Efficient, Equitable and Effective High-Quality Climate Finance: Recommendations for the post-2025 global climate finance goal

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Main messages

This Eurodad submission outlines six recommendations for how the New Collective Quantified Goal on climate finance (NCQG) can become an effective tool for rebooting the climate action system, to ensure that developing countries can help achieve the global goals of the Paris Agreement, whilst continuing to pursue sustainable development.

Our recommendations are:

1. **Limit the economic impacts of debt-generating instruments** by scaling-up grants.
2. **Genuine access to high-quality, new and additional climate finance** must be ensured.
3. **Defining new and additional climate finance** to ensure additionality of climate finance flows.
4. **Democratic ownership** of climate finance strategies based on developing countries’ needs. This must be **responsive to the needs** of different members of society, including women, non-binary and gender-nonconforming communities, indigenous, racialised and ethnic groups, and the disabled community.
5. **A comprehensive monitoring and reporting framework** that covers bilateral, multilateral, intermediary and private finance flows.
6. **Regular reviews** of the goal to evaluate progress and ensure it is able to address the evolving needs of developing countries.

Context

For decades, the extraction and consumption activities of developed countries have severely damaged developing countries’ economies. Research carried out by Dartmouth College shows that North America and Eurasia, “have caused income losses in the poorest [countries], while they have caused income gains for themselves that exceed
those losses in magnitude”.¹ This has happened whilst countries “primarily in Africa and central and south Asia, have caused nearly zero effects on other countries while suffering the greatest disadvantages from the emissions of larger economies”.² The resulting chasm of inequality between the global north and global south has stalled the sustainable development of developing countries, contributed to their financial vulnerability and reduced their fiscal sovereignty. This in turn impacts their ability to, amongst other things, provide climate resilient public goods and services. It is clear that climate finance is needed to redress this generational injustice.

Despite the clear need, data from the Organisation for Economic Cooperation and Development (OECD) shows that 2020 climate finance flows (excluding mobilised private climate finance and export credits) amount to US$68.3 billion.³ This falls short of the existing US$100 billion per year climate finance goal,⁴ which the OECD predicts won’t be met until 2023.⁵ Moreover, Eurodad calculations⁶ based on OECD data show that the inability to meet the yearly US$100 billion goal has left developing countries at a deficit of US$381.6 billion in bilateral public climate finance and multilateral public climate finance attributable to developed countries between 2013 and 2020. The climate financing gap is clear and must be addressed.

The process to set the New Collective Quantified Goal on climate finance (NCQG)⁷ provides the first opportunity in over 10 years to address shortfalls in international climate finance. By 2024 this process will have set a new actionable global climate finance goal. It is crucial that climate finance contributors meet it. Eurodad welcomes the opportunity to provide input to this process, via the 2022 United Nations Framework Convention on Climate Change (UNFCCC) public consultation on the NCQG. Below we have outlined in detail each one of our recommendations.

1. Limiting indebtedness from international climate finance flows

Currently, climate finance is overwhelmingly provided in the form of loans. According to the OECD, 71 per cent of total public climate finance provided in 2020 was in the form of loans (concessional and non-concessional).⁸ The use of loans imposes an unjust burden on developing countries that creates inequalities between countries. Repayment of loans is creating indebtedness and reducing their fiscal space and fiscal purchasing power, which is a danger to developing countries’ ability to become resilient to climate impacts and achieve sustainable development.⁹ Lower-income countries are spending five times more on debt repayments than on tackling climate change.¹⁰ In 2020 alone, low- and middle-income countries spent US$372 billion on debt repayments.¹¹¹² Moreover, research from Imperial College London has shown that “for every US$10 these countries spend on interest payments, an additional dollar of interest is added due to climate vulnerability”.¹³

