



ALLIANCE OF SMALL ISLAND STATES

# SUBMISSION

## FINANCE: NEW COLLECTIVE QUANTIFIED GOAL ON CLIMATE FINANCE – DRAFT ELEMENTS

### MANDATE(S)

Decision 1/CP.21: *'[The COP] also decides that, in accordance with Article 9, paragraph 3, of the Agreement, developed countries intend to continue their existing collective mobilization goal through 2025 in the context of meaningful mitigation actions and transparency on implementation; prior to 2025 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall set a new collective quantified goal from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries;*

Decision 14/CMA.2: *'[The CMA] decides to initiate at its third session (November 2020), in accordance with Article 9, paragraph 3, of the Paris Agreement, deliberations on setting a new collective quantified goal from a floor of USD 100 billion per year in the context of meaningful mitigation actions and transparency of implementation and taking into account the needs and priorities of developing countries;*

*Agrees to consider, in its deliberations referred to in paragraph 1 above, the aim to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent'*

Decision X/CMA.5, Paragraph 14: **'[The CMA] also invites Parties, constituted bodies under the Convention and the Paris Agreement, the operating entities of the Financial Mechanism, climate finance institutions, observers and other stakeholders, including from the private sector, to submit views in advance of each technical expert dialogue and meeting under the ad hoc work programme via the submission portal'**

4 June 2024

# VIEWS

## ON THE NEW COLLECTIVE QUANTIFIED GOAL ON CLIMATE FINANCE

AOSIS welcomes this opportunity to provide a submission on the New Collective Quantified Goal on Climate Finance ('NCQG'). This submission should be read in conjunction with the [AOSIS NCQG Submission dated 6th March 2022](#), [AOSIS NCQG Submission dated 19th February 2024](#), and the positions contained therein.

AOSIS wishes to provide further elaboration of the structure for the NCQG. This submission has three parts:

- Overarching structure of the draft substantive framework
- Illustrative substantive elements for the different sections of the structure
- Recommendation for next iteration of co-chairs reflections

### 1. OVERARCHING STRUCTURE OF THE DRAFT SUBSTANTIVE FRAMEWORK

AOSIS considers that the draft substantive framework should consist of three main components and supporting Annexes:

- I. A **preamble** that will set the context for the goal, the urgency of delivery and the need for equity and justice. It should include at a minimum the legal context, the scientific context, and the developing countries context
- II. An **operational** part that will address how to operationalize adequacy, additionality, predictability, transparency, enhanced access, complementarity and coherence, and the special case of small island developing States (SIDS) and least developed countries (LDCs). This part can be broken down into several subsections which would include, at a minimum:
  - The overarching elements including the goal comprising the sources, sub-goals minimum expected floor, timeframe, the review and adjustment processes
  - The transparency elements
  - The access elements
  - The international financial architecture reform elements
  - The review and adjustment elements
- III. A part that will elaborate the **relationship between the NCQG and the Convention**
- IV. **Annexes** that will elaborate the guidelines for the review and adjustment processes for the goal

## 2. ILLUSTRATIVE SUBSTANTIVE ELEMENTS

AOSIS considers a key lesson learned from the USD 100 billion per year goal to be the **lack of guidance**. This guidance should have sought to adequately influence the delivery of climate finance to address the needs and priorities of developing countries to implement their climate goals in a country driven manner and report on their efforts. Moreover, this delivery of climate finance under the USD 100 billion per year goal should not have created inordinate burdens on developing countries whether in terms of access, transaction costs, indebtedness, disincentives to ambition or trade-offs with development goals.

The NCQG offers an opportunity to address this gap by setting out clearly how resources could be targeted to the main pillars of climate action. For SIDS, another lesson from the USD 100 billion per year goal was the lack of precision in targeting finance to SIDS and LDCs notwithstanding the recognition of their special case or situations.

