Issue: New Collective Quantified Goal (NCQG)
Deadline:05/08/2024
Title: Eleventh technical expert dialogue and third meeting under the ad hoc work programme on the new collective quantified goal on climate finance Invitation for submissions
Mandate: FCCC/PA/CMA/2023/L.10, para. 14
Reference: MOI/MTUN/IGO/NGO/ NCQG/TechDialogue 11 and Third Meeting

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About Aviva Investors
This submission is from Aviva Investors, the asset management arm of Aviva, a UK headquartered financial services company. Representatives from Aviva have been attending the UNFCCC COP for over a decade and have been very active in recent COPs, including through secondment into the High-Level Climate Champions' team (COP26), co-chairing workstreams within GFANZ and at the UK Transition Plan Taskforce, and most recently with a divisional CEO participating in COP28's finance day and our Group CEO chairing the finance day activity at CBD COP15.

Submission

We welcome the opportunity to continue to engage with the NCQG process and offer our perspective on the elements of the NCQG that might best engage with private finance flows to developing countries.

1. The importance of including signals to the private sector

Given the assessed needs of developing countries and the progress made by developed countries to meet the $100 billon target that represents the floor of ambition for the NCQG, it is **important that mobilisation of private finance is an explicit consideration in the NCQG**. This means that the NCQG needs to be recognised as significant by private finance firms and large corporates in respect of their foreign direct investment decisions.

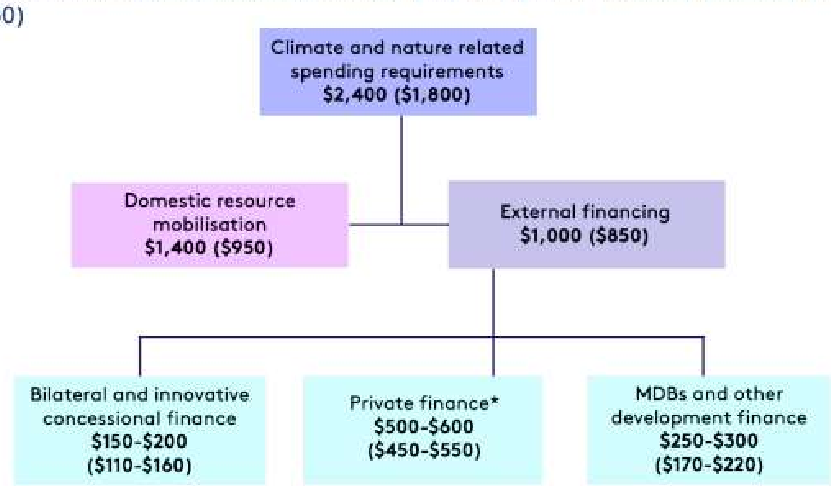
The **NCQG needs to be relevant to investment analysts** in a way that the $100 billion was not. The £100 billion was largely perceived as a public finance commitment by the private sector, not something that they had a stake in or that spoke to them. **The NCQG needs to speak to the private sector**. One key way that this can be achieved is through Parties implementing **policy choices that align investment incentives with the climate transition**, especially in developing countries.

This is not solely an NCQG issue, it speaks to the wider global transition and the need to align the global financial system with all elements of Article 2, including making all financial flows consistent with low greenhouse gas emissions and climate resilient development. However, the **NCQG can include commitments by developed country Parties in particular to align incentives with mobilisation of capital to developing countries**, including by using public finance to de-risk and leverage private capital to increase the scale of finance mobilised. **Developed countries can also commit to review and alignment of the supervision and regulation of their financial institutions with transition**, including the mobilisation of capital to developing countries.

2. The need for private capital to reach the necessary scale of climate finance

From a baseline of the $100 billion goal, it is clear that the NCQG will need to significantly increase the amount of good quality climate finance available to developing countries. A number of Parties have suggested a new goal in the region of $1 trillion per anum, which is consistent with the assessment of the Independent High-Level Exert Group on Climate Finance (IHLEG), which puts the need at $1 trillion per year by 2030.

Figure 2. Mobilising the necessary financing for the green transition ($ billion per year by 2030)



Notes: Incremental investment from current levels is indicated in parentheses. *More than half of this private finance would be directly and indirectly catalysed by MDBs, other development finance institutions, and bilateral finance.

Source: Songwe et al, 2023

It is clear that to reach this sort of scale, the NCQG needs to send signals to the private sector that align incentives for investment in developing countries with the scaling and mobilisation of finance for adaptation and mitigation. The IHLEG analysis assesses more than half of the finance needed each year by 2030 will come from private sources, with much of it mobilised or catalysed by public finance, MDBs, and DFIs. This will involve the finance being deployed by those sources being deliberately used to most efficiently and effectively crowd in and scale private finance. This will include de-risking investment to meet private finance risk-return preferences and to bridge the need of developing countries for financing on grant equivalent terms and the need of private investors to allocate capital on commercial ones. As well as use of public money for de-risking, guarantees and co-investment, and ensuring appropriate treatment of de-risked instruments in regulatory frameworks, the full suite of policy and fiscal levers should be considered by developed countries to incentivise private capital mobilisation.

