Literature Review – Funding sources in context of NCQG

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*This advice is provided in response to **Query 16/23***

1. Query

We have been instructed to prepare a literature review of what is understood as the contributor base in the context of the new collective quantified goal ("**NCQG**"). You have requested that this literature review focuses on precisely what the "sources, instruments and channels" are, as referenced in Article 9.3 Paris Agreement.

We set out below some background information (section 2); we then analyse the discussions regarding the contributors' base and sources of funding in the NGQG (section 3) and provide a summary listing these main sources and their respective instruments (section 4). Annexure 1 sets out the list of literature reviewed, with access links. Annexure 2 sets out a tabular summary of that literature.

2. Background: setting the NCQG

By Decision 1/CP.21 (para.53), Parties decided that, in accordance with Art.9.3, PA, the CMA will set a NCQG from a floor of USD 100 billion per year, prior to 2025. By Decision 14/CMA.1, Parties decided to initiate at CMA3 deliberations in setting the NCQG on climate finance. By Decision 9/CMA.3 (para.22), it was agreed that the deliberations would conclude in 2024. The same Decision details that an "*ad hoc work programme*" should be set up, with four technical expert dialogues ("**TEDs**") to be held annually and annual reports to be made.

Whilst there is an expectation that developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments, and channels (as per Article 9.3, PA), Decision 9/CMA.3 is silent on precisely where the funding will come from. The Decision simply provides that sources of funding will be one of the elements to be considered in the deliberations towards setting of the new goal. Indeed, the Decision mandates the discussion 'take into account the needs and priorities of developing countries and include, inter alia, 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.' (Para.16)

3. Contributors base and sources of funding in the NGQG

One of the main topics of discussion at the TEDs is to determine how countries will contribute to international climate finance and the need to broaden the contributor base to reflect the global efforts

to mobilise climate finance.[1] In the negotiations and dialogues, some Parties have suggested that delineation for Annex I and Annex II countries may not be fit for purpose to reflect the changing status of countries and the multitude of factors to be considered in determining national contributions to the NCQG.[2] It is noted that the Paris Agreement, in Art.9.2, encourages contribution from other Parties, in addition to developed countries that are bound by the obligation in Article 9.1-. This means that there is scope for broadening the contributor base in certain circumstances and extend it to some developing countries parties, but the expectation is still for developed country Parties to be the main drivers and contributors of climate finance, as per article 9.3 of the Paris.

Aligned with the above, the principle underpinning the TEDs is that the needs and requirements of developing country Parties must be front and centre of all deliberations regarding the NCQG.[3] This had led to Parties highlighting the danger currently posed by the high percentage of climate finance consisting of loans; whilst they have their place and can be important in bridging gaps in short-term climate financing, the consensus is that debt-generating instruments must be limited to avoid further debt for developing countries.

The initial goal of USD 100bn annually by 2020 was agreed in 2009 and was a politically determined figure. The stated intention for the NCQG, by contrast, is that it will be set following detailed assessment of the needs of developing country Parties and based in science.[4] There have been numerous studies that have attempted to quantify the sums required for adaptation and mitigation needs: for example, in 2021, the UNFCCC Standing Committee on Finance gave a figure of USD 5.8-5.9 trillion up until 2030.[5] As well as reaching a figure, a clear definition of what constitutes 'climate finance' under the NCQG is required. The usefulness of taxonomies was discussed, for example, within the TEDs, which could facilitate clarity for green and sustainable investment.[6] Until this is clarified, Parties can use the term 'climate finance' in different ways, resulting in a lack of uniformity in what actually counts towards the NCQG.[7]

Six of the TEDs have taken place as at the time of writing, and there have been overarching themes coming out of the discussions on the NCQG and the sources of funding. The first of these is that whilst approximately 95% of climate financing is made up of grants and loans, the NCQG will have to facilitate access to a much wider contributor base and numerous new sources of finance.[8] The call for broadening the range of instruments is premised on having suitable climate finance instruments available to meet the varying needs, for example mitigation versus adaptation, and the various projects and activities proposed.

The further TEDs and upcoming COP28 look to focus on addressing some of the key issues surrounding the NCQG, one of which is the sources of funding that will make up the contributor base of the NCQG. The next section offers a summary of the main potential and existing sources and instruments for funding.

