Climate Action Network

Submission: New Collective Quantified Goal - Working towards a equitable new global goal on Climate Finance

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Climate Action Network (CAN) is a global network of more than 1,800 civil society organisations in over 130 countries driving collective and sustainable action to fight the climate crisis and to achieve social and racial justice. CAN convenes and coordinates civil society at the UN climate talks and other international fora. www.climatenetwork.org

Introduction

The current process to set a New Collective Quantified Goal on climate finance (NCQG) by 2024 for the period post-2025 represents an opportunity to break the status quo on climate finance, and to ensure that all countries, people, and communities in the Global South have the means to contribute to building a climate-safe future and the global goal of limiting global temperature rise to 1.5^{0}C, adapt to the climate crises and respond to the suffering caused by climate-induced losses and damages.

Around the world, it's developing countries who are paying the biggest price and bearing losses and damages from impacts while having contributed the least to the climate crisis. It's also countries in the Global South, in particular, those most vulnerable to climate impacts, that have the least financial and technical resources, including the fiscal space in their domestic budgets, to tackle climate change.

The current climate finance governance is oppressive, doesn't properly serve the needs of peoples and communities in the Global South, and has not adequately worked thus far to advance global climate justice. Those wealthy nations responsible for delivering the annual $100 Billion by 2020 failed. It's time to work towards a new climate finance goal that is built on the premise of trust, where countries and communities in the Global South feel represented and can own the process.

The New Collective and Quantified goal must be a process toward system transformation of current climate finance governance: One that ensures that developing countries have the adequate, predictable and new, and additional means required to implement climate action at the scale required, for the Paris Agreement's 1.5C goal to be achieved and helps build an equitable and peoples-led transition. The starting point toward systemic transformation is ensuring full implementation of Article 9 of the Paris Agreement to provide developing countries with financial support.

A New needs-based and science-based goal

The existing global climate finance goal was developed out of an exclusionary politically driven, lowest-common-denominator exercise amongst developed countries. Instead, the process to set the new goal, and the goal itself must be developed following the principles of the UNFCCC. Namely, those on common but differentiated responsibilities and respective capabilities (CBDR RC) and the 'polluter pays' principles.

The NCQG must be as inclusive and responsive to developing countries' needs, and to civil society and Indigenous Peoples throughout the whole process.

The vision of the NCQG (both quantitative and qualitative) needs to be shaped by the evolving needs of developing countries and climate vulnerable communities and by the scientific evidence. The NCQG must capture and respond to the ever-increasing sums of funding necessary for Loss and Damage in response to failed and/or delayed financial support over the past decade for mitigation and adaptation actions. This should include special consideration to the needs of developing country parties particularly vulnerable to climate change (UNFCCC Art 4.4) and least developed countries and Small Island Developing States (Paris Agreement, Art 9.4) in levels of finance, modalities (grants-based particularly for adaptation) and access.

Delivering based on needs and science must be reflected in the structure of the goal: Therefore, the new goal must take the format of a matrix with sub-goals including mitigation, adaptation, and Loss & Damage, as well as sub-goals for different instruments. Furthermore, the goal matrix must differentiate between support and investment needs and include both in the goal.

For years, adaptation has been under-financed and deprioritised breaking the commitment of a balance between mitigation and adaptation as set in the Paris Agreement. It's critical that as we work towards agreeing a new finance goal, developed countries ensure 50% of climate finance to adaptation. The failures of the $US 100 billion cannot be repeated. We look forward to the

NCQG as a process that will be designed to capture sub-goals to ensure climate finance is responsible for mitigation, adaptation objectives, and tackling Loss and Damage.

