TECHNICAL PAPER:

THE NEW GOAL ON CLIMATE FINANCE: IT'S ABOUT QUANTITY AND QUALITY!

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Executive Summary

At COP26 in Glasgow, deliberations began to set a new collective quantified goal (NCQG). The NCQG would start from a floor of USD 100 billion per year and consider the needs and priorities of developing countries. Parties established an ad hoc work programme for 2022-2024 that would allow them to set the new goal prior to 2025. In the discussions that have taken place in the last months, there seems to be an agreement among Parties that the new goal will not just be a number but have qualitative features including enhanced access.

While the NCQG will not resolve all challenges that developing countries face when it comes to climate finance, it presents an opportunity to discuss how the quality of finance can be integrated both in the deliberation and the outcome of the process. The NCQG should incorporate qualities of adequacy, predictability, avoidance of additional burden on highly indebted countries, country ownership, accessibility, effectiveness, equity, transparency, and channelling through a strong governance system.

The NCQG should deliver climate finance that is:

- *Adequate*: The NCQG should aim at the provision and mobilization of sufficient finance to fully implement climate action plans in a timely manner. The NCQG should set thematic and implementation sub-goals, intermediate targets regarding predictability of finance, the appropriate financial instruments without increasing the indebtedness of developing countries, and periodic reviews of the goal.
- *Accessible*: Adequate finance must be accessible to those who need it. The NCQG should enhance access to finance by prioritizing the most vulnerable and capacity constrained countries, further simplifying and harmonizing procedures across institutions, enhancing direct access and decentralizing decision-making, and strengthening local capacities.
- *Effective*: Climate finance should enable the implementation of climate actions and advance the achievement of the Paris Agreement goals. Countries should improve the design and implementation of measures, aiming at delivering clear and measurable impacts and results, while climate finance should be readily available and accessible for countries to implement their plans.
- *Transparent*: Information on finance provided, mobilized, and received must be made available overtime. Transparency will be critical to assess the adequacy, accessibility, and effectiveness of climate finance as well as efforts to report on and monitor support.

1. Introduction

Available and accessible climate finance is critical for the implementation of developing countries' climate strategies and plans. Developing countries, in their Nationally Determined Contributions (NDCs), National Adaptation Planning (NAPs), and adaptation communications, have presented their mitigation, adaptation and, in some cases, loss and damage needs and plans.

In 2015, at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21), Parties decided to set a new collective quantified goal (NCQG) for the mobilization of climate finance. The goal will be adopted prior to 2025 and will be set from a floor of USD 100 billion per year and will consider the needs and priorities of developing countries (decision 1/CP.21).

At COP26 in Glasgow, Parties began deliberating the new goal. Decision 9/CMA.3 established an ad-hoc work programme for 2022-2024 under the Conference of Parties, serving as the meeting of Parties to the Paris Agreement (CMA) that will be facilitated by two co-chairs one from a developing country and one from a developed country. As part of the work programme, Parties decided to hold four annual technical expert dialogues and an annual High-level ministerial dialogue. Parties and non-party stakeholders were also invited in 2022 to submit their views to inform the deliberation.

The NCQG is intended to succeed the previous developed country commitment, set by developed countries in 2019 at COP15 in Copenhagen, to jointly mobilize USD 100 billion per annum for mitigation and adaptation by 2020, a goal on which developed countries fell short. The OECD report on the aggregate trends of climate finance shows that USD 83.3 billion was provided and mobilized by developed countries in 2020– which was USD 16.7 billion short of the USD 100 billion goal (OECD, 2022) Even though developed countries have reaffirmed their commitment and expressed their confidence that the USD100 billion will be delivered by2023 (UKCOP26, 2021), concerns remain about the quality of finance provided and mobilized, including its accessibility. The scenarios outlined in the delivery plan, suggest that the goal could be met with a range of USD 101 billion to USD 106 billion (UNFCCC Standing Committee on Finance, 2022).

Based on the lessons learnt from the delivery of the USD 100 billion goal, in their submissions and the first three technical expert dialogues that were held in 2022, Parties have indicated that quality of finance is equally as important as the quantity when setting and delivering the new goal. Parties have identified a range of issues in addition to quantity that need to be considered when setting the new goal, such as quality, scope, and access features as well as sources of funding and transparency arrangements.

Quality of finance have different meanings for different stakeholders. In their submissions, Parties emphasized that improving the quality of climate finance that is mobilized and provided can enhance access. Parties could use the NCQG deliberations as an opportunity to set a new goal that ensures that the climate finance provided and mobilized to meet it: is adequate, is predictable, avoids creating additional burden particularly for highly indebted countries, is country-owned, is accessible, is effective, is equitable, is transparent, and is channelled through a strong governance system.

This paper aims to provide input into the NCQG process by identifying key qualities that the new goal should include and proposes how the deliberation of the NCQG could consider incorporating these qualities in setting and delivering the new goal, with a particular focus on enhancing access.

2. What do we mean by High-Quality Climate Finance?

The adoption of a NCQG is both an effort to get developing countries the resources they need to decarbonize and adapt to climate change and a way to build trust between developed and developing countries.

High-quality climate finance will help to realize both goals: achieve developing countries' climate change objectives and intended results (under all three areas of action, mitigation, adaptation and addressing loss and damage), support the goals of the Paris Agreement, and promote sustainable development, all while building trust between developed and developing countries in a spirit of partnership to address the climate crisis.

However, understanding what high-quality climate finance will achieve does not clarify what makes climate finance high-quality to begin with. For that, it is necessary to consider the challenges that developing countries have faced in their experience as potential and actual recipients of climate finance.