PRINCIPLE	OPERATIONALISATION
Adequacy (quantum)	<p>At least USD [XXX] trillion in grant-equivalent terms of new, additional, predictable and adequate climate finance per year to address the current and evolving priorities and needs of developing country Parties</p> <p>At least USD [XXX] trillion through public interventions per year, to address the current and evolving priorities and needs of developing country Parties,</p>
Adequacy (balance)	<p>For mitigation, [XX]% of the goal,</p> <p>For adaptation, [XX]% of the goal, and ensuring that a significant proportion of adaptation finance should flow through the operating entities of the Financial Mechanism, the Adaptation Fund, the Least Developed Countries Fund and the Special Climate Change Fund,</p> <p>For loss and damage response, [XX]% of the goal, and that a significant proportion of loss and damage response finance should flow through the Fund for responding to loss and damage,</p> <p>For readiness support, [X]% of the goal,</p> <p>For implementation of transparency provisions of the Paris Agreement, [X]% of the goal</p>
Adequacy (dynamism of needs)	<p>The goal to be effective from 2025 through 2035, and to remain in effect as a minimum floor until the conclusion adjusted by the CMA</p> <p>A midterm review of adequacy and potential adjustment of the goal's quantum to be conducted in 2030 and completed in 2031</p> <p>An end of goal review and adjustment to be conducted in 2034 and completed in 2035</p>
Predictability	<p>Fair, just, and equitable burden sharing of responsibility for the goal's achievement based on the developed country Parties' individual respective shares of historical emissions of greenhouse gases</p>
Transparency (to address what counts, what is additional, what is being delivered)	<p>Elaboration of substantive and procedural attributes to determine what can count towards the achievement of the goal</p> <p>The attributes to include disaggregated information on finance channelled to SIDS and LDCs and explicit information on how access is being enhanced</p> <p>Annual progress reports to be prepared by the Secretariat</p>

PRINCIPLE	OPERATIONALISATION
Access	<p>Elaboration of minimum measures to be taken by climate funds and other measures encouraged to be taken by other finance providers – bilateral, MDBs, philanthropy etc</p> <p>Elaboration of focus of access enhancement for SIDS and LDCs</p>
Complementarity and Coherence	<p>Elaboration of measures in context of reform of the international financial architecture namely on debt sustainability, eliminating perverse incentives against ambition, addressing high capital and transaction costs</p> <p>Addressing targeted measures for the special case of SIDS</p>
	COP to monitor progress pursuant to long-term finance agenda item

### 3. DRAFT ELEMENTS FOR NEXT ITERATION OF CO-CHAIRS REFLECTIONS

AOSIS appreciates the attempts by the Co-Chairs of the NCQG ad-hoc work programme (AWP) to incorporate Party submissions in their reflections and input paper ahead of the 2<sup>nd</sup> AWP meeting. However, the manner in which those submissions are being incorporated may precipitate misunderstanding of the submissions.

AOSIS proposes that **the following structure and draft elements be included as one clear option for the draft substantive framework** to be considered by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA). It should also be noted that there are a number of placeholders. Over time these will be filled by AOSIS as the membership continues to advance its positions.

AOSIS will also continue to engage with its membership on the determination of a specific quantum for the NCQG. AOSIS looks forward to forthcoming reports and information, such as the UNFCCC 2nd Needs Determination Report, which can assist with this determination. AOSIS remains ready to engage with all stakeholders and looks forward to a substantive outcome on this important issue.



