Submission by Hungary and the European Commission on behalf of the European Union and its Member States

Budapest, 13/08/2024

Subject: Eleventh Technical Expert Dialogue (TED11) and third Meeting under the Ad Hoc Work Programme (MAHWP3) on the New Collective Quantified Goal on Climate Finance (NCQG).

Introduction/background

The co-chairs invited Parties and other stakeholders to submit views on the eleventh Technical Expert Dialogue and third Meeting under the Ad Hoc Work Programme by 5 August 2024 and encourages to share ideas on what should be discussed at the meetings and through what format.

The EU has decided to submit views as invited by the co-chairs under three separate sections. The first section answers the call for ideas on what should be discussed at the two meetings, while the second section contains our suggestions for a suitable format that serves the purpose of progressing discussions on the suggested topics as well as suggestions for the co-chairs' consideration on the sequencing of such discussions. The third and last section contains the EU's proposal for elements of draft decision text that progresses our previous thinking and is formulated with a view to further clarifying our views in full while aiming to bridge ideas expressed by other Parties.

1. Ideas for substantive discussions

The EU considers the Technical Expert Dialogues as a helpful format for advancing discussions on unclear or difficult issues, including by fostering a constructive, inclusive and more intimate room for understanding differences in preferences, approaches and challenges. Therefore, we would concur that the eleventh TED focuses discussions on those topics, where options are still underdeveloped or where there is room for Parties to gain a greater understanding of potential correlation between their positions. In view of this, the EU would like to suggest focusing discussions on the following issues: access, transparency arrangements, the role of different actors in the goal, and the quantum in conjunction with contributors.

For the third meeting under the Ad Hoc Work Programme (MAHWP3), we would encourage to organize discussions around clustering elements of the NCQG with reference to alike how co-chairs' organized discussions in Cartagena, Colombia, during the first MAHWP, and create "packages" of issues connected to each other, in order to address interlinkages.

2. Format of discussions

With regard to the structure of the meetings, we highly encourage co-chairs to include break-out groups in the organization of TED11, as we consider it the most suitable format to foster the type of conversation that we expand on under the first point. For the organization of the MAHWP3, we consider it important to continue the practice as in Cartagena and Bonn, to ensure that all Parties can engage meaningfully with each other's perspectives and equally have the opportunity to express their views.

Further, with a view to progress on the development of the co-chair's note, we encourage to consider convening the TED halfway through the MAHWP, allowing for a more informal setting in the middle to engage and elaborate on ideas with a view to focus on finding possible common ground and to allow time for co-chairs to further develop the co-chair's note.

Elements of draft decision text

<u>Preamble / Mandate</u>

1. *Recalling* **decisions** 1/CP21 para 53, 14/CMA.1, 9/CMA.3, 5/CMA.4, 8/CMA.5 and 1/CMA.5;

<u>Scope / Context</u>

2. *Recognises* the role of **Technical Expert Dialogues and Ad Hoc Work Programme** and efforts therein of the NCQG co-chairs;
3. *Reiterates/Resolves* that the new collective quantified goal aims at contributing to **accelerating the achievement of Article 2 of the Paris agreement** of holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change; increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emission development in a manner that does not threaten food production; and making finance flows consistent with a pathway towards low greenhouse gas emission and climate-resilient development;
4. *Recognizes* the importance of **urgent and sustained global climate action**, supporting the implementation of the Paris Agreement in developing countries, and achieving all three long-term goals of the Paris Agreement;
5. *Underscores* that achieving the ambition under the Paris Agreement requires a structural transformation of domestic and global economies, financial markets, and investments;
6. *Recognizes* that there is **sufficient global capital** to close global investment gaps, but that there are **barriers** to redirecting capital to climate action and *emphasizes* the

ongoing challenges faced by many developing country Parties in accessing climate finance;

