Considerations for a New Collective Quantified Goal

Bringing accountability, trust and developing country needs to climate finance

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The findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the United Nations or its officials or Member States.
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EXECUTIVE SUMMARY

Article 9 of the Paris Agreement (PA) provides that developed country parties take the lead in mobilizing climate finance based on developing country needs and priorities. There is a wide range of estimations on the needs and priorities of developing countries, but the flow of finance has fallen far short of all of these assessments. This includes the 2009 political target of $100 billion per year by 2020, subsequently extended to 2025, which has never been reached and was not based on a robust analysis of needed resource.

Past commitments have not been enough to significantly shift contributions, and differences in definitions and accounting of climate finance have led to criticisms which further undermine trust. Delayed action has increased the total resource needed across mitigation, adaptation and loss and damage. Furthermore, the composition of the finance – the share of grant, concessional and debt finance – is ever more important given compounding macroeconomic and financial pressures facing developing countries.

As per Decision 1/CP21 Paragraph 53, countries decided to deliberate on a new collective quantified goal (NCQG) to raise the floor on climate finance above the current $100 billion annual target, taking into account the needs and priorities of developing countries. The discussions on the NCQG will conclude at COP29 at the end of 2024 with Parties agreeing a new goal. This presents an opportunity to learn from the shortcomings of the $100 billion goal, including setting both qualified and quantified targets in line with needs; agreeing suitable modalities for financing mitigation, adaptation and loss and damage; and building deeper levels of accountability and transparency into the goal. It is also an opportunity to influence ongoing reform efforts of the global financial architecture, transformation of which is essential for the achievement of even the best-designed and well-supported climate financing goals.

This report 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. Section 1 compares different estimations of developing countries’ financing needs. Section 2 outlines existing challenges in ensuring climate finance flows respond to the needs and priorities of developing countries. Section 3 considers design of the NCQG, outlining nine considerations to guide thinking, a simple structure to deliver on these considerations, and quantified targets. 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. Section 5 offers conclusions in moving forward.

There is strong international agreement on the need to massively scale up financing for developing countries’ climate goals. But understandings of precisely how this is achieved are far from achieving consensus, whether considering a quantum, financing modalities, targeted activities or sources of finance. This report attempts to clarify some of the key issues around a new needs-based target, supporting Parties to deliver an NCQG consistent with PA commitments, enabling more ambitious climate-resilient development pathways in developing countries, and rebuilding trust for all.
1. ESTIMATING CLIMATE FINANCE NEEDS

At COP15 in 2009, developed countries committed to jointly mobilise $100 billion per year to address the needs of developing countries by 2020. The deadline for meeting the goal was extended to 2025 at COP21 in 2015. This commitment has yet to be met. The Organisation for Economic Co-operation and Development (OECD) estimates that $83.3 billion was provided by developed countries in 2020, however, these numbers have been challenged by some developing countries mainly due to a lack of agreement on the definition of climate finance. The main form was public finance (82 per cent), more than half of which came from multilateral sources. This contribution remains a fraction of diverse estimates of overall need.

Just prior to COP26 in 2021, the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance (SCF) published the ‘First report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement.’ The report found that of the Nationally Determined Contributions (NDCs) submitted by 153 parties to the PA as of 31 May 2021, only 78 included cost estimates of activities, totalling $5.82-5.89 trillion of resourcing need by 2030. A report from Clima Partners in association with Aviva Investors (2022) used a similar methodology and updated NDCs from 126 developing countries to project aggregate financing needs of $7.8-$13.6 trillion until 2030. Both reports acknowledge that these are likely a vast underestimation considering that not all NDCs analysed were costed, that broad inconsistencies in how NDCs are reported exist, and that these plans do not necessarily represent the highest level of ambition to achieve collective climate goals.

At COP27, the Independent High-level Expert Group on Climate Finance (IHLEG) released a report that estimated climate-related investment needs for developing countries. The report aggregates estimates from different studies and country level assessments to arrive at a number for total needs, building on the approach used by Bhattacharya (2022). Needs are considered in three priority areas: energy transition; adaptation and resilience including loss and damage; and the restoration of natural capital through sustainable agriculture, food and land use practices, and biodiversity. The report estimates that these priorities will require developing countries excluding China to collectively spend $1 trillion per year by 2025 and $2.4 trillion by 2030. The report thus calls for an increase of $1 trillion in external financing by 2030.