4. Summary of main sources and instruments for funding

[1] Third TED reflections note, page 7
[2] E.g. Pursuant to the Common but Differentiated Responsibility and Respective Capabilities guiding principle, in light of national circumstances.
[3] First TED reflections note, page 3
[4] UNCTAD, 14 June 2023
[5] UNFCCC Standing Committee on Finance, page 7
[6] Third TED reflections note, page 6
[7] Energy Post article
[8] OECD: 2013-2018, page 7

The aim of the NCQG is to provide developing countries with the required finance to assist them in addressing adaptation and mitigation gaps. The onus is on developed countries to mobilise climate finance to address these gaps. We set out below the main sources of finance and financial arrangements that exist or have previously been proposed to finance climate and adaptation, and the NCQG.

The proposed and existing sources of finance and financial instruments below are not standalone solutions, but rather constitute many sources which could be, or are already being, utilised to fund, or complement the aims of, the NCQG. Each mechanism has advantages and disadvantages (as set out in Annexure 2).

Ultimately, wide sources of finance for the NCQG will be required if the funding is to meet the levels required to address climate change. This literature review therefore identifies some of the more innovative sources of climate finance that are beginning to be considered as legitimate ways of addressing mitigation and adaptation funding gaps.

A. *Public climate finance*

Grants and loans are the most common sources of financing, with loans being at the centre of climate financing. However, these loans have been the focus of discussion in the recent TEDs, with developing countries warning that they cannot continue to take on debt. Grants remain a sought-after source of financing, with the consequence being that they are in high-demand and the supply of grant finance is simply not enough to meet the current requirements. The provision of both loan and grant funding needs to be revisited if it is to properly meet the needs of developing country Parties.

A group of six multilateral development banks ("**MDBs"**) have been reporting jointly since 2011 on their financing that supports climate change mitigation and adaption. The World Bank provided 63% of total MDB adaptation finance.[9] MDBs offer a wide range of instruments and support to financing actions including, but not limited to, investment loans, policy-based loans, grants, lines of credit, equities and technical support in establishing mechanisms like weather derivatives. Additionally, it has been suggested that Special Drawing Rights could be used to access finance, through affordable borrowing.[10]

B. *Private sector and philanthropy*

a) **Private sector:** The extent of private sources is still unclear, but the recent TEDs have emphasised the need to ensure private sector financing is not limited to large-scale investment and the requirement to ensure that the public sector works with the private sector.

   There is a clear disparity in private funding for mitigation and adaptation activities; the vast majority of such funding is given to mitigation projects.[11] This is likely to be as private sector finance focusses on its returns, whether that be a return on investment, interest on repayment, or simply productivity benefits. Inherently, this means private sector finance is more likely to be in the format of loans, which due to their short-term nature, are more likely to be used for mitigation projects.

[9] Secretariat Technical Paper, page 25, paragraph 100
[10] Oxfam, June 2023, page 7;
[11] Between 2016 – 2018 93% of private climate finance mobilized by developed countries benefitted mitigation (with only 4% and 3% accounting for adaptation and cross-cutting), OECD: 2013-2018, page 33

Furthermore, developed countries mobilised the majority of private climate finance for projects in Asia and the Americas (44% and 35%, respectively) between 2016 – 2018, whereas 17% of private finance was for projects in Africa and 0.01% for projects in Oceania.[12]

Clearly, these are issues to address to close gaps in private sector finance for the NCQG.

b) **Philanthropic Funds:** Philanthropic funds can have a place as a source of climate finance. A global philanthropic fund could be set up specifically to address mitigation and/or adaptation. Additionally, private entities such as large corporate multinationals, may have a philanthropic arm and this can present opportunities for funds. However, CAN International identifies that over-reliance on philanthropic funds can lead to governance issues where charities (often set up by wealthy individuals) control the administration of funds.

C. *Innovative instruments*

Innovative sources of finance have been the focus of discussions throughout the most recent TEDs, with the conclusion being that the contributor base must expand to include new sources of finance if it is to be fully effective. Some of the sources that have been suggested include carbon pricing, taxes and levies and debt swaps/ relief/ finance, all of which are in the early stages of exploration and usage in the global context of climate finance.

