



CFAS
CLIMATE FINANCE
ADVISORY SERVICE



POLICY BRIEF

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Process Proposal for Defining the New Collective Quantified Goal

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1. Introduction

As part of the Paris Agreement, it was agreed that prior to 2025 a new collective quantified goal (NCQG) should be set from a floor of US\$100 billion per year, taking into account the needs and priorities of developing countries.¹ The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) is responsible for making a decision on this new climate finance target. The lessons learned from the process of setting the original climate finance goal of US\$100 billion annually by 2020 prove that it is important to establish a clearly defined and

¹ See UN (2015):

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specific process to ensure that the goal is scientifically based and that it does not just result in a “last-minute” political decision.

Thus, at COP26, in Glasgow, an ad hoc work programme for the NCQG was launched for 2022–2024, under the CMA. The work programme consists of four technical expert dialogues (TEDs) per year, with the participation of various stakeholders, including Parties, academia, civil society actors, youth, and private sector actors. The work programme will also include annual high-level ministerial dialogues starting in 2022 and ending in 2024, informed by the reports on the TEDs. The

summaries of these high-level ministerial dialogues will provide guidance on the further direction of the ad hoc work programme for the following year, as well as recommendations for consideration by the CMA. The CMA will then continue its deliberations on setting the NCQG at its fourth, fifth, and sixth sessions, providing further guidance on the ad hoc work programme, based on the annual reports of the co-chairs of the ad hoc work programme and the summary reports of the high-level ministerial dialogues. The ad hoc work programme will be concluded in 2024 when a decision is taken on the new post-2025 climate finance goal. Figure 1, below, shows a summary of the ad hoc work programme for the NCQG.

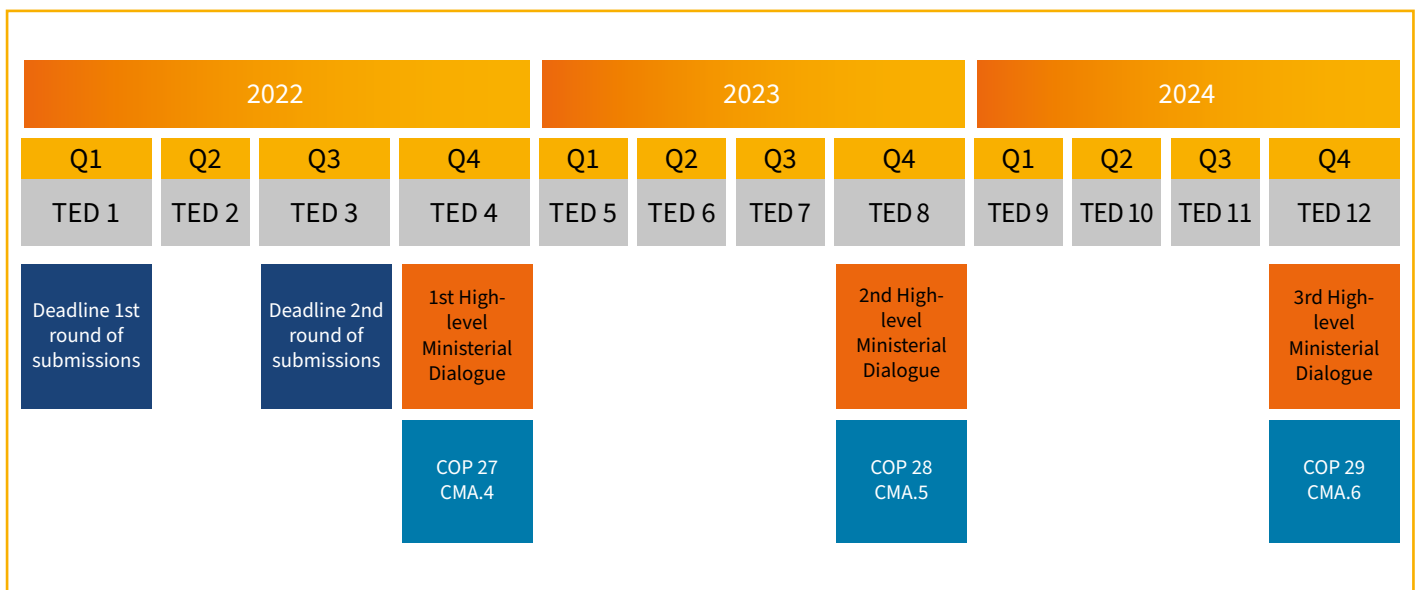


Figure 1. The ad hoc work programme launched at COP26 to establish the NCQG

A range of stakeholders, including Parties, constituted bodies, climate finance institutions, observers and observer organisations, and other stakeholders, particularly from the private sector, were invited to submit their views on a range of elements that need to be discussed during the NCQG deliberations, in two rounds of submissions, by February and August 2022. These elements include quantity, quality, scope, and access features, as well as sources of funding and transparency arrangements. A technical paper on these submissions will be prepared before COP27.

Given the importance of the process of reaching a decision on a new post-2025 climate finance target at the end of 2024, this

policy brief closely analyses the current framework established under the United Nations Framework Convention on Climate Change (UNFCCC) for the NCQG, as well as the views in the submissions from Parties and other stakeholders, in order to provide a clear roadmap including next steps, milestones, and links to other processes² inside and outside the UNFCCC.

At the Second Technical Expert Dialogue (TED 2), in June 2022, participants expressed the need to outline a process that would provide more clarity and space for a “deep dive” into the many issues already identified in the discussions and submissions, in a sequential manner, and with established milestones.³ Such a process would allow discussions to begin

2 Such other processes include: the Standing Committee on Finance (SCF) and its Needs Determination Report (NDR), the Global Stocktake, the Glasgow Dialogue on Loss and Damage, the Biennial Assessment (BA), and the Enhanced Transparency Framework (ETF).

3 See UNFCCC (2022b).

to establish the structure and elements of the new goal and clarify its purpose. The co-chairs of the ad hoc work programme have tried to provide space for this deep dive by organising TED 3 around two key topics⁴ and TED 4 around the topic of access. However, this proposal lacks the sense of sequence and progress that was stipulated in the previous

discussion. As a response, this policy brief provides a process proposal, outlining the key issues that need to be addressed through deep dives, in a sequential manner, at the technical level. Furthermore, the paper then links the political-level discussions to the CMA's deliberations and decisions, which are to constitute the milestones that the process requires.