7. *Acknowledges* the need for a global effort to enhance and **align public and private finance** and to mobilise finance at scale from all sources - public and private, national and international including new and innovative sources of finance - in order to meet the goals of the Paris Agreement;
8. *Reiterates* the need to accelerate implementation of GST-outcomes, **nationally determined contributions and national adaptation plans** and communications, including those submitted as adaptation components of nationally determined contributions, and *affirming* that these should be backed by clear investment strategies, domestic resource mobilization and supporting economic, monetary, macro, financial, fiscal and other policies;
9. *Acknowledges* the evolving common but differentiated responsibilities of all Parties in terms of cumulative emissions in the atmosphere, and the **dynamic and evolving nature of respective capabilities** to contribute to address the threat of climate change and support the implementation of ambitious NDCs;
10. *Welcomes* the efforts to **reform the international financial architecture**, including the efforts to reform of the multilateral development banks with a view to strengthen their role in climate action;
11. *Recognises* that there is a positive connection between having **sufficient fiscal space**, and climate action and advancing on a pathway towards low-emission and climate-resilient development by existing institutions and mechanisms;
12. *Recognizes* the important role of the **private sector** in climate action for both mitigation and adaptation and *highlights* the need to strengthen policy guidance, incentives, regulations and enabling conditions to mobilize private finance and reach the scale of investments required to achieve a global transition towards low-greenhouse gas emissions and climate-resilient development;
13. Underscores that climate finance must respect, protect, promote and fulfill human rights by being human rights-based and consider the people and communities on the front lines of climate change, including women and girls, children, youth, indigenous peoples as well as civil society, in recognition of their important roles in addressing and responding to climate change;

<u>Quantitative elements</u>

14. *Decides* to work together with all relevant actors towards strengthening efforts to increase and enable global investment flows for climate action to **XX trillion USD** by 2035, with a view to increase the overall climate investments by XX-fold; and *further decides* as an integral part of this effort to set a goal of **XX billion USD** in international provided and mobilized climate finance **with greater balance between mitigation and adaptation** by 2035, to support developing countries, in particular least developed countries and small island developing states, in their implementation of Article 2,

paragraph 1, in the context of meaningful climate action and transparency on implementation;

15. *Acknowledging* that Parties' GHG-emissions as well as economic capabilities are dynamic, have evolved and will continue to evolve, thus providing an opportunity to reflect strong global solidarity by increasing finance to support vulnerable countries and communities. **Also notes that the collective goal can only be reached if Parties with high GHG-emissions and economic capabilities join the effort, therefore they** are expected to scale up climate finance towards the collective goal of providing and mobilizing jointly USD XX billion by 2035 referred to in paragraph 14 to support developing countries in their implementation of Article 2, paragraph 1, as part of a global effort in line with Article 9.3 and in the context of meaningful climate action and transparency on implementation;
16. *Affirms* that as part of this **global effort**, developed country Parties continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels;
17. *Acknowledges* that different sources, instruments and channels have different **strengths and limitations**, that there is therefore a need to use a range of complementary sources, instruments and channels to respond to the different climate-related investment needs in developing countries;
18. *Acknowledges* the need to continue to explore and develop, as applicable and in line with national circumstances equitably designed domestic and international **innovative instruments** aimed at mobilizing new sources of finance, such as carbon pricing, including targeted towards the fossil fuel sector and other high-emitting sectors in line with the polluter pays principle, to mobilize more private finance via blended finance instruments, as well as to address specific barriers to accessing climate finance, such as climate resilient debt clauses, debt-for-climate swaps, local currency lending hybrid capital, guarantees;

<u>Qualitative elements</u>

19. *Highlights* the need for public resources for **adaptation** in developing country Parties, and *acknowledges* that the provision and mobilization of scaled up resources from a wide variety of sources for adaptation should prioritise those Parties that are particularly vulnerable to the adverse effects of climate change and that have significant capacity constraints, such as the least developed countries and small island developing States;
20. Emphasises the key role of disaster risk finance and insurance for all affected by climate change, especially the most vulnerable;
21. *Recognises* that full, meaningful and equal participation and leadership of **women** in national- and local-level climate policy and action is vital for achieving long-term climate goals, with a view to further building the capacity of women who are disproportionately affected by climate change impacts; *Encourages* all climate finance

providers to promote **gender-responsiveness** in both processes and outcomes of climate finance provision and mobilisation;