( ) **Debt swaps/ relief/ finance**: Debt swaps have a dual purpose of providing debt relief to those states burdened by debt, and leading to government commitments focussing on environmental projects. It can make government borrowing cheaper where a country's sovereign credit rate is upgraded.[13] These are currently rolling out in various locations. In the Seychelles for example, with the world's first Sovereign Blue Bond, commitments from the government have focussed on marine biodiversity and sustainable fishing; it has been labelled a 'debt for nature' swap. However, it is noted that the mechanism of debt swaps (with suspension)/ relief does not generate new funding but could free up finance that can then be used to address adaptation and mitigation efforts. Swaps could create additional revenue for countries with valuable biodiversity by allowing them to charge others for protecting it and providing a global good, for example, carbon sinks.[14]

(a) **Carbon pricing**: Carbon pricing focusses on the 'polluter pays' principle, whereby a fine is placed on emitting greenhouse gases.[15] This puts the onus onto the state to bring in policies that aim to curb greenhouse gases; it will be the state being fined, not individuals. However, there are concerns that the 'price' of emissions will be passed onto companies and eventually consumers, rather than leading to policy change.

(b) **Taxes:** A common trend within the literature was the suggestion of various taxes across fossil fuel heavy sectors such as aviation, fossil fuels, shipping, as well as financial transactions and cross-border carbon adjustments.[16] Taxes range from the 'polluter pays' principle with taxes relating to climate damages, emissions, windfall tax on fossil

[12] OECD: 2013-2018, page 35
[13] IMF, 14 December 2022
[14] IMF, 14 December 2022
[15] Second TED reflections note; Third TED reflections note, page 7
[16] Oxfam, June 2023, pages 3 and 7

fuel company profits, to taxes targeted at those who are extremely wealthy (over USD100m) by way of a wealth tax.[17] The latter is on the basis that the wealthiest are statistically the highest emitters and they can afford the tax. However, taxes are determined in large part by political and social will. There are therefore concerns as to which taxes could be feasible on a political and social basis, as well as what the redistributive impacts may be. For example, taxing large companies may result in the costs being pushed down by price increases for consumers.

(c) **Levies**: Similarly to taxes, commentators commonly suggest the use of levies on fossil fuel intensive use such as a levy on the tonnes of carbon emitted from the burning of fossil fuels; bunker fuel levy for the shipping industry; air travel levies; and emissions trading levies for polluting companies.[18] Whilst there may be political and social acceptance of some of these levies, for example those relating to aviation, there is a risk, as with taxes, that the costs of these levies may be pushed down to consumers, or be politically untenable. Additionally, taxes and levies are decided at national level and therefore, there could be an uneven distribution of impact as a result of these levies.

D. *Funds*

The existing UNFCCC funds, such as the Adaptation Fund (**AF**), Global Environment Facility (**GEF**) and Green Climate Fund (**GCF**), could inform the collation and deployment of funding for the NCQG. These funds are focussed on adaptation and mitigation funding and so are likely to be important sources of funding towards the NCQG. However, it is acknowledged that climate finance for mitigation and adaptation should be in addition to existing aid or other types of climate finance commitments such as for loss and damage.[19]

[17] Oxfam, June 2023, page 7
[18] Oxfam, June 2023, page 7
[19] Oxfam, October 2020, page 6