All of this then reduces developing countries’ policy choices and fiscal sovereignty to choose how they spend their money, for example, on tackling climate change and, by extension, increases their need for international climate finance flows. Moreover, huge borrowing costs and foreign debt can lead to governments passing the costs onto
consumers in the form of higher energy bills and tariffs or implementing austerity measures that could, for instance, limit the ability of households to invest in social opportunities, such as education for girls to enable them to increase their lifetime earnings. These knock-on effects on sustainable development mean it is crucial to limit indebtedness from international climate finance flows, particularly by prioritising grants for the most vulnerable countries, and for both adaptation and loss and damage measures. Recognising that the UNFCCC does not have the mandate to take decisions on global economic policy, the NCQG must be a space to be proactive about preventing further indebtedness from climate finance. Accordingly, countries should agree on a set of guiding principles that should include:

After a climate disaster
- An automatic debt service suspension mechanism in future multilateral, bilateral, financial intermediary and private loans that would suspend debt payments for a limited period. This clause would be activated in the immediate aftermath of climate disasters, and should be in addition to providing grant-based climate finance, not replace climate finance flows. During the suspension period, all payment obligations to all external creditors would be suspended and no legal action could be taken against the borrowing country to enforce debt service, thereby reducing the build-up of surcharges and other borrowing costs on unpaid debt.
- Unconditional debt cancellation should be granted to all developing countries in need of it, and that have unsustainable and illegitimate debts, including debt generated by fossil fuel projects. The scope of the debt cancellation should cover official, bilateral, multilateral and private creditors.

Non debt-generating finance instruments
- Climate finance should be non-debt creating and without conditions. This means it should be primarily delivered in the form of grants. Highly concessional loans should be used only under certain conditions.

Transparency and fairness
- An agreement that loan and investment contracts (including climate-technology transfer and export agreements) are designed in a participatory manner, and allow for fair risk-sharing and shared accountability amongst all concerned Parties.
- An agreement to publicly disclose lending terms (including on loan roll-overs, maturity of loans and term length), risk categories and type of transaction of loan or investment agreement. All of which should be reported in a global debt registry. This is crucial to understanding debtors’ (recipient countries’) level of ability to take up a loan and at what levels of concessionality.
- Follow responsible lending and borrowing principles – for instance, the United Nations Conference on Trade and Development (UNCTAD)’s Principles on Promoting Responsible Sovereign Lending and Borrowing (PPRSLB). Additionally, several civil society organisations, including Eurodad, have developed relevant Principles. Debt Justice Norway (SLUG) recently published Best Practice Guidelines for
Responsible Private Investments, and analysed existing responsible lending and borrowing principles from the UN, OECD and civil society and presented recommendations on how to strengthen them.\textsuperscript{18}

Such measures can help limit further indebtedness from international climate finance flows, increase the absorptive capacity of climate finance, and stabilise borrowing costs.

2. Genuine access to high-quality climate finance

Despite having historically contributed the least to climate change,\textsuperscript{19}\textsuperscript{20} developing countries disproportionately experience the impacts of climate change on their economies, fiscal stability and financial sovereignty,\textsuperscript{21} all of which has already caused severe impacts across generations. Access to additional financial support to tackle climate change impacts is a clear need. Yet, developing countries and local stakeholders have repeatedly stated that their access to climate finance remains low.

There are numerous climate finance contributors, including dedicated Funds, various multilateral and national development banks and their financial intermediaries, as well as bilateral public and private finance flows. Each have their own project approval times, rules and conditions of access, and some have separate rules and conditions for non-governmental access. The complexity of this landscape means that developing countries and local stakeholders often use costly international consultants to help them navigate access requirements. Furthermore, country members of the Vulnerable Group of 20 (V20) “report difficulties in accessing, gaining accreditation and administering international climate finance”.\textsuperscript{22} Other issues include “language barriers, risk-averse funding behaviour from approval committee, and lack of direct access due to focus on international or multilateral agencies”.\textsuperscript{23} Clearly current access procedures are too varied and complex.