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1. UNFCCC. Background note on the USD 100 billion goal in the context of UNFCCC process, in relation to advancing on SDG indicator 13.a.1. Available at https://unstats.un.org/sdgs/tierIII-indicators/files/13.a_1_Background.pdf
7. Based on aggregates provided by different analysis by Stern (2021) and the IEA along with disaggregated country analysis to build country by country numbers from 2025 to 2030 using 2019 as the base.
This proposal, however, is based on various assumptions, including only a modest increase in grant-equivalent support from developed country contributors, a fivefold increase in the mobilisation of private finance, and perhaps most concerning, expectations for a 177 per cent increase in climate finance from domestic resource mobilisation (DRM). Indeed, the report argues that around half of total financing need can be delivered via domestic resources which is questionable given current macroeconomic and financial conditions facing developing countries and since according to the IHLEG itself, current domestic resource mobilisation (DRM) for developing countries excluding China sits at around $236 billion. Indeed, UNCTAD argued in 2019 that even in the most optimal macroeconomic scenario, the net financial contribution of the public sector of developing countries excluding China adds up to a maximum of $450 billion. 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.

A needs-based assessment of finance is also made by the World Bank through its Country Climate and Development Reports (CCDRs), finding that climate-development financing needs are larger as a proportion of Gross Domestic Product (GDP) in countries that have contributed least to global warming, and where access to capital markets and private capital is more limited and, invariably, more expensive than for developed countries. In its first CCDRs covering 24 countries, financing needs were anticipated to be on average 1.4 per cent of GDP by 2030, with significant country differences between upper middle income countries (UMICs) at 1.1 per cent, lower middle income countries (LMICs) requiring 5.1 per cent and low income countries (LICs) needing 8 per cent of GDP by 2030. Extrapolating CCDR results using the average investment needs by 2030 per income group yields an annual climate-related investment target for all low- and middle-income countries other than China at $783 billion per year between now and 2030 – lower again, than the IHLEG proposal. However, it is difficult to compare these findings of aggregate estimates because they use different baselines and mitigation and adaptation scenarios depending on country-level plans.

Furthermore, CCDRs tend to delay the most expensive actions, pushing total costs and investment needs higher post-2030, and likely increasing costs related to climate impacts. To this end, the CCDRs also estimate that the countries expected to lose a higher proportion of their GDP from climate impacts are also countries with low gross national incomes (GNI). For example, Bangladesh is projected to lose 2 percent of its GDP from climate impacts from mid-range temperature increases by 2050 and has GNI per capita of $2570, whereas Niger and Mali are projected to lose 7 and 9 per cent respectively with GNI per capita of $590 and $820 respectively in 2021. This indicates significant equity implications for delaying upfront investments in climate action now in order to lower immediate investment targets, since the most vulnerable countries will be forced to bear the biggest costs of delay in the coming years.

11. Idem.
1. ESTIMATING CLIMATE FINANCE NEEDS

Figure 1: Climate finance flows, estimated needs, and potential NCQG targets (USD billions).

![Graph showing climate finance flows, estimated needs, and potential NCQG targets.]

Source: UNCTAD comparison based on various sources.

Needs for Mitigation, Adaptation and Loss and Damage

As well as these aggregate estimates of financing needs, it’s worth considering the distinct needs of the three pillars of climate finance – mitigation, adaptation and loss and damage – to develop a structured needs-based analysis. Unsurprisingly, tracked financial flows fall short of the levels needed for adaptation, loss and damage and to achieve mitigation goals across all sectors and regions.