Annexure 1: Reference List

Number	Source	Date	Access link
1.	IMF, Fiscal Policy to Mitigate Climate Change, Chapter 7. Fiscal Instruments for Climate Finance (**IMF, 10 September 2022**)	10 September 2012	IMF: Fiscal Policy to Mitigate Climate Change, Chapter 7, Fiscal Instruments for Climate Finance, 10 September 2012
2.	Submission of Switzerland to communicate indicative quantitative and qualitative information related to Article 9, paragraphs 1 and 3 of the Paris Agreement for 2023 and 2024	2011-2022	Switzerland submissions
3.	UNFCCC: Paris Agreement	12 December 2015	Paris Agreement
4.	Heinrich Böll Stiftung North America, Financing Loss and Damage: A Look at Governance and Implementation Options (**Heinrich Paper**)	9 May 2017	Heinrich Paper
5.	UNFCCC: Introduction to Climate Finance		UNFCCC: Introduction to Climate Finance
6.	Elaboration of the sources of and modalities for accessing financial support for addressing loss and damage - Technical paper by the secretariat (**Secretariat Technical Paper**)	14 June 2019	Secretariat Technical Paper
7.	OECD, Climate Finance Provided and Mobilised by Developed Countries in 2013 – 2017 (**OECD, 2013-2017**)	13 September 2019	OECD: Climate Finance and the USD 100 Billion Goal, 13 September 2019
8.	Oxfam GB: Climate Finance Shadow Report 2020: Assessing progress towards the $100 billion commitment (**Oxfam Report, October 2020**)	October 2020	Oxfam Report
9.	OECD: Climate Finance Provided and Mobilised by Developed Countries in 2013-18 (**OECD, 2013-2018**)	6 November 2020	OECD: 2013-2018
10.	The Commonwealth: Case Study: Innovative Financing – Debt for Conservation Swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles (on-going), 28 November 2020 (**The Commonwealth Case Study, 21 November 2020**)	21 November 2020	Case Study: Innovative Financing – Debt for Conservation Swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles (on-going) | Commonwealth (thecommonwealth.org)
11.	UNFCCC Standing Committee on Finance	2021	UNFCCC Standing Committee on Finance

12.	Investopedia, Multilateral Development Bank (MDB) Types and Examples (**Investopedia, 25 April 2021**)	25 April 2021	Investopedia, Multilateral Development Bank (MDB): Types And Examples, 25 April 2021
13.	Designing a fair and feasible loss and damage finance mechanism	27 October 2021	SEI Briefing Paper
14.	UNFCCC: Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its third session, held in Glasgow from 31 October to 13 November 2021 (Decision 9 CMA 3) (**UNFCCC Report: Decision 9/CMA.3**)	8 March 2022	UNFCCC Report: Decision 9/CMA.3
15.	First Technical Expert Dialogue (**First TED**)	24-25 March 2022	First TED
16.	The Loss and Damage Finance Facility Why and How – Discussion Paper (**CAN International Discussion Paper**)	31 May 2022	CAN International Paper
17.	Mahlet Eyassu Melkie, Energy Post: "New Collective Quantified Goal": how much should rich nations pay developing nations for climate mitigation? (**Energy Post article**)	June 2022	Energy Post article
18.	Climate Finance Provided and Mobilised by Developed Countries in 2016-2020 (**OECD, 2016-2020**)	22 September 2022	OECD: 2016-2020
19.	Addressing Loss and Damage conference – practical action: summary report (**Scottish Paper, November 2022**)	8 November 2022	Scottish Government, Addressing Loss and Damage conference - practical action: summary report, 8 November 2022
20.	UNFCCC: Draft decision on the New Collective Quantified Goal on climate finance under CMA 4 (COP 27)	19 November 2022	UNFCCC: Draft NCQG Decision
21.	Second Technical Expert Dialogue (**Second TED**)	13-14 June 2022	Second TED
22.	LSE, What is the polluter pays principle? (**LSE, 18 July 2022**)	18 July 2022	What is the polluter pays principle? (lse.ac.uk)
23.	Third Technical Expert Dialogue (**Third TED**)	6-9 September 2022	Third TED
24.	Views on the objectives and elements identified in decision 9/CMA.3 on the new collective quantified goal on climate finance: Technical paper by the secretariat (**NCQG Secretariat Paper**)	28 October 2022	NCQG Technical paper
25.	Fourth Technical Expert Dialogue (**Fourth TED**)	5 November 2022	Fourth TED

26.	IMF, Swapping Debt for Climate or Nature Pledges Can Help Fund Resilience (**IMF, 14 December 2022**)	14 December 2022	Swapping Debt for Climate or Nature Pledges Can Help Fund Resilience (imf.org)
27.	Fifth Technical Expert Dialogue (**Fifth TED**)	8-10 March 2023	Fifth TED
28.	UNFCCC: New collective quantified goal on climate finance Ad hoc work programme	28 March 2023	UNFCCC: NCQG work programme
29.	Second biennial communications in accordance with Article 9, paragraph 5, of the Paris Agreement. Compilation and synthesis by the secretariat	30 May 2023	Second biennial communications
30.	UNFCCC: New Collective Quantified Goal on Climate Finance	June 2023	UNFCCC: NCQG
31.	Oxfam, Finance Shadow Report 2023: Assessing delivery of the $100 billion commitment (**Oxfam report, June 2023**)	June 2023	Climate Finance Shadow Report 2023: Assessing the delivery of the $100 billion commitment (openrepository.com)
32.	Sixth Technical Expert Dialogue (**Sixth TED**)	12-13 June 2023	Sixth TED
33.	UNCTAD, A climate finance goal that works for developing countries (**UNCTAD, 14 June 2023**)	14 June 2023	UNCTAD, A climate finance goal that works for developing countries, 14 June 2023
34.	Biennial Communications received in accordance with Article 9, paragraph 5, of the Paris Agreement	Various	Biennial communications

