a burden sharing approach, where the costs and benefits of addressing the issue are distributed among countries, using a fair share approach.

A fair share approach is based on two core variables in line with the CBDR-RC principle: historical emissions, reflecting responsibility for causing the climate crisis; and income, reflecting ability to pay. This is a well understood concept and there are already several well-established fair shares approaches⁵, and while methodologies vary slightly, the resulting fair shares are well aligned. A detailed sensitivity analysis done by the Centre for Global Development found that even through changes in the measure of emissions, measure of income, the structure of the model, cut-off date, discount rate, and exclusion of certain countries, there is remarkable stability across the set of top 20 countries in all scenarios.⁶

While there are calls to widen the contributor base, it is crucial to note that several **developing countries already provide significant climate finance**, and in some cases more than Annex II countries. While data are scarce, recent studies find that:

- Several large, middle-income economies – China, India, Brazil and Russia – appear within the top 20 positions. This is despite the fact that their climate finance contributions are likely to be underestimated due to a lack of available data.⁷
- China was the 7th largest provider of climate finance in 2017, after Japan, Germany, France, the US, the UK and Italy.⁸
- In 2021-2022, developing countries provided \$18.1 bn in international climate finance, with public actors providing 86% (\$15.6bn) of this figure, more than any individual Annex II provider in the same year.⁹

These countries are not under a UNFCCC obligation to provide climate finance, but do so regardless.

In this context, calls to expand the contributor base is a narrative that is at best slowing down progress on climate finance, and at worst providing a smokescreen for developed countries' not meeting their binding commitments. It could be argued that only Annex II countries that have paid their fair share to date have legitimacy to speak in this debate. And any change to the contributor base could only be countenanced when the \$100bn has been paid in full from 2020 onwards by current Annex II countries, fulfilling their existing obligations.

The NCQG should:

1. Establish a burden sharing mechanism to determine relevant countries' contributions for the core of public finance, to ensure proper accountability.
2. Encourage all Parties – whether obligated to provide climate finance or not - to report on their climate finance provision, to provide greater clarity and transparency.
3. Remain true to the Paris agreement – providing clear obligations for developed countries and encouraging other Parties to provide climate finance voluntarily.
4. Ensure that the existing obligations of Annex II countries to provide \$100bn per year from 2020 onwards are met in full.

3. A core of public grant-based finance

Needs are such that increased funding is required from all available sources - public finance, private sector, from multilateral development banks, and other non-traditional and innovative

sources. Yet there remains, at its core, a need for the bulk of finance for adaptation and loss and damage to be delivered as grants.

A shift to more grant-based finance

Developing countries are facing an existential debt crisis; almost 60% of the world's poorest countries are now in debt distress and Small Island Developing States (SIDS) spend 30-70% of their public revenue on their debt.¹⁰ Low-income countries now spend on average five times more on debt repayments than on adapting to climate change.¹¹

As such, climate finance must be provided as grants, or very highly concessional finance, to ensure that debt burden does not increase. The use of loans and other return-seeking finance is severely out of step with the principles of CBDR-RC and climate justice. By providing loans and equity, providers recover most of the funding and the burden of financing climate action still rests on climate vulnerable countries, ones which should not be forced into debt to respond to a crisis for which they bear very little responsibility. This is reflected in the COP28 decision text which *'Notes that scaling up new and additional grant-based, highly concessional finance, and non-debt instruments remains critical to supporting developing countries'*.¹²

This requires a major shift. Currently grants account for just a quarter of climate finance delivered under the \$100bn goal¹³ and much of this is not concessional - 17% of public finance going to LDCs comes in the form of market-rate debt.¹⁴

The role of the private sector is important, but has its limits

Expectations are high that the private sector can meet a major proportion of the funding gap. In particular, there is much focus on using public finance to 'de-risk' private investments, thereby mobilising private finance. However, to date, the private sector has not delivered. In 2021, \$73.1bn came from public sources, and developed countries mobilised only \$14.4bn from the private sector. This \$14bn figure has stayed remarkably stable over the years, and has not grown in line with increasing international climate finance.

Private finance is also not reaching the most vulnerable. The OECD finds that between 2016-2021, most private climate finance went to middle-income countries with relatively low risk profiles.¹⁵ Put simply, investors seek higher returns and increased risk is associated with a greater chance of financial losses. Thus the same project costs very different amounts in different countries. For example, estimated investors' return expectations from solar PV-based power generation projects vary widely - 7% in Germany, 17% in India, 22% in Brazil, and 38% in Zambia.¹⁶

The OECD also finds that between 2016-2021, only 9% of mobilised private climate finance went to adaptation.¹⁷ This is less about de-risking, and more a problem of lack of modelling and understanding of potential future returns. It is much harder to achieve returns on the building of flood defence systems, switching to conservation agriculture techniques, restoring ecosystems, early warning systems etc. So far, business models for adaptation have been limited.