The International Energy Agency (IEA) estimates that by the end of the 2020s, annual capital spending on clean energy in developing economies needs to expand more than seven times, to above $1 trillion, in order to expand energy access while putting the world on track to reach net-zero emissions by 2050. The United Nations Environment Programme (UNEP) estimate annual adaptation needs to be $160-340 billion by 2030 and $315-565 billion by 2050. According to UNEP, this requires a 5-10 times increase from current adaptation finance flows, however Oxfam suggests that the gap is far wider when correcting for reporting approaches that overstate the adaptation element of finance flows. This analysis is in line with the fact that while identified mitigations costs were estimated to be higher, developing country Parties have pushed for at least a doubling of finance for adaptation by 2025, indicating that the NCQG may have a bigger role in supporting the total needs of adaptation compared to the total needs of mitigation.

14. Since both the UNFCCC NDR and the Clima Partners study use aggregates until 2030 rather than annual financing targets, a crude estimation of annual flows was assumed to be the total divided by the number of years until 2030 since publication.
20. UNFCCC (2020). First report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement. UNFCCC Standing Committee on Finance Technical Report: 8 (18)
For loss and damage, the final pillar of climate finance, the adoption of optimal mitigation and adaptation strategies in line with the latest Intergovernmental Panel on Climate Change (IPCC) assessments implies that some loss and damage is still avoidable. Yet, even if these strategies materialize, existing projections anticipate significant unavoidable loss and damage from the locked in impacts from global warming. Depending on success with mitigation and adaptation, loss and damage costs are projected to be as much as $580 billion per year by 2030 – a figure that is likely an underestimation considering it was calculated pre-pandemic.

Figure 2: Finance flows, needs and potential NCQG sub-goals for different thematic pillars of climate finance (USD billions).

Qualitative Considerations

As well as considering quantitative needs in determining the NCQG, developing countries also have qualitative needs that should be considered. The reality is that developing country’s needs are highly dynamic: needs and priorities will change depending on global support for mitigation, adaptation and loss and damage, and the adverse effects of exogenous shocks. Moreover, domestic political and economic conditions can shift, rapidly rendering needs assessments out of date. Another challenge is that not all needs are necessarily easily quantified, for example needs relating to capacity building and technology development and transfer. Finally, as demonstrated by needs assessments for example the UNFCCC’s Needs Determination Report, self-reported, ‘bottom-up’ methods are challenging to compare or aggregate, posing methodological and accountability issues when a financial quantum is the only basis for measuring success of the NCQG.


23. Estimated annual needs for adaptation and loss and damage took the mid-point of projections from aforementioned studies.


2. CHALLENGES WITH EXISTING FLOWS OF CLIMATE FINANCE

According to analysis by Climate Policy Initiative, total global climate finance flows during the last decade almost doubled from $364 billion in 2011 to $665 billion in 2020. The majority of this finance was domestic, with only $171 billion constituting international flows. Furthermore, this finance is concentrated in a few large economies, with OECD countries and the East Asia Pacific region accounting for more than 80 per cent. While there is a clear need to significantly scale up climate finance in all regions, this distributional imbalance signals the particular shortfall facing many developing countries.

The analysis reveals several interesting details of existing flows that bear remembering when considering the design of the NCQG.

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 outlined above.

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. This can also go some way to explain the uneven distribution of most climate finance: the largest recipient of climate finance from developed countries was India ($4 billion), and of the top ten recipients, only Ethiopia and Bangladesh are defined as Least Developed Countries (LDCs).

Thirdly, the majority of climate finance is delivered as debt. Indeed, nearly 94 per cent of existing climate finance is return-seeking: an investment through either debt or equity where the funder is expecting some financial return. These 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. Debt financing may add to existing pressures in terms of debt sustainability: 29 of the 69 countries eligible for concessional finance from the International Monetary Fund’s (IMF) Poverty Reduction and Growth Trust are considered highly vulnerable to both debt and climate distress. 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.

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Lastly, there is the issue of transparency and tracking of existing flows, which translate into ongoing tensions around the veracity of climate finance figures. The figure below suggests that flows from developed to developing countries are the only officially tracked resources, however even this data comes into question.
Figure 5: Data gaps in global landscape of climate finance.