New and additional climate finance

Climate change can't be tackled in isolation. Developing countries are also calling for increased support to achieve the Sustainable Development Goals (SDGs) and address pre-existing humanitarian challenges. Unprotected development finance and humanitarian assistance budgets mean that drawing climate finance from these streams could undermine achievement of a whole host of international agreements, from the SDGs to the Sendai Framework on Disaster Risk Reduction, which would also undermine resilience under the Paris Agreement. Presenting existing North-South assistance budgets (e.g. within the 0.7% of GNI for ODA) as new climate funding is disingenuous. Vice versa, it is clear that developed countries cannot distract from unfulfilled climate finance obligations by pointing to development and humanitarian assistance provided, for example, in response to losses and damages. Developing countries must be able to access adequate finance to address the different and compounding injustices they face, both existing issues as well as additional losses and damages caused by polluting countries. As such, fulfilling the climate actions needs of developing countries requires ensuring there is access to climate finance that is "new and additional" to existing finance streams such as 0.7% GNI commitments for ODA. The NCQG process should explore new % GNI targets for climate finance above the 0.7% for ODA, as recommended by developing countries such as India in their inputs, as an important way to ensure additionality.

Finance to address Loss & Damage

For decades, developing countries in the Global South and their communities have been suffering the impacts of ongoing losses and damages. Article 8 of the Paris Agreement highlights the importance of averting, minimising and addressing Loss & Damage, and therefore having adequate means to address Loss & Damage should be a recognised part of tackling climate change. However, when the existing global climate finance collective commitment of USD 100 billion per year was extended at COP21 from 2020 to 2025, no provision was agreed to extend the goal to cover Loss & Damage as the third finance pillar in addition to mitigation and adaptation, leaving climate-vulnerable countries without recourses. There are currently no dedicated financial resources under the UNFCCC for addressing Loss & Damage. Some suggested instruments for averting and minimising have been confounded with addressing Loss & Damage. These instruments are not fit for purpose and unable to address the complexities of economic and non-economic Loss & Damage. As a result, countries vulnerable to the impacts of the climate crisis are forced to pay for the impacts themselves, taking on more debt, often at higher interest rates as a result of their climate vulnerability, adding to already unsustainable debt levels.

It is clear that loss and damage is additional to adaptation and needs to be urgently tackled. Attempts to conflate finance to address loss and damage with already inadequate adaptation financial flows, are incompatible with the goals of the Paris Agreement and the obligations of developed countries to provide financial support to developing countries. Conflating the two also risks reducing the overall quantum and quality of climate finance for these two issues. The NCQG provides an opportunity to ensure that this gap is addressed.

Moreover, for any finance provided with an explicit focus on Loss and Damage to be accurately reported, and its provision, disbursement and implementation monitored. Tracking flows and needs of climate finance earmarked for addressing L&D is the new climate finance architecture would be necessary. Doing so will help to determine the effectiveness of finance to address L&D and also ensure that gaps in the provision of loss and damage finance versus articulated needs can be identified. This requires an urgent update to the way the ex-ante and ex-post climate finance provision is reported. At COP26, the common tabular formats for transparency of climate finance did not include a formal category for reporting on L&D. Although countries could choose to report on this under 'additional information'. It is imperative that for all financing channels, finance to address loss and damage can be reported as a type of support.

As set out in CAN's discussion paper on ways to operationalise finance to address Loss and Damage (see here), finance to tackle Loss and Damage must adhere to the principles of:

1. International cooperation and solidarity, historical responsibility and the polluter pays principle;
2. New and additional;
3. Needs-based, adequate, predictable and precautionary;
4. Locally driven with subsidiarity – enveloping gender responsiveness and equitable representation;
5. Public and grant-based;
6. Balanced and comprehensive.

To ensure that finance to address L&D is included in the NCQG well, the NCQG process must include consultation with L&D negotiators and stakeholders. Including negotiators who sit on the

Warsaw International Mechanism on Loss and Damage (WIM) executive committee (ExCOM), as well as be informed by the ongoing parallel technical and policy discussions in the Glasgow Dialogue on Loss and Damage (GDLD), and the Santiago Network on Loss and Damage (SNLD). Doing so will help to ensure that the NCQG has a well-informed foundation of knowledge to extract from.