Looking to these experiences, certain interlinked qualities can be used to define high-quality climate finance:

- Adequate
- Concessional
- Effective
- Transparent
- Accessible

In this section we refer to these qualities in the context of aggregate climate finance or what would be the overall, comprehensive NCQG. Nevertheless, some of the qualities identified would also be applicable to the provision of climate finance on a project or programme basis.

2.1. "Adequate" Climate Finance

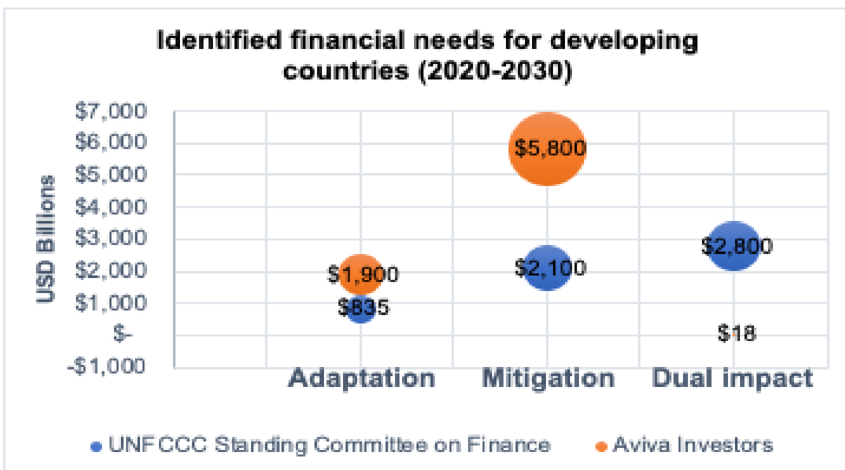
Climate finance must be adequate to affect the type of transformation needed in developing countries. This means that there must be a sufficient quantity of climate finance via the right types, instruments and channels of climate finance, that is informed by some form of concrete assessment of the underlying needs in developing countries to achieve low-carbon and resilient development.

In their submissions on the NCQG, several countries call for a needs-based and/or outputs-based goal, while many also call for the development of methodologies for needs assessment.

The concept of "adequate" climate finance also touches on the concept of "balance" that emerges in a number of developing country party submissions on the topic of the NCQG. Many are concerned with the lack of balance between climate finance for mitigation and adaptation. However, in such cases, this is because a majority of funds have been directed toward mitigation, while adaptation has received a much smaller share of the support. According to the UNFCCC Standing Committee on Finance, 57% of the annual average climate finance flows in 2019-20202 went toward mitigation (2022). There are many likely reasons for this disparity. One is that mitigation needs and benefits are better understood in the development context and by financiers. This contributes to ease of financing, whereas adaptation needs and priorities are country-dependent and the benefits are less easily quantified, thus making financing more difficult. Additionally many mitigation projects are capital intensive but maintain lower operating costs than the alternatives, making them better candidates for debt financing (though, as discussed below, debt financing has indeed been used for adaptation as well).

According to data from the Climate Policy Initiative, in 2019/2020, the amount of total climate finance going to adaptation was less than 10% of the amount going to mitigation (CPI, 2021). This is a much larger gap than what has been identified in the existing global assessments of climate finance needs. Of the two main global assessments of climate finance needs, the "First report on the determination of the needs of developing country parties related to implementing the Convention and the Paris Agreement," (NDR) (UNFCCC Standing Committee on Finance, 2021) coordinated by the Standing Committee on Finance, identifies needs of USD 835 billion for adaptation, USD 2.1 trillion for mitigation and USD 2.8 trillion for dual impact efforts over the 2020-2030 period. The report "Mind the Gap: An estimate of climate finance needs by developing countries to fund their NDC commitments," anticipates USD 1.9 trillion for adaptation, USD 5.8 trillion for mitigation and just USD 18 billion for dual impact efforts over the same period (2022). While each of these anticipate higher mitigation needs than adaptation needs, these differences are much smaller than what we currently see in climate finance flows – mitigation needs are 2.5X those of adaptation in the NDR, with the largest amount focused on dual purpose efforts, while the Mind the Gap report is similar, with mitigation needs at 2.75X those of adaptation. A previous paper in this series, "Toward a collective and quantified goal based on needs", discusses these assessments in greater detail and provides some recommendations for operationalizing a needs-based finance goal (Guzman and Cardenas, 2022).

Figure 1. Identified financial needs for developing countries (2020-2030)



Source: Clima Capital Partners, 2022 and UNFCCC Standing Committee on Finance, 2021.

While the above is intended to demonstrate the scale of the investments needed by thematic area relative to the distribution of finance provided, it should be noted that these amounts aim to assess the total investment needs, rather than the specific support required for developing countries. Total climate finance support needs may be different, as that will depend on a range of factors. Given that many types of mitigation projects can clearly demonstrate an economic rationale and are becoming more mainstream, it may be the case that the support needed for mitigation will actually be significantly smaller with relation to the investment needs. Adaptation, which is less likely to produce returns, will likely require support for a larger share of the investment needs.

To ensure that climate finance is "adequate" it must be clear that the amounts available for mitigation, adaptation, and loss & damage relate to the needs identified by developing countries. If resources are clearly responsive to the scale and challenge of country needs, then they can be considered demonstrably adequate and may address the concerns expressed in calls for "balance." This could be achieved by defining sub-goals for each of the thematic areas when setting the NCQG.

The adequacy of finance provided and mobilised is not only a function of quantities as such but also one of quantities of the right types of finance. To implement climate action plans (e.g. NDCs) countries will require for some components of their plans public finance, e.g. grants to cover the cost of action or concessional debt instruments where projects generate a return from which repayments can be made but may require (high) concessionality to become financially viable. Other components of countries' climate action plans may rely on investment e.g. from the private sector and the challenge is to attract or mobilise (including through support from developed countries) such investment.