Textbox 1: Technical expert dialogues held in 2022

1

In the course of 2022, prior to COP27 in Egypt, three TEDs took place.

While the first (TED 1), in March 2022, outlined a broad range of issues that the NCQG would need to address, during TED 2 in June 2022 the objective was to draw a roadmap towards the new goal, including milestones, areas for elaboration, and necessary technical inputs. TED 3, in September 2022, focused on two main topics: (1) how the NCQG can address the needs and priorities of developing countries, including their scope and quantitative and qualitative aspects; and (2) how the NCQG can reflect the roles of public and private finance actors in facilitating and delivering climate finance flows.

However, many stakeholders were not satisfied with the results of TED 1–2, as the dialogues did not succeed in delivering a clear and concrete roadmap through 2024, thus failing to get the work programme on the right track.

The next section will outline the process we propose, identify the key elements up for discussion that would eventually become part of an NCQG, and propose a sequence⁵ for the discussion of the different elements, while briefly summarising the main points of contention. At each step, it will be made clear what the technical-level discussion needs to address, what the role of the high-level dialogues is, and what decision-making and guidance are needed from the CMA in order to move the process forward.

and their links to each other established. CMA decisions serve to provide clarity on the purpose of the goal, as well as guidance for the continuation of the process, without being final, at least until 2024 (COP29).

2. Proposal for defining a roadmap to an NCQG

2.1 The process we propose

At the first three TEDs and in the submissions made by various stakeholders, a host of topics have been identified that could constitute the different elements forming the NCQG. The elements for discussion are outlined in this proposed process

It is important to note that the proposal presented here takes into account the fact that in UNFCCC processes like this one, final decisions are based on the idea that “nothing is agreed until everything is agreed”. However, given how complex the NCQG is shaping up to be, with many different parts and features that need to be discussed and agreed on, a stepwise approach would ensure that all topics are addressed and the outcome is a good reflection of and balance between differing views. At a minimum, decisions taken in 2022 and 2023 need to serve as a basis for discussions during subsequent TEDs and negotiations.

We have tried to include all the key issues identified so far, but this does not mean that our proposal is exhaustive. The process is not meant to stop other elements from being addressed, especially any new ones that might arise from the

⁴ See textbox 1.

⁵ We are proposing a sequence in response to the need, expressed in previous TEDs, for a clear roadmap with milestones. Even though the sequential order suggested is important, we acknowledge that there is a risk that topics proposed for discussion towards the end of the negotiations might not receive adequate attention.

ongoing deliberations. It is important to note that the proposed process reopens some of the topics that were already discussed at TED 3 and will be discussed at TED 4. However, we consider that in the previous discussions, at least until TED 3, these topics were sometimes addressed in isolation or did not build on each other, and their purpose and contribution to designing a goal were not clear. Therefore, this proposal includes a discussion of these topics, but with a clearer understanding of how these discussions will contribute to the process of designing the structure and features of the NCQG.

A clear plan for what remains of the ad hoc work programme and high-level deliberations would give the process predictability, without making it inflexible, and would therefore facilitate preparations for the upcoming TEDs. This includes the preparation and discussion of the relevant technical documents and inputs that would inform the deliberations for each key aspect of the NCQG.

a) The role of different stakeholders and actors

All stakeholders, including the range of private sector institutions, should participate in the definition of the goal, and especially in the discussions of their roles, needs, and contributions. A clear plan would also allow the organisers to promote and ensure the participation of all stakeholders who have a role in the NCQG and who should be involved in its definition. For example, there is a clear recognition that the private sector should be involved in all its diversity.⁶ Nevertheless, the agenda and speaker list for TED 3, where many important discussions on the roles and needs of the private sector were included, show a clear bias towards the inclusion of financial institutions, both development banks and private banks, and almost no representation from micro, small, and medium-sized enterprises (MSMEs).⁷ Participants of TEDs 1–3 agreed that more needs to be done to engage other key stakeholders in the discussions, and more predictability in the process will facilitate this.

One of the key areas for discussion identified in previous TEDs is the role of these different climate finance actors. We propose that the best way to address the different roles and responsibilities of stakeholders is to do it during the discussions on the different aspects of the goal. This would

clarify the role of each stakeholder in each component, sub-goal, and qualitative aspect of the new goal.

2.2 Elements of the NCQG

The NCQG is shaping up to be a multidimensional goal that includes several quantitative and qualitative elements, and it would therefore benefit from a clear structure that (1) outlines the different elements and their interrelations; and (2) facilitates discussion and a clear understanding of the roles and responsibilities of different stakeholders in relation to each element of the goal. In figure 2, we try to give an overview of these different elements and what an NCQG could look like if it addressed all the main issues identified so far in the discussions and submissions. It is not meant to prescribe an outcome but to serve as guidance and as a basis for understanding the process proposed in this brief.

⁶ Including the financial sector, corporations, MSMEs in developing countries, and all other groups that constitute the private sector.

⁷ See UNFCCC (2022c):