<table>
<thead>
<tr>
<th>Data gaps</th>
<th>Energy Systems</th>
<th>Building &amp; Infrastructure</th>
<th>Transport</th>
<th>Industry</th>
<th>Land Use</th>
<th>Adaptation</th>
<th>Other</th>
<th>Legends</th>
</tr>
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<tbody>
<tr>
<td>Private</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Tracked</td>
</tr>
<tr>
<td>Global North-South</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Some tracking</td>
</tr>
<tr>
<td>Public domestic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Limited tracking</td>
</tr>
<tr>
<td>Global South-South</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No tracking</td>
</tr>
</tbody>
</table>

Source: Global Landscape of Climate Finance: A Decade of Data, 2022

With no commonly agreed methodology for counting finance contributing to the $100 billion, there are persistent overestimations in the accounting practices that developed countries, multilateral development banks (MDBs), multilateral climate funds and other climate finance contributors use when reporting climate finance. Oxfam, for example, estimates that the real value of bilateral flows is only $21–24.5 billion in 2020.²²

Thwaites and Bos (2021)²³ provide a database by compiling information from various reporting sources to evaluate the composition of bilateral public flows at the country level in an attempt to improve transparency and accountability. However, in doing so, the authors highlight the significant methodological challenges and the subsequent latitude needed when interpreting the data. This includes issues of double counting, for example where both commitments and disbursements are reported across different years, or in repeat counting of bilateral and multilateral contributions, while other developed countries did not complete their reporting at all. Double counting is also an issue when it comes to questions of additionality, since an increasing proportion of Official Development Assistance (ODA) is now also counted as climate finance and many projects with negligible climate relevance are included.²⁴²⁵ Comparability of figures across instruments is another challenge, since developed countries count non-grant instruments in the same way as grants rather than using grant-equivalent reporting, as is now standard in ODA tracking. Also, some countries count coal financing and other fossil fuel sector financing in their figures, which has raised questions on how to adequately ensure climate finance is aligned with PA goals.

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²³ Thwaites J and Bos J (2021). Dataset for Technical Note: A Breakdown of Developed Countries’ Climate Finance Contributions Towards the $100 Billion Goal. Technical Note, World Resources Institute. Available at A Breakdown of Developed Countries’ Public Climate Finance Contributions Towards the $100 Billion Goal | World Resources Institute (wri.org)
There are also divergent approaches across contributor countries vis-a-vis different thematics, instruments, and overall quanta. Some countries prefer to contribute more to mitigation (Japan, Norway, the United States of America) while others to adaptation (Belgium, Iceland).\textsuperscript{36} In terms of the total share of climate finance, Japan, Germany, France, the United States of America and the United Kingdom were in this order the biggest contributors in 2018-19, however all except the United Kingdom disbursed primarily in the form of loans.\textsuperscript{37} When considering a fair effort-sharing approach to the $100 billion, taking into consideration such elements as GNI, population and historic emissions, only Sweden and Norway both met their responsibility and provided the majority of their support as grants.\textsuperscript{38}

Considering these findings, it is no surprise that debates around financing are a persistent tension in climate negotiations. Agreeing the NCQG is an opportunity to build a more accountable approach to climate finance and in doing so strengthen trust. The ultimate test will be whether Parties respond to the shortcomings outlined above to design a more sophisticated, structured and evidence-based goal.

\textsuperscript{36} Thwaites J and Bos J (2021). Dataset for Technical Note: A Breakdown of Developed Countries’ Climate Finance Contributions Towards the $100 Billion Goal. Technical Note, World Resources Institute. Available at A Breakdown of Developed Countries’ Public Climate Finance Contributions Towards the $100 Billion Goal | World Resources Institute (wri.org)

\textsuperscript{37} Idem.

\textsuperscript{38} Idem.
3. DESIGNING THE NCQG

UNCTAD Considerations for the NCQG

Led by developing countries’ needs and priorities

The NCQG should be firmly anchored in both the qualitative and quantitative needs of developing countries, with targets and structure that directly respond to lessons learned from the annual $100 billion goal, and commitment to support nationally-led climate plans and financing strategies.

