27 October 2022

Third technical expert dialogue under the ad hoc work programme on the new collective quantified goal on climate finance

Reflections note by the co-chairs V.03

I. Introduction

1. In this note we aim to reflect on the rich discussions during the third technical expert dialogue on the new collective quantified goal on climate finance (NCQG), held from 6 to 9 September 2022 at the Asian Development Bank Headquarters, Metro Manila, Philippines. The dialogue was organized in hybrid format and webcast.[1]

2. Responding to the request of Parties and non-Party stakeholders to 'deep dive' into specific elements identified in decision 9/CMA.3 and in the "landscape of issues" identified following the first dialogue, the third technical expert dialogue focused on the needs and priorities of developing countries and the roles of public and private climate finance actors in relation to the NCQG, as well as sources and instruments of finance in the NCQG. In this regard, the dialogue provided an opportunity for experts to exchange experience and views about the utility of finance strategies and investment plans as a means of translating needs and priorities into actions, projects and pipelines in order to match the demand for resources with available sources and instruments; communicating them to potential investors in climate action; setting policy direction; and addressing concerns regarding unintended consequences of shifting burdens and costs of climate action to developing countries. We also heard references to the role of the NCQG in facilitating delivery of climate finance, with the understanding that the process is an iterative discussion on all issues as may be identified by stakeholders.

3. Building on the first and second technical expert dialogues organised earlier this year, this reflections note, prepared under our responsibility, synthesizes the discussions held at the third technical expert dialogue. It aims to capture in a non-exhaustive manner the wealth of views expressed during the six substantive sessions with a view to helping us advance towards the fourth technical expert dialogue with a focus on the topic of access to climate finance.

4. We are encouraged that the more extended third technical expert dialogue continued to provide an atmosphere for frank and open discussions and allowed for an exchange of views between experts participating either in person or online, and importantly provided the space for the desire of stakeholders to enter into detailed and granular discussions –the "deep dive". We will endeavour to provide such a setting for the fourth dialogue, to take place on 5 November 2022 in Sharm el-Sheikh, Egypt, bearing in mind the exigencies of the meetings of the Conference of the Parties.

[1] All presentations, webcasts and further information are available at https://unfccc.int/event/third-technical-expert-dialogue-under-the-ad-hoc-work-programme-on-the-new-collective-quantified.

5. Chapter II of this note provides background information and the context of the mandates for setting the NCQG. Building on the landscape of issues that emerged from the first and second technical expert dialogues, chapter III reflects on emerging areas and further insights into the needs and priorities of developing countries and the roles of public and private climate finance actors in the NCQG, as well as sources and instruments of finance identified during the third technical expert dialogue. Finally, chapter IV outlines possible topics for further discussion, including during the fourth technical expert dialogue to advance the deliberations on the NCQG.

II. Background

6. At its twenty-first session the Conference of the Parties decided that, prior to 2025, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) shall set an NCQG from a floor of USD 100 billion per year taking into account the needs and priorities of developing countries.[2]

7. CMA 1 decided that deliberations on setting the NCQG would be initiated at CMA 3.[3] CMA 3 established an ad hoc work programme on the NCQG for 2022–2024 and decided to conduct four technical expert dialogues per year, with one to be held in conjunction with the first regular sessions of the subsidiary bodies and one to be held in conjunction with the session of the CMA, and the two remaining dialogues to be organized in separate regions with a view to facilitating inclusive and balanced geographical participation.[4]

8. The first technical expert dialogue was convened at Kirstenbosch National Botanical Garden in Cape Town from 24 to 25 March 2022. To capture the substantive and rich discussions at the dialogue, we prepared a first reflections note under our responsibility that presented a non-exhaustive set of views expressed in the form of a landscape of issues identified.

9. Building on the first dialogue, the second technical expert dialogue was convened in conjunction with the fifty-sixth sessions of the subsidiary bodies from 13 to 14 June 2022 in Bonn. We captured the rich discussions and views expressed during that dialogue in the second reflections note.