For the NCQG to be effective, the process should set best practices and recommendations for increasing access to climate finance. Suggestions include:

- Coherent, common rules of access to climate finance. Particularly for non-country climate finance contributors to follow, as many country climate finance contributors attribute their climate finance flows to multilateral and/or national development banks (M/NDB) or Climate Funds.
- Direct access procedures should be provided by climate finance contributors to ensure that marginalised and rural communities have fairer access opportunities to climate finance, based on their needs.
- Provide small grant funds, particularly for local communities and stakeholders to access. Doing so can help ensure local ownership of projects, and help to upscale and replicate existing local initiatives that are based on local needs and knowledge.
- Terms of bilateral climate finance agreements should be transparent to ensure that other stakeholders seeking access can determine what they need to do to also receive bilateral funding for climate action projects.
Access to climate finance grants in the wake of climate disasters should be mandated, to reduce the administrative burden of designing a project during an economic shock.

Developing countries should receive technical assistance to carry out nationwide calls for projects, in order to increase the opportunity for such calls to reach marginalised, rural and indigenous communities. Similarly, technical assistance should be provided to these communities to increase their capacity to respond to such calls, thereby creating more of a bottom-up approach for project development and implementation.

Developed countries should offer guarantees to developing countries, to provide multilateral development banks (MDBs) and international financial institutions (IFIs) with the confidence to grant developing countries access to highly-concessional climate finance for adaptation projects. The high debt levels of many developing countries make it hard to raise capital, particularly for projects with low profit margins such as adaptation projects.

Conduct intersectional gender analyses to determine the differing needs and interests, accessibility to finance mechanisms, and power dynamics. This should help to understand what the gendered-intersectional impacts are, and help determine what the social additionality of climate and development finance on local communities could be (for example, creating equitable societies, social justice and economic empowerment within communities, notably for women and girls, including from indigenous communities).

Such diversification of access to climate finance should be coupled with technical assistance and capacity-building for non-state stakeholders to support their ability to meet transparency and monitoring obligations, particularly for small grant funds and direct access modalities.

Measures to increase access to climate finance should help to address financing gaps within developing countries, and support their long-term ability to finance climate action.

3. Defining new and additional climate finance

Increasing strains on development finance and humanitarian aid are manifold, and the need for “new and additional” climate finance has never been clearer. UNCTAD estimates that “US$4.3 trillion is needed per year - more money than ever before - to meet the Sustainable Development Goals (SDGs).” Moreover, the Organisation for Economic Co-operation and Development (OECD) states that “Development finance and climate finance have distinct roles and aims. A complete conflation of these budgets and efforts would likely not succeed in achieving either of the critical climate or development agendas.” Yet, research from CARE Denmark shows that between 2011 and 2018, only 6 per cent of climate finance provided by rich countries was new and additional to Official Development Assistance (ODA). Additionally, climate finance is over-reported to a large extent, thus masking how much of the existing global climate finance is actually being met. Thus, fulfilling the ‘new’ finance commitment.
to support developing countries to address climate change, by providing finance that is ‘additional’ to existing
development assistance commitments cannot be viewed as a voluntary request. It is a necessity.

Article 4.3 of the UNFCCC enshrines the commitment that “The developed country Parties and other developed
Parties included in Annex II shall provide new and additional financial resources” to tackle climate change. It is a
clear statement on the responsibility of developed countries to provide predictable streams of finance to support
developing countries, in a manner that supports their continued sustainable and economic development. However,
when the current global climate finance goal was set in 2009 at COP15 no baseline was set from which to count
climate finance as additional to existing financial commitments. Not all developed countries track if their finance is
new and additional, and each use various methodologies for counting additionality, which makes comparability
between reported finance difficult. Since 2009, the Paris Agreement ‘rulebook’ was agreed and states that
countries should include in their biennial communications on projected levels of climate finance. These rules will be reviewed in 2023 at COP28. For these rules to be actionable there should be a common understanding of what counts as ‘new and additional’ climate finance, which
the NCQG process can facilitate an agreement on.

Determining a baseline for ‘new and additional’ will be incredibly complex without defining what climate finance is.
Moreover, defining ‘new and additional’ raises issues of equity, political feasibility and fairness towards other
finance streams, such as development assistance. However, there are various options that could be used to guide
the categorisation of what is ‘new and additional’, each of them entailing different opportunities and challenges.
These include, but are not limited to:

- **Using a specific year as a baseline**, for example, 2025 (when a new global climate finance goal should
  start) or 1998 (when the first OECD climate policy marker was added to the OECD’s list of markers used to
  monitor development assistance) or a different year.
  - **Opportunities**: Clear and uniform starting point to track ‘new’ climate finance from.
  - **Challenges**: Does not demonstrate how climate finance is ‘additional’.

