TECHNICAL PAPER:

CRITICAL LINKS: CONNECTING THE NEW CLIMATE FINANCE GOAL TO THE PARIS AGREEMENT

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1. Introduction

While the goal of "mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries," as committed to by developed countries in 2009, has become an important part of the global climate regime, it has always remained a somewhat voluntary goal with limited links to the United Framework Convention on Climate Change (UNFCCC) nor the Paris Agreement. This has helped developed countries dodge accountability and limited the options of the formal UNFCCC process to take effective action related to its implementation.

The situation for the New Collective Quantified Goal (NCQG) is significantly different. Alongside the adoption of the Paris Agreement in 2015, it was decided that, prior to 2025, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) would "set a new collective quantified goal from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries" (UNFCCC 2016).

This means that the NCQG will be adopted by the CMA thus have an entirely different legal standing. Since it will be decided in the context of the implementation of the Paris Agreement, the NCQG process also offers the opportunity to ensure proper formal embedding of the NCQG in the climate regime. This includes establishing clear links to relevant articles of the Paris Agreement such as those related to providing and mobilising finance (e.g., Article 9 and Article 4.5 of the Paris Agreement), and also provide clarity on its relationship with Article 2.1.c). Also, with the advent of the Nationally Determined Contributions (NDC) and a wealth of additional literature, including formal reports by e.g. the Standing Committee on Finance (SCF) there is now a much better (albeit far from comprehensive) understanding of the gaps between needs by developing countries and current climate finance flows.

Hopes are high that the NCQG will address all sorts of shortcomings of current climate finance and the $100-billion-a-year goal, be it on scale and adequacy, on enhancing access, on fixing the imbalance between mitigation and adaptation in the allocation of finance, etc. One strand of the discussion relates to how much attention the NCQG will give to the provision and mobilisation of assistance, with strong links to Article 9 of the Paris Agreement. Another one stresses the importance of looking at overall public and private flows and of properly integrating Article 2.1.c) of the Paris Agreement into the discussion.

This paper looks at the potential links that could be established, in particular to Article 2.1.c) and Article 9 of the Paris Agreement (and by extension, Article 4.3 and 4.4 of the UN Framework Convention on Climate Change, UNFCCC, and Article 4.5 of the Paris Agreement). As we will show, having clarity on those links (and having such links in the first place) can greatly enhance ambition, accountability, and transparency on climate finance in the future. This also means that the potential links between the NCQG in its adopted form and the Paris Agreement as well as the UNFCCC are an important issue that the upcoming deliberations should set aside some time for, for instance in one of the upcoming Technical Expert Dialogues scheduled for 2023.

We are of course aware that the NCQG process (and ideally the final NCQG once adopted) offers connections with other articles of the Paris Agreement, such as on Article 8 (loss and damage), and Article 13 (transparency) that we will not look at in great detail in this paper. Yet, the NCQG process should holistically connect the different elements of the climate finance discussion related to all relevant articles of the Paris Agreement.

2. The 100 billion experience

The $100-billion-a-year goal has never been formally adopted by the COP but has always remained a voluntary goal committed to by developed countries. Furthermore, it was a commitment that did not have a scientific or technical base, and it never considered the needs of developing countries. The commitment to the goal was anchored in the Copenhagen Accord that was then only taken note of by the COP (UNFCCC 2009). One year later, COP16 brought the goal into the formality of the UNFCCC negotiations but merely by recognising the commitment (UNFCCC 2010). The commitment itself remained a voluntary goal set by developed countries, albeit now a recognised one. Also, the extension to 2025 was, essentially, a voluntary move by developed countries, despite that decision 1/CP.21 decided that the developed countries intend to continue their goal through to 2025.[1]

2.1 Little accountability towards COP and CMA

The nature of the goal and its location (at least formally) outside the UNFCCC process, has allowed developed countries to avoid any formal accountability under the COP or the CMA related to efforts towards reaching the goal. Neither COP nor CMA have been able to take real action on the goal and have been limited to issuing appeals and urges directed at developed countries, e.g. to address the imbalance between mitigation and adaptation or voicing their regrets when it became increasingly evident that developed countries would - and, in 2020, finally did - miss the goal.