10. The thematic focus of the third technical expert dialogue was in response to the desire of stakeholders to ‘deep dive’ into the issue of the needs and priorities of developing countries and the roles of public and private climate finance actors in relation to the NCQG, as well as the sources and instruments of climate finance. Furthermore, building on the discussions at the third technical expert dialogue, the fourth technical expert dialogue will be dedicated to access to climate finance. It should be noted that the sequencing of the thematic areas follow the views and logic that we have heard, and we look forward to hearing more views in this regard.

11. The four days of the third technical expert dialogue allowed for rich discussions facilitated by an interactive format, including breakout group discussions and expert input round-table discussions. We were encouraged by the eagerness of the experts to engage in technical discussions on the topics and the ensuing lively participation. We felt that stakeholders began the process of “deep diving” and the sharing of on-the-ground experiences served to stimulate further thought. About 90

[2] Decision 1/CP.21, para. 53.
[3] Decision 14/CMA.1, para. 1.
[4] Decision 9/CMA.3, paras. 3 and 5.

in-person participants and 280 virtual participants representing governments, multilateral development banks, non-governmental organizations, academia and the private sector from all over the world contributed to the fruitful discussions.

III. Landscape of issues identified: trends and further insights

12. This chapter presents our reflections from the discussions at the third technical expert dialogue, offering emerging views and common trends and further insights to enable us to transition to the fourth dialogue in a manner that captures the breadth and spirit of the discussions at the third technical expert dialogue while allowing for flexibility that all issues will be included, covered comprehensively and given sufficient time in the future expert dialogues.

13. We would like to reiterate that the headings of the various sections neither represent formal headings nor reflect any hierarchical order or priority; they merely attempt to reflect and structure the issues covered and facilitate navigating the content without prejudice to the various views expressed. Accordingly, they should not be interpreted in terms of any formal context setting.

1. Needs and priorities of developing countries

14. We heard that, in setting the NCQG, a bottom-up approach should be taken to identifying the needs and priorities of developing countries, such as those identified in nationally determined contributions, national adaptation plans and/or other national and regional needs assessments. Recognizing that such reports do not necessarily contain cost estimates of needs owing to lack of data availability and/or limited capacity, we heard references to other global reports on needs and priorities. A key question remains as to how the NCQG should be informed by such reports and how to account for needs and priorities that have not been quantified.

15. Participants discussed needs at the thematic and sectoral level, particularly concerning adaptation. While there seems to be a shared understanding that the NCQG should reflect needs and priorities at the thematic level, thereby ensuring balance between adaptation and mitigation, we heard different views on how the NCQG can or should reflect sectoral perspectives. The importance of considering cross-cutting elements was discussed, noting that considering mitigation and adaptation in isolation can overlook synergies, such as in relation to nature-based solutions and resilience. There remain differing views on covering loss and damage in the NCQG.

16. Furthermore, we heard about the quantitative and qualitative elements that could underpin the NCQG, with different views on the sequencing of these elements, noting the evolving nature of needs and how the NCQG can provide a framework or tool to account for the adjustments over time. Adjusting the NCQG to respond to evolving needs and priorities could be undertaken, according to some, as part of the periodic review under the global stocktake and be undertaken in 5-, 10- or 30-year intervals to reflect the timelines of nationally determined contributions or long-term low emissions development strategies. Another proposal was a bottom-up consideration of needs and priorities through periodically reviewed national investment plans, which the NCQG can support. Views were also expressed proposing an independent review cycle based on top-down revision of the quantitative elements of the new goal according to evolving aggregation of quantified needs and priorities. Such adjustments could take into account trends in global greenhouse gas emissions which, if they continue to increase, would result in increasing adaptation needs and needs with respect to loss and damage.

17. We were encouraged by the rich experience and examples shared by countries on how they currently translate their needs and priorities into finance strategies and investment plans. In this respect, we heard that while investment plans for mitigation actions are more straightforward and represent immediate opportunities for private sector involvement, investment plans for adaptation remain less clear and would take a more integrated and mainstreaming approach from both public and private finance perspectives. Demonstrating the value of a project proposal to potential financiers, such as in terms of profitability or alignment with strategic objectives, could facilitate attracting financial resources. This could be best done through dialogues between project developers and finance providers to avoid country-driven strategies being prepared without clarity on whether the project ideas align with the frameworks and objectives of the funding bodies. There needs to be more in-depth discussions on this aspect.