The USD 100 billion-a-year goal by developed countries is an example how not to deal with these different components, as developed countries count both the finance they provide via public finance as well as the private finance (i.e. investments) they consider to have mobilised. However, it is clear that the approximate USD13-15 billion a year in mobilised private finance is wholly insufficient with respect to the total investment needs developing countries have in order to implement their contributions to the Paris Agreement. Hence, adequate climate finance would mean covering both the needs for support as well as the needs for (mobilised) investment, and these could be distinctly reflected in the NCQG.

Adequacy is likewise important over time, and thus related to the concept of "predictability" often referred to in climate finance discussions. It is not enough to know that there will be a sufficient amount of climate finance available at some point in the future but also important to have clarity on available resources both in the short-term and over an extended period. Even when resources are available, access remains a challenge for most developing countries. Scaling up climate finance may require growing levels of support and enhanced access to resources as countries move to more comprehensive and broader implementation. A clear path to an "adequate" level of support that takes into account developing country's plans, strategies and priorities can help with this. Taking into consideration that there will be changes in needs and priorities of developing countries over time, there should be periodic reviews and adjustments to the elements of the NCQG to reflect and address the evolving needs and priorities.

2.2. "Concessional" Climate Finance

Climate finance is intended to be the provision and mobilization of resources to support developing countries in the achievement of climate goals. When such resources are provided in a repayable form, they may represent the recipient country paying for the efforts themselves.

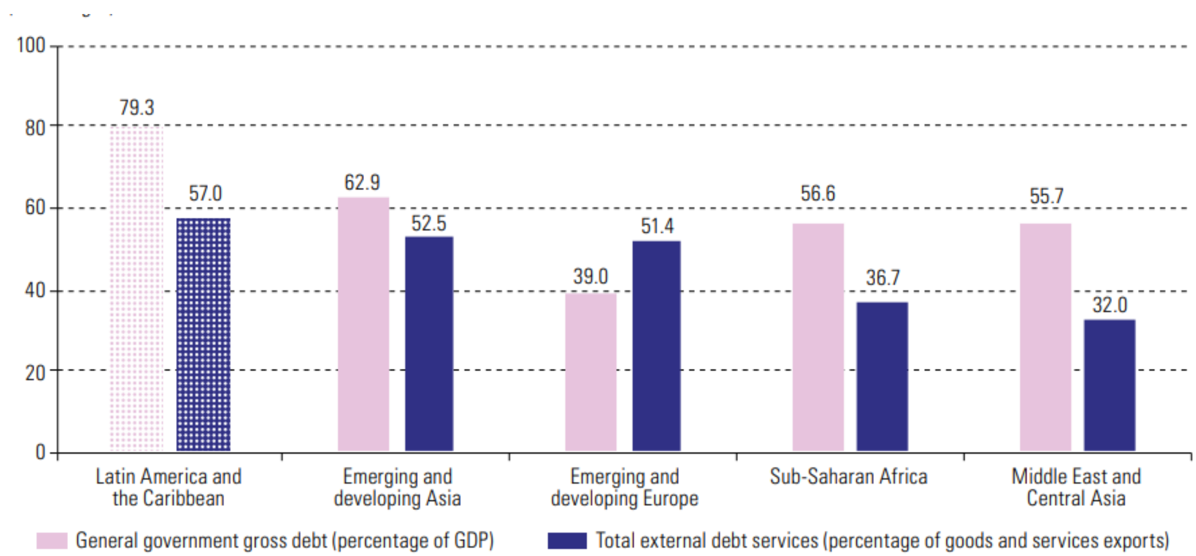
There are plenty of cases in which loans, including those with interest rates up to market rates, may be appropriate. For example, if a project is expected to make significant returns (from which a loan can be repaid) but the country's financial system cannot finance that type of project or type of borrower, loans channelled from international entities might be an appropriate instrument.

However, many developing countries have noted with concern that a large amount of climate finance has been provided in the form of loans, even for adaptation efforts for which there is no clear potential financial return. In these cases, such an approach can lead to an increase in a country's debt burden. In their August submission on the NCQG, the Least Developed Countries noted this challenge, relating that, "According to OECD figures, from 2016 to 2018, loans accounted for 66% of all climate finance provided to LDCs. These loans were granted for mitigation as well as adaptation, which largely supports activities that do not generate revenue" (Republic of

Senegal, 2022). The recent OECD report states that in 2020, over 70% of public climate finance provided was in the form of concessional and non-concessional loans and 26% was in grants form (OECD, 2022)

The COVID-19 crisis also exacerbated the high levels of indebtedness of most Caribbean countries when they had to take external financing to maintain some of the economic activity and implement relief measures. While all countries have seen a decline in their financial situation and increasing debts, Latin America and the Caribbean are the most indebted regions of developing countries, as illustrated in the figure below (Figure 2).