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
Public climate finance					
Loans	Loans more than doubled from USD 19.8 billion in 2013 to USD 46.3 billion in 2018; indeed the majority of public climate finance was estimated to be in the form of loans.[20] Loans are more widely utilised in a mitigation context (rather than an adaptation context) to fund mature technologies as well as large infrastructure projects, as these types of activities are likely to give returns on the investment (and thus are an incentive for the loan to be provided and assist the developing county in paying off the loan).[21] It has been argued that the overuse of loans is a growing issue in climate finance as developing countries should not be forced to take out loans from developed countries, on terms beneficial to developed countries, to assist in protecting them from the effects of climate change caused by developed countries.[22] However, loans can be concessional, i.e. on better terms than currently available on the market, and where used appropriately, can be beneficial in bridging gaps in climate finance.	Loans from public/private banks to states are regulated by the national laws of the state in which the bank is situated.	Funding generally comes from private and public sector banks.	**Advantages:** Loans can be offered at short notice and so can be beneficial in emergencies. **Disadvantages:** Loans are offered on terms dictated by the lender, i.e. the developed country, for which terms are often not beneficial for the developing country. Even where loans are concessional, they are still adding to the debt of the developing country, and are ultimately benefitting the developed country. Loans are generally short-term financing, rather than made available on longer term projects. Loans are generally used to finance mitigation measures, but very little loan financing is deployed for adaptation.	OECD: 2013-2018, page 7 OECD: 2016-2020, pages 6-7, 31 Oxfam Report, June 2023, pages 17 - 20
Grants	Grants are important, especially in an adaptation context. They can come from a variety of sources, the most predominant being developed countries. Grants are typically used to support activities that are not expected to be income-generating but are expected to have social returns, e.g. capacity building, feasibility studies, demonstration projects. As a result, grants represented a higher share of finance for adaptation than mitigation.[23]			**Advantages:** No requirement to pay back the funding, as is the case with loans, so grants are generally more suitable for developing countries that may not be as readily able to afford high interest rates, such as low income countries or small island developing states. **Disadvantages:**	Third TED, page 7 OECD: 2016-2020, pages 6, 25 IMF, 14 December 2022

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
	However, grants are still not universally available. Their availability has not grown exponentially in the same way as loans, and they are often taken up by the lowest-income countries, meaning that middle-income countries do not qualify for grants and are required to look to other forms of finance.[24]			Grants are not yet widely available; a current shortfall in grant funding means that the available grants are reserved exclusively for the lowest-income countries leaving a vacuum of funding for middle-income countries.	
Multilateral development banks (MDBs)	MDBs are banks set up by sovereign states, who are also shareholders.[25] The MDBs support progress in developing countries by financing projects, supporting investment and generating capital for specific projects. MDBs focus primarily on giving grants and low-cost loans; they differentiate themselves from commercial banks by not seeking to make a profit. The mandate and business models however do rely on instruments that have interest/repayments (i.e. loans), or return prospects (i.e. equity).[26] MDBs are essential in mobilising private finance by de-risking instruments to commercial banks, in turn enabling them to provide increased climate finance.	Governed by multilateral development banks who are represented by member states: • African Development Bank (AfDB) • Asian Development Bank (ADB) • European Bank for Reconstruction and Development (EBRD) • European Investment Bank (EIB) • Inter-American Development Bank (IDB) World Bank Group (composed of the World Bank, International Finance	Contributions from member states of multilateral banks	**Advantages:** MDBs have capital at their disposal and the ability to raise additional money so are good sources of climate finance. MDBs are not limited to providing grants or loans but will also be instrumental in mobilising private finance. **Disadvantages:** Regardless of the terms, MDBs still deal primarily in loans (78% of MDB finance is in the form of loans)[27] and so are contributing to the debts of developing countries. Developed countries are overrepresented in decision-making	NCQG: Technical paper, pages 9, 11 OECD: 2016-2020, page 8, 9, 28 Heinrich Paper, page 36-37 Secretariat Technical Paper, paragraph 100-107