A Core Goal for developed countries provision, alongside ambition for other sources

The Core Goal of the NCQG should be measured on a grant-equivalent basis and delivered by additional contributions from developed countries. However, only focusing on these flows is an unnecessary lowering of ambition. In consideration of the COP27 outcome and recent discussions around reforming the global financial architecture, complementary targets could be considered for multilateral public finance, private finance and ‘innovative sources’ such that the NCQG encompasses diverse options for resource mobilisation (see section 4 for further discussion). At the same time, it would be good if Parties remained pragmatic when assuming how much will come forth from private finance or ‘innovative sources’, given political feasibility, existing flows and absorptive capacities.

CBDR-aligned effort-sharing approach

The NCQG could agree a fair effort-sharing approach among developed countries. International institutions, such as the United Nations and the European Union, employ GNI-based effort-sharing methodologies to determine budget contributions. Building on the 0.7 per cent of GNI target for ODA, countries could agree for example a 0.7 per cent target for climate finance from 2025, progressively increasing to 1 per cent by 2030, bringing total committed assistance to 1.7 per cent. While current ODA uncertainty might challenge the feasibility of this proposal, it is an adjustment that is increasingly needed to deliver both development and climate finance. Another consideration would be to integrate other equity considerations, for example a weighted adjustment according to historic contributions. This would thus account for both respective responsibilities and capabilities.39

Thematic and modal sub-goals

A top-level goal may be complemented by sub-goals that identify targets for themes and modalities to bring greater resource to where it is most needed and to improve climate finance tracking. This includes specific sub-goals for mitigation, adaptation, and loss and damage, determined on the basis of assessed needs, and consideration of the right mix of financing instruments for each, linking back to the proposed grant-equivalent Core Goal.

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Designed for dynamism

An NCQG able to respond to dynamic changes in needs, whether related to national, regional or global developments, would be beneficial to all. Periodic review mechanisms should might be agreed for the NCQG, to allow for adjustments according to emerging needs, avoiding the ‘locked in’ nature of the $100 billion goal, with emerging consensus around 5-year cycles to match the 5-year cycles for NDC enhancement and Global Stock Takes, responding to and reinforcing these processes.

Enhanced support to assess needs-reporting

Developing countries require greater support to determine their needs for more comprehensive and sophisticated needs-based assessments in the future. Inadequate and inconsistent data on needs hamper a truly consensual and evidence-based approach to considering a quantum, impairing ambition for setting the goal as a whole. Improved support and capacity building to standardise needs-reporting, especially with respect to grant-equivalent accounting, will aid accountability around a needs-based goal. The NCQG could include a target for grants for technical assistance to support this work.

Consistent and transparent contributor accounting

Broader reporting issues from developed country contributors would have to be replaced by consistent, standardised formats that assess contributions from a level playing field, including improving biennial reports through the Enhanced Transparency Framework. This includes ending double-counting, assessing non-grant instruments for their grant-equivalence, and improved guidance and rigorous standards for what is considered ‘climate finance.’ However, this reform cannot be stalled by lengthy debates on definitions which drain much needed time and resource from those concrete actions (for example around grant-equivalent reporting) which enjoy broad agreement.

New and Additional but complementary to development finance

NCQG support should be additional to ODA. Considering that more and more development finance is climate-mainstreamed, this is particularly challenging, and indeed if developing countries are going to successfully mount climate-resilient developmental strategies, it will require aligning development and climate finance towards the same mission. However, the trend of decreased ODA for non-climate development objectives poses a threat to broader resilience, and developing countries are understandably questioning whether bread and butter development issues like poverty reduction are being relegated in relation to climate goals. To this end, climate finance needs distinct but complementary reporting alongside ODA, and additionality may be measured by ensuring that there are separate relative GNI goals for climate finance, permitting higher combined expectations for climate plus development assistance that go well beyond 0.7 per cent.

3. DESIGNING THE NCQG

**Distributional equity**

Current developed country contributions are overly concentrated in a few MICs while the needs of the lowest income developing countries are neglected. While the primary goal should be to scale up the total pool of contributions to address this, the new goal may consider specific safeguards to ensure a more equitable approach to disbursing climate finance where it’s needed. This can include governance and administrative elements such as ensuring simplified access to funds which have burdensome and lengthy application processes, or considering ring-fencing a proportion of resources for LDCs and for direct access.

