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LAWYERS RESPONDING TO CLIMATE CHANGE

Explainer: New Collective Quantified Goal on Climate Finance

By Brandon Chau and Monserrat Madariaga

Introduction

Developed countries have financial obligations towards developing countries to support the implementation of their obligations under the Convention and the Paris Agreement. The New Collective Quantified Goal (NCQG) is a new global financial goal that takes as a starting point the current $100 billion annual target for climate finance. The NCQG aims to contribute to achieving Article 2 of the Paris Agreement in terms of supporting the mitigation and adaptation goals and making finance flows consistent with a pathway towards low greenhouse gas emissions. Negotiations on the NCQG began at COP26 and will end at COP29 in 2024. This briefing provides an overview of the NCQG discussions and its core elements: the quantum and quality of finance, the structure of the NCQG, the sources of finance and its contributor base, the timeframe for the NCQG, and the transparency arrangements.

Background

At COP 15 (2009), developed countries committed to jointly mobilising $100 billion per year by 2020 to address developing countries' needs. Subsequently, at COP 21 (2015), Parties decided to extend the $100 billion goal through to 2025 and that, before 2025, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) would **set a new collective quantified goal (NCQG) from a floor of $100 billion per year**, which ensures it will be higher than the current financial commitment. Whilst there have been suggestions that the goal might have been met at least once, the CMA during the first global stocktake (2023) noted with deep regret that at least in 2021 developed countries failed to do so. At COP 26 (2021), the process for deliberating on the NCQG was agreed: it would include an ad hoc work programme with yearly Technical Expert Dialogues (TEDs), submissions by Parties and non-Party stakeholders, high-level ministerial dialogues, stock-takes and guidance by the CMA. Parties must, however, still agree on the actual elements of the NCQG, and discussions are set to end at COP 29 (2024).

Discussions have largely focussed on the following key elements:

Determining the quantum

Parties and stakeholders' submissions to the TEDs indicate a consensus that the quantum should be determined according to the needs and priorities of developing countries (as per the Convention and Paris Agreement). Countries and other stakeholders have repeatedly emphasised the importance of bottom-up needs assessments when determining global climate finance needs. Such assessments include nationally determined contributions (NDCs), national adaptation plans, long-term low emissions strategies, reports and other communications to the UNFCCC. Therefore, this analysis is complex, as large quantities of data are required to be assessed across many countries, and data is not always available or estimated consistently across countries. The lack of clear definition of what is meant by climate finance, and 'new and additional' finance adds to the challenge.

The UNFCCC Standing Committee on Finance (SCF) in 2021 comprehensively assessed climate-related needs based on NDCs and other national reports. Considering 153 developing countries and costed needs across 78 NDCs, **the report concluded that $5.8-5.9 trillion of resourcing is needed by 2030.** The recent Global Stocktake (GST) acknowledged this financial gap between the needs of developing country Parties and the support provided and mobilised.

Whilst bottom-up assessments are important, delegates at TED-6 emphasised the need to have complementing top-down assessments to help determine the quantum by offering a holistic view. Such top-down assessments include reports from the Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA), and the United Nations Environmental Programme (UNEP).

In the negotiations, determining the quantum is far from settled, and it remains to be seen what combination of top-down and bottom-up assessments will be used, with NDCs likely to be central to this. In addition, discussions on the quantum suggest the NCQG should not be a static target. This is because adaptation needs and climate change loss and damages will increase as global warming worsens. Hence, the NCQG should be subject to review and scalable to provide sufficient flexibility.

Quality of finance

In addition to the quantum, parties have discussed forms of finance, such as the use of grants or loans and issues related to improving access, concessionality and predictability of climate finance. This is referred to as the quality of finance.
A key challenge to existing flows on climate finance is that **most climate finance is delivered as debt**. According to the OECD, between 2016 and 2020, loans accounted for over 72% of public climate finance provided, and grants only accounted for 25%.
Debt financing adds to the pressures of debt sustainability and increases the indebtedness of many developing countries.

Consequently, submissions have called for **scaling up grant-based, highly concessional finance and non-debt-creating instruments** to support developing countries. And deliberations have emphasised that the quality of finance needs to improve so as not to add any additional pressure to the indebtedness of developing countries and should be achieved through concessional finance below market rate, and specifically grant-based finance.