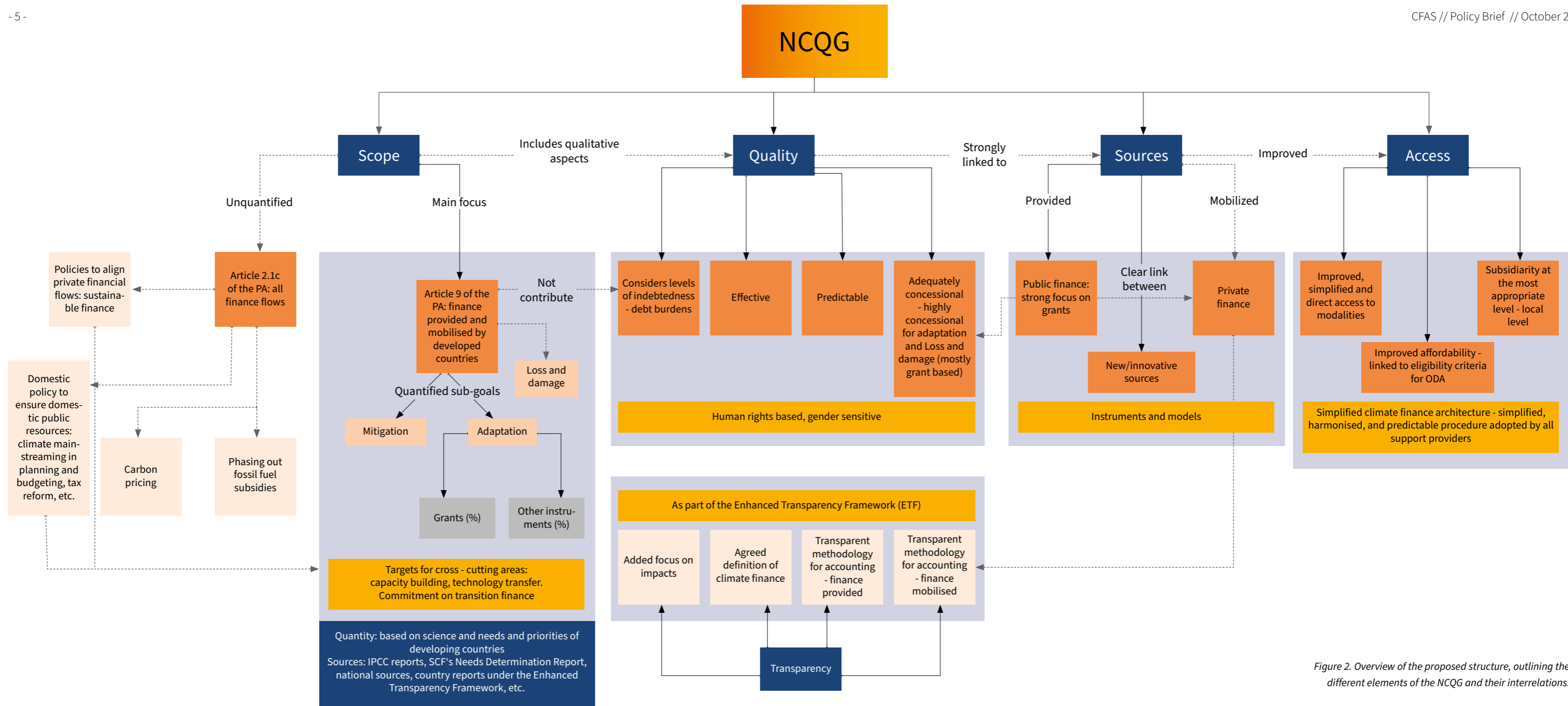


Figure 2. Overview of the proposed structure, outlining the different elements of the NCQG and their interrelations.

2.3 The process in 2023: defining the scope of the NCQG

a) CMA.4 and the question of scope

COP27, taking place in 2022, could advance the deliberations by outlining the potential scope of the NCQG. CMA.4’s decision⁸ would not define the final scope, as this will be decided only in 2024, at COP29, but it would outline all the different layers and potential sub-goals that would constitute the NCQG’s structure, and which need to be addressed at the technical level, as well as the high-level political discussions. In this way, the decision by CMA.4 would guide the discussions and the consideration of technical inputs during 2023 and 2024.

The key question that the CMA needs to address to guide discussions on scope is this: what does it mean that the NCQG is a collective goal? Answering this should offer guidance on how a collective goal can be translated into a structure that reflects its collective nature, while at the same time aligning it with the clear and differentiated obligations and expected contributions of the different Parties, included in the Paris Agreement⁹ and the Convention, and of other stakeholders. Important to this discussion is the fact that the Katowice decision of 2018 frames the NCQG process as being in accordance with

Article 9, paragraph 3 of the Paris Agreement. The Glasgow decision states that the NCQG’s aim is to contribute to the achievement of Article 2 of the Paris Agreement. Both decisions include, but are not limited to, a contribution to making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The CMA’s decision at COP27 would clarify whether the NCQG would be focused on financial flows from developed to developing countries only, including mobilised finance, as was the case for the US\$100 billion goal, or whether it would be expanded to include an additional component that commits all Parties to taking measures to make financial flows consistent with low emissions and climate-resilient development. A clear separation of these two components is important to ensure accountability when it comes to each Party’s differentiated obligations under the NCQG, as well as the roles of all stakeholders in achieving it.

Based on that decision, the CMA would provide further guidance for the technical deliberations. If the decision were made to include both components, the guidance from the CMA would allow the subsequent TEDs to focus on these two separate,

| CMA.4 decision on the collective nature of the goal and the resulting overarching structure, including guidance for the technical deliberations during 2023 | | | |
|---|---|---|--|
| TED 5 | TED 6 | TED 7 | TED 8 |
| <p>Focused on finance flows from developed to developing countries (Art. 9):</p> <p>How to define the needs and priorities of developing countries: sources, limitations, challenges and methods.</p> | <p>Focused on finance flows from developed to developing countries (Art. 9):</p> <p>How to translate the needs and priorities into a more detailed structure: potential sub-goals and their quantification (options for quantified sub-goals and other types of commitments).</p> | <p>Focused on aligning all finance flows with the goals of the Paris Agreement (Art. 2.1c):</p> <p>How can the new goal include commitments for all Parties and stakeholders to align all flows with the goals of the Paris Agreement? Framing of the goal when addressing processes outside the UNFCCC.</p> <p>Feedback into the discussions on needs and priorities of developing countries and potential sub-goals (just transition, capacity building).</p> | <p>Focused on the potentially dynamic nature of the NCQG: Should the NCQG reflect the changing and dynamic nature of the needs and priorities of developing countries? If so, proposals for a process of review of the NCQG.</p> <p>Definition of a timeframe for the goal and proposals for a review cycle.</p> |
| Roles and responsibilities of stakeholders. Links to other qualitative aspects. | | | |
| Second High-level Ministerial Dialogue (2023): political feasibility of the technical proposals; balance between a well-structured goal and an implementable one; other discussions (e.g. fair shares and donor base) | | | |

Table 1. The proposed NCQG process for 2023

⁸ As mentioned previously, CMA decisions are there to provide clarity on the purpose of the goal, as well as guidance for the continuation of the process, without being final, at least until 2024 (COP29).