18. Views were expressed as to the potential of nationally determined contributions and national adaptation plans in presenting clearly defined and measurable adaptation and mitigation needs and priorities that could direct finance providers and investors to support and invest in projects that the country has identified in the context of needs and priorities. This could reduce burdens on developing countries to produce multiple plans.

19. Some of the challenges identified in translating needs and priorities, particularly related to adaptation, into plans and projects include:

(a) The discrepancy in the level of detail of data and information that project developers can collect versus what is required by project reviewers to assess project proposals. Further alignment of what project developers can provide with the minimum requirements of project reviewers is needed;

(b) The risks that the private sector perceives in developing adaptation projects. In that regard, institutions like the Green Climate Fund, which provide de-risking instruments such as equity and guarantees, could play an important role in attracting private finance. Addressing existing key policy gaps in these institutions is important to avoid a situation where developing countries have to adjust their project proposals to changing frameworks and requirements;

(c) Building and maintaining over time adequate and relevant human and institutional capacities in developing countries, including having access to data and information, capacity gaps in costing needs, prioritizing activities and designing project pipelines, and being able to comply with investment criteria. Accessing proprietary data, i. e. privately owned data, was identified as particularly challenging because of the risks of violating contractual and socially agreed terms of data use and re-use. Limited capacities of small and medium-sized enterprises from developing countries were also identified as a constraining factor in private sector involvement in adaptation projects. Using readiness grants provided by the Green Climate Fund was identified as a potential solution for addressing capacity gaps, including those experienced by small and medium-sized enterprises. Such grants can also help to create conducive environments for private investment and to de-risk financial instruments;

(d) Different understandings of the term ‘bankable’ between project developers and project reviewers, given that in many cases it is a requirement to demonstrate the bankability of a project when applying for finance. While some participants understand ‘bankable’ to mean ‘profitable’, which is not always applicable to adaptation projects, others view it in terms of ‘ready for funding’. The process of setting the NCQG could help to enhance mutual understanding between public and private climate finance sector actors on climate finance and help to harmonize terminology and goals.

20. Moving forward on the issue of needs and priorities of developing countries and translating them into finance strategies and well-costed investment plans, we heard the acknowledgement of the wealth of knowledge and perspectives that can inform discussions on the NCQG and that further unpacking and 'deep dives' would be beneficial, including continued sharing of experiences.

2. Role of climate finance actors

21. The role of climate finance actors, including international financial institutions, multilateral development banks, climate funds and other financial institutions play a critical role in framing the NCQG and mobilizing and delivering climate finance, and needs to be further explored.

22. Participants further referred to the NCQG in the context of Article 9 of the Paris Agreement, specifically in relation to developed countries' provision of financial resources to developing countries and taking the lead in mobilizing climate finance to developing countries from a variety of sources, instruments and channels, noting the significant role of public funds.

23. Public finance actors have a fundamental role to play in enabling private sector involvement in climate action, including in the context of the NCQG. This involves, among other considerations, putting in place clear regulatory frameworks and sending the right signals to public and private climate finance actors with a view to incentivizing them to finance climate action. In that regard, the NCQG process could deliver relevant guiding principles on this. Further discussions are required as to how this can be reflected in the design of the NCQG.

24. Public–private partnerships constitute a critical driver for scaled-up mobilization of private sector finance, driven by countries' goals and national investment plans. Such partnerships could range from addressing market failures to providing data and information, as well as de-risking instruments. Further discussions are needed to clarify how the NCQG could facilitate such partnerships.

25. Creating and strengthening enabling environments and tailored regulatory frameworks at the national and international level is a further lever through which governments and public authorities can foster a higher degree of private sector involvement in climate action and enable efficient delivery of climate finance. Ensuring the role of the private sector in developing national strategies and their translation into investment plans may help in engendering country ownership.

