



New Collective Quantified Goal on Climate Finance

Submission by Climate Policy Initiative

In response to the call to initiate deliberations on setting the New Collective Quantified Goal on climate finance (NCQG) based on the decision 14/CMA.1, **Climate Policy initiative (CPI)**¹ is pleased to submit its considerations to contribute to this important process.

CPI experience

CPI has over 10 years of experience tracking climate finance flows, including public and private finance from developed to developing countries and others coming from multilateral financial mechanisms. Through the Global Landscape of Climate Finance ([GLCF](#)), CPI has created the most comprehensive view of climate finance flows, building a robust methodology, data capture process, and tracking analysis expertise that can serve the process to determine a NCQG on climate finance. CPI's climate finance tracking, which has improved in robustness and coverage in recent years due to better data availability and methodological improvements, shows that:

1. Climate finance flows have been growing an average of **15%** biennially since 2011, as shown in Graph 1. Including both public and private finance, climate finance grew from about USD **364 billion** in 2011-2012 to about USD **632 billion** in 2019-2020.²
2. From 2013-2020, total climate finance flows from domestic sources were **USD 3.12 trillion** (42% from OECD countries; 58% from non-OECD countries) while international flows were **USD 953 billion**.
3. The growth rate of non-OECD domestic flows is **31%** biennially, while the growth rate in OECD domestic flows is 10% biennially.
4. Mitigation finance has been increasing on average **14%** biennially, while adaptation finance has been increasing on average **41%** biennially. Cross-cutting (financing that addresses both mitigation and adaptation) finance is growing on average **63%** biennially.
5. Even though the adaptation finance growth rate has been increasing significantly, there is still a large imbalance between adaptation and mitigation finance. In the period of 2019-2020, **90%** of climate finance flows were allocated to mitigation. Dedicated adaptation finance, although increasing to an all-time high of USD **46 billion in 2019-2020**, still represents only **7%** of total climate finance, most of which is provided through public finance. Data on adaptation finance from the private sector is still largely missing.
6. At the regional level, East Asia and Pacific made the most progress with the highest climate finance share (**average 39%**) during 2013-2020, followed by Western Europe (**21%**), USA

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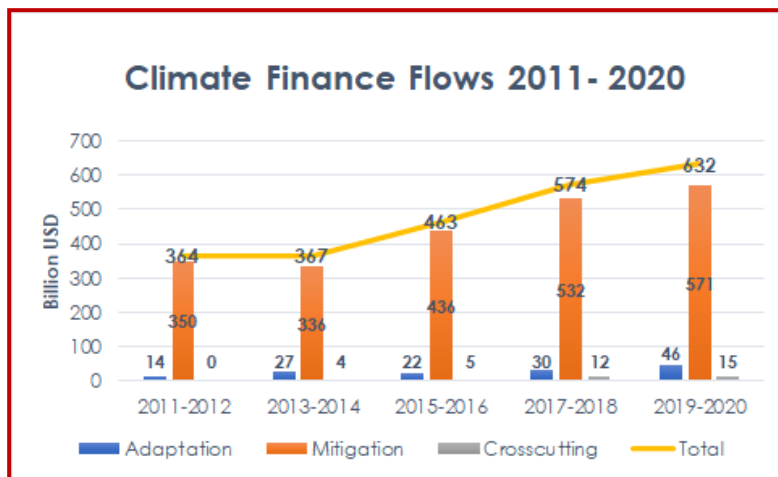
² This increase in finance may also be related to increased data availability in recent years.



and Canada **(13%)**, Latin America and the Caribbean **(6%)**, Central Asia and Eastern Europe **(4%)**, South Asia **(4%)**, Japan, Korea, and Israel **(4%)**, Sub-Saharan Africa **(3%)**, Transregional **(2%)**, Middle East and North Africa **(2%)**, and Oceania **(1%)**.

7. At the sectorial level, energy received the most finance during 2013-2020 **(average 67%)**, followed by transport **(19%)**, cross-cutting **(5%)**, agriculture and land use **(3%)**, water and waste **(3%)**, industry and infrastructure **(2%)**, disaster risk management **(1%)**, and other **(1%)**.
8. In terms of instruments, balance sheet financing **(on average 40%)** was the most used during 2013-2020, followed by project level market rate debt **(36%)**, low-cost debt **(11%)**, project level equity **(8%)**, and grants **(4%)**.

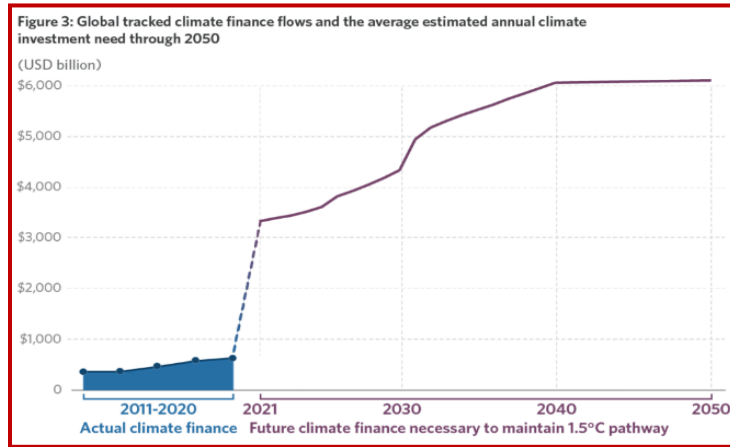
Graph 1. Climate finance flows in 2011-2020.