In the light of the limitations described above - of return-seeking and private sector finance, notably for adaptation and loss and damage - grant-based public finance must remain at the core of the NCQG.

Grant-based and highly concessional public finance is particularly important for adaptation and loss and damage, which have less potential than mitigation projects to attract private sector funding or provide a revenue stream to repay debt. As highlighted by the 2023 IHLEG report, *'concessional finance is the scarcest and most vital source of finance for meeting urgent and high priority needs'*. The same report recommends that developing countries will need a fivefold increase in concessional finance by 2030, and that developed countries must lead by tripling the amount of bilateral concessional finance by 2030.'

In particular for loss and damage, many aspects are simply not appropriate for return-seeking finance – such as humanitarian action (which has always relied on grants as a form of solidarity), non-economic loss and damage, and initiatives that deal with the irreversible impacts of climate change such as sea level rise and desertification. Incurring debt to cover the costs of a disaster builds up liabilities at precisely the same time as key assets are being destroyed and fiscal space is constrained. This can lead to a negative feedback loop where mounting debt restricts capacity to recover economically and physically and prevents them from investing in infrastructure, health, education and other essential public services.

The NCQG should:

1. Be structured around a core of public finance provision, recognising that this remains critical for low income countries, adaptation, and loss and damage.
2. Not have a combined target for providing public climate finance and mobilised private finance.
3. Ensure that public grant-based finance represents the majority of adaptation and loss and damage finance.
4. Guarantee, in line with the principles of CBDR-RC and equity, that climate finance does not further aggravate the debt burden carried by developing countries.
5. Have ambitious targets for grants and highly concessional finance reflected in a stand-alone public finance target measured in grant-equivalent terms.
6. Make it mandatory that contributors report climate finance at grant equivalent value to account for the real effort linked to the support provided and enhance transparency.

4. Increase public finance through better use of public resources

Developed country Parties have an obligation to provide ***new and additional*** financial resources - this was agreed in Article 4.3 of the UNFCCC and has been restated in many agreements since.

This is important because diverting ODA resources from development to serve climate objectives is self-defeating. As noted by the 2022 report of the IPCC which underlined that *'a key agreement was that climate financing should be 'new and additional' and not at the cost of SDGs.'*¹⁸ The report highlights that *'Resources prioritising climate at the cost of non-climate development finance increase the vulnerability of a population for any given level of climate*

*shocks, and additionality of climate financing is thus essential.*¹⁹ This ‘either/or’ scenario is unjust, hinders progress towards achieving the SDGs and imposes the highest costs on those who have contributed the least to climate change.

Currently the commitment to provide new and additional finance is rarely met - only 6% of the public climate finance provided from 2011 to 2018 was new and additional to developed countries’ ODA commitments.²⁰ Seeking funding from so-called innovative sources provides a crucial opportunity to meet this commitment. Drawing lessons from the \$100bn goal, the NCQG should include clear definitions of what is considered new and additional finance, as notably called for by the African Group of Negotiators.²¹ Clarity on definitions and tracking methodologies would notably help avoid double counting.

One new and important way of meeting this commitment is through the use of ‘innovative sources’ of finance. Developed countries often claim that they have limited ‘fiscal space’ for greater ambition on climate finance. Yet there are a number of options already on the table that could address this.

One key way to increase fiscal space is to phase out inefficient fossil fuel subsidies that do not address energy poverty or just transitions; this not only provides a source of finance, it also enables a more coherent whole-of-government approach to the climate crisis. While estimates differ, production and consumption subsidies are typically around \$600bn per year, and to this should be added ‘implicit subsidies’, the cost of the environmental damage caused by fossil fuels. In 2022, the IMF found that total global fossil fuel subsidies reached a record high of \$7 trillion, representing 7.1% of global GDP²² – more than three times what is needed by developing countries outside China to respond to climate change by 2030. As highlighted by the 2023 IHLEG Report, the *‘elimination of harmful subsidies (...) can generate much needed revenues to finance the transition.’* Any reform of consumption subsidies must be done carefully to avoid increased costs for poorer households; this could be done through providing cost-effective alternatives (successful examples include e-scooters in Jakarta and solar panels in rural India) and through targeted social programmes.