26. Private sector investments are generally driven by risks and opportunities, profitability and business case considerations, which is not necessarily the case in the adaptation context. Therefore, there remains a very important role for public intervention in adaptation measures, particularly through concessional instruments. However, potential avenues for private investments in adaptation were identified such as agriculture and insurance.

27. We also heard a general recognition of the need to engage with private sector entities individually to understand the barriers to and drivers of private sector investments, noting the heterogeneous nature of the private sector comprising a wide range of stakeholder groups. Therefore, the private sector definition should not be narrowed down to large-scale investors; rather small- and medium-scale enterprises from developed and developing countries should also be considered, further

differentiating between private sector entities operating at the domestic or international level. Recognizing the context specificity under which climate finance is provided for climate action, some participants considered that the engagement with private sector stakeholders will benefit from pursuing a context-specific approach in order to elicit fruitful insights on existing opportunities for and barriers to mobilization of private finance. In this respect, regional branches of private sector entities were mentioned as advantageous for private sector investments owing to their familiarity with the political and socioeconomic context under which they operate, which could reduce investment risks. The "expert input" events attempted to facilitate these focused discussions and interactions.

28. Recognizing that private finance fell short of expectations in the context of the goal of mobilizing jointly USD 100 billion per year by 2020, some participants pointed to the need to identify challenges and lessons learned in mobilizing private finance. Such a study could inform the setting of the NCQG.

29. We heard about the need for mapping actors involved in mobilizing financial resources, including recipients, providers and intermediaries, clarifying the role of different agencies. Such actors from the public sector include (1) politicians and legislators; (2) ministries of finance and economic development that set policy frameworks, work on budgets for financial institutions and take a coordinating role; (3) development finance institutions that ensure finance flows to municipalities and local governments; (4) national development banks that work with ministries of finance for mobilization and delivery of finance; and (e) central banks that act as national regulatory bodies and can have catalytic mobilization effects.

30. Furthermore, we also heard calls for better articulation of the role of climate funds, bilateral institutions and multilateral development banks in financing adaptation projects. Multilateral development banks can play a critical role in developing regional concessional approaches to support development of capital markets, including by taking some of the risks that private banks cannot, by providing guarantees, insurance and blended finance. Furthermore, some suggested that the secretariat could play an important facilitative role in gathering countries' experiences at the regional level and showcasing successful case studies on financing options for adaptation projects.

31. If the NCQG constitutes sub-goals of the NCQG, some participants identified the usefulness of defining the roles of various types of actors. In this context, some highlighted that the clearer the sub-goals are defined and understood, including roles and responsibilities for each sub-goal, the easier it will be for the international community to track progress towards achieving such elements of the NCQG.

32. Finally, there was general recognition that having economic policies and targets at the national level helps to mobilize public finance efficiently and make climate finance flows consistent with a pathway towards low greenhouse gas emission and climate-resilient development. In this respect, it was noted that the NCQG should set out a reliable pathway, including guiding principles for what constitutes green and sustainable investment. Furthermore, the usefulness of taxonomies was discussed, which could facilitate clarity with regard to green and sustainable investment.

3. Sources and instruments of climate finance

33. We heard that, in the context of the NCQG, access to all sources of finance should be facilitated, with different views expressed on the types of instrument of which developing countries can avail themselves. Concessional loans, guarantees and equity are more frequently deployed for mitigation-related activities. Other instruments, such as grants, should continue to play an important role in the adaptation context. In this regard, examples were shared of the use of incentives provided by public sector actors to mobilize private sector resources, with different impacts in terms of scale.

34. The NCQG should not be prescriptive but reflect a bottom-up approach rather than a 'one size fits all' approach when it comes to provision of financial instruments. It should be fit for purpose, , and enable different instruments to be blended. While some participants voiced a preference for sub-goals or sub-elements of the NCQG to be differentiated by instrument, others discussed the usefulness of determining only a grant portion of the NCQG for adaptation, with others finding it useful to merely list available instruments of which countries could avail themselves, noting that financial instruments are context-specific and specific to mitigation, adaptation and possibly loss and damage needs. Therefore, ensuring flexibility in using those instruments would be of primary importance. A bottom-up approach to defining the possible instruments needed through investment plans was also proposed.