- **Using a specific amount as a baseline**: Discussions on the post-2025 climate start from a floor of
  US$100 billion per year, thereby defining both a baseline year and baseline amount for ‘new’ climate
  finance post-2025.
  - **Opportunities**: Clear and uniform starting point for existing and ‘new’ climate finance contributors
    to track climate finance from.
  - **Challenges**: The existing goal hasn’t been solely achieved as ‘additional’ climate finance, because
    it includes finance that’s also counted as ODA.

- **Using official development assistance (ODA) as a benchmark**. The existing ODA target was agreed in
  1970 and was set at 0.7 per cent of a developed country’s gross national income (GNI). This option is a
  clear indicator of where development finance stops and where climate finance could start being counted
from. However, countries are currently failing to meet the existing GNI target. Unless countries start meeting the ODA target this option will be difficult to track.

- **Opportunities:** Fairly straightforward to track financial disbursements that are ‘in addition’ to 0.7 per cent GNI.
- **Challenges:** No clear differentiation between climate finance and ODA streams, since some ODA is counted as climate finance. Technically challenging as ODA Rio markers are quite broad and don’t currently include a marker on loss and damage.

- **Using an average of a country’s prior climate finance to set individual country baselines for ‘new and additional’**. This option would mean that countries that have previously not contributed adequate climate finance would have a lower baseline and so would have a larger share of the existing and post-2025 climate finance goal to fulfil. Vice versa, countries that have historically contributed higher amounts of climate finance would have a smaller share of the existing and post-2025 climate finance goal to fulfil. All of which raises issues of equity.

  - **Opportunities:** Straightforward to track personalised ‘new and additional’ climate finance contributions.
  - **Challenges:** Would need to develop a methodology to equitably determine a country’s individual fair share of ‘new and additional’ climate finance.

4. **Democratic ownership of climate finance strategies**

Climate finance needs to be as country-driven as possible while also facilitating socio-economic transformation. Ensuring that developing countries and stakeholders are a part of the dialogue to set the NCQG is step one. The next step is ensuring that climate-vulnerable countries have the agency to design projects and policies that suit their own specific circumstances and domestic needs, as well as being able to provide an enabling environment for domestic manufacturers, producers and sellers to provide the goods and services for project implementation. Empowering domestic policy design will also help to ensure sustainability of the measures taken and build trust between developing countries and climate finance contributors.

Democratic ownership must also come from the citizens and residents within a country. Women, children and indigenous communities have been disproportionately impacted by climate change, and are finding their access to food and gender-specific health services increasingly compromised. As such, processes used to implement the NCQG must include listening to the views of all marginalised groups within society including women and non-gendered communities, indigenous groups, disabled members of society, racialised and rural communities. This is crucial to designing measures that have a meaningful generational, socio-economic impact.

Implementation of the NCQG means ensuring that processes for enabling democratic ownership of climate finance strategies are encouraged and supported. Specifically, the NCQG should design ways to support:
● Work with developing countries to understand what their priorities are to ensure that the NCQG covers their priorities, and thus can be an effective financing tool for supporting climate action in developing countries.

● Build the capacity for developing countries to develop projects and strategies without the use of costly international consultants, including by developing coherent rules of access to climate finance.

● Institutionalise regular engagement and participation processes to ensure that all relevant stakeholders are able to engage in policy and project development and implementation. Regular engagement will also help to refresh the pool that knowledge and information is drawn from.

● Identify change agents within a country, region and community and support processes to connect them to industry and investors, to ensure that private investments are also based on local needs, knowledge and solutions.