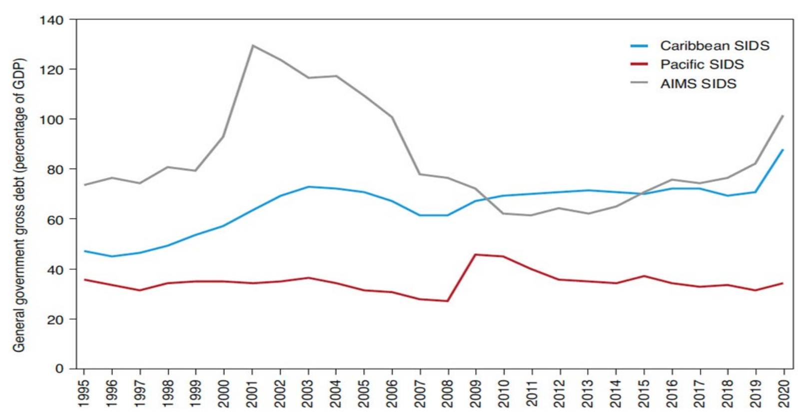
Figure 2. Selected debt indicators in developing regions, 2020



Source: United Nations, 2021

Caribbean and AIMS (Africa, Indian Ocean, Mediterranean and South China Sea) SIDS, in particular, have seen a rapid increase in their debt-to-GDP ratio over the last years (as seen in Figure 3 below). Part of this is a result of climate impacts, as extreme weather events lead SIDS, in particular those in the Caribbean, into "constant repair and recovery cycles" from which there is no clear offramp (Thomas and Theokritoff, 2021).

Figure 3. Evolution of general government gross debt for SIDS



Source: Thomas and Theokritoff (2021).

In some cases, such situations have led countries to adopt internal policies whereby they only seek grant-based support. Such responses may be dictated by the constraints of fiscal restructuring programs through the International Monetary Fund (IMF), or they may simply be seen as sound financial management practices, particularly in a context of unavoidably escalating public debt. While this may be a rational country-level response, climate finance is a scarce resource, and discarding the use of debt instruments as an option limits the aggregate impact that climate finance can have.

Climate finance should not exacerbate indebtedness; if anything, it should help to alleviate it. Investments in adaptation can reduce the amount of repair and recovery needed following an extreme weather event. However, if these resources are provided as debt, they can limit countries' ability to crawl out of the debt hole they find themselves in. When this debt burden is caused by worsening natural disasters and extreme weather due to climate change, such as in many SIDS or other vulnerable developing countries, these countries are effectively being asked to pay the bill, with interest, for a problem to which they have generally only made a limited contribution.

High-quality climate finance, therefore, should be structured so as not to increase the debt burden of recipient countries. This will likely mean public, grant-based financing for most adaptation projects and addressing loss and damage. Likewise, where debt instruments are appropriate, they should ideally be structured in such a way that significant additional debt burdens are not placed on developing country governments, especially the most vulnerable.

2.3. Effective" Climate Finance

It is important that climate finance be effective in achieving the desired outcomes. Ineffective climate finance serves no one's interest, and it is critical to ensure that limited public resources are used as effectively as possible. Though there are varying definitions of what effectiveness is, it can be simply defined as the extent to which an intervention achieves its stated aim(s) and can be applied at various stages of the design, implementation, and use of climate finance. The objectives of a particular intervention will shape the question of climate effectiveness, which will also be influenced by the source and channel of climate finance (Ellis et al, 2013).

However, different actors may emphasize different factors when evaluating the effectiveness of their interventions based on their objectives. Measuring the effectiveness of climate finance can be challenging as it may differ due to variables including context, time horizon and scale (Ellis et al, 2013). Excessive focus on indicators like USD/tCO_2e may lead to finance that only supports the most "shovel-ready" concrete projects and programmes, rather than supporting the broader work necessary to unlock impacts over time, such as capacity building, institutional strengthening, project preparation, and various types of technical assistance. Such approaches could prevent lower capacity countries from accessing climate finance and could lead to counterproductive outcomes. Also, a one-dimensional focus on cost-effectiveness may also create a moral hazard. For instance, adaptation projects focusing on the most vulnerable peoples, communities and populations may be deemed to be too "expensive" when only looking at economic assets valued in absolute terms.

The 2005 Paris Declaration on Aid Effectiveness laid out a series of principles for making aid more effective (Sierra et al, 2016) and the scope of these principles were later extended to development finance and development cooperation by the 2011 Busan Partnership for Effective Development Cooperation. These principles are laid out in Box 1.

Box 1. Principles for effective aid (from 2011 Bhusan Partnership for Effective Development Cooperation)

- Ownership: Developing countries set their own strategies
- Alignment: Donor countries align behind developing countries' objectives
- Harmonisation: Donor countries coordinate, simplify procedures, and share information
- Results: Developing countries and donors shift focus to development results
- Mutual Accountability: Donors and partners are accountable for development results

While the provision of climate finance follows a legal obligation in the UNFCCC and the Paris Agreement, and therefore should not be construed as "aid", several of these principles are already incorporated into international climate policy and finance efforts. For instance, *country ownership* (alignment with NDCs and relevant national plans and engagement with relevant national stakeholders) and *efficiency and effectiveness* (economic and financial soundness of the programme/project, cost-effectiveness and expected rate of return and application of best practices) are two of the six investment criteria of the Green Climate Fund (GCF). Evidence suggests that climate programmes deliver the most effective outcomes when finance is high-quality, predictable and accessible (Idriss and Patel, 2021).

Thus, it is important that climate finance is accessible, used effectively, and the above-mentioned principles are at the heart of each project and programme being designed and implemented.

2.4. "Transparent" Climate Finance

Transparency is key to demonstrating that contributing countries are fulfilling their climate finance obligations and for showing the success, results and impacts of the intervention. A clear system of transparency for climate finance can help demonstrate that it truly represents support of the scale necessary to help developing countries achieve their objectives and the goals of the Paris Agreement. In doing so, enhanced transparency can enable actors to better understand whether finance provided and mobilized is adequately addressing needs identified by developing countries (UNFCCC Standing Committee on Finance, 2022). Different accounting approaches can have tremendous impacts on how a given sum of climate finance is reported. Transparency, as it relates to what is and is not being counted toward the NCQG, is critical to ensuring that the scale of the climate finance being provided and mobilized is indeed on an appropriate scale, in line with the needs that have been identified. It will also build trust and confidence among Parties.