35. Concerns were expressed about instruments not addressing social and economic needs. Debt poses substantial obstacles for developing countries that often have no fiscal space to allow for taking on additional debt. Better understanding of barriers and drivers by source and types of instrument would be needed going forward. These could be discussed under the UNFCCC and should be reflected in the range of instruments that the NCQG could refer to.

36. In this context, we heard that the NCQG could look at how innovative instruments such as result-based payment for environmental services, debt swaps, blended finance, special drawing rights, 'polluter pays' taxes and carbon pricing, affect countries' economies.

37. We have also heard the need to broaden the contributor base to reflect the global efforts to mobilize climate finance.

38. On access to climate finance, we heard that the NCQG can provide a greater sense of predictability and reassurance to developing countries that funds will be available to them to fund adaptation and mitigation projects. In this respect, participants spoke of the need for a clear formulation of the NCQG with respect to delivery channels. We heard of the need for specific allocations and direct access mechanisms for the most vulnerable countries and communities, which could be reflected in sub-goals on access, simplifying access modalities consistently with the ambition level of pathways chosen by developing countries, or for small-scale activities. We also heard that the NCQG should facilitate access to climate finance by subnational governments, and local communities and indigenous peoples, and be gender-responsive. It should promote inclusive provision of finance while fostering enabling environments to increase absorptive capacity, planning abilities and capacity to design bankable projects.

4. Other elements of the new collective quantified goal on climate finance

39. Since the third technical expert dialogue focused on the needs and priorities of developing countries and the roles of public and private climate finance actors in relation to the NCQG, as well as sources and instruments of climate finance under the NCQG, other elements outlined in the landscape of issues were discussed to a lesser extent. As these elements remain valid, pending "deeper dive" discussions, the remainder of this chapter reiterates the views expressed during the first and second technical expert dialogues for inclusivity and completeness:

40. On the **role and objectives** of the NCQG, we heard that the new goal provides an opportunity to accelerate the implementation of the Paris Agreement by supporting developing countries in implementing their NDCs. In this sense, we also heard that the NCQG provides an opportunity to rebuild confidence in climate finance negotiations and discussions based on the experience in mobilizing climate finance, including the goal of mobilizing jointly USD 100 billion per year.

41. We also heard that the NCQG should be a driver for transforming the way climate finance is currently mobilized, accessed and delivered. The NCQG should reflect a long-term perspective and send a strong signal to various actors engaged in the climate finance architecture to make available finance that is fit-for-purpose so as to enable the ambitious climate action needed to achieve the goals of the Paris Agreement. Therefore, the NCQG should be in the context of keeping global temperature increases to below 1.5 degrees Celsius. Furthermore, the NCQG presents an opportunity to create incentives for both providers and recipients of climate finance to efficiently allocate financial resources in a manner that makes climate finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

42. On possible **elements** of the NCQG, we heard a general recognition of the multiple elements of the goal and the linkages across each element, with possible sub-elements or sub-goals for different actors, thematic areas, sectors, financial instruments and recipients.

43. Participants mentioned a set of **principles** or characteristics of the NCQG, namely being accessible and inclusive, adequate, science and human rights based, effective, predictable, measurable and transparent, time-bound, consistent with the principles of the Paris Agreement, and responsive to the needs and priorities of developing countries.

44. On **scope**, we heard that the NCQG would need to cover the multiple facets stemming from the relevant decisions,[5] albeit bearing in mind the need to avoid overcomplexity of the goal. In terms of thematic scope, we heard that the NCQG should cover adaptation and mitigation, with differing views on covering loss and damage. We also heard that the scope of the NCQG should include capacity-building and technology development and transfer.

45. Within these multiple facets, we heard that the NCQG will comprise both qualitative and quantitative aspects that are mutually supportive and complementary, while recognizing the importance of the signalling and mobilization effect that the NCQG can have towards the achievement of the objectives of the Paris Agreement.

[5] Decisions 1/CP.21, para. 53, 14/CMA.1 and 9/CMA.3.