Ending inefficient fossil fuel subsidies would also ensure that developed country governments are in compliance with Article 2.1c of the Paris Agreement, ensuring that all financial flows support the mitigation and adaptation objectives of the Paris Agreement.²³

There are several other ways that developed countries could raise money to provide dedicated, affordable, and accessible finance for developing countries. Propositions currently include:

- A fossil fuel extraction levy, where countries introduce a tax on fossil fuel companies based on the CO₂ emissions equivalent of every barrel of oil, ton of coal or cubic metre of natural gas extracted within its borders.²⁴ This could net \$210bn annually.
- An air passenger or ticket levy, where countries place an extra surcharge/purchase tax on aeroplane tickets. This could be based on frequent flyer status, where the more someone travels, the more they pay.²⁵ This could net \$4-150bn annually

- An International Maritime Organisation greenhouse gas levy, where ship operators pay a fee based on the volume of greenhouse gas emissions from purchased marine fuel. This could net around \$60bn annually.²⁶
- A global wealth tax on multimillionaires and billionaires. Establishing a 1% global tax on wealth over \$1 million would yield revenues of around \$1.159 trillion²⁷ and a 5% tax on multimillionaires and billionaires would generate \$1.7 trillion per year.²⁸

This shows that there is potential for major new funding sources, and these opportunities need to be seized in the face of the current climate challenges. As highlighted in the 2023 IHLEG report, *'introducing international taxation on high emitting sectors such as maritime transport and international aviation has enormous potential to close the climate financing gap and should be actively pursued.'*

The NCQG should:

1. Require significantly higher public finance targets from developed countries, in line with needs and CBDR-RC obligations. The quantum should be based on what is needed, not what is politically expedient and convenient for developed countries.
2. Underscore the need for all countries, with a particular focus on developed countries, to seek to maximise public finance for climate action - including phasing out inefficient fossil fuel subsidies that do not address energy poverty or just transitions, fossil fuel taxation, shipping and aviation levies, taxes on profits or wealth - which provide real and realistic opportunities from both a financial and climate justice standpoint. Countries should introduce their own domestic policies now, to create fiscal space and build the momentum for international agreements on innovative sources of finance.
3. Restate the importance of climate finance provided by developed countries being new and additional to ODA and not be counted towards the 0.7% GNI aid target.
4. Ensure that developed countries report climate finance distinctly from other ODA.

5. Starting from needs, not politics, requires subgoals

The quantum of the \$100bn goal was based on what could be achieved politically, not what was needed. Learning the lessons from this, the NCQG must be grounded in science and based on developing country needs, and as such, requires significantly greater detail and granularity than the \$100bn goal.

It is clear that the overall goal requires a quantum many times bigger than the current financial goal. It is also clear that very different amounts are needed for mitigation, adaptation and loss and damage. According to the adaptation gap report, \$215bn per year could be needed this decade on adaptation.²⁹ Estimates of the cost of loss and damage start from a floor of \$400bn per year³⁰ and go upwards of \$580bn by 2030.³¹

We need to learn from the failures of the \$100bn goal, that relying solely on a single target has resulted in a major imbalance between climate finance allocations for mitigation and adaptation. OECD data shows that mitigation still makes up for two-thirds of total climate finance mobilised

by developed countries³² and the IHLEG report finds that '*The adaptation finance gap is growing. Adaptation costs/needs are now estimated at around 10–18 times as much as current flows of international public adaptation finance.*' This imbalance has been recognised, with the commitment at COP26 to double adaptation finance. However, it has proven difficult to reverse-engineer a sub-goal and sub-goals should be created in the NCQG from the outset.

Loss and Damage should also be established as a separate sub-goal in order to recognise the different strategies and responses that should be taken compared to adaptation, and to build on the commitments made at COP27 and COP28 to create a new Loss and Damage fund and strengthen related funding arrangements.

Thus subgoals for mitigation, adaptation and loss and damage are required to ensure more equitable and balanced distribution and that finance for adaptation and loss and damage do not get lost or eclipsed by support for mitigation efforts. It will also ensure that finance is not taken from one to fulfil commitments to the other.

Another lesson from the \$100bn goal is the need to differentiate between the *provision* of climate finance resources supplied by developed country governments (i.e. public funds) and *mobilisation* of climate finance, resources from private entities which become available due to contributors' activities. In practice, this has resulted in very little grant finance provision, leading to debt, climate injustice, and disadvantaging of adaptation and loss and damage. And of course, private sector organisations are not Parties to the UNFCCC and hence cannot be held to account.

The NCQG should:

1. Be developed such that its structure and quanta (of the overarching goal and subgoals) are shaped by scientific evidence and the evolving needs of developing countries and climate vulnerable communities.
2. Be continuously reviewed, ratcheted, and adaptable over time to ensure it can meet evolving needs and consider the right mix of financing instruments.
3. Provide a clear signal on the priority of and need for accountability for public finance, as well as ensuring a strong and appropriate balance across mitigation, adaptation and loss and damage.
4. Establish an agreed overall quantum, which is then quantified through two different lenses:
 - Sources
 - Public finance – with a quantum in grant-equivalent terms that represents the core of the NCQG, adhering to established principles of equity and CBDR-RC.
 - Other sources of finance, including mobilised private sector finance, innovative sources etc.The quanta of these two sources would add up to the overall quantum.
 - Theme
 - Three different subgoals for mitigation, adaptation, and loss and damage reflecting the needs of developing countries.The quanta of these three subgoals would add up to the overall quantum.