Many vulnerable countries that are mainly dependent on financial aid are also concerned about the additionality of climate finance. The Alliance of Small Island States' (AOSIS) March submission on the NCQG calls for the climate finance provided in the NCQG context to be additional to current and future development finance (2022). The LDCs likewise call for climate finance to be additional to Official Development Assistance (ODA). While the additionality of climate finance is an ongoing discussion, ensuring transparency in reporting on additional and non-additional flows can provide an opportunity for contributors to demonstrate how they are meeting their commitments to both climate finance and sustainable development.

Several developing countries have noted the need for transparency on climate finance provided and mobilized in the NCQG. The LDCs call for the establishment of "an effective monitoring system to have clarity on all the financial flows mobilized (public and private)" (Republic of Senegal 2022). Kenya identifies a series of challenges for effective accounting of climate finance: the lack of a common understanding of what climate finance is, double counting from source, and lack of shared understanding on mobilized private finance through public intervention (Republic of Kenya 2022). AOSIS (March 2022) and Independent Association of Latin America and the Caribbean (AILAC) (2022) both likewise call for the adoption of clear transparency arrangements in the NCQG.

2.5. "Accessible" Climate Finance

High quality climate finance should be relatively straightforward to access and minimise access barriers. While extensive access procedures are indeed put in place with intentions of ensuring that funds are spent appropriately, disproportionally onerous application procedures can create access challenges for low-capacity countries and regions. This can naturally lead to a situation where finance flows to countries with high capacity, rather than those with the greatest needs.

Although climate finance flows have been increasing over the past decade, the current mechanisms for accessing climate finance have fallen short in addressing the needs of developing countries (UNFCCC, 2021a; UNEP-CCC, 2021). There is clear consensus between Parties and non-Parties submissions that the current mechanisms for accessing climate finance present some challenges as the access processes are frequently cumbersome, time-consuming, resource-intensive, unpredictable, and project-based (CFAS, 2021).

These challenges have hindered the climate finance architecture from functioning effectively, equitably, and at the required pace and scale in accessing and delivering financial flows. The NCQG process presents an opportunity to enhance access and address barriers experienced by developing countries when accessing climate finance under the UNFCCC Financial Mechanism and other funds and institutions.

Challenges and opportunities to climate finance access are discussed in further detail below.

- Complex financial landscape with stringent project proposal requirements
- Limited capacity within countries to manage the entire project cycle
- Building up national and local institutions to act as intermediaries
- Lack of climate data

Complex financial landscape with stringent project proposal requirements

The climate finance architecture has been evolving. The upsurge of climate funds has resulted in a complex landscape with several international and multilateral funds and entities, each with its own objectives, access modalities, governance, terms and conditions and reporting structures. The available sources of concessional financing use different investment criteria, rules, and procedures to access finance.

Developing countries often experience difficulties in identifying the right source of financing and face complicated, lengthy, labour-intensive proposals and reporting requirements. Recipient countries must design strategies that respond to different demands and different standards, sometimes for intertwined climate change problems. This results in considerable inefficiencies for implementing entities, particularly direct national entities with less technical, human, and financial capacity (WRI, 2018). Additionally, a 2019 survey of climate finance practitioners from developing countries found that over 70% of respondents felt that finance from multilateral climate funds was the most challenging to access (UNFCCC Standing Committee on Finance, 2022).

These stringent and diverse set of requirements increase transaction costs, affect the time lag between identifying a potential climate response and implementing it, and hamper efforts to streamline access.

In-country coordination is also needed to boost and streamline access. Coordination mechanisms could emerge from two sides: the contributors and the recipients. The contributors, such as funds and bilateral donors, could define a clearer division of work and gain specific knowledge (e.g. specializing in developing smaller-scale adaptation projects or National Adaptation Plans) in delivering climate finance. Although some duplication between funds could be beneficial, as it increases the supply of climate finance, it is inefficient for all funds to try to meet the same range of demands and objectives. Coordination mechanisms could also be established by exploring complementarities between funds and bilateral donors in procedures and interventions and combining in-country resources efficiently in financing countries' project pipelines. Beneficiaries' focal points and national entities could coordinate to avoid taking fragmented responsibilities addressing climate solutions and hindering long-term project pipeline developments.

Financial institutions have a key role to play on the contributor's side. Coordination mechanisms between contributors could help beneficiaries in identifying applicable sources of finance, reducing transaction costs without going through different project approval cycles (e.g., recipient countries already working with the Adaptation Fund (AF) could bypass the GCF procedures). The Climate Finance Delivery Plan Progress report (2022) argues that financial institutions can tackle this issue by collaborating with developing and developed parties on identifying possible ways to standardize processes or implement requirements for enhanced coherence.

Box 2. Ongoing Efforts by Funds

- The current operating entities of the financial mechanisms under the UN Framework Convention on Climate Change and funds serving the Paris Agreement have already explored complementarities and there are efforts to enhance coherence between their project portfolios, accreditation processes and, to some extent, fiduciary standards and gender policies.[1]
- The GCF and the GEF have developed a "Long-Term Vision on Complementarity, Coherence, and Collaboration" joint strategy to further articulate and build on the complementarity of policies and programs. The strategy started with a "Pilot Coordinated Engagement" that aims to support countries to strategize and synergize the programming of resources available at the GEF and GCF on a pilot basis.
- The GCF and the Adaptation Fund have explored areas of collaboration that include linkages between the accreditation processes between the two funds, setting a fast-track accreditation process for Adaptation Fund implementing entities to become GCF accredited entities (GCF 2018).
- The Annual Dialogue with Climate Finance Delivery Channels has served as a platform to discuss coordination mechanisms to address potential overlaps between different funds including the Climate Investment Funds (CIF) and the GCF that have similar programmatic approaches.