⁹ See UNFCCC (2019a).

albeit necessarily interrelated, components.¹⁰ The first would focus on finance provided and mobilised by developed countries to support developing countries. It would look in more depth at the needs and priorities of developing countries, with the aim of providing a technical view on how a quantified goal for climate finance provided and mobilised by developed countries could be structured, as well as providing options for the quantum of finance and the best way to express it. The second would look at how all countries could implement actions to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. Following guidance from the CMA, the NCQG's work programme for 2023 would be able to deep-dive into the key aspects of these two components. Table 1 gives an overview of how 2023's deliberations could be organised to advance the technical work as well as the political deliberations.

b) Technical dialogues: reflecting the needs and priorities of developing countries

The technical-level discussions should include consideration of a balance between a well-structured goal that addresses all the different needs and priorities of developing countries and the right level of complexity of the goal to ensure buy-in at the political level and make the goal implementable. Nevertheless, these considerations being also of a political nature, the technical level should leave all options open, while including an assessment of the impacts of the various options' complexity. It is by looking at

the needs and priorities of developing countries, and the best ways to address them, that technical deliberations could be conducted on potential sub-goals, and on whether and how these could be quantified, starting with component 1 (finance flows from developed to developing countries). The Glasgow decision has outlined a broad range of sources of information, including inputs from Parties, constituted bodies, and the Intergovernmental Panel on Climate Change (IPCC), among others,¹¹ that underpin the NCQG discussions and could serve as a basis for the discussion on needs and priorities. The technical discussions in 2023 would then serve to provide views and recommendations in response to four aspects of this first component of the NCQG.

Use of available information

First, it is necessary to consider how best to use all the available information on needs and priorities to arrive at a goal, recognising the different views and limitations of all potential sources of information. The deliberations have so far focused partly on the discussion about the use of either bottom-up or top-down sources of information. Although there seems to be a consensus that bottom-up sources are key in determining needs, it is also recognised that they present limitations and challenges when it comes to quantifying those needs¹² (see textbox 2, on the Needs Determination Report (NDR), below). However, technical deliberations can address these challenges, as well as providing options for filling the existing gaps with other sources of technical and scientific information.

Textbox 2: The Needs Determination Report (NDR) and the NCQG process

2

COP24 requested the SCF to prepare, every four years, a report on the determination of the needs of developing country Parties in relation to implementing the Convention and the Paris Agreement, starting at COP26 at CMA.3. SCF20 agreed to develop the NDR by following the BA approach – that is, comprising technical work and work at the committee level. The technical work allows the SCF, with the support of the secretariat and external expertise, to gather information and data on developing countries' needs to inform its work at the committee level. The first NDR was released in 2021 and provides an overview of qualitative and quantitative information on the needs of developing country Parties. Quantitative information was compiled from costed needs at the project level and from costed needs derived from economic modelling contained in reports at the national, regional, and global levels and in other available sources. Qualitative information was derived from the descriptions of planned activities, strategic directions, national priorities, and action plans contained in the same sources.

Inputs for NCQG: Although not directly linked to the NCQG process, the NDR provides valuable insights into developing countries' financial needs and priorities, and hence it informs the scope of the NCQG. It is thus important that the SCF explicitly reflects the NCQG process and any information coming from the NDR process that can inform the scope and further elements of the goal – as early as 2023/24, but also for future NDR updates.

Process milestones 2023 and 2024: Assuming a four-year cycle, the second NDR would be due in 2025. Further assuming a preparation period of one to two years, elaboration of the report could start in late 2023.

10 For more details on the potential relations between Art. 9 and Art. 2.1c of the Paris Agreement see CFAS (2021).

11 The detailed list of sources can be found in the Glasgow decision, see UNFCCC (2022).

12 For a more detailed discussion on this consideration, see CFAS (2019a). Further discussion in the SCF's NDR, see UNFCCC (2021).

Outlining potential sub-goals

Second, the technical deliberations could look into whether the quantum should be expressed as one single, global goal for all different needs, or whether it should be separated into sub-goals and provide options for what these sub-goals could be. The more common sub-goals mentioned are adaptation and mitigation, but other sub-goals linked to needs and priorities can be discussed and included. Some of the needs already identified in the discussions, submissions, and sources of information mentioned in the Glasgow decision relate to the following: capacity-building, including for the establishment of enabling environments; technology development and transfer; loss and damage finance; and finance for a just transition.

Loss and damage finance is not included in the often-cited bottom-up sources, such as nationally determined contributions (NDCs), national adaptation plans (NAPs), national adaptation programmes of action (NAPAs), and communications and reports submitted by Parties. However, it has gained more and more relevance in the negotiations, with new processes established under the UNFCCC to address the topic, such as the recently established Glasgow Dialogue (see textbox 3, below). Its increasing relevance is backed by the most recent findings of the IPCC, showing scientific evidence that climate change has already caused losses and damages that near-term action to limit global warming to 1.5°C cannot eliminate and adaptation cannot fully prevent. The report also found that the current financial arrangements are insufficient to address these losses and damages.¹³

Textbox 3: The Glasgow Dialogue on Loss and Damage and the NCQG process

3

COP26 established the Glasgow Dialogue between Parties, relevant organisations, and stakeholders to discuss arrangements for the funding of activities to avert, minimise, and address loss and damage associated with the adverse impacts of climate change. The Subsidiary Body for Implementation (SBI) was requested to organise the Glasgow Dialogue in cooperation with the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (WIM ExCom). The discussions will be structured using guiding questions prepared by the SBI Chair in cooperation with the WIM ExCom, around the five workstreams of the WIM ExCom.

Inputs for NCQG: Participants in the dialogue are invited to share experiences, good practices, challenges, and lessons learned through existing finance to better understand and analyse how support is, or can be, responsive to the implementation of approaches to avert, minimise, and address loss and damage in developing countries. Hence, direct feedback can be provided for NCQG discussions on loss and damage.

Process milestones 2023 and 2024: The Glasgow Dialogue will take place in the first sessional period of each year of the SBI, starting at its 56th session and concluding at its 60th session (June 2024). Hence, at SBI 58, the dialogue can be aligned with discussions on the NCQG.

As for just transition finance, the conversation on this has also been gaining momentum, with new initiatives announced to address this issue. In the discussions on the NCQG, the issue of just transition finance can be related to the second possible component of this goal, concerning the efforts by all Parties to make financial flows consistent with a pathway towards low emissions and climate-resilient development, and the implications this might have for the many economies that still depend heavily on commodities that will be significantly affected by the transition. Transition

finance needs will partly result from the implementation of component 2, but they are included here to reflect the support provided by developed countries to developing countries to support a just transition.

Other options to explore are regional or sectoral sub-goals, or additional disaggregation within the sub-goals – for example, a specific goal within the adaptation sub-goal dedicated to least developed countries (LDCs) and small island developing states (SIDS) (expressed, for example, as a percentage).¹⁴

¹³ See Climate Analytics (2022).

