New Collective Quantified Goal (NCQG) – 1st Technical Expert Dialogue
Cape Town, S.A. March 24-25, 2022
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I. Background

Following the COP21 decision to set a new collective quantified goal (NCQG) before 2025, subsequent CMA decisions initiated deliberations and established a framework for these, to include an Ad hoc work programme for 2022-2024, submissions by Parties and non-Party stakeholders, high-level ministerial dialogues, stocktakes and CMA guidance. The Ad hoc work programme will be comprised of:

- Technical expert dialogues – open to all interested Parties and non-Party stakeholders;
- Annual reports; and
- Regular consultations with Party and non-Party stakeholders

It's 2022 Co-chairs are Federica Fricano (Italy) and Kishan Kumarsingh (Trinidad and Tobago).

II. First Technical Expert Dialogue (Event YouTube links: Day 1, Day 2)

This first technical expert dialogue was preceded by a Co-Chairs' Note and a total of 20 inputs from Parties and non-Party stakeholders in response to a call for submissions.

This first TED was comprised of a series of targeted sessions (with panel discussions and a question/comment period), with most featuring a scene-setting presentation and break-out groups with report-backs. There was deep expertise across all aspects of the climate finance world, yielding a rich event in experience and perspectives, and a broad consideration of the new goal. Participants expressed considerable appreciation for the event.

Day 1:
Session 1. Setting the scene- The NCQG in context of contributing to accelerating the achievement of Art. 2 of the PA.
Session 2. Lessons learned from mobilization of climate finance

Day 2:
Session 3. Identified needs and priorities of developing country Parties (per reports)
Session 4. Quantity, quality, scope, access features, as well as sources of funding for the NCQG, and transparency arrangements for tracking progress
Session 5. Other elements of the NCQG for further consideration in the ad hoc work programme (country perspectives)
Session 6. Summarizing next steps

III. Day 2 Summary/Highlights

(These notes cover only Sessions 3 and 4 [6 hours & 38 min of Day 2] due to time constraints)

Key takeaways:

- The characterization of the new goal by Session 5 scene-setter, Amar Bhattacharya (Brookings Institution), as eloquently summarized by Janine Felson (Belize):
  - Must be a dynamic enabler to achieve the ambition needed to meet the PA's objectives
  - Necessitates near-term efforts, as well as medium and long-term actions

    - Requires diversified and tailored approaches and equity at global scale; and
    - Must protect the vulnerable
- Must be comprehensive and disaggregated across many dimensions
- Must also address fossil fuel subsidies and fossil fuel phase out
- Include consideration of how this process can address long-standing issues of trust

Session 3: Identified needs and priorities of developing country Parties (as identified in national, regional and global reports)

- The first Report on the needs of developing countries (NDR) recently published by the Standing Committee on Finance (SCF), pointedly illuminates the challenge developing countries face in costing needs, most especially, adaptation needs.
- To spark the discussion, Zaheer Fakir (South Africa) (scene setter) extrapolated from the NDR numbers and applied an accepted finance industry leveraging ratio of 4:1 to <u>suggest a new overall goal of $1 trillion-$2.2 trillion annually</u> to realize the $5-$11 trillion required to address developing country needs.

<u>Panel discussion 1: Insights on national and regional needs (by member states)</u>