Instead, developed countries set up their own process of annual reports by the OECD, outside the UNFCCC process and based on agreements among themselves what and how to count, lowering pressure for such work under the UNFCCC or the Paris Agreement (the important work on the matter by the Standing Committee on Finance notwithstanding, see for instance SCF 2022b). In this reporting system, developed countries often report measures that seem to have little to no climate-relevance, and account for financial instruments (e.g., loans) by their face value rather than the actual financial effort for the provider or the net benefit for the recipient (e.g., the grant equivalent of a loan). This leads to significant discrepancies between reported climate finance figures (in the UNFCCC Biennial Reports, the SCF's Biennial Assessments and the regular OECD aggregate reports on the progress towards the 100-billion-a-year goal) and the real value of provided support specifically aimed at climate action. A recent report by Oxfam estimates this real net value of support to have been around $21-24.5 billion in 2020, significantly lower than what the $83.3 billion reported by the OECD for the same year seem to suggest (Oxfam 2022, OECD 2022).

Developed countries also ensured that reporting rules under the UNFCCC and the Paris Agreement's Enhanced Transparency Framework (ETF) would not be stricter than their self-granted reporting practices with regard to the $100-billion-a-year commitment. For instance, it is an oddity that under the Paris Agreement, the reporting standard accounts for loans at their face value,[2] while for reporting and measuring ODA, loans are accounted for

[1] That the COP *decided* on the *intent* of developed countries is somewhat awkward if not impossible. A more suitable term would have been to *recognise* or *welcome* the intention. In any case, the goal has remained a somewhat voluntary goal also after 1.CP/21.

[2] After tedious negotiations, at least a column for entering grant-equivalence data on a voluntary basis was added – but the reporting standard remains one accounting of loans at their face value, and that is also the basis for developed countries' public statements related to their performance in the delivery of climate finance.

on a grant equivalent basis, as decided by the High-Level meeting of the OECD DAC already in 2014, effective from 2019.[3]

The difficulty in holding developed countries to account is further complicated by the fact that, despite formalised financial obligations (including at least some qualifying criteria[4]) in both the UNFCCC and the Paris Agreement, there is no common definition of what would constitute climate finance with regard to fulfilling these obligations. The same is true for the $100-billion-a-year commitment. Although the Standing Committee on Finance developed a report about climate finance definitions, this was not an exercise to pursue a definition itself but just a compilation of definitions, which is an important contribution to the discussion but has yet to bear fruit to actually arrive at an agreed definition. It is telling that only developing countries have been calling for a common definition while all developed countries that have expressed views on the matter have rejected the necessity for agreeing on such a common definition (SCF 2022a, Table 1). As many have noted, the lack of a common definition further affects the ability to track and assess progress not only in relation to the $100-billion-a-year commitment but also towards meeting Annex 2 countries' obligations under the UNFCCC and developed countries' obligations under the Paris Agreement (ibd.).

2.2 Composition defined by developed countries

The weak formal standing of the $100-billion-a-year goal also meant that essentially developed countries remained in control over the composition of finance provided and mobilised towards the goal, and this is not only a problem of the missing definition of climate finance as per above.

This includes the allocation across thematic uses such as between mitigation and adaptation, with developing countries lamenting the appalling imbalance between the two on a regular basis. In 2020, only a third of overall climate finance in the context of the $100-billion-a-year goal had been allocated to adaptation. While allocation is, to some degree, also a function of what recipient countries are asking for, it is nonetheless strongly influenced by what developed countries offer.[5] For instance, credit lines set up by developed countries as well as mobilised private finance, are usually and unsurprisingly aimed at mitigation, but are attractive for contributing countries as these types of finance usually require little or no government spending by the contributing country.

Developed countries have also ensured they stay in control regarding the instrument mix. In 2020, 70% of all public finance reported towards the $100-billion-a-year goal came in the form of loans that can worsen the debt burdens of recipient countries. And the role of mobilised private finance in the context of the $100-billion-a-year goal is equally debated - there is no doubt that mobilised (or shifted) private investments are key, but they cannot directly be counted towards developed countries' financial obligations as *assistance* to developing countries to

[3] With 2016-2018 as a transition period.

[4] For instance, UNFCCC Article 4.3 obliges Annex 2 countries to provide financial resources to meet the "agreed full incremental costs" of developing countries' climate action (under Article 4.1). A loan does not cover those incremental costs, but it could be argued that its grant equivalent does (as it can be seen as a proxy for the net financial benefit for the recipient country). This may be the reason why e.g. the African Group of Negotiators (AGN) and the Association of Small Island States (AOSIS) had suggested that a definition of climate finance would provide for measuring climate finance on a grant-equivalent basis (AGN 2022, AOSIS 2022).