¹⁴ It is important to note that the Paris Agreement recognises the special circumstances of LDCs and SIDS.

Quantification of the goal and sub-goals

The third aspect would be the quantification of the goal and the sub-goals. The technical discussions could then discuss and offer options for how to quantify the different sub-goals, and discuss whether this is the best way to establish commitments for all the different types of need. Options may include presenting the sub-goals as a floor¹⁵ or as an absolute number, or other options.¹⁶ This aspect is strongly linked to the first, since the availability of information would be important when deciding this. For example, quantifying capacity-building needs, and clearly separating them from adaptation or mitigation needs, might be difficult. Therefore, meeting this particular group of needs and priorities might end up not as a quantified sub-goal but as a qualitative commitment. The same could be true of the loss and damage discussion, where the initial commitment could be presented as a decision to provide finance that is additional to adaptation finance. The decision could also reference other potential decisions such as the establishment of a new loss and damage financial mechanism, thus linking this decision with the potential outcomes of the Glasgow Dialogue as well as the discussions on the structure of the Santiago Network.

These conversations should also serve to address the issue of whether the goal should seek a balance between adaptation and mitigation, as stated in the Paris Agreement, and what is meant by balance. This is a strong priority of developing countries in the context of the US\$100 billion goal, as well as in the financing provided by, for example, the Green Climate Fund.¹⁷ It helps to ensure that the specific challenges of financing adaptation action do not result in insufficient finance being dedicated to this area, in the context of a goal that falls well below the needs of developing countries.¹⁸ It is

less clear how the pursuit of such a balance would fit with a needs-based goal that establishes specific sub-goals based on bottom-up needs and available science. An attempt to balance adaptation and mitigation support could clash with the idea of responding to the needs of developing countries, especially if their changing nature is considered.

The dynamic nature of needs and priorities

The fourth aspect of these discussions would focus on addressing the dynamic nature of developing countries' needs and priorities. Many of the discussions and submissions by Parties and non-Party organisations have indicated the changing nature of these needs and priorities, and how this is reflected in the different sources of information and links to the UNFCCC process. Needs and priorities will change depending on how climate action moves forward, with new cycles of NDC updates that increase ambition and related changes in the national policies of developing countries, and on how technology costs change. These changing needs will be reflected in NDCs, Biennial Communications, national planning processes for adaptation and mitigation, etc., and will be compiled in processes such as the NDRs of the Standing Committee on Finance (SCF) and the Global Stocktake (GST) (see textboxes 4 and 5, below). The technical discussions should therefore explore options for establishing a process that will reflect this cyclical nature, for example by establishing a mechanism for reviewing quantified and unquantified sub-goals and updating them to reflect changing needs. This could be a continued work programme or dialogue, or it could be embedded in other processes such as the technical dialogues of the GST. The discussions would also serve to clarify the timeframe for the goal, and the inclusion or not of an end year, accompanied by review cycles.

Textbox 4: The Global Stocktake (GST) and the NCQG process

The GST of the Paris Agreement is a process for taking stock of the implementation of the Paris Agreement with the aim of assessing the world's collective progress towards achieving the purpose of the agreement and its long-term goals. The first GST runs from 2021 to 2023 and will be repeated every five years thereafter, unless otherwise decided by the CMA. The process focuses on progress in the three thematic areas: mitigation, adaptation, and means of implementation and support.

Inputs for NCQG: The GST is an important information and policy input for conversations on the NCQG. According to Paris Agreement Article 9.6, the GST should consider any relevant climate finance information provided, and according to Paris Agreement Article 14, it should provide Parties with the information they need to update and enhance their actions and the

¹⁵ As has been suggested in some of the submissions received.

¹⁶ For additional and more detailed options, see CFAS (2020).

¹⁷ With the GCF's governing instrument addressing the need for balance, see GCF (2011).

¹⁸ See UNEP 2020 and OECD (2019).

support they provide. This platform will thus take a comprehensive look at all climate-finance-related matters under the Paris Agreement and can inform the deliberations on the scope of the NCQG.

Process milestones 2023 and 2024: Upcoming GST technical dialogues will be conducted at the SBI's 57th and 58th sessions in November 2022 (TD1.2) and June 2023 (TD1.3). The Joint Contact Groups (JCG) of the SBSTA and the SBI on the GST are established (back-to-back to the technical dialogues) and will serve as a vehicle for Parties' more formal negotiations on the outcomes of the GST.

c) Technical dialogues: aligning other financial flows with the PA

The second component of the NCQG would be focused on the question of all other financial flows and how the new goal could support the alignment of these flows with the goals of the Paris Agreement (Art. 2.1c). The submissions and previous TED discussions have already provided some options and examples of this. Some include looking at policies and frameworks that would incentivise the private sector to align its investments with the goals of the agreement; this includes policies that would reduce the attractiveness of certain investments in high-emitting sectors and activities, as well as a progressive phasing out of fossil fuel subsidies. Other options have also been discussed, including mainstreaming climate in national planning and budgeting processes, and carbon pricing.

The technical discussions could explore different options and examples of best practices and successful initiatives. Using these as a basis, they could then consider ways in which to frame potential subgoals for this second component– for instance, whether some of these options are quantifiable and could be expressed as quantified targets, or include timeframes. A target for the phasing out of fossil fuel subsidies, for example, could be quantified and given a timeframe. The ongoing work of the SCF on achieving Article 2.1c, including options for approaches and guidelines for implementation, could support and feed into the dialogue.¹⁹ The Fourth Biennial Assessment (BA) Report of the SCF dedicates an entire chapter to mapping information relevant to 2.1c. (see also textboxes 5 and 6, on the SCF and the BA, below).

Textbox 5: The Standing Committee on Finance (SCF) and the NCQG process

5

The SCF, in its role as a technical advisory body to the UNFCCC on climate-finance-related matters, provides substantial input on the status quo of financial flows for climate action, on the development of the Financial Mechanism under the Convention, and on methodological questions in international climate finance. Considering the SCF's pivotal role in climate finance under the UNFCCC, it appears only logical to assume a role for it in informing the debate on the NCQG.