## PREAMBLE

- **Climate Finance Provisions:** Recalling of important climate finance provisions such Articles 4 and 11 of the Convention, and Article 9 of the Paris Agreement
- **Past NCQG Decisions:** Recalling of past NCQG decisions
- **Climate change as a common concern:** Acknowledgement of climate change as a common concern of humankind as well as guiding Parties to conduct climate action in a way that respects, promotes and considers respective rights related to humans, the environment, health, vulnerable groups, and gender
- **Global Stocktake outcome recognition:** Recognition of the 1<sup>st</sup> GST outcome including the fact that Parties are not yet collectively on track towards achieving the Paris Agreement but are resolved to urgently address this gap noting climate finance is critical enabler
- **Interlinkage between response types:** Recognition of the interlinkages between greater levels of mitigation ultimately leading to reduced adaptation needs as well as loss and damage response needs, in addition to the fact that the greater the needs for these responses, the greater the associated costs
- **Acknowledgement of existing needs:** Acknowledging the alarming gap between developing country needs due to climate change and increased indebtedness, relative to the current levels of support being provided and mobilised, and highlighting of the new figures from the UNFCCC's 2nd Needs Determination Report (once the report is released later this year) as a representation of the floor of such needs while noting its limitation
- **Acknowledgement of evolving needs:** Taking full account of the need to increase ambition and accelerate action, taking into account the evolving needs of developing country Parties
- **Acknowledgement of adaptation support needs:** Acknowledgement of the urgent and immediate need support for adaptation efforts including those focused on achieving the Global Goal on Adaptation and its Framework,
- **Acknowledgement of loss and damage support needs:** Acknowledgement of the urgent and immediate need for new, additional, predictable and adequate loss and damage response finance
- **2(1)(c) clarification:** Recognition that while Article 2(1)(c) of the Paris Agreement is important that it is complementary to, and no substitute for, Article 9 of the Paris Agreement
- **USD 100 billion goal lessons:** Noting of some of the lessons learned from the USD 100 billion per year goal which includes, inter alia, the need of a common definition and accounting methodology, the need for mitigation and adaptation balance, the need for prioritisation of LDCs and SIDS, the need for a burden sharing, the need to ensure private finance mobilisation and innovative forms of finance does not come at the expense of addressing developing countries
- **Non-repetition of unfulfilled commitments:** Need for the non-repetition of unfulfilled climate finance commitments given its importance to Paris Agreement effective implementation

# OPERATIONAL PART

## Overarching elements

- **Aim:** Recalling of Article 9 of the Paris Agreement and the underscoring of the notion that climate finance provision and mobilisation will contribute to climate action including:
  - holding the increase in the global average temperature to well below 1.5 °C above pre-industrial levels
  - increasing the ability to adapt and foster climate resilience;
  - addressing loss and damage
- **Accelerated action in this critical decade:** Reaffirming of the commitments by all Parties to accelerate climate action within this decade, based on the best available science, equity and CBDR RC-NC including transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, as well as undertaking rapid reductions in accordance with the best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases well before 2050. Also, an affirmation that collective quantified goal aims to support developing country Parties in effectively implementing the Paris Agreement within the context of these commitments.
- **Minimum transparency requirement for the goal:** Double counting of climate finance is to be avoided
- **Goal:** The collective quantified goal to be comprised of the annual sum of a provision goal and a mobilisation goal:
  - The provision goal to be at least USD [XXX] trillion per year in grant-equivalent terms of new, additional, predictable and adequate climate finance per year provided in accordance with the NCQG decision to developing country Parties to address their current and evolving priorities and needs
  - The mobilisation goal to be in addition to the provision goal and at least USD [XXX] trillion per year mobilised in accordance with the NCQG through public interventions to developing country Parties, to address their current and evolving priorities and needs
- **Sub-goals:** The thematic sub-goals of the goal are:
  - mitigation at [XX]% of the goal,
  - adaptation at [XX]% of the goal, and ensuring that a significant proportion of adaptation finance should flow through the operating entities of the Financial Mechanism, and the Adaptation Fund,
  - loss and damage response at [XX]% of the goal, and ensuring that a significant proportion of loss and damage response finance should flow through the Fund for responding to loss and damage,
  - readiness support at [X]% of the goal,