- Diann Black-Layne (Antigua and Barbuda) brought attention to the combined inertia created by: a) the political and transitional risks facing elected/appointed officials seeking to address climate change, b) the enormous subsidies going to the fossil fuel industry, and c) the absence of effective incentives for that industry to change. *Takeaway: These must be explored and addressed, for the new goal to be meaningful*.
- David Kaluba (Zambia) spoke to dire situation of developing countries dealing with the intersectionality of climate-induced national debt, poverty & unemployment, climate change impacts, and economic shocks. He noted the need to address the unpredictability of and high hurdles for securing finance, as well as the need for agriculture-focused support.
- Rodolfo Bustamante Beltrán (Chile), for AILAC, spelled out estimated needs of $2 trillion/year by 2030, $2.5 trillion/year by 2040, and $3.2 trillion/year by 2050. He also proposed including a financial instruments goal, and proposed an enhanced role for MDBs.
- Georg Borstiq (Norway) emphasized that the information resulting from this process must be fit for the political situation in which the new goal will ultimately be considered and agreed. He also cautioned that the approach should resist going into complicated rigid framing and should assess the potential consequences of different ways to define the goal.
- Madeleine Diouf Sarr (Senegal), for LDCs, focused her remarks on the urgency for climate resilience in communities and in economies, noting that only 10% of climate finance is reaching LDCs. She called for an immediate paradigm shift in the approach, processes and modalities of climate finance to ensure predictability, access and flexibility, and real action on the ground. In particular, the sectoral approach has totally limited impact.

<u>Panel discussion 2: Insights on needs at the global and sectoral level</u>

- Jyotsna Puri (IFAD) offered 4 key messages gleaned from IFAD's technical expertise and experience, including that: adaptation funding must reach vulnerable communities; climate-smart agriculture can be a driver to address adaptation needs (especially vulnerable small holder farmers; knowing outcomes and overall impact is imperative; and, NDCs have significant gaps constraining low-emission, sustainable pathways for enhancing ambition.

- Emma Gordon (IEA) cited several energy sector financing needs: a) increase clean power investment 6-fold to stay within 1.5°C; b) increase clean energy investment to > $1 trillion/year by 2030; c) emphasize efficiency and fuel switching in developing countries; and d) a strong strategic mandate on the part of international financing to invest in clean energy, mobilize private capital, and drive down associated costs in domestic environments.
- Barney Dickson (UNEP) shared that, while the UNEP Adaptation Gap Report had not offered a numerical estimate of adaptation needs since the 2016 edition, it has reported estimates from others, including that some papers are reporting just over $1 trillion/year by 2030. He emphasized the need to enable detailed, careful national-level costs going forward.

Comments from participants

- Rich nations rapidly mobilized huge pandemic-response resources, which also supported polluters contributing to climate change, despite that being as big a crisis.
- The IMF recently estimated $11 million/minute in fossil fuel industry subsidies
- The new goal must address the issues of barriers and bottlenecks in climate finance linked to policies, rules, and procedures affecting accessibility and provision.
- Consider an allocation system for the new goal regarding project-level balance between adaptation and mitigation.
- The new goal must be both qualitative and quantitative and have dynamic mechanisms for both costing (supply and demand side) and signaling the need for institutions to de-risk.

Breakout groups report-back - There were no breakout groups for this Session.

Session 4: Quantity, quality, scope and access features, as well as sources of funding, of the goal and transparency arrangements to track progress towards achieving goal.

In his *Scene Setting Presentation*, Amar Bhattacharya (Brookings Institution) made a plethora of points to launch this session. Highlights included:

- Analysis suggests that emerging markets in developing countries other than China will need to increase investments by $800 billion/year by 2025 and close to $2 trillion/year by 2030.
- Match the kind of financing to the kind of needs, including in sub-components. (70% of energy investments are possible by private sector, but critical public sector needs, e.g., just transition needs, require concessional finance).
- A 5-pt agenda to scale up climate finance includes donors dramatically beefing up bilateral climate finance and multilateral concessional funds, MDBs tripling their 2018 financing by 2025, and the private sector and official sector creating collaborative frameworks and innovative solutions now to mobilize $1 trillion in private climate finance.
- Address shortfalls in quality & composition of climate finance: a) Financial instruments (grants are tiny % and not growing); b) Thematic split (adaptation finance far behind mitigation finance); c) SIDS and LDCs support is inadequate and falling short; d) Access (ongoing obstacles and barriers for developing countries)
- Country-level is key: a) Adaptation, mitigation and development are all complementary, so consider balance at the aggregate level only, and don't compartmentalize; b) Move to country/sector platforms (specific domestic programs and commitments and specific international community commitments) to provide clarity and predictability;