Inputs for NCQG: The SCF should continue to reflect on how the work of the SCF can contribute to addressing the deliberations of the NCQG (as already done by the Co-chair attending TED 2). The important topics in this respect comprise lessons learned from the mobilisation of the US\$100 billion finance goal, the needs and priorities of developing countries, the transparency arrangements for tracking progress and delivery of climate finance, and the effectiveness of climate finance from both recipient and provider perspectives. Also, work on achieving Article 2.1c could inform the discussions on the NCQG, including information derived from BA5.

Process milestones 2023 and 2024: Depending on the outcome of the review of the SCF's functions, the SCF could be further involved in informing the current and perhaps future process of defining and monitoring the NCQG.

¹⁹ For more information on the current deliberations within the SCF, see CFAS (2022).

Discussions under component 2 should also be linked to the needs and priorities of developing countries, as stated in the Glasgow decision. This means that the potential options explored under this component should, when relevant, take into account the support developing countries need in order to implement them, under the first component of the goal. On the one hand, this means looking at just-transition-related needs and corresponding finance, especially when exploring

options such as phasing out fossil fuel subsidies and divesting from high-emitting sectors, which might have temporary negative impacts on the economies of developing countries. It also means looking at the capacity support required to mainstream climate in budget and planning processes, and policies that would align financial flows, such as the development of taxonomies and regulations.

Textbox 6: The Biennial Assessment (BA) and the NCQG process

6

The COP requested the SCF to prepare a BA and overview of climate finance flows, drawing on the available sources of information, and including information on the geographical and thematic balance of flows.

Inputs for NCQG: The BA includes an overview of climate finance flows from developed to developing countries, as well as available information on domestic climate finance, cooperation among developing countries, and other climate-related flows that constitute global climate finance. It assesses the key features of climate finance flows, including their composition and purposes, and explores insights into their effectiveness, access to finance, country ownership, and alignment with the needs and priorities of beneficiaries, as well as their magnitude in the context of broader flows. In addition, it covers recent developments in the methodological issues related to the tracking of climate finance at the international and domestic levels, operational definitions of climate finance in use, and new indicators for measuring the impact of climate finance – all of which can usefully inform the NCQG.

Process milestones 2023 and 2024: The fifth BA will be finalised throughout 2023. The timeline should be aligned with that of the TEDs so that updated findings from the BA can find their way into the NCQG process.

Discussions on the framing of this component would be important, considering that many of the necessary changes will have to be made by organisations and via processes that are not governed by the UNFCCC, especially in the private sector. Considerations of specific contexts will also be key, as some countries will not be able to implement all of these measures in the same timeframes, or will require much more support to implement them, based on their specific circumstances.

d) Responsibilities of different actors

As mentioned before, the topic of the roles and responsibilities of different stakeholders should be addressed in all these discussions. A key discussion in this sense will be the donor base for the first component proposed here. Although it has been suggested that the donor base needs to be expanded, it is unclear how this aim can be included in a quantified goal,

given that the Paris Agreement has already established the role of other Parties, beyond developed countries, as a voluntary one. It would be difficult to assign responsibilities for the achievement of a quantified goal to countries whose contributions are voluntary. Additionally, the question of how to include other donors is necessarily linked to the idea of “fair shares”. However, there is no agreed definition of or method to establish a “fair share”, which would be required to facilitate a discussion of potential contributions by other countries. The technical dialogues could try to address some of these questions, but in the end the decision is of a political nature.

e) High-level discussions on the scope and structure of the NCQG

As part of their report to the high level, the technical dialogues would produce key findings for the high-level dialogues and CMA.5. The Second High Level Ministerial Dialogue, in 2023, would mirror the technical discussions in terms of their political acceptability and feasibility. This would help provide the CMA with advice that would clarify the different positions of all Parties on the components, their potential sub-goals, the quantum, and the cyclical nature of the process, as well as responding to the question of how the NCQG could support the goal of making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. It would provide high-level views on how to balance the need for a well-structured goal that responds to the needs and priorities of developing countries with the need for the goal to be implementable. Based on the summary of the key findings at the technical level and recommendations at the high level, CMA.5, in 2023, would narrow down the options for the structure of the goal, its sub-goals, and the cyclical nature of the NCQG, as well as the options for aligning all finance flows with low-carbon and climate-resilient development.

2.4 The process in 2024: qualitative elements of the NCQG

a) CMA.5 and the role of public finance in the NCQG

As the technical dialogues address the issue of scope in 2023, other qualitative issues will certainly arise that are broadly included in the Glasgow decision (quality, access, transparency) and that will need to be addressed in the coming rounds of dialogues. The report from the technical dialogues should outline these topics. CMA.5 could use the key findings and recommendations to better define the last four TEDs, linking the remaining options on scope to the discussions on the qualitative aspects of the NCQG and the related issues of transparency. CMA.5 could provide better guidance by engaging with the question of the significant role of public funds, as stated in Article 9, paragraph 3 of the Paris Agreement, and its link to the quality of climate finance provided.

Public finance is often framed in the discussions as a means to mobilise or leverage additional private finance. In the US\$100 billion goal, leveraged private finance was included as part of the goal and counted towards developed countries' fulfilment of their commitments. The lack of mobilisation of

Textbox 7: The Enhanced Transparency Framework (ETF) and the NCQG process

Concerning climate finance, Paris Agreement Article 13 states that this process must provide, to the extent possible, a full overview of aggregate financial support to inform the GST. This provision can also be seen as having a strong connection with collective efforts to mobilise financial support in the process of designing the NCQG. The ETF is further defined by the modalities, procedures, and guidelines (MPGs) the CMA agreed on in Katowice as part of the Paris rulebook. They outline in greater detail how reporting must be undertaken, including what principles must be applied. While there is no direct relation to the NCQG, certain aspects (for example, the requirement to report on whether progress has been made in the provision and mobilisation of finance under the Paris Agreement) indicate that a steady increase, and therefore a more ambitious climate finance goal, is envisioned.

Inputs for NCQG: Findings from the reporting could inform the NCQG process, for instance with regard to the scope of the goal. Here, reporting by developing countries on the support they need can be of particular interest. However, the reported information may come too late for the 2023 deliberations on the NCQG (but could inform deliberations in the late 2020s).

Process milestones 2023 and 2024: Under the Convention, final biennial reports for developed countries are due as early as the date of the annual greenhouse gas inventory submission in 2022 (i.e. 15 April 2022) but no later than 31 December 2022, and they will be multilaterally assessed in order to complete the final International Assessment and Review (IAR) cycle during 2023–2024. The final biennial update reports for developing countries are those submitted no later than 31 December 2024 and will undergo the last International Consultation and Analysis (ICA) cycle during 2024–2026. Parties under the Paris Agreement are required to submit their first biennial transparency reports (BTR1), and also their national inventory reports, if submitted as stand-alone reports, in accordance with the MPGs, at the latest by 31 December 2024.