New financial sources to achieve the New goal

One way to achieve this systemic transformation is for countries to tackle the issue of missing adequacy and predictability of climate finance mobilised and delivered, and decide on a set of innovative sources of climate finance mechanisms that can provide "new and additional" climate finance. Instead of literally continuing to fuel the current climate crisis, these enormous financial resources need to be used for climate solutions. It's crucial that stakeholders are able to discuss ways to phase out global fossil fuel subsidies (international and domestic), in a manner that doesn't create excessive regressive impacts for communities in the global south by increasing the provision of sustainable, affordable, and accessible renewable energy alternatives and focusing on withholding support from fossil fuel companies (whose current profits are excessive). Whilst there is no agreed workplan to operationalise Article 2.1.c of the Paris Agreement, which is to ensure that financial flows do not exacerbate climate change, repurposing fossil fuel subsidies for climate finance would contribute also to achieving the aims of Article 2.1.c. To facilitate this, the NCQG process should include a consultation with negotiators who sit on the Katowice Committee of Experts on the Impacts of the Implementation of Response Measures. It is crucial that as well as re-purposing fossil fuel subsidies, support for necessary fossil fuel phaseouts are in line with a just transition that supports alternative livelihoods and the rights of workers and communities. Developed countries' fossil fuel subsidies, revenues and other innovative sources of finance including revenues from carbon taxation and levies on fossil fuel companies' profits should be repurposed for climate finance and contribute to the new goal.

Other possible innovative sources of climate finance include well managed debt cancellation, which can open the fiscal space to respond to the climate emergency for developing and vulnerable countries and should be used to this end as appropriate. Debt cancellation would allow vulnerable and developing countries to make use of their domestic revenues to carry out climate measures and ensure that public services remain operational during extreme climatic events. As opposed to using that finance to repay loans, fees, interest rates, and possible surcharges. However, debt cancellation is one necessary mean to free up fiscal space for climate action but must come in addition to climate finance, particularly ensure that low-income countries have access to adequate means to tackle climate change. Debt cancellation can also slow down the push for fossil fuel extractive projects in Global South countries strangled by currency and debt crisis and hungry for foreign exchange.

Grants not loans

Developing countries need climate finance that is non-debt inducing. This means the NCQG should prioritise grants first, then highly concessional finance, over non-concessional loans and equity (finance), potentially by establishing subgoals for the first two desirable categories of instruments. Climate finance providers, particularly Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs) who typically provide financial support in the form of loans, must use equitable debt sustainability assessments (DSA) to determine the level of concessionality that should be applied to loans. Additionally, MDBs and IFIs could channel climate finance through existing, dedicated Climate Finance Funds e.g. the Green Climate Fund, which typically have more favourable financial terms and greater eligibility of access to funds. However, it is noted that access to finance through Funds, MDBs or IFIs is currently complex and must be further simplified. The new goal won't be adequate unless it is responsive to the needs of developing countries and indebtedness caused by the over-lending is undermining governments' ability to address the needs of citizens, actively causing harm to populations.

Increasing access to climate finance to create socio-economic equality

Moreover, the NCQG is an opportunity to reshape the climate finance landscape so that it also prioritises climate finance that is human-rights based gender-responsive, and upholds the United Nations Declaration on the Rights of Indigenous Peoples. It can do this by prioritising support for climate actions that provide direct benefits to people and communities in a way that acknowledges and seeks to redress persistent and intersecting inequalities and discriminations; based on gender identity or sexual orientation, age, economic class, ethnicity, indigeneity or ability. The NCQG must also give communities a voice and agency in climate finance decision-making and protect, support, and advance peoples' and communities' human rights. Including the right to food, water, decent housing, information, and public participation.