22. *Respect, promote and consider* the rights, needs and priorities of **Indigenous People** who are often at the frontlines of climate change and key actors of change and *underscores* the importance of building climate action on the best available science as well as traditional, local and indigenous knowledge and practices, *acknowledging* the role and contributions of Indigenous Peoples and of local communities in nature stewardship and climate leadership as well as the disproportionate effects of climate change on Indigenous Peoples and local communities;
23. *Underscores* the importance of **just transition** to net zero and climate resilient societies as an opportunity for enhancing social development and economic growth at the domestic level and *encourages* governments to integrate principles, processes and practices of just transition into their NDCs, NAPs, LT-LEDs and finance and investment strategies as in a manner where no one is left behind;
24. *Recognizes* that there are crucial synergies and interdependencies between finance for climate, **biodiversity, land degradation** and the sustainable development goals and *resolves* to enhance and foster such synergies with a view to gain co-benefits;
25. *Resolves* to enhance the **effectiveness**, **efficiency and impact of climate finance,** including through **transparency** of resource provision, mobilization and use, which will enable ambitious climate action and policy on the ground in order to deliver a long-term impact in the form of emission reductions and climate resilience;
26. *Acknowledges* that **limited consistency** of investment activity with the Paris Agreement will result in significant carbon lock-ins, stranded assets, and other additional costs and *urges Parties* to scale up financial flows for climate action while scaling down financial flows running counter to or creating barriers for mitigation and adaptation action;
27. *Emphasizes* the **role of** governments, public banks, central banks, commercial banks, (re)insurers, institutional investors, export credit agencies, financial regulators and supervisors and other financial **actors** to mainstream sustainability, adaptation and climate considerations within their mandates in their strategies and operations, improving the assessment and management of climate-related financial risks, ensuring or enhancing access to climate finance in all geographical regions and sectors, and accelerating the ongoing establishment of new and innovative sources of finance, including carbon pricing, for implementing climate action and thus enabling the scaling down of harmful incentives;
28. *Calls on* all Parties to continue enhancing their **enabling environments and policy frameworks** to facilitate the mobilization and effective deployment of climate finance, and increase the absorptive capacity of countries, including by:

    a. Mainstreaming sustainability, adaptation and climate action into macro-economic and fiscal policy, budgeting and procurement processes and development cooperation and foreign direct investment policies, including through a systematically greening domestic fiscal spending, increasing the use of green finance products, such as green bonds and green loans, managing currency and macroeconomic risks and improving disclosures to reduce the cost of capital to foster increased investments in mitigation and adaptation;

b. Developing robust and climate-specific, **whole of government strategies, investment plans and pipelines and country-level platforms for** facilitating the effective utilisation of technical assistance and of public, private and international finance to support the delivery of NDCs, NAPs and LT-LEDS;
c. Developing fiscal and economic **policy levers**, including carbon pricing, to tackle market failures and other barriers to climate investments;
d. Introducing measures to assess and manage macroeconomic and financial climate-related **risks**;
e. Addressing **flows running counter** to climate objectives, including phasing out fossil fuel subsidies without any further delay which do not address energy poverty or just transition;
f. Improving frameworks to assess **debt sustainability** and determine the existing levels of debt servicing capacity of developing countries, in particular for LDCs and SIDS;
g. Enhance mobilization of **domestic resources** to ensure a consistent and sustainable source of revenue for investments in climate action;
h. Increasing and enabling global investment flows for climate action will require an attractive investment climate in developing countries, including predictable and reliable regulatory frameworks for investors. Contributing to the USD XX trillion by 2035 will be a stepping-stone to the successive achievement of Article 2, paragraph 1.c.;

29. *Recognizes* that some Parties face significant climate **investment challenges**, compounded by rising levels of debt and increased cost of capital, eclipsed by urgent national sustainable development priorities, including poverty eradication, healthcare and education, which hinders delivering on their intended level of ambition;
30. *Recalls* the **ongoing efforts to tackle debt constraints**, incl. the Paris Club, the G20 Common Framework for Debt Treatments, Global Sovereign Debt Roundtable and the IMF-World Bank Debt Sustainability Framework for Low-Income Countries;
31. *Calls on* public and private actors to provide **capacity building support and technological assistance** to developing countries to enhance their capacity for the development of financing strategies, investment plans and for creating enabling environments, building capacity with policy makers, regulators and other financial actors to assess, manage and implement climate finance effectively, and invites developing country Parties to include capacity-building in their strategies to ensure that efforts to build capacity are sustained over time;