20 See UNFCCC (2019b).

private finance was used as an explanation for the failure to achieve the goal by 2020.²⁰ Whether the quantified part of the new goal should and would partly be met through mobilised private finance is a decision that could be informed by the technical-level dialogues but would be made at the political level. CMA.5 could give some guidance on this question to inform the upcoming technical dialogues.

Public finance, however, is not only a means of mobilising private finance, whether directly or indirectly. The role of public finance in directly supporting adaptation and mitigation activities is also a key topic for discussion, especially for adaptation. Important aspects of this mentioned by previous discussions and submissions include

predictability, the effectiveness of the finance provided, and concessionality, which is strongly linked to sources and instruments, as well as considerations of the impact of climate finance on the debt burdens of developing countries. It also includes considerations of human rights and the gender-sensitive character of this finance. CMA.5 could also guide the upcoming technical dialogues by engaging with these questions and their role in the NCQG.

Following guidance from the CMA, the NCQG’s work programme for 2024 would be able to deep-dive into the main quality, access, and transparency features of the NCQG (see textbox 7, on the Enhanced Transparency Framework (ETF), below).

Table 2 gives an overview of how 2024’s deliberations could be organised to advance the technical work, as well as the

political deliberations, leading up to the final decision at COP29.

| CMA.5 decision on the options for the structure of the NCQG. CMA.5 decision on the role of public finance in the NCQG and its links to quality and access features, including guidance for the technical deliberations during 2024 | | | |
|---|--|---|---|
| TED 9 | TED 10 | TED 11 | TED 12 |
| <p>Focused on the role of public finance in the NCQG:</p> <p><i>Quality features:</i></p> <p><i>How to make public finance provided more predictable? Links to sources and channels.</i></p> <p>Concessionality, its links to instruments and models, as well as impacts on debt levels of developing countries. Best instruments to respond to the needs and priorities of developing countries.</p> | <p>Focused on the role of public finance in the NCQG and access:</p> <p><i>What is the link between public finance provided by developed countries and the mobilization of private finance (direct and indirect mobilization and initial discussions on how to account for both).</i></p> <p><i>Should private finance mobilized be counted towards the NCQG? How?</i></p> <p><i>Options to address the complexity of the climate finance architecture: simplification and harmonization of procedures for all sources and channels. How to frame this considering these processes are outside the UNFCCC?</i></p> | <p>Focused on transparency:</p> <p><i>Transparency arrangements for the NCQG, including relation to ETF, definition of climate finance, methodologies and accounting approaches.</i></p> <p><i>Reporting of 2.1c progress.</i></p> <p><i>Efficiency and reporting on impacts.</i></p> | <p>Focused on access features:</p> <p><i>Suggestions for the financial mechanism of the UNFCCC to improve access.</i></p> <p><i>Wrap-up of technical discussions</i></p> <p><i>Pending questions and review</i></p> |
| Roles and responsibilities of stakeholders. Links to the structure, sub-goals and other previous discussions. | | | |
| Third High-level Ministerial Dialogue (2024): political feasibility of the technical proposals; role of public and private finance in the NCQG; decisions on transparency (one definition or many, methodologies and accounting approaches). Revision of previous recommendations in light of new evidence and discussions. | | | |
| CMA.6 decision on the establishment of the NCQG | | | |

Table 2. The proposed NCQG process for 2024

b) Technical dialogues: quality features of the NCQG

This last phase of technical dialogues would be focused on how the remaining elements of the scope of the goal could be better achieved by looking first at quality features.

Predictability

The dialogues would have to address several questions. One of them would be how to ensure predictability in the provision of climate finance, especially in light of the lessons learned from the US\$100 billion goal. This has been an important issue for developing countries. The issue of predictability can be addressed by, among other things, discussing the potential for multi-year pledges by developed countries, and the challenges linked to such pledges.²¹ It can also be linked to discussions on sources and mechanisms, to explore new and innovative sources of finance that are more predictable, or channels that can ensure predictability, such as multilateral funds with replenishment cycles (for example, the Green Climate Fund).

Effectiveness

The effectiveness of climate finance has also been a focus of the discussions and submissions. It is linked to measurement of the impacts of climate finance, and therefore to the topic of transparency. To ensure that the NCQG contributes to the goals of the Paris Agreement, the effectiveness of finance that is provided and mobilised needs to be better assessed. Discussions on how to include such assessments in the transparency arrangements of the NCQG will be important.

Concessionality

A key topic when it comes to quality, one which has been part of the discussion not only during the first year of the NCQG process but also in relation to the US\$100 billion goal, is the issue of the concessionality of the financial instruments through which climate finance is provided. More recently, this topic has included the impact of this finance on the increasing debt levels of many developing countries.²² This discussion is also linked to the many demands from developing countries and civil society organisations for the provision of more public grant finance, especially for adaptation.

The discussion on concessionality in the TEDs can start as a broader discussion on the best financial instruments to use

in response to the needs and priorities of developing countries, including considerations of the different instruments' potential impacts on these countries' debt sustainability. The discussions should clarify, without being too prescriptive, what kind of sources (public, private, alternative), instruments (loans, grants, equity, guarantees, etc.), and models (blended finance, public-private partnerships, etc.) are the most appropriate for each sub-goal. Proposals coming out of this technical dialogue could include whether to establish a floor, or any other sort of commitment on the provision of grant finance for adaptation and for the treatment of loss and damage finance. It is likely that this topic would have been addressed in the previous TEDs, but it can be reviewed here in light of the discussion on quality, to provide further technical inputs for the deliberations to establish the NCQG.

c) Technical dialogues: access features of the NCQG

This round of technical dialogues should also address the required access features of the NCQG. Lack of access to climate finance has been increasingly mentioned by developing countries as a barrier to climate action. Many challenges in accessing climate finance have been identified, including issues with eligibility, the lack of transparency of access procedures, the discretionary and exclusive nature of certain channels, the use of international agencies (resulting in minimal decision-making at the national/local level), and the complex nature of the current climate finance architecture, among others.²³

Addressing some of these challenges will require engagement with organisations and processes outside the UNFCCC, including, for example, multilateral development banks (MDBs), and also exploration of ways to address the complexity of the current climate finance architecture. Links to the work of the Taskforce on Access to Finance can also be explored here.

d) Technical dialogues: transparency arrangements of the NCQG

The technical discussions would also deal with issues concerning the transparency of the implementation of the NCQG, as it is necessary to track finance flows covered by the new goal, to ensure that the goal is being achieved, as well as tracking implementation of qualitative aspects of the goal.