[5] The often-heard claim by developed countries that there are much less adaptation projects brought forward by developed countries stands against the growing number of expressed adaptation needs in, for instance, the National Adaptation Plans. If anything, any real or perceived lack of fundable adaptation projects would call for more capacity building support to enable developing countries to convert expressed needs into project proposals.

be. (This also allowed developed countries to repeatedly blame the lack of mobilised private finance as a key reason for not delivering on the $100-billion-a-year goal, rather than, for instance, the lack of ambition in their own public finance pledges. This is also reflected in a growing debate about the need for more “bankable” projects. While such projects are of course an important ingredient to transforming our economies, this also runs the risk of shifting the focus away from critical interventions that generally offer much less, if any, potential for profitable investment, especially in key sectors such as food security or protecting people from worsening extreme weather events).

And, the lack of definition of climate finance also allows developed countries to even count finance that would support the extended use of fossil fuels towards the $100-billion-a-year goal. At least Japan and Australia have done so in the past, arguing that related programmes would lead to the more efficient use of fossil fuels compared to the programmes not happening - despite the very clear imperative by e.g. the International Panel on Climate Change (IPCC) or the International Energy Agency (IEA) that any new investments in fossil fuels (rather than e.g. in renewable energies) would lower our chances of keeping warming below the critical 1.5°C threshold.

2.3 Missing links to the UNFCCC and Paris

While the $100-billion-a-year goal may sometimes be pictured as somewhat of a quantification of developed countries’ financial obligations in Article 4 of the UNFCCC or those in Article 9 of the Paris Agreement, there is no formal basis for this perception. Almost no formal links exist between the $100-billion-a-year goal and related articles of either the UNFCCC or the Paris Agreement.[6] Decisions adopted over time since 2009 mostly kept the $100-billion-a-year goal outside of the purview of the COP. For instance, the Cancun Agreements only recognised but did not adopt the goal (UNFCCC 2011, para 98).[7]

Hence, it has always remained unclear what (if any) proportions of finance provided and mobilised by developed countries towards the $100-billion-a-year goal would also be seen as contributions towards financial obligations under the UNFCCC’s Articles 4.3 and 4.4 and the Paris Agreement’s Articles 9.1-9.3 - this for instance meant that the recent technical report by the UNFCCC Standing Committee on Finance on the progress towards achieving the $100-billion-a-year goal (SCF 2022b) was able to assess overall progress towards the goal but not for instance the adequacy of finance provided towards the financial obligations. This is made more complicated because mobilised private finance is an important component of the $100-billion-a-year goal, yet such return-seeking investments, as critical as they may be for the transition, do not constitute financial assistance as per the obligations.

[6] Decision 1/CP.21 creates a link between the $100-billion-a-year goal and Article 9.3 of the Paris Agreement insofar that the intention of developed countries to extend the goal through to 2025 is decided on in accordance with that Article, i.e., with the provision that developed countries should continue to take the lead in the mobilisation of climate finance. It should be noted that this link has no practical consequences.

[7] Paragraph 97 of the same decision links to (and further qualifies) the UNFCCC obligations. It provides language (e.g., “scaled-up, new and additional, predictable and adequate funding shall be provided”) that can be seen as a *political* link to the $100-billion-a-year goal referred to in the following paragraph, but it can be questioned if the combined paragraphs 97 and 98 create a formal and legal link between the goal and the UNFCCC obligations.

It also means that developed countries have been able to account for finance towards their $100-billion-a-year goal without having to follow qualifying provisions in, e.g., UNFCCC Article 4.3, such as that climate finance shall be new and additional or that it shall cover the incremental cost of action, or the provisions of paragraph 97 of COP decision 1/CP.16, including that finance shall be "scaled-up, new and additional, predictable and adequate" (UNFCCC 2011). Similarly, the $100-billion-a-year goal could never properly be assessed in relation to Article 2.1.c) of the Paris Agreement, while at the same time developed countries have increasingly been preferring a narrative widening the scope of the debate rather than to purely focus on the delivery of the $100-billion-a-year goal or the obligations to provide financial assistance.