This can be done by increasing direct access to climate finance for often marginalised and disproportionately impacted people and racialised communities, including Indigenous Peoples, women, children and youth, and disabled communities. For example, locally-led adaptation measures and climate actions should respect and take into account local, traditional and indigenous knowledge and experiences.

Options to explore for integrating human-rights-based finance mechanisms include e.g. cash-based disbursement to communities so they can decide for themselves how to use the finance or devolved grant mechanisms governed by Indigenous Peoples. It also means designing projects that take into account the needs for girls to have access to economic and social opportunities e.g. education. For instance, promoting sexual and reproductive health and rights as part of climate measures and ensuring that feminist and women's rights organisations receive a greater share of climate finance. Gender equality must be integrated into projects and approaches as an outcome of climate interventions. Progress must be monitored and tracked to ensure transparency and accountability, and disbursements and expenditures must be tracked. Gender-responsive climate finance and human–rights-based finance are crucial to ensuring that whole communities are brought along in efforts to tackle climate change.

Accountability through review cycles

Achieving the existing global climate finance goal has been fraught with challenges and barriers. Developing countries face dire climate impacts and need to know that they will have adequate and assured access to finance to develop their resiliency to these impacts. The new goal must ensure that climate finance can be predictable. Low provision and disbursement of climate finance, incoherent access requirements across climate finance providers, a lack of finance for adaptation, and almost no finance to address loss and damage, are all lessons that the new goal needs to address if it's to be effective at providing high-quality climate finance.

As such, it's crucial that the NCQG includes a process that allows for the NCQG to be reviewed and adjusted upwards, so it can take into account the evolving needs of developing countries. The NCQG must be reviewed inline with other areas of climate action and be part of the ratcheting up of ambition under the Paris Agreement. The Global Stocktake (GST) is the logical place for the NCQG to be reviewed and updated, since the GST seeks to review all areas of implementation of the goals of the Paris Agreement. Alignment with the GST means that reviews would take place on a five-yearly basis. The reviews must also take into account the scientific evidence, grey literature, and local knowledge on what the evolving needs of developing countries and climate vulnerable communities are. Particularly scientific evidence from the Intergovernmental Panel on Climate Change (IPCC).

In order for reviews to be effective, the reviews need to have something to assess climate finance against. As such, the reviews should be guided by a common definition of what climate finance is and subsequently, what “new and additional” climate finance is. As well as core principles, including principles on the use of climate finance, including provisions under UNFCCC Articles 4.3 and 4.4 Having common definitions will also help climate finance providers understand what is expected of them. Removing the vagueness of climate finance is a key step towards ensuring that the NCQG is robust, effective and can be achieved. One serious challenge to overcome is climate finance that is not new finance for developing countries, but merely reallocated funds from existing ODA budgets for development.

Accounting for finance from Multilateral climate finance providers

Additionally, given that the largest proportion of climate finance is provided in the form of loans (including an increasing share of non-concessional loans), the grant equivalent of finance must be tracked. Particularly by the most prolific loan providers, namely Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs). These institutions are not accountable to the UNFCCC. However, the common tabular formats on the transparency of climate finance that were agreed at COP26 mandate that multilateral finance ‘inflows’ and ‘outflows’ are reported in separate columns. This makes it easier to determine what the actual contributions from a reporting country to a multilateral institution are (inflows), versus a reporting country claiming an attributable share of the climate finance (outflows) from a multilateral institution. As such, developed countries must ensure that they accurately track the finance they provide to MDBs and IFIs, the financial instruments used to provide finance to the MDB or IFI e.g. grants or loans, and as much as possible track the financial instruments used by the MDB or IFI to disburse climate finance.

Conclusion

After decades of underachievement, the NCQG is an opportunity to redress past failures in climate finance. For this to happen, the NCQG must include finance to address Loss & Damage, enable systems transformation on climate finance, be accountable, and be based on the needs of developing countries and climate vulnerable communities. Without these areas, the NCQG will not have fulfilled its mandate.