[20] OECD 2013-2018, page 7
[21] OECD: 2016-2020, page 6
[22] Oxfam Report, June 2023 page 18
[23] OECD: 2016-2020, page 6
[24] IMF, 14 December 2022
[25] Investopedia, 25 April 2021
[26] OECD: 2016-2020, page 28
[27] Secretariat Technical Paper, page 25, paragraph 103.

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
		Corporation and Multilateral Investment Guarantee Agency		of MDBs, which directly contradicts the aim of the NCQG to focus on the priorities of developing countries.	
Private sources					
Private funding	One theme throughout the TEDs was the need to ensure that the private sector is not confined to large-scale investors; SMEs should also be considered. Numerous submissions have also recognised the requirement for public finance to leverage increase private investments.[28] It is clear that for private actors to potentially form part of the contributor base, there needs to be motivation. Private sector investors are motivated by profit, risk, opportunity, productivity and potentially meeting ESG metrics. For example, it would be in a private company's interests to ensure its supply chain is adapted for climate and can recover quickly from a disaster.[29] Despite this, a recent study found that only 3% of mobilised private finance was for adaptation.[30] From a profit perspective, the obvious option is for private actors to offer equity and/or loans, which generate returns on exit and/or interest. However, this contradicts the comments from developing countries that further loans are not going to be beneficial, as they are only going to exacerbate debt problems. Finally, some submissions suggested a context-specific approach to private sector funding; a regional approach may be beneficial for private sector investments owing	No governance	Market	**Advantages:** Private funding can potentially be an uncapped source of finance. **Disadvantages:** It can be more difficult to mobilise private finance for activities/projects that are not going to be generating large revenues; there is less attraction for large-scale private financing.	Oxfam Report, October 2020 Third TED, page 5-6

[28] NCQG Technical Paper, page 11
[29] Scottish Paper, November 2022
[30] OECD, 2013-2017

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
	to the investors' familiarity with the political and socioeconomic background against which they operate, which works to reduce investment risks.[31]				
Philanthropic funds	Philanthropic funds can have a place as part of the NCQG contributor base. The NCQG Secretariat Technical Paper cites the Action of Churches Together Alliance, a coalition of over 150 churches and faith-based organizations that work together in over 125 countries, as a potentially growing source of finance to support climate action as the global community becomes more aware of the devastating impacts of climate change.[32] Many more philanthropic funds exist. TED submissions suggested that the NCQG could incentivise philanthropic contributions by providing qualifiers for qualitative provisions when framing the NCQG rather than setting specific quantitative targets.[33]	Global fund would be managed by donors	Donors	**Advantages** Potentially crowd funded (i.e. donations from citizens). **Disadvantages** Shortage in the funds required. Governance issues. CAN International identifies that relying too much on philanthropic funds can be detrimental, because governance of the flow of money will be determined by the charities themselves, rather than parties to the UNFCCC.[34] Private philanthropies typically focus on short-term one-off disaster relief, rather than long term adaptation.	Sixth Technical Excellent Dialogue, page 6 CAN International Discussion Paper, page 24 Secretariat Technical Paper, paragraph 139 Scottish Paper, November 2022 IPI Paper, page 9
Innovative instruments					
Debt swaps	Debt swaps are based on the idea that the countries most affected by climate change are often burdened by debt, not assisted by the high percentage of climate finance consisting of further loans. Debt-for-climate / debt-for-nature swaps constitute a mechanism for creditors to provide debt relief in return for a	Debt swaps are contractual in nature so governed by the creditor and borrower agreement.	Debt relief provided by creditors	**Advantages:** The arrangement has the double benefit of (i) assisting debt-burdened states in easing their debt, and (ii) mobilising climate action in situations where it may not have otherwise been possible.	