[1] the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund (AF).

Thus, one possible solution which could be considered when setting the NCQG would be to build on ongoing efforts and harmonise standards and safeguards, accreditation requirements, and some key elements of the project's approval process.

Limited capacity within countries to manage the entire project cycle

Developing countries face technical, human, and financial constraints during the different stages of the project cycle (UNFCCC, 2021c; UNFCCC, 2021b). These constraints limit the country's capacity from the project inception and design phase through the implementation, monitoring, and close phase.

First, countries face challenges in identifying climate priorities that could be developed into project pipelines and in integrating project pipelines into investment plans and national policy strategies. Second, developing countries face challenges in managing project proposal development and submission processes. This is exacerbated by a lack of quality data that could jeopardise proposal success by having a weak climate rationale in the decision-making process. A strong climate rationale is crucial for addressing countries' needs with high-impact interventions, as it gives a scientific basis for evidence-based climate decision-making and relies on past and current data on climate and economic systems, predictions and projections, and grounds the activities/projects in the best available climate data and science (Gallo, 2019). Third, countries have limited capacity to oversee project execution and monitor project impacts and results (World Bank, 2021).

The provision of readiness, project preparation, and capacity-building support could be a possible solution. Although readiness support is increasingly offered by various institutions to assist the development of projects, some potential overlaps emerge between preparation and support activities provided by different funds and institutions. Complementary readiness efforts coupled with accessible programmatic approaches and rapidly deployed and sustained support could gain efficiency in delivering readiness supporting entities' ability to access any of the funds.

Some efforts have emerged to enhance capacity building and promote system-wide changes in readiness support and project preparation support. Following the Climate and Development Ministerial in March 2021, the Taskforce on Access to Climate Finance was formed. The Taskforce aims to align national climate action plans and broader national economic planning with potential sources of financing. At COP26, the Taskforce Steering Committee published the Principles & Recommendations (P&Rs) underpinning a new programmatic (as opposed to project-based) approach to guide providers and recipients of climate finance to improve access to climate finance, particularly for Least Developed Countries (LDCs) and Small Islands Developing States (SIDS). Currently, five pioneer countries are in the pilot phase under the P&Rs (UNFCCC, 2021b; UNFCCC, 2021c). Bilaterals have also stood-up capacity-building initiatives including the Commonwealth Climate Finance Access Hub from Australia, New Zealand's support to regional entities in the Pacific to enable Pacific Island Countries overcome hurdles in accessing finance, and the European Union's country-specific initiatives to fund solutions for climate funding strategies (Climate Finance Delivery Plan Progress Report, 2022). While acknowledging that work is ongoing and being undertaken by various initiatives, the report identified four priorities that need further engagement including enhancing access to climate finance.

Another potential action that could enhance climate finance access would be the creation of knowledge communities where peer-to-peer exchange of lessons learned and knowledge transfer are available and accessible to a wide range of stakeholders. One example is the Climate Finance Access Network (CFAN) which aims to unlock and accelerate climate finance at scale by deploying highly trained climate finance advisors to supplement capacity in developing countries' governments and direct access entities. CFAN is partnering with existing initiatives and organizations experienced in building in-country climate finance capacity. Initiatives to deploy embedded advisors can also help to increase coordination and build off best practices by avoiding duplication. With these initiatives, both capacity-building and knowledge exchange, it's important to communicate on approaches and progress to ensure coordination (Climate Finance Delivery Plan Progress Report, 2022).

To achieve their NDC commitments, developing countries will have to design, access resources for and implement high-quality projects and programmes. Hence, the NCQG process should explore possibilities of up-scaling good practices and incorporate building lasting capacities of developing countries to design, access and implement their climate action plans.

Building up national and local institutions to act as intermediaries

Although there is a consensus that countries' direct access to funding should be facilitated and supported via in-country institutions as intermediaries (Third Technical Expert Dialogue, 2022), access to finance is still heavily skewed towards international intermediaries. Intermediaries are responsible for channelling financial resources to projects/programmes and could play four potential roles, as described in Box 3.

Box 3. Potential role of intermediaries in climate finance

Following Chaudhury (2020), there are four potential roles that intermediaries (entities) can play in accessing climate finance. **First**, as information providers: intermediaries in this role provide information to translate the complex proposal procedures to project activities and outcomes. **Second**, as brokers: intermediaries can provide a platform and broker connections for collaboration. These intermediaries are a bridge between parties and sponsors. **Third**, as concept and project designers: the conception and project design and the involvement of stakeholders. **Fourth**, as Implementers: intermediaries are involved during the implementation phase with a high potential for capacity building and knowledge sharing.

While national and regional direct access intermediaries have played a reasonable role in information dissemination, the conception and implementation roles have been largely missing in developing countries, leading to proposals that lack institutional and capacity-building as a matter of enhancing country ownership. International intermediaries can also bring their respective expertise and collaborate in the developing of technical and human capacities in sharing their knowledge and co-designing projects with national intermediaries, whereas national intermediaries can take the lead role for implementation and have a strong local presence.

Direct access support should be enhanced to make capacity-building, technology, and funding resources available for vulnerable groups and local communities (UNFCCC Secretariat, 2022). The implementation of cross-learning, knowledge sharing and lessons learned to help future and current projects to benefit from the accumulated experience can build the capacities of Direct Access Entities (DAEs).