**Defining the Quantum**

Considering the timelines of various assessments and the establishment of the NCQG at the end of 2024, the immediate goal should be for a finance target to be raised by 2030. This goal may continue for a further five years, before undergoing a review for an adjusted target from 2035. In order to avoid a lengthy, multiyear process to agree a post-2035 goal, a streamlined process beginning at COP in 2033 should initiate a formal review to establish adjusted quantified targets in line with developing country needs. This review might be inclusive of the NCQG’s structure and design and be conducted by the SCF with input from all Parties and assessments of progress towards the target included in Biennial Assessments.

Taking into account the range of different estimates and the need for an evidence-based target, an annual target of $500 billion is proposed here as a floor starting from 2025, with a target of $1.55 trillion by 2030. Roughly $400 billion of the 2025 floor should be delivered as bilateral contributions, taking a grant-equivalent Core Goal of 0.7 per cent of the GNI of developed countries, implying a doubling of the current ODA target. This contribution may progressively rise to 1 per cent of GNI for climate finance by 2030, for which a numerical estimation is harder to provide considering inflationary considerations and wider economic fluctuations. On current levels this would amount to approximately $570 billion provided as grant-equivalent Core Goal, which is likely a large underestimation.

The rest (that is, the additional $100 billion for the 2025 floor target and the unknown quantum for the 2030 target) will come from various sources, with an ambition to mobilise multilateral, private and innovative sources which needs to be reported in grant-equivalent terms to facilitate tracking and transparency. This may come in the form of highly concessional loans from multilateral sources, revenue from novel taxation cooperation, or private finance leverage with the help of funds that make up the grant-equivalent Core Goal. This is therefore also within the mandate of contributor governments to deliver: in line with CBDR-RC and Article 9 commitments, and considering the disproportionate power developed countries have to mobilise such new revenue streams, the task between now and 2030 should be to individually and collectively ensure alternative sources are mobilised to deliver the NCQG of $1.55 trillion by 2030 on top of the 1 per cent GNI Core Goal contribution.
CONSIDERATIONS FOR A NEW COLLECTIVE QUANTIFIED GOAL: BRINGING ACCOUNTABILITY, TRUST AND DEVELOPING COUNTRY NEEDS TO CLIMATE FINANCE

Figure 6: Potential revenue generation from alternative sources compared with proposed targets (USD billions).

The basis of these goals is a determination of needs which yields distinct sub-goals for mitigation, adaptation and loss and damage. To respond to current projected needs, 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.

Since investments in adaptation and loss and damage response are not return generating, grant-based financing will make up the majority of support for these activities, and a larger proportion of the grant-equivalent Core Goal will thus need to be directed towards these sub-goals. While there is a strong case for extremely concessional and grant-based support for mitigation particularly for projects with low or no return case, the profit-generating potential of some mitigation activities mean this sub-goal will comprise a broader mix of sources. To this end, Guzman et al’s (2023) proposal to differentiate between the provision of finance to address support needs and the mobilisation of finance to address investment needs introduces an additional sub-goal for financing modalities which may interface with thematic sub-goals (but primarily mitigation) to differentiate between ‘alternative sources’ of mobilised finance and the grant-equivalent Core Goal contribution. Tracking these sub-goals will also improve the overall delivery of financing, including identifying contributor interventions which effectively mobilised additional investments.

Figure 7: Simplified structure of NCQG and subgoals.

Source: UNCTAD 2023.41

4. THE NCQG IN THE CONTEXT OF DEBATES ON THE GLOBAL FINANCIAL SYSTEM

At the same time as Parties progress negotiations on establishing an NCQG, debates around reforming or transforming the global financial architecture have gathered fresh momentum. Since even before the onset of the pandemic and accelerated in the years that have followed, many developing countries have been losing ground on their climate and development goals: saddled with expensive debt that squeezes the fiscal space they need to invest in resilience, grappling with barriers to the developmental pathways necessary to diversify and transform their economies, and swimming against the tide of boom-bust capital flows from crisis spillover effects they have little power over.