The OECD's tracking of the $100 billion goal has fairly consistently identified $10-15 billion of private capital mobilised by public funds. **To reach the scale needed, that 85/15 ratio will likely to need to reverse by 2030**, which will take not only the increase and more efficient use of public money, but also the shifting of the policy and regulatory environment that drives investment incentives and decision making.

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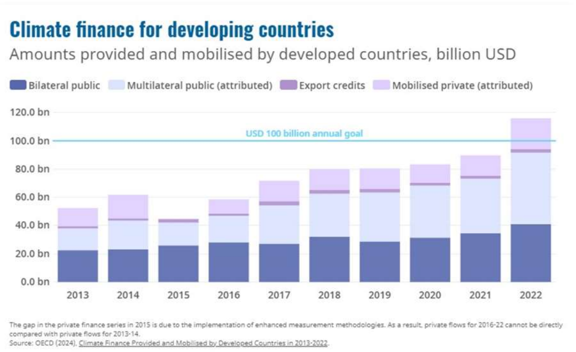

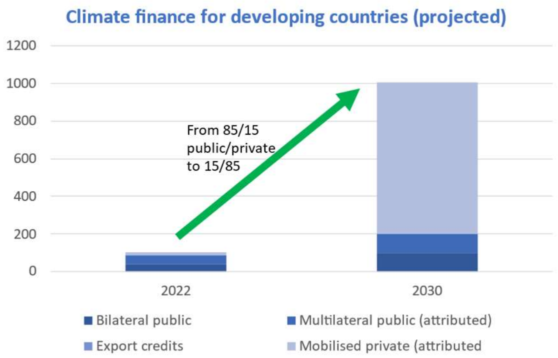

Source: OECD/Aviva Investors

3. Placing the NCGQ in the context of the global transition and NDC ambition and delivery

The NCQG needs to be **viewed and presented in the context of the wider transition**, particularly the process of all Parties preparing, submitting and implementing their NDCs. We know that the preparation of ambitious NDC by February 2025 and, more importantly, their implementation, is dependent on finance being available, particularly for developing countries. However, there can be positive reinforcement between NDCs, national transition or implementation plans, and the signals and messaging from the NCQG.

NDCs of al countries will be dependent on finance to support implementation, including investment by the private sector. Clarity on the availability, quality and consistency of finance will support ambition in preparing NDCs but also in their execution, including the hope that implementation can allow ambition to continue to rise in line with the urgency of action. NDCs should be supported by a financing or investment plan that sets out the needs for financing and the anticipated sources (what will be funded by public finance, what will be private, what will be domestic resource mobilisation, what will be private, what needs de-risking or blended or guaranteed finance, and so on). In effect this would create an anticipated “capital stack” to support the NDC’s implementation. The detail would be useful to allow assessment of what will need climate finance from developed countries, including from private sources, and what the opportunities will be.

Although NDCs should be investment decision-relevant, even decision-essential inputs for private investors, in reality **they impact investment decisions only when NDC ambition is turned into concrete action through policy, legal, fiscal, and other economic incentives** that change what sorts of activity make or are anticipated to make money. Therefore, **each NDC needs a clear implementation plan**, with the detail of what policy levers will be prioritised, when and how[1]. For developed countries, this should include how they will contribute to the NCQG but also how precious public finance will be made to work as efficiently and effectively as possible, including by crowding in private finance to scale its impact. For developing countries, their NDC implementation plans can give confidence to private investors about their trajectory and encourage inward investment, including detail on how finance can be absorbed and deployed.

[1] The tipping point for climate finance - Aviva Investors

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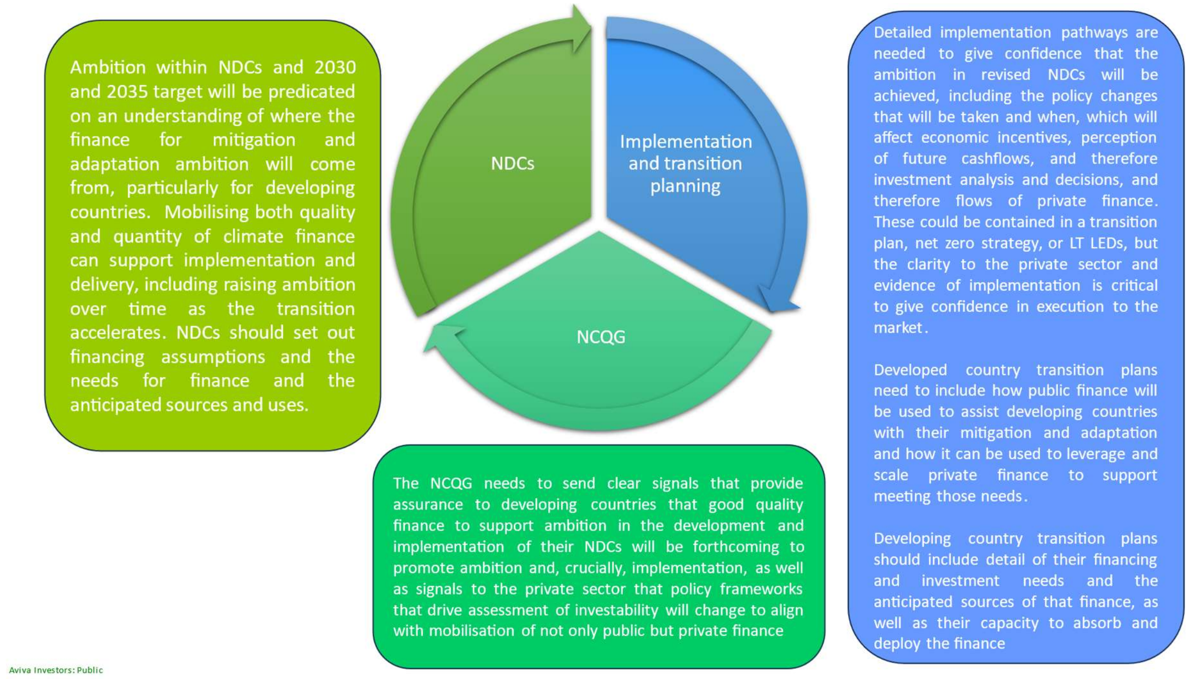