Another approach is implementing a specific envelope within a broader financing structure to shift decision-making down to regional and local institutions, thus allowing countries to utilise more flexible and context specific approaches. Coupled with enhanced direct access support, this can also lead to more rapid fund disbursement, and reduced transactional burdens, thus improving effectiveness of investments. This further highlights the technical and operational advantages of working with local and national institutions (United Nations, 2022). The NCQG process should consider this approach to support capacity-building efforts and enhance the decision-making ability of developing countries.

Lack of climate data

The necessary processes, concept and project templates and the different investment criteria of funds require access to sound data at different levels. Reliable climate and economic data are required at sufficient levels of granularity to warrant informed decision-making. The data available at the country level to inform mitigation actions has made great progress in recent years. However, reliable data for climate change adaptation analysis, particularly in capacity constrained countries such as LDCs, SIDS, and African States that takes into account the risks and vulnerabilities of countries and local communities, has not been sufficiently developed. The information architecture around climate change adaptation needs to be improved in data collection, leveraging available data sources, enhancing data availability, and creating suitable mechanisms of knowledge sharing and capacity building.

One recurrent challenge for LDCs and SIDS is the lack of available data for establishing a project climate rationale and assessing projects performance. Specifically, there are major challenges in developing data to formulate adaptation and loss and damage measures and to inform decision-making processes based on reliable data containing risk analysis and vulnerability analysis at different levels as well as cost estimates. A recent UN-OHRLLS report proposed to scope the potential establishment of a Global Data Hub that will increase data accessibility and serve as a reporting repository for SIDS (United Nations, 2022). This hub would support building the climate rationale through the collection, consolidation, and management of finance and climate data for SIDS. The activities, reports and knowledge products developed by such Hub could feed into key decision-making processes and project proposal enhancement for the effective provision of financial resources to capacity constrained countries such as SIDS and LDCs.

The NCQG process should bring innovative solutions to address the data/information gaps in vulnerable countries.

3. How quality and access can be reflected in the NCQG

The NCQG will be based not only on the provision of climate finance, but also on mobilization of additional resources, involving a broad range of actors from the public and private sectors. Hence, Parties and other stakeholders should acknowledge that the NCQG will have limited capacity to establish mandates that directly regulate the functioning of global financial markets and private investment decisions. Nevertheless, the NCQG should be designed to send a strong signal to all actors that climate finance provided and mobilized should be high-quality and accessible by all, particularly those with the greatest needs.

In this context, Parties should discuss how quality including access elements can be integrated both in the deliberation process and the final outcome of the NCQG work programme, aiming to guide those stakeholders that will have a key role in the provision and mobilization of climate finance under the NCQG, including stakeholders other than Parties to the UNFCCC and the Paris Agreement.

The NCQG should set minimum elements and recommendations to be implemented by UNFCCC bodies and through the operating entities of the financial mechanism, that also explicitly aim to serve as guidance for the provision and mobilisation of climate finance outside of UNFCCC channels.

Based on the analysis and information presented in the previous sections, a set of elements and recommendations for Parties to consider when setting the NCQG for the purpose of achieving high-quality and accessible climate finance are presented below.

Adequacy of climate finance

i) Quantity that is informed by the needs of developing countries

The main element that will contribute to adequate climate finance is the provision and mobilization of the sufficient amounts of the right types and of the right instruments of finance to make it possible for countries to fully implement their climate action plans in a timely manner. The extent to which the overall ambition of the NCQG is properly defined and quantified will depend strongly on how the financial needs of developing countries are assessed and taken into account in the process, particularly financial needs for implementing mitigation, adaptation and loss and damage actions. As part of the scope of the NCQG, this should be clearly discussed by Parties and eventually considered in the final outcome to **set sub-goals for adaptation, mitigation and loss and damage.**

Ideally the NCQG could also distinguish between a component that addresses needs for direct support (e.g. via public finance grants and other (highly) concessional finance, and a component that addresses needs related to (mobilized) investments. Whichever way this is done, there should be a clear distinction between addressing these two very different types of financial needs in the formulation of the NCQG.

In addition, the NCQG should recognize the evolving nature of needs and circumstances by **establishing and conducting periodic reviews of the adequacy of the goal**, and implementing their recommendations.

ii) Predictability of finance

An element closely linked to adequacy is timely and predictable access to finance. The proper amount of resources must be available to finance climate actions throughout the implementation of the Paris Agreement. Parties should **set intermediate targets through the NCQG** to increase the level of predictability of climate finance for a specific period of time, contributing to the effective implementation of countries' climate action measures, including those in NDCs, NAPs and adaptation communications. Parties should **improve reporting under Article 9.5** of the Paris Agreement to enhance transparency and predictability of resources when reporting biennially their indicative quantitative and qualitative information on projected levels of public financial resources.

iii) Expand and facilitate access to different sources and diverse finance instruments

The NCQG's deliberation process and eventual goal, informed by the needs of countries, should provide guidance to developed country governments and the different financial institutions regarding the financial instruments that are required for implementing climate action plans. Based on the prioritization approach on vulnerable and capacity constrained countries, special conditions should be established, aiming at avoiding increasing fiscal and private debt in those economies. The NCQG should include **a minimum share or value for grants** as part of the sub-goals responding to the adaptation and loss and damage needs of developing countries.