The financial system of today has brought great prosperity, but it has also turbocharged inequality and wealth extraction between and within countries, overseen the acceleration of volatile financial flows, and diverted productive investment into speculation and profiteering. There is increasing recognition that these are not bugs but features of the current global financial architecture, which is increasingly at odds with addressing humanity’s common challenges. In the face of compounding crises and in particular the existential threat of climate change, there is an urgency to secure lasting and transformative change while the political will exists.

While external to the UNFCCC negotiations, the reality is that broader global economic governance reform, by potentially unlocking additional suitable sources of financing, will play a significant role in enabling or hampering both design and delivery of the NCQG. To best reflect the needs and priorities of developing countries, the NCQG should be inclusive of Parties’ efforts and advocacy to maximise resource mobilisation across the financial system. The final outcome and structure of the NCQG can send strong signals to influence ongoing reform efforts, indicating targets and expectations from complementary elements of multilateral governance, and bringing greater coherence across institutions.

There are seven elements of the wider international financial reform discussion that developing countries can advance in support of a strong NCQG.

The first element of such an agenda would be a multilateral framework for dealing with sovereign debt distress. The existing international debt architecture has proven counterproductive to debt sustainability initiatives that could bolster productive climate investments. Yet there is still no multilateral legal framework for debt restructuring to facilitate timely and orderly debt crisis resolution with the involvement of all creditors. One study estimates that for 61 countries identified as in or at high risk of debt distress to achieve debt sustainability, more than $812 billion in debt needs to be restructured across all creditor classes, translating into haircuts between $317 billion to $520 billion from public and private creditors. Improving outcomes from the G20 Common Framework for Debt Treatment and Debt Sustainability Assessments and deploying new tools such as debt-to-climate swaps could help alleviate the immediate pressure battering countries. Still, a systemic problem needs a systemic rather than itemized response, pointing to the need for a multilateral process that can bring greater predictability and transparency to debt resolution processes.

The second element of needed action is on expanding the global financial safety net (GFSN) by ensuring developing countries have the tools and liquidity they need when economic shocks hit. Special Drawing Rights (SDRs) could have a big role to play here, supplemented by regional arrangements, a multilateral swap facility, and efforts to manage financial volatility. The recent allocation of $650 billion of SDRs during the pandemic offered a critical lifeline to many countries facing liquidity shortages, but because it was based on IMF quotas, 60 per cent of the allocation went to developed countries, leaving low-income developing countries with only 1.4 per cent of the total. At COP26 in Glasgow, Prime Minister Mia Mottley of Barbados proposed an annual allocation of $500 billion in SDRs to drive climate ambition, however subsequent proposals have instead called for rechannelling $100 billion of unused SDRs held by developed countries to those who need them most. Delinking SDR allocations from the quota system to instead be deployed for development purposes could be another way to generate additional development financing and has been proposed by UNCTAD since 1968, however would face significant political challenges.

As well as a stronger GFSN, a third element should focus on international financial institutions (IFIs) expanding additional, affordable financing sources to advance climate and development goals and tackle poverty and vulnerability. A G20 Expert Group recently called for a tripling of MDB lending, estimating that this would generate an additional $260 billion from MDBs, while other proposals suggest that a broader reform agenda for the MDBs could increase lending by as much as $1 trillion. By comparison, in 2021 MDBs invested around $81.7 billion in climate finance with 77 per cent going to high income countries (HICs).

Meeting ODA commitments is a fourth necessary element: if the target of 0.7 per cent of GNI was actually met by donor countries, an additional $196 billion would have been disbursed as ODA in 2022.

Multilateral options to tackle Illicit Financial Flows (IFFs) and boost tax revenues to the benefit of developing countries form the fifth element. More efforts on this front could make a significant difference in increasing adequate financing sources. In 2021 alone, tax-related IFFs were estimated at $483 billion: $312 billion due to corporate tax avoidance by multinationals and the rest to offshore tax evasion by wealthy individuals. On the current trajectory, countries are on course to lose $4.8 trillion in tax revenue over the next 10 years; equivalent to losing a year of worldwide spending on public health.