Box 1. The Contributor Base as Per the Paris Agreement

Under the UNFCCC, only those developed countries that are listed in its Annex 2 have accepted legal obligations to provide financial assistance to developing countries. In contrast, the commitment to the $100 billion goal was made collectively by all developed countries (i.e., not only the Annex 2 countries). This not only means that developed countries have a shared responsibility for delivering on the goal, but one could also expect that all developed countries have individual responsibilities for contributing to the goal (whether or not in pursuit of existing obligations under the UNFCCC).

For the NCQG, the situation is different from the outset. As the CMA will adopt the NCQG, the goal will automatically be owned by all Parties who would then share a collective mission to ensure it is achieved. Importantly, this does not mean current individual obligations of countries would change, and as the Least Developed Countries group has suggested in its recent submission, achieving the NCQG would be "an effort to be led by developed countries, with public funds playing a 'significant role'", consistent with Article 9.3 of the Paris Agreement (LDC 2022).

For the NCQG's potential element related to providing and mobilising assistance, the Paris Agreement already clarifies what would be expected from individual Parties, including in its Article 9: Developed countries would continue to take the lead in mobilising finance (9.3) and also have a legal obligation to provide climate finance assistance (9.1)[8], while other countries would be invited to contribute on a voluntary basis (9.2). It is unlikely (though not impossible) that the NCQG will change that and/or create any new (formalised) expectations from Parties.

Paragraph 15 of decision 9/CMA.3 (UNFCCC 2022b) suggests that the eventual design of the NCQG could include an element to facilitate the achievement of Article 2 of the Paris Agreement, including shifting overall public and private finance flows towards low emission and climate-resilient development. Since achieving 2.1.c) is a responsibility shared by all Parties, also a potential NCQG element on it could equally be designed to apply to all countries – but, notably, in accordance with Article 2.2 of the Paris Agreement, i.e., on the basis of "equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances", something that decision 9/CMA.3 points to as well.

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[8] It remains an issue of interpretation whether Article 9.1 of the Paris Agreement applies to all developed countries or only those listed in Annex 2 to the UNFCCC. The article establishes an obligation for developed countries to provide assistance "in continuation of their existing obligations under the Convention." This qualifier could be interpreted to mean that the obligation only applies to Annex-2 countries (i.e., those that already have an obligation under the UNFCCC). But Article 9.1. could also be interpreted to apply to all developed countries, with Annex-2 countries pursuing the obligation to provide assistance on the basis of the provisions of UNFCCC Articles 4.3 and 4.4, and other (non-Annex-2) developed countries doing so without said continuation of existing obligations under the Convention since they have none (LRI 2019).

3. Linking the NCQG to the Paris Agreement

Designing the NCQG so it will be clearly linked to relevant Articles of the Paris Agreement would increase clarity on the role and nature of both the NCQG itself as well as the finance provided and mobilised towards it. This would enhance transparency, accountability, clarity on who is to act on the various aspects of the NCQG, and the eventual delivery of climate finance (commitments).

Various Parties have called for such explicit links. The Least Developed Countries group has suggested that the NCQG should be designed so that its provisions are consistent with provisions in Article 9 of the Paris Agreement and UNFCCC Article 4.3 (LDC 2022). This focus on Article 9 of the Paris Agreement (and UNFCCC Articles 4 and 11) has been echoed by other Parties, e.g., the Independent Alliance of Latin America and the Caribbean (AILAC) that suggested that the NCQG would encapsulate "developed countries' commitment for the provision of public funding and their leadership in mobilising climate finance to developing countries", i.e. also stressing the importance of a strong assistance dimension of the NCQG (AILAC 2022).

In contrast, the European Union has strongly framed the NCQG in the context of what they see as the wider picture of shifting financial flows as per Article 2.1.c) of the Paris Agreement, listing the "acceleration of efforts to ensure financial flows are consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" as their first principle for the deliberations on the NCQG (European Union 2022a) - something that could be interpreted as an attempt to somewhat refocus the debate away from the assistance dimension and Article 9 (and more specifically of Article 9.1) of the Paris Agreement.

In its final design, the NCQG may have elements related to both the assistance[9] dimension (as per Article 9.1) as well as the shifting financial flows dimension (as per Article 2.1.c)). It will then be key to ensure these dimensions are treated distinctly, be it through subgoals or otherwise, including through properly embedding links to the Paris Agreement's related articles in the final NCQG design, in order to reflect the different features such elements would need to have.