Source: Aviva Investors

4. The importance of turning words into action

Private finance does not allocate capital on the basis of UNFCCC cover decisions, any more than it does G7 or G20 communiques. In many cases, the market is actively discounting the likelihood of items committed to multilaterally being followed through. **It is only when the words agreed by Parties are translated into regulation, legislation, and other policy measures in each country that they will influence the assessment of where future returns are to be found, and therefore flows of capital.** Implementation and reporting of progress to demonstrate continued commitment is therefore crucial to influencing private finance flows.

At COP28 in Dubai, as well as commitment to significant actions in paragraph 28 of the UAE Consensus that represented the outcome of the Global Stocktake[2], Parties recognised the importance of the private sectors and highlighted the need to strengthen policy guidance, incentives, regulations and enabling conditions to reach the scale of investments required to achieve a global transition towards low greenhouse gas emissions and climate-resilient development, encouraging Parties to continue to enhance their enabling environments[3]. But, despite the IEA beginning to track the energy elements of the paragraph 28 commitments, **in the absence of clear tracking of progress within each country, it is not clear what progress on these measures has been made** and so it is difficult for the private sector to judge the pace of change, and whether changes are happening at all.

The NCQG can build on the commitments in the UAE Consensus, in so far as they relate to provision of finance to developing countries. In particular, **developed countries can assess their regulatory environments, policy guidance, incentives and enabling conditions to ensure that investment in**

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[2] tripling of renewable energy capacity and doubling the rate of energy efficiency improvements by 2030, accelerating efforts towards net zero emission energy systems and phase down of unabated coal power, transition away from fossil fuels in energy systems and so on

[3] https://unfccc.int/sites/default/files/resource/cma5_auv_4_gst.pdf at para 70

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developing countries is not hindered by these elements. Commitment in the NCQG to ensure the international financial architecture and the underlying economic incentives support the global transition, including mobilisation of capital to developing countries, can support private sector engagement to scale climate finance. Regulatory review should also assess the **systemic risk of sufficient capital not being mobilised to support a just transition in all countries**, including the risk to assets in developed countries of a disorderly an unequal transition.

5. Elements of the input paper for the second meeting under the ad hoc work programme that can support private finance engagement and mobilisation

There were a number of inputs to the paper released by the co-chairs at Bonn[4] that we believe could be useful in the development of outcome text for the NCQG that sends signals to the private sector about the mobilisation of private as well as public finance.

Paragraph 19 indicated the importance of policy actions to incentivise climate action.

Paragraph 52 acknowledged that a sole focus on public finance flows will be insufficient to meet the needs and goals of the Paris Agreement.

Paragraph 62 stressed the relationship between NDCs, NAPs, and the NCQG, highlighting that climate plans should be backed by clear investment strategies, domestic resource mobilisation and supporting macro, fiscal and other polices.

Paragraph 81 recognised the importance of the wider financial system and financial architecture to climate finance and paragraph 83 stressed the need for concerted action, including from MDBs and IFIs, (international) financial regulators, private sector, philanthropies, and through reforming the international financial architecture to increase efficiency and achieve impact at scale and tackling barriers and unsupportive enabling environments.

Paragraph 123(c) raises the interesting potential of a policy layer within the NCQG, recognising the importance of policy to influence the flows of investment. As set out above changes of this type would need tracking, transparency and reporting to ensure there is perception of commitment to delivery.

Paragraph 274 calls, on governments, regulators and supervisors, public and private financial institutions, rating agencies to create and strengthen the enabling conditions to support an upscaling of flows for climate action and addressing those flows running counter to climate objectives.

Paragraphs 290-295 included important references to making the financial system fit for purpose including addressing physical and transition risks, reviewing prudential frameworks, integration of climate risk in international supervisory standards and guidance, alignment of MDBs and IFIs with Paris, long-termism in credit ratings.

[4] NCQG/2024/MAHWP/Co-Chiars'InputPaper/Update2/8

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