- On Transparency & Accountability: a) Need a shared understanding of what constitutes climate finance and its constituent elements; b) Recognize overlap and synergies between mitigation, adaptation and development finance; c) Clarify accountability of different stakeholders; d) strengthen and make reporting requirements fit for purpose, and address remaining methodological issues

Panel Discussion

- Janine Felson (Belize) digested potential elements of the new goal per the scene-setting and then emphasized 7 key features: 1) be comprehensive & responsive; 2) be an enabler; 3) be scalable in ambition, temporality and scope; 4) address accessibility thematically, in procedures and operations and address SIDS disproportionate burden; 5) address all features & aspects of affordability; 6) be iterative; and 7) provide clarity through wholistic transparency & accountability framework, tailored approaches, and synergies of climate finance with other finance types.
- Outi Honkatukia (Finland and EU lead on MOI) emphasized that the new goal must stand the test of time, reflect long-term thinking, and not preempt any political level determination. Selected additional points:
    - Quality of support: particularly regarding instruments, predictability, and impact
    - Scope: bounded by decisions and PA objectives, and crucial to determine this early on
    - Clarity on composition, instruments, recipients, etc.
    - Sources: increase public funds and ensure all flows, all sources, all contributors
    - Fossil fuel phase out – despite the political challenges
    - The new goal must be owned by and reflect efforts by all
- Gareth Phillips (African Development Bank) shared, among other activities and initiatives, that the bank's pipeline will be PA-aligned by 2023. He also noted many challenges regarding adaptation funding and emphasized the need for innovation in resources and instruments. In particular, Phillips suggested the concept of an adaptation benefits mechanism, in which developers are paid to do adaptation, with industry and consumers contributing to address the impact of their activities.

Comments from participants

- Panelists responded to the question: "What is the holy grail in terms of private finance?"
    - Challenge = Most investments are in the renewable energy space and the private sector can generate this; yet many developing countries are not investment grade
    - Need a combination of private and public funds, a significant uptick in concessional finance, and a country-based approach (tailored solutions)
- Regarding how the new goal can help certain developing countries address the structural problem of their reliance on fossil fuel revenue, panelists offered:
    - Need domestic resource mobilization to attract investments: Countries must find ways to save money, including eliminating subsidies,
    - Finance must support transition away from fossil fuels
    - Apply a more systemic approach, looking at climate finance within the larger global finance context

- The goal needs to: a) be understood in terms of horizon planning; b) incorporate thematic and regional approaches; and c) consider technical approaches to unpack access issues
- Access and transparency within countries also key. Consider ring-fencing funding for local communities, address gender differentiated impacts and needs, and explore finance issues related to human rights and gender.

Breakout groups report-back (5 in-person and 5 virtual)
Pulling out some points not captured above or adding nuance to those:

- Access to climate finance within countries
- TED Process: a) ensure the right people are in the room (including private finance sector) and prepared; b) structure process based on agreed desired outcomes; c) clarify and unpack the divergencies and contradictions re: designing the goal (needs vs desired outcomes / top-down vs bottom-up evaluation and evidence); d) once determined, map the elements that will be taken forward to work out data and information limitations, and how to fill those gaps in subsequent TEDs; e) address principles for implementation of the new goal
- Need to better understand links between Art. 2.1.c and the more quantified goal under Art. 9 in coming to the new goal
- Address trust issues: include strong focus on who is contributing to the new goal and are climate finance commitments being met
- Qualitative aspects can provide context for the quantitative ones
- Incorporate lessons learned from climate finance funds
- Innovative sources of finance are also key (e.g., SDR, debt-swaps, polluter pays tax)
- On access: focus on wider issues, e.g., cost of capital, adequacy of finance, links to issues of equity and how climate finance should not entrench inequities
- Include consideration of new generations