Conclusions

Developing countries bear the brunt of the impacts of climate change, despite having contributed least to the climate crisis. These countries also have the least financial and technical resources to address climate change. While international climate finance has significantly increased over the last few decades, it is falling far short of the amount needed to avoid the most severe effects of climate change and pay for vital adaptation and resilience measures in the most climate-vulnerable countries.

The NCQG must chart a new way forward. Learning from the lessons of the \$100bn, the NCQG must build a new climate finance platform that paves the way for rapid and more ambitious climate action and strengthens trust, accountability and transparency in climate finance governance.

¹ [Climate Action Tracker](#)

² [A-Climate-Finance-Framework-IHLEG-Report-2-SUMMARY.pdf \(lse.ac.uk\)](#)

³ See United Nations Framework Convention on Climate Change (see [A/AC.237/18 \(Part II\)/Add.1](#) and Corr.1, annex I)

⁴ [Microsoft Word - AGN submission on the New Goal.docx \(unfccc.int\)](#)

⁵ These include ODI (see [here](#)) CGDev (see [here](#)), WRI (see [here](#)), ETH Zurich (see [here](#)), Oxfam (see [here](#)), and Carbon Brief (see [here](#))

⁶ [Who Should Pay? Climate Finance Fair Shares \(cgdev.org\)](#)

⁷ [ODI working paper \(cdn.ngo\)](#)

⁸ [ODI working paper \(cdn.ngo\)](#)

⁹ [Global-Landscape-of-Climate-Finance-2023.pdf \(climatepolicyinitiative.org\)](#)

¹⁰ [Microsoft Word - Remarks Alicia Bájrcena - Meeting of Finance Ministers - 8 September 2020 \(un.org\)](#)

¹¹ https://jubileedebt.org.uk/wp-content/uploads/2021/10/Lower-income-countries-spending-on-adaptation_10.21.pdf

¹² [Outcome of the first global stocktake. Draft decision -/CMA.5. Proposal by the President \(unfccc.int\)](#)

¹³ [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/754616/EPRS_BRI\(2023\)754616_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/754616/EPRS_BRI(2023)754616_EN.pdf)

¹⁴ [Global-Landscape-of-Climate-Finance-2023.pdf \(climatepolicyinitiative.org\)](#)

¹⁵ [Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries : Challenges and Opportunities for International Providers | OECD iLibrary \(oecd-ilibrary.org\)](#)

¹⁶ [IHLEG-Finance-for-Climate-Action-1.pdf \(lse.ac.uk\)](#)

¹⁷ [Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries : Challenges and Opportunities for International Providers | OECD iLibrary \(oecd-ilibrary.org\)](#)

¹⁸ [Climate Change 2022: Mitigation of Climate Change, the Working Group III contribution to the Sixth Assessment Report | UNEP - UN Environment Programme](#)

¹⁹ [IPCC AR6 WGIII FullReport.pdf](#)

²⁰ [That's not new money - Assessing how much public climate finance has been "new and additional" to support for development | CARE International \(care-international.org\)](#)

²¹ [Microsoft Word - AGN submission on the New Goal.docx \(unfccc.int\)](#)

²² [IMF Fossil Fuel Subsidies Data: 2023 Update](#)

This year is particularly high following the invasion of Ukraine and the resulting fossil fuel price crisis.

²³ [cp2023_02a03_cma2023_08a03.pdf \(unfccc.int\)](#)

²⁴ [CDT guide web23.pdf \(stampoutpoverty.org\)](#)

²⁵ [Aviation climate finance using a global frequent flying levy - International Council on Clean Transportation \(theicct.org\)](#)

²⁶ [Public-sources-climate-finance-loss-and-damage.pdf \(caneurope.org\)](#)

²⁷ [wealth taxes.pdf \(actionaid.org\)](#)

²⁸ [Survival of the Richest: How we must tax the super-rich now to fight inequality \(openrepository.com\)](#)

²⁹ [Adaptation Gap Report 2023 | UNEP - UN Environment Programme](#)

³⁰ https://uploads-ssl.webflow.com/605869242b205050a0579e87/6462710b127e29f1b1e74ee7_The_Loss_and_Damage_Finance_Landscape_HBF_L%26DC_15052023.pdf

³¹ [Loss and Damage from Climate Change: Concepts, Methods and Policy Options | SpringerLink](#)

³² OECD, 2021. Climate finance provided and mobilised by developed countries: Aggregate trends updated with 2019 data, Paris: OECD Publishing