3.1 Already established links

So far, formal links between the NCQG and relevant Articles of the Paris Agreement (and, by extension, with the UNFCCC) have remained scarce. Paragraph 53 of Decision 1/CP.21, by which Parties agree to set a new goal and do so prior to 2025, stipulates this will happen in accordance with Article 9.3 of the Paris Agreement (UNFCCC 2016). Note that this does not necessarily mean the goal itself will be hinged on that article. It merely states that *the exercise of setting* the new goal will take place in accordance with its contents, such as that developed countries should continue to take the lead in mobilising climate finance, that public funds have a significant role to play and that needs and priorities of developing countries will be taken into account.

[9] There is a debate about how climate finance under the Paris Agreement should be characterised as "assistance" given the equity principles of the UNFCCC, making the provision of climate finance from developed to developing countries something that the latter are entitled to as part of developed countries' fair share in the global effort, rather than receiving such support as an act of good-will or charity. Since Article 9.1 of the Paris Agreement obliges developed countries to provide financial resources "to assist", we stick with the terminology in this paper.

Paragraph 1 of Decision 14/CMA.1 again has a reference to Article 9.3., this time stating that the *initiation of deliberations* on setting the NCQG should take place in accordance with that article (UNFCCC 2019). Again, this has no automatic consequences for the goal itself, except that the initiation of deliberations (and presumably the deliberations itself) will be guided (but not limited!) by article 9.3 as described above.

Decision 9/CMA.3 moves a bit further: It's paragraph 16 clarified that the consideration of the new goal will be in line with decision 14/CMA.1, i.e. including that the initiation of deliberations will be in accordance with Article 9.3, which, again, does not set a firm relationship between the NCQG and the article just yet. The decision then (in its paragraph 15) stipulates that the NCQG will (be designed to) aim at contributing to accelerating the achievement of Article 2 of the Paris Agreement (UNFCCC 2021), including its paragraph 2.1.c), with a view to "[making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (UNFCCC 2022b). Since that decision 9/CMA.3 has it that the NCQG will aim to contribute to the acceleration of the achievement of the entire Article 2, including paragraph 2.2 and its provision that the Paris Agreement (and hence also the implementation of Article 2.1.c)) "will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances."

It is noteworthy that current decisions related to the NCQG do not include any references to Article 9.1 and 9.2 of the Paris Agreement. More generally, decisions adopted so far do not even explicitly clarify that the NCQG should have a strong element dedicated to providing and mobilising assistance to developing countries. This is somewhat surprising, as the $100-billion-a-year goal is usually framed as a goal to support developing countries on climate action, and both developed countries (e.g. European Union 2022b) and developing countries (e.g., LDC 2022) have emphasised the key role of continued assistance. One might assume that a strong support element would be a given that does not need explicit mentioning – but the UNFCCC process has shown multiple times in the past that what is not explicitly mandated may not materialise in the end.

3.2 Potential links between the NCQG and the Paris Agreement

Considering potential links between the NCQG and the Paris Agreement depends heavily on the final structure for the NCQG. There are several ways to structure it, but it seems that whichever way the cake is cut, there are two basic tasks the NCQG will have to address: Guiding the provision and mobilisation of finance to meet developing countries' assistance and investment needs, and facilitating the shifting of financial flows as per Article 2.1.c). All of these of course would interact with other structural considerations, including the suggestion made by several Parties and observers, (e.g., AILAC 2022, CAN International 2022, etc.) to include sub-goals (such as for adaptation or for loss and damage) and other qualitative and quantitative elements.