- transparency provisions at [X]% of the goal
- **Cross-cutting funding treatment:** The potential cross-cutting nature of some instances of support across the thematic sub-goals is recognised
- **Linkage with capacity building and technology development & transfer:** Focus of the goal is on provision and mobilisation whilst acknowledging that it may support capacity building and/or technology development and transfer efforts
- **Burden sharing:** There shall be fair, just and equitable burden sharing amongst developed country Parties for achieving the goal based on their share of historical emissions of greenhouse gases
- **Timeframe & legal effectiveness:** The goal is effective from 2025 through 2035 and remains in effect as a minimum floor until the conclusion of the deliberations to adjust the goal, as noted below
- **Midterm review & adjustment:** A midterm review of the adequacy and level of fulfilment of goal's quantum and its potential adjustment to be initiated in 2030 and completed in 2031. An annex to be included in the NCQG decision specifying guidelines for review
- **End-of-goal review & adjustment:** Deliberations to review and adjust the goal to be initiated in 2034 and completed in 2035. An annex to be included in the NCQG decision specifying guidelines for adjustment

## Transparency arrangements

- **Eligible transactions definition:** The following minimum attributes to be required for a climate finance transaction to count towards the achievement of the goal:
  - transaction must be provided or mobilised to support developing country Parties deliver their climate action priorities and needs as a part of their effective implementation of the Paris Agreement, including supporting country-driven strategies and other policy instruments, such as biennial transparency reports, national determined contributions, national adaptation plans, long-term low greenhouse gas emission development strategies, adaptation communications,
  - transaction must not contribute to the expansion and continuation of the production of fossil fuels,
  - transaction must be 'additional' to any finance classified as official development assistance and other official flows as well as finance committed under other international regimes, and be 'new' finance as opposed to retagged or repurposed official development assistance and other official flows
  - all developing country Parties must be eligible to receive climate finance, in particular least developed countries and small island developing States
  - Transaction must be in the form of grants, concessional loans, equity, guarantees, insurance, or ones that create fiscal space for developing countries such as debt-for-climate swaps and issuance/allocation of special drawing rights, while the issuance of export-credits cannot be considered as a climate finance transaction.



- Transaction can only be reported when they are disbursed (i.e. when the funds are released to the recipient) in the reporting year in order for it to count towards the achievement of the goal and can only be reported once
- Transactions provided or mobilised as loans and other debt instruments must meet the minimum level for concessional financial terms and conditions that are well below prevailing market terms and conditions, and must at least meet all of the following parameters:
  - 1% or below for interest rate with the aforementioned interest rate being fixed,
  - 5 years or above for grace periods with the aforementioned grace period from the time of first drawdown,
  - 20 years or above for maturity periods,
  - 1.5% or below for any service, administrative or commitment charge or fee
  - mandatory inclusion of climate resilience debt clauses on debt reduction in the financial agreement based on a no-objection approval by the developing country Party concerned
- Determination of concessionality level of transactions must take into account the existing levels of debt servicing capacity of developing countries, in particular for LDCs and SIDS
- Transactions for adaptation and loss and damage response shall be primarily public and grant-based resources with the highest level of concessionality given to LDCs and SIDS
- Transactions for readiness support and transparency support shall be solely public and grant-based resources, in particular for LDCs and SIDS
- **Transparency system basis:** The framework for transparency support of the Paris Agreement is the basis of the transparency agreements for the goal
- **Status of Biennial Transparency Reports:** Developed countries' biennial transparency reports chapters on 'information on financial, technology development and transfer and capacity building support provided and mobilised' will provide the primary information needed to track progress made in achieving the goal
- **Intermediate updates:** Developed country Parties to provide intermediate updates on financial, technology development and transfer and capacity building support provided and mobilised (in the years that a biennial transparency report is not due)
- **Transparency on access enhancement:** Developed country Parties and all channels to annually report on the following minimum access enhancement indicators:
  - time for recipient to access climate finance from inception to approval, approval to first disbursement, first disbursement to final disbursement
  - transactional costs for access