32. *Recognizes* the **role of the multilateral climate change funds** in the climate regime, including those that are under the Financial Mechanism, which have operating modalities that enable them to foster transformational change and *encourages* all Parties in a capacity to do so to contribute to the multilateral climate change funds;
33. *Recognizes* the importance of the **broader financial landscape** and of the role of actors other than Parties, and *calls upon* all actors, including governments, central banks, public banks, commercial banks, multilateral development banks and other international financial institutions, the private sector, philanthropies, institutional investors and other financial actors, to scale up their efforts in providing, mobilizing and catalysing resources and investments, to publicly provide transparent information, and to create and strengthen enabling conditions that support upscaling of finance flows for climate action, including:

    a. **Domestic financial regulators and supervisors and relevant international fora,** such as the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, the International Association of Insurance Supervisors and others, to make the financial system fit for purpose, fully addressing physical and transition risks for financial institutions and investors, **and improve the necessary transparency by introducing disclosure regulations for corporates based on the global baseline of the International Sustainability Standard Board;**
    b. **MDBs and IFIs and their shareholders** to continue and accelerate their efforts to align their operations with the objectives of the Paris Agreement, increase the amount, impact and accessibility of their contribution to climate finance, incl. concessional finance and deployment of diversified instruments, and measure and improve impact by developing initiatives that increase the mobilization of private finance and contribute to a higher leverage ratio of its investments by strengthening coordination in their efforts, including in client countries;
    c. The **private sector and all other relevant actors**, especially those operating within the **fossil fuel industry**, to contribute towards and support developing countries in implementing the Global Stocktake outcome of 1/CMA.5 paragraph 28, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science";
    d. The **private sector** to align their operations with the objectives of the Paris Agreement and *invites* contributions to climate finance, including capacity building and technology development and transfer, to invest in and to support developing countries;
    e. **Central banks and national supervisors** to mainstream climate considerations into their operations;

f. **Official export credit agencies and private credit insurers** to align financing, guarantees, insurance and reinsurance of export transactions with the goals of the Paris agreement;
g. **Insurance and reinsurance companies** to ensure that their underwriting and investment strategies and practices are decarbonised and made climate resilient, in line with the Paris Agreement;
h. **Credit rating agencies and domestic and international regulators** to ensure that credit rating integrates material climate risks and transition risks, including risks associated with long-term time horizons;
i. **All relevant actors in developing and applying environmental and social safeguards** to avoid greenwashing;

<u>Access</u>

34. *Recognizes* the ongoing challenges faced by many developing country Parties in accessing climate finance, in particular countries that have **significant capacity constraints**, incl. the least developed countries and small island developing states, and *emphasizes* the need for further efforts in this respect;
35. *Also recognizes* that **country ownership, mainstreaming climate priorities into national budget and planning processes** are crucial parts of enabling access to climate finance. *Further recognizes* that **capacity building** efforts can play an important role in improving **absorptive capacities** and promoting country ownership; *Recalls* the ongoing work on enhancing access to climate finance;
36. *Recalls* 1/CMA.5 and *urges Parties* to work towards enhancing access to climate finance with a greater balance between mitigation and adaptation funding, including by working with the **climate funds, multilateral development banks and other international financial institutions** to **streamline, simplify and harmonize** application processes and procedures across institutions, enhancing **direct access and readiness** initiatives and strengthening local capacities;
37. *Welcomes* the work undertaken by the **Green Climate Fund, the Global Environment Facility**, the **Adaptation Fund** and the **Climate Investment Funds** in this regard and *encourages* those funds to accelerate their work and deliver concrete results in 2025;

<u>Transparency arrangement</u>

38. *Requests* Parties to report their financial **support provided and mobilized and received**;
39. *Decides* that all Parties should use the **MPGs of the ETF** to provide such information;
40. *Decides* to make use of **other relevant sources of information** besides the BTRs/ETF to provide full overview of all efforts of Parties and other actors towards the achievement of the NCQG;
41. *Encourages* sustainability **disclosures by financial sector**, noting its multiple benefits such as access to capital, lower financing costs, enhanced reputation, and better risk

management, in the context of increasing climate finance flows and aligning financial flows with the long-term goals of the Paris Agreement;

42. *Requests* the **Standing Committee on Finance** to track collective progress biennially from 2026 onwards towards the achievement of the NCQG, including on the impact of climate finance flows, based on all relevant data sources available, Parties and other contributors as well as other sources of information for consideration by the CMA;
43. *Takes note* of the upcoming **review of the ETF in 2028.**