Enhanced access to climate finance

i) Prioritization of the most vulnerable and capacity constrained countries

Targeted attention to the most vulnerable and capacity constrained countries can enhance the overall quality of climate finance by providing these countries with prompt access to resources in the amount that is needed. Improved access through setting up **specific specialized financial instruments and/or windows or a minimum target for the most vulnerable and capacity constrained countries** particularly for LDCs, SIDS and

African States should be part of the NCQG outcome. The NCQG should **allocate significant resources to the funds that are prioritizing these group of countries,** for instance: the Least Developed Countries Fund (LDCF), Special Climate Change Fund (SCCF), Adaptation Fund (AF), Green Climate Fund (GCF) and Global Environmental Facility (GEF).

ii) Further simplify and harmonize procedures and enhance programming collaboration between funds

As climate finance is being provided and mobilised through several sources and channels, with different timelines and requirements, enhanced access can be delivered by simplifying the procedures for the provision of climate finance and by standardizing or harmonizing processes and requirements across key financial institutions, inside and outside the UNFCCC.

While some efforts have been advanced in this regard, the NCQG process and outcome should not take this issue as resolved or managed. In addition to the Paris Agreement and other decisions calling financial institutions to simplify their procedures, a CMA decision on the NCQG should **strongly encourage financial institutions to undertake further efforts to coordinate, streamline and harmonize standards, safeguards, accreditation and project approval procedures**. Complementary to the work of the Taskforce on Access to Climate Finance initiative, the NCQG outcome could enhance standardization efforts by establishing simplified procedures for existing funding channels within the UNFCCC, including for funding applications and reporting processes that could also be developed and implemented across financial entities outside the UNFCCC. Institutions should also set their own periodic targets to gradually simplify, streamline and harmonize requirements and processes. **The NCQG can support these measures by including a qualitative goal that provides a benchmark to assess progress toward simplifying, standardising, and harmonizing procedures.**

iii) Enhance direct access

Given the advantages of enhanced direct access as previously discussed, the NCQG outcome should make visible the need for increased and decentralized direct access, especially at the subnational and local levels. Decentralizing direct access away from just the national level should be conducted with the intention to provide direct access to indigenous communities, women, and provincial and municipal governments.

The NCQG process should explore mechanisms for DAEs to act as brokers (owning their own broker connections for collaboration), project designers (with the involvement of local stakeholders from the conception and project design) and as implementers (DAEs leading the implementation phase) to bolster the full capacity-building potential of direct access.

The NCQG decision, as a qualitative element of the goal, should request **operating entities of the financial mechanism and UNFCCC bodies responsible for other funds to create dedicated funding windows** as piloted by the Green Climate Fund to enhance the potential of **enhanced direct access (EDA)** to achieve the goals of decentralized direct access and, ultimately, build capacity by shifting decision-making power to the regional and national-level, increase country ownership, and improve mobilization of funds. The periodic review of the NCQG should also assess the progress made in enhancing direct access.

iv) Support for supplementing, building and strengthen lasting capacities

Increased local capacities, at different levels, are a key enabler for accessing finance. Enhanced capacities are needed for countries to close data gaps, to develop and implement high-quality impactful projects and, overall, to respond to the requirements of the different finance providers. The NCQG should acknowledge the role of capacity in accessing finance, recognizing that countries have different capacities. The NCQG should include a qualitative element that aims at **encouraging relevant financial institutions to establish mechanisms that**

make resources available for building lasting local capacity. Such an element would likely require commitment by all Parties to support capacity-building and periodically review progress toward the qualitative element to allow for adjustments based on changing needs.

Boost the effectiveness and impact of climate finance

Effectiveness of finance can be interpreted as the capacity of finance flows to deliver an intended result. In the context of the Paris Agreement, this result should be the outcome of the countries' climate actions, which are nationally determined and should reflect the highest possible ambition,and advance the achievement of the Paris Agreement's goals. Several variables influence this outcome, both from the supply and demand sides of financial resources. We have mentioned cross-cutting elements such as country ownership and alignment of the provision of finance to countries needs and priorities.

To enhance the effectiveness of available finance, the NCQG decision should **encourage developing countries to continue making efforts to improve the planning, design and implementation of measures, aiming at delivering clear and measurable results**. This can be reflected in updated NDCs, NAPs, adaptation communications and implementation action plans, as well as by **including information on impacts and results of actions in their national reports, especially in the Biennial Transparency Report.**

At the same time, as mentioned above, to effectively implement the diverse range of climate actions, **climate finance should be readily available and accessible for countries**. Complex and lengthy procedures to access finance delay critical investments, risking missing timely delivery of results and the needed impact.

Transparency

Transparency both from the contributor and recipient sides is critical to assess adequacy, accessibility, and effectiveness of climate finance. Hence, **information on finance provided, mobilized, and received must be available.** Efforts will therefore be needed to ensure that: (1) Parties **agree and understand what counts and what doesn't count** towards the NCQG, (2) **methodologies for assessing climate finance mobilised are transparent and consider both adequacy and effectiveness**; (3) the **methodologies used are harmonized among providers** of climate finance, to the extent possible, (4) developed and developing countries **improve their reporting of support provided and received through the Enhanced Transparency Framework** and (5) developed countries **improve their reporting under article 9.5** of the Paris Agreement.

4. Conclusion

Developing countries still face several challenges to finance and implement their transition to a low carbon and resilient economy. Based on the lessons from the delivery of the USD 100 billion goal, countries have highlighted that the amount of funding is not the only relevant element to focus on when setting the new finance goal. Resources should reach those countries in need, allowing for an effective and timely implementation of climate plans, without creating additional burdens. To achieve this, further work and discussions are needed to enhance overall quality of finance, in particular to improve access to resources. The NCQG process is a space for parties and stakeholders to consider and address these issues. The fourth technical expert dialogue during COP27, focusing on matters related to access to finance, is an opportunity to further engage on this critical topic. This paper wishes to contribute to these deliberations with key recommendations and elements for discussio

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