Discussions have also focussed on whether other forms of finance, beyond grants and loans, should be considered: many parties take the view that new and innovative financial instruments such as debt swaps, blended finance, levies and taxes should be included in the NCQG. For a more detailed mapping of potential sources and forms of funding in the context of the NCQG, please consult LRI literature review on the subject.[1]

Structure of the NCQG

Negotiations about the structure of the goal remain highly contested on determining if the structure of the NCQG will be oriented towards a goal for the provision of finance from developed countries to developing countries or towards a goal in mobilisation of finance more generally, or a combination of the two.

The issue of the structure of the NCQG also refers to **allocating funding towards specific purposes or establishing sub-goals**. It is generally recognised that the singular target of $100 billion per year has resulted in unbalanced allocation of climate finance, which has been mainly directed towards mitigation and much less towards adaptation. The first GST Decision acknowledges this unbalance and notes with concern that the adaptation gap is widening.

Consequently, many Parties and stakeholders in the NCQG discussions have suggested using thematic sub-goals for mitigation, adaptation, and loss and damage (L&D) to structure the quantum. While there is consensus on establishing subgoals for the first two, Parties have not yet agreed on a subgoal for L&D. Article 9 of the Paris Agreement refers to finance for mitigation and adaptation, but does not include L&D. However, loss and damage finance was formally included in the negotiations at COP 27, and later COP 28 established the Loss and Damage Fund. Still, **the question of whether it should be included as a thematic area of the NCQG finds opposition in some developed countries**. And while developing countries agree on including L&D as a stream of climate finance under the NCQG, not all concur about having it as a subgoal.

The scale of each of these subgoals is also yet to be agreed. The addition of loss and damage should not lower or limit the amount of finance needed for mitigation or adaptation initiatives. It should be new and additional finance, as was noted in the process leading up to the Loss and Damage Fund. One should take into account that the quantum needed for L&D is unclear, as some of its total costs are dependent on the success of mitigation and adaptation strategies. Even adaptation related financial needs remain unclear. Submissions from the Independent Association of Latin America and the Caribbean (AILAC), the Alliance of Small Island States (AOSIS), and the African Group of Negotiators (AGN) have emphasised that **clear boundaries still need to be established between mitigation, adaptation, and loss and damage.**

[1] Legal Response International 'Literature Review - Funding sources in context of NCQG', September 2023.

Contributor base and sources of funding

Under the UNFCCC's Article 4.3, developed countries have committed to provide new and additional financial resources needed in developing countries. The commitment by developed countries to provide and raise climate finance is reaffirmed in paragraphs 1 and 3 of Article 9 of the Paris Agreement, whilst under paragraph 2 "other parties" are encouraged to provide such support voluntarily. Many developing countries argue that the contributor base should not change. For example, one Like-Minded Developing Countries submission states the NCQG does not have the mandate to discuss contributors to the goal. Similar statements are present in an Arab Group submission.

Ultimately, this position centres on the language of Article 9.1 - and its reference to existing finance obligations under Articles 4.3 and 4.4 - and the application of the CBDRRC principle. According to this principle, **developed countries being responsible for the bulk of historical emissions have a duty to provide financial resources to developing countries** who have not caused the problem, yet bear the main burden of the effects of climate change.

Conversely, **some developed countries argue that the contributor base should be expanded beyond developed countries.** They take the view that the world has changed in the last decades, with some emerging economies (who are still developing countries under UN classification) contributing substantially to the overall level of emissions and that these countries should also therefore provide financial support. For example, Canada has suggested focusing on all high-income countries, excluding highly vulnerable countries. Similarly, the EU argues that the NCQG needs to be seen as a global effort, so Parties other than developed countries should also provide financial support. Ultimately, determining the contributor base has yet to be resolved and will likely be discussed at TED-9.

Secondly, discussions on sources of finance **have emphasised the role of multilateral development banks in providing climate-related loans**. For example, a G20 Expert Group called for a tripling of MDB lending, which would generate an additional $260 billion. MDBs have been responsive in expanding their share of lending with the World Bank setting a climate finance target of 45% of its lending by 2025.

Discussions on the NCQG have also highlighted **the complementary role of private finance** in meeting the new goal and the need to adjust the regulatory environment to align investment decisions and financial flows. There has, for example, been much discussion about incentives that developed countries should put in place to promote private finance to developing countries, where its most needed. However, the discussion has not yet reached a level of detail that allows one to foresee what such incentives would look like. Other stakeholder submissions, emphasise philanthropic capital's role in reaching the NCQG.