According to an OECD study, the OECD agreement to establish a global minimum tax rate will reallocate $200 billion in revenues, most of which are expected to accrue to LMICs. However, other studies contest this finding, instead arguing that the new agreement will concentrate benefits in the United States of America, the European Union and China. A more multilateral and potentially equitable process for international tax cooperation was established with the adoption of the 2022 United Nations General Assembly Resolution “Promotion of inclusive and effective international tax cooperation at the United Nations.” This Resolution opens the way for the creation of an intergovernmental United Nations
Tax process, which could lead to a United Nations Framework Convention to establish a United Nations Tax Body, with a focus on progressive redistribution and reigning in tax abuse. New global taxes such as a financial transaction tax, fossil fuel windfall tax, maritime levy and levies on certain GHG-intensive activities in developed countries such as airline travel offer an opportunity to resource common global funds for climate purposes, provided that they uphold the principle of CBDR-RC. Annual revenues for these tax options could be as much as $418.8 billion, $300 billion, $80 billion and $25.4 billion respectively.

Expanding affordable public financing at all levels is a major priority, but so too is the sixth element of ensuring 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.

The central paradox of the climate crisis is that those who are least responsible continue to pay the highest price, and this inequity is emphasised too in an outdated and undemocratic global economic governance regime. The seventh and final pillar of a longer-term vision that can transform development trajectories and enhance the NCQG is addressing persistent governance issues in IFIs. This includes reforming IMF quotas and voting rights, delinking SDR allocation and access to respond to development need, improving transparency, and ensuring coherence of all rules and frameworks with the Sustainable Development Goals (SDGs). The world has changed significantly since these institutions were established, and in this moment of potential transformation, it is critical that they reflect the needs of current and future generations across all regions. In general, it is the more transparent and multilateral governance of UNFCCC funds that lead developing countries to champion them, and bringing such standards to the IFIs will reap far greater economic impacts on development outcomes than existing climate funds alone.

Figure 8: Elements of a more enabling global economic governance for the NCQG.
The only sure way for the discussions on a NCQG to fail is if they do not learn from past flaws. Chief amongst them are: 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. However, even with the most optimal assumptions when measuring flows from developed to developing countries, almost no country has met the minimum standard for contributing their fair share.

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.

The quantum itself should be based on real estimations of need: a total NCQG of $500 billion is proposed here as a floor starting from 2025, increasing to $1.55 trillion 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.

The NCQG may also have distinct thematic sub-goals for mitigation, adaptation and loss and damage, and modal sub-goals to ensure that support for adaptation and loss and damage comes primarily in the form of grants. To respond to current projected needs, the 2025 $500 billion floor could be composed of approximately $250 billion for mitigation, $100 billion for adaptation and $150 billion for loss and damage, rising to $1 trillion for mitigation, $250 billion for adaptation and $300 billion for loss and damage by 2030.

While bilateral contributions will be the primary source for the NCQG, developed country efforts will also be needed to mobilise the difference between the overall NCQG target and their grant-equivalent GNI contributions. There are several options to consider between now and 2030 that have already gained some momentum: reforming MDBs to expand highly concessional lending, rechannelling unused SDRs, novel taxation at the domestic or supranational level, and efforts to improve private finance mobilisation, for example through proactive disciplining measures to shift finance towards climate goals. While not an exhaustive list, projections of these potential sources alone indicate that with collective effort and commitment, proposed NCQG targets can be met. This signals the important role global economic governance reform can play in enabling the NCQG. Clear signals from climate constituencies involved in establishing the NCQG can bolster ongoing conversations outside of the UNFCCC, bridging siloes, and ensuring adequate, predictable climate finance that can power the development ambitions of developing countries.

By all estimations, the real scale of climate financing needs in developing countries is many multiples of the $100 billion goal. The glaring gap exists not because of insufficient financing capacity in the world, but more simply because of a lack of political will. Establishment of the NCQG in 2024 can be a turning point to address this deficit, with a principled, transparent effort from all Parties.