²¹ See WRI (2021).

²² See Eurodad (2020).

²³ More details on access challenges, especially for LDCs and SIDS, see CFAS (2021b).

The question of how to measure and track progress in the quantified aspects of the goal and potential sub-goals, as well as the assessment of the qualitative aspects, needs to be answered. Measurement of progress in all aspects of the NCQG should be a process conducted by the UNFCCC. A key question here is the potential link between the ETF and reporting for the NCQG. The ETF, as an already agreed and established mechanism for transparency, can serve as the mechanism for monitoring progress on the NCQG. Under the ETF, developed countries will report on the support, in terms of finance, technology transfer, and capacity building, that is provided and mobilised. Since information reported under the ETF will serve as an input to the GST, this can also be a way to link this information and establish a process for the continued review and updating of the NCQG, to respond to the changing needs of developing countries.

A definition of climate finance and accounting methods

Beyond the definition of a process to account for progress, other key issues will involve the establishment and use of an agreed definition of climate finance, which could be informed by the ongoing discussions in the framework of the SCF. This is a key response to the issue of transparency that can ensure that, as has been the case in the past, there is no over-reporting of the support provided.²⁴ Closely linked to the definitions would be a discussion on the methodologies and accounting approaches used. Improved or harmonised methodologies and accounting approaches could also ensure transparency in the reporting of climate finance and progress on the NCQG. This would include the methodologies and accounting approaches for finance provided as well as mobilised. There would also need to be discussion of reporting on the progress on the alignment of finance flows with the goals of the Paris Agreement. Finally, the technical dialogues could engage with the question of how to evaluate the effectiveness of the climate finance provided, by measuring impacts, and the question of whether this can also be linked to the ETF.

Accounting for indirect mobilisation of private finance

The technical deliberations could look at whether to include and how to account for the indirect mobilisation of finance resulting from capacity-building activities and improvements in enabling environments. Some challenges have been

identified with the reporting of private finance mobilised by developed countries, under the UNFCCC transparency framework.²⁵ In the context of the NCQG, the attribution of mobilised private finance to developed countries, whether directly or indirectly, would require better and agreed methodologies. The attribution of indirect mobilisation, especially from the local private sector in developing countries, is a challenge that could be met by including a qualitative measure of the effort made, instead of a quantitative measure.

e) High-level discussions on quality, access, and transparency arrangements of the NCQG

The Third High Level Ministerial Dialogue would also mirror the technical discussions in terms of their political acceptability and feasibility. It would provide high-level views on the inclusion of mobilised private finance in the goal, as well as on the level of detail that should be included when addressing sources, channels, instruments, and models. Additionally, it would provide recommendations for the transparency arrangements of the NCQG, including on the use of one or several definitions of climate finance, and the methodologies and accounting methods. Finally, it would provide recommendations on revisions and changes to the structure of the NCQG based on the new cycle of technical and high-level discussions.

CMA.6 will, based on all the inputs and recommendations from the technical and political levels, establish the NCQG, including its transparency arrangements. It will also decide whether the NCQG will be final or whether there will be a cyclical process that will allow for periodic reviews and adjustments, to respond to the changing needs and priorities of developing countries, as well as to the international context.

²⁴ See Oxfam (2020).

²⁵ Ibid.

Article 2.1c, but with a clear differentiation between flows from developed to developing countries and the rest of the flows. This first decision is very important for the rest of the process because the focus of the NCQG (on Article 9 or Article 2.1c) will shape the rest of the deliberations, including on the roles and responsibilities of different stakeholders, sub-goals, the quantum, and transparency and reporting, as well as quality and access.

The decision should also come with further guidance on the structure, for example by recommending that the ad hoc work programme focus on technical discussions on potential sub-goals and the best way to express them.

Making a decision in 2022 and launching technical deliberations on the different sub-goals and their quantification would allow the technical deliberations to coincide with relevant processes outside the ad hoc work programme. This is especially the case for processes under the SCF, such as the BA and the synthesis of available information relevant to Article 2.1c.

b) Steps to be taken by CMA.5

➤ Clarifying the role of public finance:

CMA.5 should address the role of public finance in the different parts of the NCQG, once the structure has been broadly outlined, with its components and potential sub-goals. This is a good way to approach issues of quality of climate finance, as well as the role of the private sector in the NCQG. It can also be linked to access features, since it will necessarily have to look at sources, channels, and instruments, with each presenting specific access challenges.

➤ Other relevant guidance from the CMA:

CMA.5 should also seek to narrow down the potential options for sub-goals and their quantification, taking into consideration the need to keep the NCQG simple enough to be implementable, while leaving the final decision for CMA.6. This would advance the deliberations while also providing guidance for the next round of technical dialogues, in 2024.

Additionally, since transparency in the implementation of the NCQG is an important issue, CMA.5 should also request that the ad hoc work programme address the question of transparency in its dialogues in 2024.

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Abbreviations

| | |
|---------------|--|
| BA | Biennial Assessment |
| BTR | Biennial transparency reports |
| CMA | Conference of the Parties serving as the meeting of the Parties to the Paris Agreement |
| ETF | Enhanced Transparency Framework |
| GST | Global Stocktake |
| IAR | International Assessment and Review |
| ICA | International Consultation and Analysis |
| IPCC | Intergovernmental Panel on Climate Change |
| JCG | Joint Contact Groups |
| LDC | Least developed countries |
| MDB | Multilateral development bank |
| MPGs | Modalities, procedures, and guidelines |
| MSMEs | Micro, small, and medium-sized enterprises |
| NAP | National adaptation plan |
| NAPA | National adaptation programmes of action |
| NCQG | New collective quantified goal |
| NDC | Nationally determined contribution |
| NDR | Needs Determination Report |
| SCF | Standing Committee on Finance |
| SIDS | Small island developing states |
| TED | Technical expert dialogue |
| UNFCCC | United Nations Framework Convention on Climate Change |

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