June 2024

UN Trade and Development submission in response to the *Call for inputs: Information and data for the preparation of the second report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries in the context of meaningful mitigation actions and transparency of implementation.*

Link:
https://unfccc.int/sites/default/files/resource/Call%20for%20inputs_2ndProgressReport.pdf

UN Trade and Development (UNCTAD) welcomes the opportunity to share information and data on the call for submissions for BA6 and would like to support The Standing Committee on Finance (SCF) by providing some considerations.

Specifically, UNCTAD published a report in December 2023 with *considerations for a New Collective Quantified Goal (NCQG) that can bring accountability, trust and developing country needs to climate finance*. The report is available here. It explores lessons from the ongoing challenges with climate finance and more specifically the $100 billion goal, proposing a set of considerations and structure for the NCQG to ensure it is an improved target

The report includes considerations that can respond to the outline of Chapter 4 of the report, as per Annex, such as the challenges in progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation; lessons learned in the process; and recommendations on possible actions.

UNCTAD's report is divided into four sections, with inputs that can be relevant to this specific call:

- **Section 1 compares different estimations of developing countries' financing needs.**
    - The lack of definition of climate finance influences the estimations of how much was provided by developed countries to developing countries. For instance, the Organisation for Economic Co-operation and Development (OECD) estimates that $83.3 billion was provided by developed countries in 2020,[1] and that the goal was finally achieved (and exceeded) in 2022, with USD 115.9 billion.[2]
    - However, these numbers have been challenged by some developing countries and civils society organizations. The report includes comparison of several estimates from different studies.
    - Regarding Domestic Resource Mobilization, given current macroeconomic and financial conditions facing developing countries, UNCTAD questions some analyses that argue that around half of total financing need can be delivered via domestic resources[3] . UNCTAD argued in 2019 that even in the most optimal macroeconomic scenario, the net financial contribution of the public sector of

[1] OECD (2022). Climate Finance Provided and Mobilised by Developed Countries in 2016-2020: Insights from Disaggregated Analysis, Climate Finance and the USD 100 Billion Goal. OECD Publishing, Paris. Available at https: // doi.org/10.1787/286dae5d-en

[2] OECD (2024). Climate Finance Provided and Mobilised by Developed Countries in 2013-2022. Available at: https://www.oecd.org/climate-change/finance-usd-100-billion-goal/

[3] UNCTAD (2023). Trade and Development Report Update: Global Trends and Prospects. Available at https://unctad.org/system/files/ official-document/gdsinf2023d1_en.pdf

developing countries excluding China adds up to a maximum of $450 billion.[4] This presents challenges when attempting to use the IHLEG-proposed goal of $1 trillion in external financing by 2030 for a needs-based understanding of the NCQG, since a more realistic approach to DRM's contribution to developing country goals would require an upward revision of total external financing needs, before any deeper discussion on the precise composition and modalities of contributor support.

    - UNCTAD's report considers the distinct needs of the three pillars of climate finance – mitigation, adaptation and loss and damage – to develop a structured needs-based analysis, according to which tracked financial flows fall short of the levels needed for adaptation, loss and damage and to achieve mitigation goals across all sectors and regions.