Source: CPI, *Global Landscape of Climate Finance, 2011-2020*

Key factors that may explain the increase in finance could be attributed to the rise in transparency related to climate finance flows, the improvement of environmental policies that increase the capacity to report such flows, and strong enabling environments established through regulatory frameworks. Despite the steady increase in climate finance flows, investment is still far below the estimated top-down needs: climate finance must increase by at least **550%**, to USD **4.5 trillion**, by 2030 to meet our climate goals. Even then, the top-down estimates likely underrepresent the needs of developing countries.

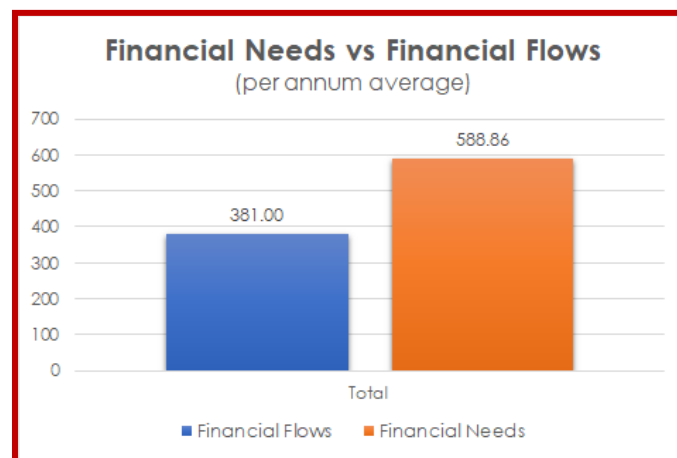
Graph 2. Tracked global climate finance flows and the average estimated annual climate investments need through 2050.



Source: CPI, *Global Landscape of Climate Finance, 2011-2020*

According to CPI's 2021 GLCF, financial flows OEC to Non-OECD countries reached USD **381 billion** (CPI, 2021) in 2020, while the average annual needs reflected in the 'First Report on the Determination of the Needs of Developing Country Parties' (NDR) coordinated by the Standing Committee on Finance are around USD **588 billion** (which considers only the annual needs reflected in the NDCs). This means that while the climate finance flows are increasing globally, these are still behind the climate finance needs projected to tackle mitigation and adaptation activities in developing countries. The comparative analysis is illustrated in Graph 3. While the graph introduces two different levels of information, it is an exercise to exemplify the existent gap between flows and needs. The estimation of flows presented in the graph from the GLCF is based in a top-down approach, mainly information from OECD to Non-OECD countries, while the analysis of needs in the NDR (2021) was estimated from a bottom-up approach, including information at the national level.

Graph 3. Climate finance flows versus climate finance needs (2020).





Source: CPI elaboration based on GLCF 2019/2020 (CPI, 2021) and the NRD (UNFCCC, 2021).

Considerations to determine a NCQG on climate finance

The determination of an accurate goal beyond the USD 100 billion is hampered by several elements, including a lack of an agreed upon definition on what counts as climate finance and limited comprehensive information about the effectiveness of actual climate finance flows. Furthermore, the determination of a new goal should consider the climate finance needs of developing countries. However, the 'First Report on the Determination of the Needs of Developing Country Parties' showed that the information related to climate finance needs is not complete and that further information is needed to provide a better perspective about what is needed at the national level.

The report states that developing countries need up to **USD 5.9 trillion cumulatively until 2030**. However, several countries expressed having limited information about the cost of climate change and the need to receive further support to undertake more accurate cost estimations. Based on CPI's extensive experience, we present the following considerations to be included in the process to define the NCQG on climate finance:

1. **Define principles:** The new goal must follow several principles, including **transparency** in the way it is determined; **participatory** in the way it is discussed; and **comprehensiveness** in the way that is accounted. We encourage that the determination of a new goal also assesses the **effectiveness** of current climate finance flows, to identify the best ways to improve the allocation and use of climate finance, including proven greenhouse reductions and financing to the most vulnerable countries. We also suggest that the determination of a new goal considers the growth rate of the climate finance flows and builds a goal that is **progressive** and addresses the financing gap. Ideally, the new goal reflects increased ambition that better aligns compliance towards Article 2.1c.
2. **Define what counts as climate finance:** We suggest that the goal is based on a shared understanding and definition of climate finance. We also encourage that this definition encompasses principles that are aligned with Paris Agreement goals and article 2.1c.
3. **Comprehensiveness and balance:** The determination of a new goal will require an increase in the provision of information from both public and private sources, which can be invited to provide as much information as possible to estimate a comprehensive picture of the state of climate finance flows, as well as to better understand the existing gaps. At the same time, we suggest that the climate finance goal considers the mandate of the Paris Agreement in relation to the balance between adaptation and mitigation, reducing the adaptation finance gap, increasing the financing to the most vulnerable countries, and increasing the effectiveness of the financial flows.
4. **Support more robust needs estimates:** An effective climate finance goal will depend on the extent to which it reflects the needs of developing countries. However, additional information is required to develop more accurate estimates. Further support to developing countries is encouraged to do this analysis at the national level in the coming months to provide this information in the official reporting system submitted to the UNFCCC, which can then support the conversation to determine a new goal more accurately. Ideally, a periodic reporting system related to climate finance needs, updated on a biennially basis, is established to better assess the level of progress and compliance to allow for more meaningful adjustments given the urgency at hand. It is important to ensure that climate

finance flows remain correlated to needs, therefore a periodic reporting of needs would also increase effectiveness