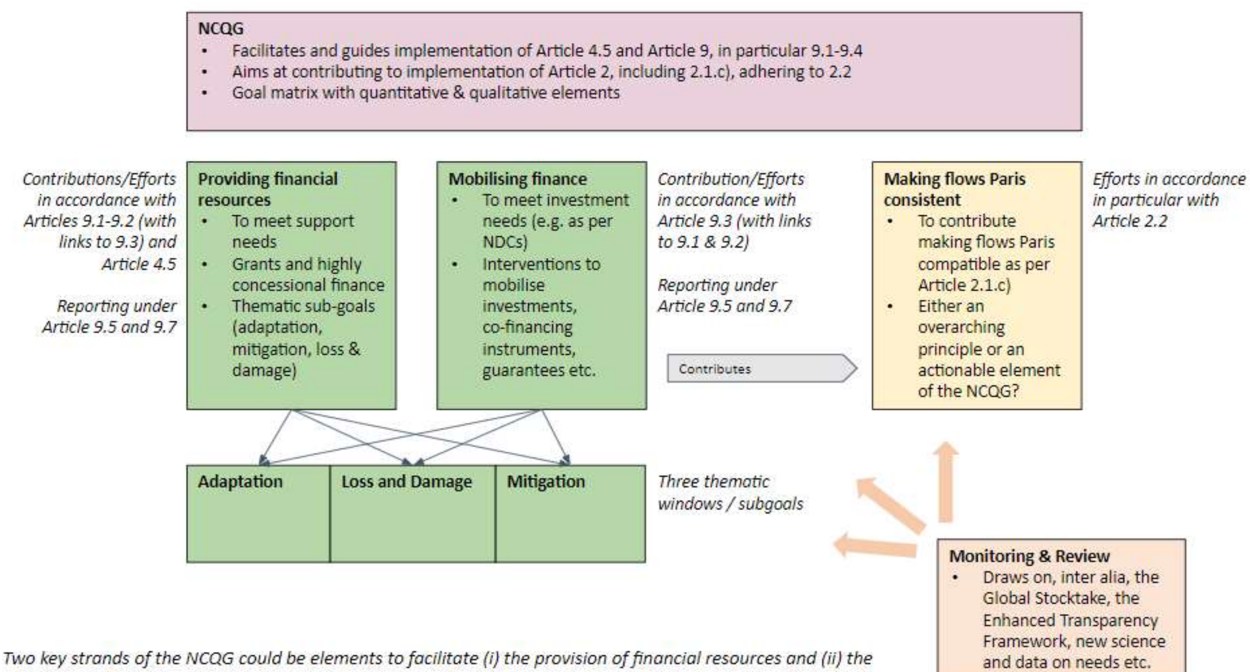
Financing assistance needs and investments needs

A technical paper by the UNFCCC secretariat has helpfully highlighted suggestions by various actors that the NCQG should differentiate "between investment needs that could be met by mobilizing public and/or private investments and support needs that should primarily be covered through grants and concessional finance, particularly in the case of support needs related to adaptation" (UNFCCC 2022a). Those two different kinds of needs could constitute two elements of the NCQG, one addressing support needs (or assistance needs, to use language closer to the Paris Agreement) and another one addressing investment needs. There is of course overlap – assistance via public climate finance from developed countries could be used to mobilise said investments.

The **element of the NCQG that would answer to the issues of assistance needs** (i.e. needs that are best addressed through public finance grants and other highly concessional finance) would ideally facilitate climate finance to support developing countries in contributing to the achievement of Article 2 of the Paris Agreement and in accordance with its Article 9.4., to ensure a balance between mitigation and adaptation and taking into account the needs especially of the particularly vulnerable countries, as well as with paragraph 97 of Decision 1/CP.16, to facilitate finance to be “scaled-up, new and additional, predictable and adequate.” This element of the NCQG would also need reference to Article 8 of the Paris Agreement, to ensure that needs related to addressing (as well as averting and minimising) loss and damage are equally covered. The assistance element could specifically aim at facilitating the provision of climate finance specifically under Articles 9.1-9.2 (with links to Article 9.3), clarifying who is to contribute, and that the provision of financial resources under the NCQG is undertaken in accordance with Article 4.5 of the Paris Agreement. Ex-ante and ex-post measuring of progress towards achieving the NCQG could be linked to Articles 9.5 and 9.7, a dedicated process for monitoring and accountability should be set up (see below).

The **element of the NCQG that would address investment needs** would equally be set to pursue Article 2 of the Paris Agreement and do so in accordance with Article 9.4 (and perhaps Article 8, although evidence how private investments can indeed cover the cost of recovering from losses and damages remains scarce). It then depends how the investment needs element is captured. The NCQG could include some form of quantification of desired investments (overall, in distinct sectors, etc.), which could then be linked to Article 9.3 regarding who is to act upon it. Or the NCQG could focus on *the efforts to mobilise* investments, rather than the investments as such. These efforts could then be linked, again, to Articles 9.1-9.3 (as much as those efforts may require public funding), and the reporting to 9.5 and 9.7.

Figure 1. Schematic illustration of potential key strands of the NCQG and their links to Paris



Two key strands of the NCQG could be elements to facilitate (i) the provision of financial resources and (ii) the mobilisation of finance such as private investments, each with their own distinct links to relevant articles of the Paris Agreement. A third component could facilitate the implementation of Article 2.1.c), although it remains to be seen if that would be an (overarching) aim or a dedicated, actionable element of the NCQG.