- **Section 2 outlines existing challenges in ensuring climate finance flows respond to the needs and priorities of developing countries.**
    - Firstly, mitigation continues to far outstrip adaptation financing globally. Indeed, financing dedicated to adaptation made up only about 8 per cent of the total in 2019/2020. While adaptation financing has been increasing in the past decade from $14 billion in 2011 to $56 billion in 2020, this still falls far short of the estimated needs.[5][6]
    - Secondly, developing countries in general depend to a much greater extent on public financing. There are several challenges to mobilising private finance in developing countries including high borrowing costs and elevated risk-perceptions due for example to vulnerability to climate shocks. The lack of appropriate local currency-based financial instruments coupled with a high-debt and inflationary global economic environment poses additional challenges to affordable and sustainable market financing for developing countries, whether green or not.
    - Thirdly, the majority of climate finance is delivered through debt-creating instruments. Funders include commercial banks and investors, governments, and multilateral and national finance institutions; albeit with important differences between private and public institutions in terms of the maturity and concessionality of their lending. Considering the significant sovereign debt challenges currently facing many developing countries, the dominance of debt further restricts the fiscal space needed to invest in ambitious NDCs.
    - Lastly, there is the issue of transparency and tracking of existing flows, which translate into ongoing tensions around the veracity of climate finance figures.
- **Section 3 considers design of the NCQG**, outlining nine considerations to guide thinking, a simple structure to deliver on these considerations, and quantified targets.
    - Qualitative considerations for a climate finance goal that works for developing countries' needs include dynamism in its design; consistent and transparent contributor accounting; distributional equity; new and additional climate

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[4] UNCTAD (2019). Trade and Development Report: Financing a Global Green New Deal. Available at https://unctad.org/publication/ trade-and-development-report-2019

[5] Buhr B et al (2018) Climate Change and the Cost of Capital in Developing Countries. London and Geneva: Imperial College London ; SOAS University of London ; UN Environment. Available at https: // eprints.soas.ac.uk/26038/

[6] https://unfccc.int/sites/default/files/resource/J0156_UNFCCC%20BA5_2022_Report_v4%5B52%5D.pdf

finance, but complementary to development finance; respect for CBDR-RC principle.
    - Considering the range of different estimates and developing countries' needs, currently UNCTAD proposes an annual target of $500 billion as a floor starting from 2025, with a target of $1.55 trillion by 2030. The composition of the $500 billion floor to be established in 2025 may be composed of approximately $250 billion for mitigation, $100 billion for adaptation and $150 billion for loss and damage. This might progressively rise to $1 trillion for mitigation, $250 billion for adaptation and $300 billion for loss and damage by 2030.
    - Financing should be primarily achieved through a grant-equivalent Core Goal for bilateral contributions from developed countries, starting at 0.7 per cent of GNI from 2025 ($400 billion) and rising to at least 1 per cent of GNI by 2030.
- **Section 4 builds links between the NCQG and ongoing debates on global economic governance reform**, identifying seven transformative elements developing countries can pursue to maximise overall finance flows.
    - Expanding affordable public financing at all levels is a major priority, but so too is ensuring that private finance aligns with public goals through strengthened regulation that can address short-termism and greenwashing risks. Partnership with the private sector can be beneficial but should be based on fair risk- and reward-sharing to strengthen resilience in state capacities. For more detail on proposals around aligning private finance with climate goals, see UNCTAD's report "Making sense of Article 2.1( c ): What role for private finance in achieving climate goals ?" (December 2023).
- **Section 5 offers conclusions in moving forward.**
    - The report outlines past flows in the USD 100 billion goal that should be taken into consideration as lessons learned in the process towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries: the mismatch between the financing goal and demonstrated need; the bias towards mitigation when countries desperately need adaptation and loss and damage support; the dominance of debt-financing which heightens economic vulnerabilities; distributional imbalances which keep finance out of reach for the poorest countries; and severe limitations to tracking. This last issue has been particularly challenging for Parties and wider stakeholders to ensure accountability and effectiveness of climate finance flows.
    - In terms of recommendations on possible actions going forward, a more equitable design for the NCQG needs to be grounded in the principle of CBDR-RC and led by the needs and priorities of developing countries. This includes supporting countries to enhance their assessment of needs, regularly reviewing targets to ensure they respond to dynamic circumstances and designing simplified and direct access to unlock further climate action in the lowest income countries. Clear and common guidelines and standards for climate finance accounting need to be implemented by all developed countries, which should be new and additional to ODA to avoid double counting and ensure other development goals are not disadvantaged by a more robust effort to support developing countries' climate goals.