- geographical distribution of recipients that have accessed climate finance, disaggregated according to regional groups and LDCs and SIDS
- distribution of instruments, disaggregated according to regional groups and LDCs and SIDS
- **Annual progress reports:** Secretariat to prepare annual progress report on achievement of the goal based on BTRs, intermediate reports, and reports on access enhancements, published no later than four weeks prior to each CMA
- **Tracking finance received and its use, impact and results:** Importance of new, additional, predictable and adequate support for building transparency-related capacity of developing country Parties
- **Grant equivalence:** Grant equivalency to be calculated based on GCF methodology
- **Reporting harmonisation:** Developed country Parties to change their reporting methodologies by end of December 2025 and to harmonise methodologies amongst themselves in line with the NCQG decision
- **Reporting on climate finance in general:** Developed country Parties to be requested to apply a classification for climate finance by December 2025 that is separate from other flows like ODA and OOF
- **Reporting on climate finance by response types:** Developed countries to disaggregate report of climate finance transactions based on sub-goals

## Access features

- **Access centrality:** Centrality of efficient and effective access for developing countries, in particular LDCs and SIDS, and the recognition of the risks and consequences associated with delayed or inequitable access
- **Access enhancement:** In order to attribute a climate finance transaction, minimum access enhancements in particular for SIDS and LDCs shall be:
  - simplification and harmonisation of approval procedures
  - standardisation and prioritisation of direct access modality for all channels
  - enhanced direct access support, including for local non-governmental and community-based organisations and groups
  - annual report on access enhancements per climate finance transaction
- **Bilateral channels:** Bilateral providers urged to apply the access enhancements in line with the NCQG decision
- **Multilateral development banks and international financial institutions:** Shareholders and other decision making authorities of MDBs and other IFIs to be urged to:

- make operational models, channels and instruments fit for purpose for the global climate emergency including through deployment of diversified instruments, taking into account debt burdens, addressing the need to have higher risk appetite for financing climate action without influence on future investment in recipient country
  - channel climate finance through their climate funds,
  - commit to contribute to scaling ambition and finance,
  - increase scale, effectiveness, simplification of access,
  - report on the progress on these reforms annually for inclusion in the Secretariat's annual report
- **Financial Mechanism's operating entities and other multilateral climate funds:** The GEF, GCF and other multilateral climate funds (i.e. AF and CIFs) to:
    - include L&D Fund in the complementarity exercise that is underway
    - ensure all developing country Parties are eligible to access CIFs
    - adopt a 'single access' approach with mutual recognition of direct access entities or agencies across the AF, GEF, GCF
    - create a Climate Funds Group to further coordination and reporting on complementarity and coherence efforts
  - **Country platforms:** Implementation of country platforms with climate finance that is new and additional, and in accordance with country ownership and leaving no one behind

## Relationship to the reform of the international financial architecture

- **IFA reform:** Parties to urgently reform international financial architecture taking into account the NCQG decision
- **Broader participation in the reform:** SIDS representation and participation to be assured in decision-making in global economic and international financial institutions and forums
- **Fiscal space creation:** G20 Parties, Paris Club Parties, other Parties to include all LDCs and SIDS in Common Framework for Debt Treatments Beyond the Debt Services Suspension Initiative and to expand debt suspension to also include debt relief, debt forgiveness and debt servicing assistance
- **Addressing systemic inequities:** Developed country Parties to address system inequities to access for developing country Parties, in particular LDCs and SIDS including *inter alia*: high cost of capital, high transitions costs, capacity constraints, and indiscriminate assumptions of corruption
- **Local currency lending:** Developed countries Parties and other creditors to enhance local currency lending in developing country Parties

- **Credit rating agencies:** Credit rating agencies and their regulators enable the implementation of these access and concessionality measures for climate finance
- **Philanthropy and private sector:** Philanthropy and the private sector to be guided by the provisions contained in the NCQG decision
- **SCF report on IFA:** SCF to prepare report for the CMA's consideration on progress towards achieving the aforementioned actions related to the reform of the international financial architecture

## Relationship to the Convention

- **COP invitation for affirmation:** COP to be invited to affirm the goal and to provide oversight under Long-Term Finance agenda item

## Annexes

- **Guidelines for review and adjustment processes:** Two annexes to provide guidelines for the respective mid-term and end-of-goal review and adjustment processes