Already now, many NDCs include conditional measures for implementation that are dependent on the provision of support; as of now, the NDCs do not yet across the board differentiate systematically between assistance needs and investment needs - that will often be substantial, as Guzman and Cardenas (2022) have pointed out, requiring more significant investments and higher capital injections to decouple sectors from carbon-intensive activities. In any case, progressing towards a clearer differentiation between assistance needs and investment needs in future NDC iterations could be one of the side-outcomes of the NCQG process.

Shifting flows as per Article 2.1c)

In its Article 2.1.c), the Paris Agreement establishes the goal of "making finance flows consistent with a pathway towards low greenhouse gases emissions and climate resilience development."

In its recent submission the EU has considered Article 2.1.c) as an overarching dimension encircling the assistance element (European Union 2022b). That is one way to look at it, but it does not cover the conceptual differences between the provision of assistance and the mobilisation of investments for specific programmes versus the overall shifting of public and private flows. For instance, conceptualising the provision of assistance (under Article 9) to meet e.g. adaptation needs as one feature of 'shifting flows' seems odd. Also, 2.1.c) is an overall long-term goal while the provision of assistance (and the mobilisation of investments) is a concrete, actionable exercise to support developing countries to meet their urgent adaptation and mitigation needs.

At the same time, there are obvious links to both Article 9 on the provision and mobilisation of assistance, as well as the NCQG. For instance, provided assistance could be used to facilitate the shifting; and the shifting would materialise in changed investment patterns, helping meeting investment needs, all contributing in turn to the fulfilment of Article 2.1.c). So, while, technically, they are all distinct and complementary processes and provisions, it makes obvious sense to link them up.

This is already reflected in the decision that the NCQG will aim at contributing to accelerating the achievement of Article 2 of the Paris Agreement, including its Article 2.1.c). However, it is yet to be decided if that aiming will be backed up by a dedicated element to facilitate the shifting of financial flows, or if the aiming will be considered an overarching feature of the NCQG and its future elements (e.g. those that would address the financing needs described above).

A dedicated element, distinct from the elements to cover the needs for assistance and investments, could be designed specifically to contribute to shifting finance flows as per Article 2.1.c). This would create the additional benefit that any future provisions related to tracking progress towards the future NCQG would necessarily also include some form of tracking of progress towards Article 2.1.c) and actions by relevant actors, including States but also the financial sector.

Some elements that are important when designing a 2.1.c) specific element for the NCQG include:

1. Any NCQG element to facilitate the implementation of Article 2.1.c) should be separate from elements related to the provision of support and the mobilisation of investments.
2. While the NCGQ will be a goal agreed upon by Parties, any element to advance the shifting of finance flows as per Article 2.1.c) would ideally be referring to both public and private flows, ensuring that the responsibility for fulfilling it would lie with States and not private entities, including the shifting of private finance flows.

3. Article 2.1.c) is not directly connected to the discussion on needs (for assistance and investments). Yet, any 2.1.c) element should take into account developing countries' needs that need to be fulfilled to assist in the shifting of flows. Any 2.1.c) element of the NCQG should also have a focus on these needs. This would also help to assess the implementation of 2.1.c) in the future.
4. Article 2.1.c) talks about both sides of climate action mitigation and adaptation. As with the provision and mobilisation of assistance, any 2.1.c) element of the NCQG would therefore need to promote some form of balance between mitigation and adaptation in efforts to shift flows as per 2.1.c).
5. COP27 recognised that responding to needs (whether in relation to assistance, investments or the shifting of flows) "will require a transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors", calling as well "on the shareholders of multilateral development banks and international financial institutions to reform multilateral development bank practices and priorities" (UNFCCC 2022c). Recognising the role of the financial sector in implementing Article 2.1.c), both the transformation and the reform that COP27 called for could form a basis for formulating an Article 2.1.c) element of the NCQG.

Monitoring and regular review of progress towards the NCQG

One important additional lesson from the experience with the $100-billion-a-year goal is already apparent: As the NCQG will be adopted by the CMA and hence be a shared responsibility, it follows that it should not be up to the Parties that provide and/or mobilise finance to decide what to report and how to account for it. Instead, when setting up the NCQG and in order to allow for proper monitoring and accountability, clarity should be established on the metrics of the NCQG by which to measure the extent to which the NCQG is being reached, and that would necessarily include a commonly agreed definition of climate finance provided or mobilised towards the NCQG.[10]

The decision adopting the NCQG should then also include provisions for a dedicated mechanism for monitoring and accountability on progress as well as challenges towards implementing the NCQG, drawing, inter alia, from information made available under the Enhanced Transparency Framework. This is needed especially for those elements that may not be captured in the form of simple, one-dimensional numerical goals but would also require both qualitative and quantitative assessments. Such a process would of course be informed by reporting, e.g., under Articles 9.5 and 9.7 but may well have to go beyond the provisions of those Articles.