[31] Third TED reflections note, page 6
[32] Secretariat Technical Paper, page 35
[33] Sixth TED, page 6
[34] CAN International Discussion Paper, page 24

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
	government commitment to an environmental project.[35] There have been numerous examples of this, including Seychelles, where the commitments from the government have focussed on marine biodiversity and sustainable fishing.[36]			The debt write-offs can also assist in upgrading a county's credit rating, as seen with Belize. In turn, this makes further government borrowing cheaper. **Disadvantages:** Debt swaps can only be used in situations whereby the state is already in debt, and is not 'new finance' in this way.	
Carbon pricing	The "polluter pays" principle is the practice whereby those that produce pollution, i.e. developed countries or high-emitting industries, should bear the costs of the mitigation and adaptation required to prevent further damage, and adapt, to the changing environment.[37] The principle can be applied via carbon pricing, through a carbon tax, whereby the amount of greenhouse gases emitted are quantified and given a 'cost'. Carbon pricing then places a fee on emitting, or alternatively offers an incentive for lower emissions.[38] A further, innovative option for carbon pricing involves pricing emissions from international transportation, including marine and aviation fuel. Although in theory this is an obvious option with international aviation and marine activities being taxed relatively lightly yet being	Carbon pricing is primarily implemented and governed at a national level.	Money is raised through a fine on emissions	**Advantages:** Carbon pricing/taxing actively discourages emissions whilst accepting that they are still inevitable; this is counteracted by raising money. The onus to stop/decrease emissions is put onto emission producers (i.e. at a national level) rather than an individual/company level. It is then up to the national government to implement policy to decrease company/individual emissions, which is likely to have a greater effect: there is a general acceptance that having economic policies at a	Third TED, page 7 IMF, 14 December 2022 The Commonwealth Case Study, 28 November 2018

[35] IMF, 14 December 2022
[36] The Commonwealth Case Study, 28 November 2020
[37] LSE, 18 July 2022
[38] UNFCCC, About Carbon Pricing

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
	large contributors to global CO2 emissions, it is unlikely to be appealing to developed countries, politically. [39]			national level assists climate-resilient development. **Disadvantages:** The fines associated with high emissions could be passed onto consumers despite the fact that consumers are generally not the cause. Inherently, emissions are difficult to measure and thus quantify into a 'fine' or 'price'.	
Taxes	New taxes have been proposed as a way for states to raise money for climate finance. The focus appears to be on the 'polluters pay' principle whereby fossil fuel intensive sectors are taxed accordingly.[40] These proposals are varied but include: • Developed countries taxing the windfall profits of oil and gas companies on a 'polluter pays' basis, with the revenues collected being put towards the NCQG. • Climate Damages Tax; • Wealth taxation • Financial transaction tax • Fossil fuel producers corporate tax surcharge • Aviation or frequent flyer taxes, to decrease demand in an equitable way	Taxes are governed at a national level	Funding would be raised from taxes imposed on consumers or companies. How the taxes are used is ultimately a political and individual state decision.	**Advantages:** Taxes and levies provide an obvious method of raising finance, with the other benefit of discouraging emissions where applied to sectors than are notorious for their greenhouse gas emissions, e.g. the aviation and shipping sectors. **Disadvantages:** Any new taxes are unlikely to be ready in time for the NCQG, which is due to start in 2025. Taxes are ultimately state-dependent and highly political, thus unlikely to be utilised widely at this point in time.	Oxfam Report, June 2023 pages 3, 7, 27 Scottish Paper, November 2022