● Ensure joint partnership strategies for nationwide green transitions (including climate-technology transfer and export strategies) in developing countries are fair and do not impose policy conditionalities, or prioritise a rich country’s needs (for example, for minerals) or industries for project implementation. Technologies developed, mined resources, or profits from joint partnership strategies should be shared equitably. Developing countries also need profits, technologies, and resources such as minerals for renewable technologies to carry out just transitions.

● Support opportunities for local manufacturers, producers and sellers to be a part of project implementation in meaningful ways, as opposed to prioritising international project implementers. Doing so should help to increase domestic employment and reduce developing countries’ import bills incurred from importing goods (including machinery and technology) recommended by international project implementers for certain infrastructure projects.

● All necessary governance levels of implementation within a country must be included, because implementation is not always carried out by the same governance level or entity where the results of the measure will be felt.

All this should help to empower domestic policy design, build trust between climate finance contributors and developing countries, and ultimately contribute to empowering the domestic economies of climate-vulnerable countries.

5. **A strong and comprehensive reporting and monitoring framework**

Predictability of climate finance requires policies to guide the development and implementation of climate finance strategies in a fair, transparent and just manner. For post-2025 climate finance flows to be effective a comprehensive monitoring and reporting framework must govern the NCQG. This framework must cover all climate finance contributors (bilateral, multilateral, private and financial intermediaries) to ensure full transparency,
accountability and good governance of total climate finance flows. Countries have already agreed the rules and modalities of climate finance, and some aspects will be reviewed in 2023 ahead of the finalisation of the NCQG. The NCQG process is an opportunity to strengthen the existing rules and to feed into the review process in 2023 to strengthen overall transparency elements under the UNFCCC.

Although the NCQG workstream is separate from the transparency process, it is an opportunity for countries to promote specific transparency needs that are currently missing from the transparency process. For instance, the reporting tables used under the Paris Agreement do not include space for gender to be tracked, but countries may on a voluntary basis include such data under ‘additional information’. This is despite developed countries being required to provide information on their projected levels of gender-responsive climate finance in their biennial reports. Climate change affects members of communities in different ways, so understanding the gender-responsiveness of climate finance is essential to knowing if the differing needs and rights of women, girls and non-gendered communities are adequately being accounted for and addressed in climate action.

Additionally, the reporting tables only state that the grant equivalency of finance be recorded on a voluntary basis. Knowing the grant equivalent of finance provides a greater understanding of the economic impact of the climate finance flow, so is crucial information to capture. The NCQG process can provide the momentum for specific, existing UNFCCC transparency rules to be strengthened, including by promoting the following:

On an obligatory basis, developed countries should:

- Report on the grant equivalent of finance, especially given the high amount of finance that is provided using debt-generating instruments. This will help create an understanding of the level of indebtedness from international climate finance flows.
- Report how gender-responsive a climate finance intervention is at the activity level. Doing so will help determine more effectively what the impact of a project actually is on creating gender parity and strengthening overall social inclusiveness.

On a voluntary basis, developing countries should have the option to:

- Report the level of borrowing costs attributable with the climate finance they receive.
- Report drastic measures taken to fund domestic climate finance. For example, selling off national assets, privatising industries, cutting government spending on public services and goods. Doing so will help build a picture of the socio-economic sacrifices being imposed on communities within developing countries.

The UNFCCC Standing Committee on Finance (SCF) should:

- Aggregate data on disbursement to create disbursement rates of climate finance over time, and conduct analyses to identify challenges for disbursement. This will help track progress in achieving the NCQG, and by extension create a greater understanding of how accessible climate finance is under the NCQG.
Climate action is also about creating economy-wide, generational resiliency to ongoing climate impacts. By promoting these options, the NCQG workstream will also help support a greater understanding of the economic and social additionality of climate finance flows.

6. Regular reviews to evaluate progress in achieving the goal

Given the challenges in achieving the existing global climate finance goal, which is not set to be met until 2023, a periodic review of the NCQG is needed to determine what the evolving needs of tackling climate change are in the context of whether the world is on track to meet the Paris Agreement’s 1.5°C goal. This must happen because national implementation of climate measures by developing countries will be dependent on whether they have access to means of implementation (finance, technology transfer and capacity-building).