According to decision 1/CP.21, the setting of the new goal is to be done “taking into account the needs and priorities of developing countries” (UNFCCC 2016). As needs are changing over time, the setting of the NCQG would not only have to take into account current needs but also future needs - another argument for that the setting of the NCQG needs to include provisions that would allow regular reviewing of progress, including the possibility for adjusting (parts of) the NCQG as needs evolve, potentially using future iterations of NDCs and NAPs as an important sources of input to understand changing needs.

[10] This could include expressing any quantified element of the NCQG in grant equivalent terms and would also be an opportunity to rectify a flaw in current accounting practices under the Enhanced Transparency Framework (ETF), where non-grant instruments are reported based on their face value and not their net assistance value. For instance, the assistance value of a concessional loan lies in its grant equivalent, not in its face value. Measuring climate finance on a grant equivalent basis is also a more appropriate proxy for measuring progress of UNFCCC Article 4.3 (and its continuation in Article 9.1 of the Paris Agreement); the article commits Annex 2 countries to provide finance to meet the incremental cost of action in developing countries. It can be argued that those costs are addressed by the grant equivalent of a loan, not the loan itself. See, for instance, Oxfam 2022.

A logical moment for the monitoring process to culminate in some form of review and adjustment could be in the context of the periodic Global Stocktake (GST), as the moment where the current performance in implementing the Paris Agreement will be assessed. Future needs will vary according to the changing realities in developing countries, both with regard to their respective national circumstances, e.g., in relation to their capabilities, but also with regard to overall performance in implementing the Paris Agreement and the latest scientific findings and evolving data availability on needs. For instance, the less mitigation is realised, the more adaptation will be needed and the higher losses and damages will be. Hence, the GST would provide valuable input to inform any review and adjustment of the NCQG, with regard to its structure, scope and any quantified elements of the NCQG. The five-year cycle of the GST seems an appropriate periodicity, also given the urgency and the dynamic of the evolution of climate change. At the same time the GST would also assess progress towards Article 2.1.c and Article 9, and the results of these analyses would feed into the NCQG monitoring process.

4. Conclusions

The NCQG process offers the opportunity for all Parties to learn from the experience of the $100-billion-a-year goal. Even though the goal has not been achieved yet, the past years provide many lessons learned that can be considered when designing the NCQG.

One such lesson-learnt is to ensure clarity and proper integration of the new goal into the existing architecture, including by formally linking the NCQG's future elements to related articles of the Paris Agreement. This would help ensure that the NCQG clearly differentiates, through dedicated elements, between meeting needs related to provision of assistance, needs related to the mobilisation of investments, and the shifting of financial flows at large. An NCQG element dedicated to Article 2.1.c) would finally establish a useful handle on driving, and measuring, progress on implementing this article (notably in accordance with Article 2.2), something that is yet to be formalised since the Paris Agreement has been adopted.

The Paris Agreement's Article 9 (provision and mobilisation of finance), Article 4.5 as well as Article 2.1.c) (shifting public and private financial flows, and the necessary transforming the financial system) will be the most critical articles to link to. For instance in order to ensure that the elements related to the provision of assistance or the mobilisation of investments in developing countries are clearly linked to Article 9, to leave no doubt about who is to act, and to Article 4.5 to clarify the role that sufficient financial resources play in developing countries ability to act under the Paris Agreement.

But other articles, such as Article 8 (to ensure the NCQG also facilitates the provision of support to address loss and damage) and Article 14 (to establish a robust regular adjustment process for the NCQG linked to the Global Stocktake) come to mind as well. We have touched upon each of these briefly – but clearly there is room to discuss these links in much greater detail.

From our perspective, these discussions should happen as early as possible - ideally in one of the Technical Expert Dialogues in 2023, as the implications of any such potential links would best be studied from a technical perspective before entering the unavoidably more politically laden negotiations that we are likely to witness on the homestretch in 2024 before the final adoption of the NCQG.

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