Ultimately, several criticisms have been made about relying on private-sector investment. Many developing countries see this as an attempt to divert attention from what they regard as the pre-eminent role of public funds. Firstly, private sector entities are not a Party to the UNFCCC or the Paris Agreement. Thus, they are not obligated to provide climate finance to developing countries. Secondly, private sector entities are not subject to the Paris Agreement's reporting obligations, making it difficult to hold them accountable and track progress towards the NCQG. Thus, whilst private sector finance has a role in meeting the NCQG, the extent to which it should be utilised remains contested.

The timeframe

Parties must determine a timeframe for the NCQG. Generally, they suggest three options:

1. a long-term timeframe with 2050 as a specific target
2. medium-term time frames which cover 10-year review cycles
3. short-term 5-year implementation periods

Proponents of short time frames, such as the UNCTAD, the LMDC and the Arab Group, argue that shorter time frames account for changing administrations and election cycles and have the potential to coincide with NDC and Global Stocktake update and submission processes. Moreover, short-term 5-year cycles allow greater flexibility by giving opportunities to review progress at the end of each cycle.

Proponents of the medium-term frame, such as the AOSIS, argue that this provides more durability for the NCQG and gives countries sufficient time to raise support and political will for the NCQG. Notably, there has been little support for the long-term time frame option. Meanwhile, some stakeholders, such as the CGIAR have proposed a model which combines short-term and long-term perspectives. For example, they suggest establishing a 10-year time frame composed of 5-year operational periods.

Transparency Arrangements

The previous goal of mobilising $100 billion per year provided no formal monitoring process to track its progress. Consequently, parties have called for a transparency framework to monitor the achievement of the NCQG. However, how to track the NCQG is yet to be fully established, and several options have been proposed.

Several parties, such as the UK, the AOSIS, the US, Argentina, Brazil, and Uruguay, have proposed using existing transparency frameworks under the Paris Agreement. They have suggested linking the NCQG's transparency framework with the Paris Agreement's enhanced transparency framework (ETF). Through the ETF, countries individually report on their climate action efforts, including tracking their NDC and on support provided (mandatory) and received (voluntary) for climate action. Discussions at CMA 5 showed progress towards a consensus on using a transparency framework based on the ETF. The core advantage is that it does not require designing a transparency framework from scratch.

Some Parties have proposed a second option: delegating tracking functions to the UNFCCC's Standing Committee on Finance (SCF). It might be more efficient to task a centralised body like the SCF to create regular reports on the NCQG, which will be more readily accessible to the public. Ultimately, the Parties generally agree that a transparency process should be developed based on existing systems with some caveats: some developed countries are looking to incorporate issues such as the impact of climate finance particularly in reporting and transparency arrangements. This is contested by developing countries because it would imply new burdens.

However, the more significant issue in the proposed transparency framework is the lack of a unified definition of climate finance. **Currently, there is no unified definition of climate finance, which, combined with self-reporting, has led to conflicting views on the accuracy and validity of data.** This means it is unclear exactly how much climate finance has been mobilized. The AOSIS and the LDC Group have highlighted the importance of a standard method for tracking climate finance. Moreover, the AGN has raised the importance of clear definitions for what is "new and additional" finance compared to development finance.

Next steps

During COP 28, parties discussed the NCQG negotiations mode of work, considering the annual report of the co-chairs of the ad hoc work programme and the summary of the high-level ministerial dialogue. As a way forward, they decided to transition to a mode of work to enable the development of a draft negotiating text for consideration by the CMA 6 (COP 29). Accordingly, the CMA requested the co-chairs to:

- Develop a work plan that includes themes for in-depth technical discussions at the technical expert dialogues and the approach to preparing the substantive framework for a draft negotiating text taking into account submissions to be made by Parties;
- Conduct at least three technical expert dialogues (TEDs) in 2024 to allow for in-depth technical discussions on the elements of the NCQG back-to-back with three meetings under the ad hoc work programme to enable Parties to engage in developing the substantive framework for a draft negotiating text capturing progress made. For each of these events, Parties are invited to submit views and relevant information, and the secretariat is requested to prepare a summary report of them.

TED 10 will be the second one of 2024 and will take place on the **3rd of June in Bonn**, while the second meeting of the ad hoc programme will take place between the **5th and 11th of June also in Bonn**.

For each of these TEDs, Parties are invited to submit views and relevant information, and the secretariat is requested to prepare a summary report of each.

The outcomes of the TEDs will inform the High-Level Ministerial Dialogue on the new collective quantified goal, that should take place well before CMA 6.

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