46. We heard that the **quantitative** elements of the NCQG should take into account the needs and priorities of developing countries and development pathways, and be guided by principles such as predictability, accountability (including in terms of finance received), transparency and additionality. Furthermore, mention was made of the possible elements or sub-goals that could also be expressed in quantitative and qualitative terms.

47. On **qualitative** elements, we heard different views as to what quality might mean, highlighting the need to further clarify the scope and content. Some interpreted quality as effectiveness, and some related it to the type of financing instruments used or to the thematic or geographical distribution of climate finance. It was noted that quality of finance can be understood, among others, as how finance relates to the involvement of different actors within a given context, as well as the temporal correspondence of finance flows with formulated climate ambitions or plans such as long-term low greenhouse gas emission development strategies. These issues would require further discussion and clarity to reach a common understanding.

48. We have also heard views on qualitative elements in the context of enabling policy environments conducive to supporting finance flows, including access to climate finance.

49. On **transparency**, there was general recognition that the enhanced transparency framework under the Paris Agreement provides a solid basis for tracking progress towards achieving the NCQG, recognizing that aspects that are not covered under the current framework may need further clarification in the context of the NCQG. These include, among others:

(a) The climate finance flows considered in the biennial assessment and overview of climate finance flows of the Standing Committee on Finance (SCF), and its role in tracking progress;

(b) The need for a common definition or shared understanding of climate finance and an agreed methodology for accounting climate finance provided, mobilized and received;

(c) The need for a periodic review of progress towards achieving the NCQG, including possible under the global stocktake;

(d) Modalities for tracking private finance flows;

(e) Tracking the effectiveness and impacts of climate finance from both a recipient and a provider perspective;

(f) Linkages of the NCQG with ex ante information on climate finance to be provided in line with Article 9, paragraph 5, of the Paris Agreement.

50. **On synergies between the NCQG and other ongoing processes**, the work of the UNFCCC constituted bodies, particularly the SCF, the Paris Committee on Capacity-building, the Adaptation Committee and the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts was identified as important input to the process of defining the NCQG.

51. To avoid duplication and overlap of activities, synergies with other work and processes within and outside the UNFCCC should be considered, including:

(a) The global stocktake, including its technical assessments, which offers an opportunity to reflect on needs evolving over time and provide political guidance on updating and enhancing climate action and support;

(b) The enhanced transparency framework, in tracking progress of financial resources provided to developing countries, as well as information on support needed and received by developing countries;

(c) The global goal on adaptation;

(d) The work of the SCF, including its report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year by 2020; biennial assessment and overview of climate finance flows; report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement;[6] work on definitions of climate finance; and work relating to Article 2, paragraph 1(c), of the Paris Agreement. These were identified as useful sources of information that could inform qualitative and quantitative elements of the NCQG;

(e) Processes related to finance for addressing loss and damage, including the Glasgow Dialogue on loss and damage;

(f) The Needs-based Finance Project (NBF), to explore ways and means to assist developing country Parties in assessing their needs and priorities and in translating climate needs into action;

(g) The reports of the Intergovernmental Panel on Climate Change, which synthesize the latest scientific evidence on climate change from global sources;

(h) Initiatives such as the Network for Greening the Financial System, European Union taxonomy and the European Union sustainable finance disclosure regulation.

IV. Possible topics for further discussion

52. Building on discussions at the third technical expert dialogue, we intend to focus the fourth technical expert dialogue on access to climate finance.

53. On the basis of our reflections above, we have attempted to identify a non-exhaustive set of issues regarding access to finance for further discussion at the fourth technical expert dialogue:

(a) What are the ongoing challenges and gaps experienced in accessing public and private sources of finance? What additional challenges can be anticipated, and possibly avoided, with the NCQG, if any?

(b) What are the success stories and lessons learned in accessing public and private sources of finance?

(c) What measures have been taken/are being taken by multilateral, bilateral and public institutions to overcome gaps and challenges in relation to access to climate finance?

[6] Further information is available at https://unfccc.int/topics/climate-finance/workstreams/needs-report.

(d) How can the NCQG process contribute to enhancing access to all sources of climate finance? What should be the role of the NCQG to that end?

(e) Who are the key actors who need to be involved and how can they be engaged?