One option is to review the NCQG as part of the five-year cycles of the Global Stocktake (GST). The purpose of the GST is to assess the state of global action and determine whether national implementation of all areas of the Paris Agreement is on track towards achieving the long-term global goals of the Paris Agreement. As such, the GST’s stated purpose makes it an ideal option for reviews, as the NCQG could be reviewed in line with other relevant climate action tracks under the UNFCCC, for example, mitigation, adaptation, loss and damage. All of which will help to create an overall picture of whether developing countries have the means to implement climate measures.

Review cycles of the NCQG should at a minimum include:

- A review of how it is functioning and being implemented, and progress in achieving its goals.
- A reflection on past efforts to meet global climate finance, including challenges in project design and implementation.
- A reflection on developed countries’ projected finance, which Article 9.5 of the Paris Agreement requires them to report on. Projected financing needs from other relevant stakeholders should also be included, including projections from the IPCC.
- Take into account the submitted needs of developing countries and analyses from the UNFCCC First Report on the Determination of the Needs of Developing Country Parties (NDR). The next NDR is expected in 2024.
- Outcomes of the reviews should also be published and include recommendations for increasing the effectiveness of the goal. Additionally, technical assistance should be offered to support country implementation of identified recommendations.

Taking these steps will help to ensure that the NCQG becomes a space for regular reflection on progress and effectiveness, and a space to address challenges in achieving the NCQG.
Conclusions

A core part of the NCQG must be equity. Developed countries have historically contributed the most to climate change.\(^46\) So it can be argued that developed countries’ climate action commitments are not complete unless they also contribute financial support to help address the climate impacts they have caused in developing countries. Doing so is a reparation for causing irrevocable climate change. Indeed, an IMF case study states that “[i]t is in the interest of wealthy countries to contribute to foreign climate financing if the sum of their domestic and foreign financing remains less than the domestic economic benefits they derive from the domestic and foreign emissions they helped to avoid with their financing”.\(^47\)

Climate finance represents a redistribution of resources between countries to address historical responsibilities for current ongoing climate change. The global climate financing gap makes it clear that early action is no longer an option, and urgent action on climate finance is now needed. The entire climate finance architecture needs to be reframed to focus not on investments and cost, but on ownership, debt sustainability, economically-just climate finance flows, transparency and accountability. The aim is to ensure that existing and future climate finance commitments are met. The opportunity to enshrine all of this in the NCQG is now.\(^48\) It is crucial that the NCQG process achieves this and leads to equitable, high-quality climate finance that contributes to sustainable development in developing countries in the global south.

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About Eurodad

The European Network on Debt and Development (Eurodad) is a network of 58 civil society organisations from 28 European countries. We have spent more than 30 years strengthening the power of our European members and partners to push governments and institutions to adopt transformative changes to the global economic and financial system. For decades, we have worked closely with our sister networks in Africa, Asia, Latin America and the US.


\(^2\) Ibid 1. https://doi.org/10.1007/s10584-022-03387-y
6 Calculated by subtracting each yearly total (2013 - 2020) of bilateral public climate finance and multilateral public climate finance attributable to developed countries from US$100 billion, and adding up the remaining amounts to create a total for the period of 2013 to 2020. OECD data published in 2022 was used for this calculation. https://www.oecd.org/climate-change/finance-usd-100-billion-goal/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020.pdf


31 UNFCCC. (2018). ‘Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on the third part of its first session, held in Katowice from 2 to 15 December 2018. Annex: Types of information to be provided by Parties in accordance with Article 9, paragraph 5, of the Paris Agreement’. Accessed 12 July 2022. https://unfccc.int/sites/default/files/resource/cma2018_3_add1_advance.pdf#page=35


41 Ibid 36. https://www.eurodad.org/lessons_climate_finance


48 Achampong, Leia. (2022). ‘Q & A: The future global climate finance goal (aka NCQG) – what is it, why is it important and what does it entail?’ Accessed 20 July 2022: https://www.eurodad.org/q_and_a_the_future_global_climate_finance_goal