[39] IMF, 10 September 2012
[40] LSE, 18 July 2022

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
Levies	As with taxes, commentators have suggested that levies would be another effective method of raising finance. • A levy such as the International Air Passenger Adaptation Levy (IAPAL), as a tax on the purchase of each air ticket. • Bunker fuel levy, which is a unit tax linked to the establishment of an International greenhouse Gas Contribution Fund, collecting contributions from ships over 400GT according to the type and amount of fuel used. • A solidarity levy against air passengers (see French levy on air tickets example) for any flight (whether international or not); and • Emissions trading levies against polluting companies; • GHG emissions levies, based on tonnes of carbon from the burning of fossil fuels. The levies may be more socially and politically acceptable as similar levies already exist. For example, France's levy on air travel to provide funding to Unitaid raised significant sums and had no discernible impact on flight numbers.	Individual national governments, or supranational agreement (e.g. European Union)	Funding would be raised from levies imposed on consumers or companies. How the taxes are used is ultimately a political decision.	**Advantages** Many of the levies are politically and socially feasible. The levies can generate significant sums with relatively little impact on industry or individuals. It complies with the 'polluters pay' principle. It should act to drive innovation in renewables and away from fossil fuel consumption. **Disadvantages** There may be political and social objection to certain levies, for example emissions usage levies. The costs may be pushed down to consumers, such as the bunker fuel levies.	Scottish Paper, November 2022
Funds					
Existing UNFCCC Funds	There are five key funds that are part of the multilateral climate financing architecture and could form part of the contributor base for the NCQG. • **Adaptation Fund (AF)** The AF provides resources to countries through grants only. It is financed in part from a 2% share of proceeds of certified emission reductions issued	Governed by UNFCCC framework	Funded by UNFCCC members	**Advantages** As these funds are already established, could potentially be created faster than creating a whole new facility. GCF, which took five years to its first funding decision, shows that the path forward for a	Secretariat Technical Paper, paragraphs 73-94. CAN International Discussion Paper, page 25-26. Biennial Submissions

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
	under clean development mechanism projects, and through voluntary contributions from governments and private donors. The AF places an emphasis on direct access, which supports the concerns raised by countries in the NCGQ consultation processes. The AF however has limited capacity both in terms of staff and financial resources; it is unfamiliar with other financial instruments other than grants and does not have experience in engaging with the private sector or large programming amounts.[41] The Iceland biennial submissions specifically states that it has increased its support to multilateral climate financing architecture by focusing on two funds, including the AF, as part of the original USD 100bn goal that the NCQG is looking to replace. • **Global Environment Facility, which manages the Least Developed Counties Fund (LDCF) and Special Climate Change Fund (SCCF)** **LDCF:** The LDCF was established in 2001. It supports LDCs in their efforts to adapt to the effects of climate change. The LDCF provides resources to countries through grants only. It is capitalised through contributions from public sources. Similar to the AF, the LDCF aims to help countries to adapt to the impacts of climate change. It places an emphasis on country ownership and most vulnerable countries and requires all projects to be endorsed by the country/ countries where it will be implemented. As a grants-only mechanism, which eases access to resources for heavily indebted countries, it does not			new global climate fund is lengthy and complex. Easier access to finance through already open channels and accredited financiers. **Disadvantages** The grants process, including accreditation and approvals, has been criticised as slow and cumbersome.	

[41] CAN International Discussion Paper, page 26

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
	offer the rapid, large-scale financing that certain extreme events incur. **SCCF:** The SCCF was created in 2001 to address the specific needs of developing countries. It covers the incremental costs of interventions to address climate change relative to a development baseline. Adaptation to climate change is the top priority of the SCCF, although it can also support technology transfer and its associated capacity-building activities. The SCCF is intended to catalyse and leverage additional finance from bilateral and multilateral sources. The SCCF is a grants-focused, dedicated climate fund. The SCCF financed additional technical and regulatory assistance under the Southeast Europe and Caucasus Catastrophe Risk Insurance Facility to develop new weather risk insurance and reinsurance products and increase public awareness of weather risk in participating countries. • **Green Climate Fund** The GCF is intended to address both mitigation and adaptation – aiming for a balance between the two over time – as well as facilitating private sector financing with climate-related end goals. The Iceland biennial submissions specifically states that it has increased its support to multilateral climate financing architecture by focusing on two funds, including the GCF, as part of the original USD 100bn goal that the NCQG is looking to replace.[42]				

[42] Biennial Submissions: Iceland, page 2, 4

INSTRUMENT	SUMMARY	GOVERNANCE	FUNDING	PROS/CONS	REPORT REFERENCES
	However, the GCF has been subject to criticism. CAN International notes "*GCF has already been criticised on a number of fronts. Many developing country recipients feel that the accreditation of national implementing entities (NIEs) is too slow and - like the approval of projects proposals -- bogged down in onerous "micro-scrutiny" that is tying countries up in paperwork considered by some as unnecessary and counter-productive".*[43]				

[43] Heinrich Paper, page 27.