Working paper

Options for embedding developing country needs in the New Collective Quantified Goal on climate finance

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Key messages

Embedding the needs of developing countries into climate finance provision and mobilisation recognises diverse national contexts and ambitions. It also reflects the ownership and agency at the heart of the Paris Agreement.

Expectations that developing country needs can be embedded into a New Collective Quantified Goal (NCQG) on climate finance through a quantum does not do justice to the breadth of those needs. A sole focus on establishing a dollar figure for the NCQG based on needs would be a disservice to the countries, communities and people that actually experience these needs.

Embedding developing country needs in the NCQG requires a layered approach, with both quantitative and qualitative elements. This can include through quantitative sub-goals, for instance by theme and financial instrument, as well as new modalities to assess and address needs by theme, sector or geography, or topics such as locally led action.

However developing country needs are embedded in the NCQG, this must avoid creating perverse incentives for the channelling of or reporting on climate finance provision, it must keep transaction costs low and avoid creating undue conditionalities on climate finance provision.

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As part of the Climate and Sustainability Programme, Charlene Watson's work at ODI focuses on the flows, sources, modalities, and instruments of access, provision and mobilisation of climate finance at the national and international levels. Within this, her work considers both the quantity and quality of climate finance and the incentives established that can help or hinder the climate consistency of all finance flows.

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Acronyms

AC	Adaptation Communication
BA	Biennial Assessment and Overview of Climate Finance Flows
BTR	Biennial Transparency Report
BUR	Biennial Update Report
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (i.e. Parties that have signed and ratified the Paris Agreement)
CP	Conference of the Parties (to the UNFCCC)
ETC	Energy Transitions Commission
GBF	Global Biodiversity Framework
GCF	Green Climate Fund
IPCC	Intergovernmental Panel on Climate Change
JETP	Just Energy Transition Partnership
LDC	Least Developed Country
LEDS	Low Emission Development Strategies
MDB	multilateral development bank
NAP	National Adaptation Plan
NAPA	National Adaptation Plan of Action
NC	National Communication
NAMA	Nationally Appropriate Mitigation Action
NDC	Nationally Determined Contribution
NDR	Needs Determination Report
NCQG	New Collective Quantified Goal
ODA	Official Development Assistance
OECD	Organisation for Co-operation and Development
SIDS	Small Island Developing States
SCF	Standing Committee on Finance
TED	Technical Expert Dialogue
TAP	Technology Action Plan
TNA	Technology Needs Assessment
UNFCCC	United Nations Framework Convention on Climate Change

Executive summary

Deep, rapid and disruptive transitions to low-emission and climate-resilient futures are being called for in all countries. For developing countries, the costs of these transitions are estimated to be trillions. These countries are facing significant constraints in financing these transitions, and doing so in a way that accommodates different national contexts, ambitions, needs and priorities. The desire to meet and reflect the needs of developing countries in climate finance is well-embedded in various treaty Articles and decision texts. Climate finance that is guided by developing country needs will be more effective, adequate and predictable in support of wider national priorities, policies and plans to deliver more just and sustainable development.

Meeting the needs and priorities of developing countries has been central in discussions on the New Collective Quantified Goal (NCQG) on climate finance, which will be concluded by 2025. There is an expectation that developing countries' needs will set the quantum target for this new goal. This is short-sighted given the growing evidence of developing countries' quantitative *and* qualitative needs.

Needs and priorities are highly dynamic and will change based on both national and global events. They are not straightforward to identify and agree, nor are they simple to assess in dollar terms. Where needs have been expressed in dollar terms, it remains complex to draw conclusions about the proportion of developing country needs that could be met through sources and channels that the NCQG will address. Aggregating developing country needs meaningfully into a high-level NCQG goal is hindered by numerous methodological choices and assumptions, but also because not all needs are financial. Developing country needs also go beyond borders in a highly interlinked financial system.

With or without the NCQG, there remains a strong rationale for developing countries to invest time and effort in identifying and prioritising needs. Such needs assessments help financiers and public institutions design instruments to fill financing gaps, as well as provide signals to public and private actors and foster coordination between international and national stakeholders. Embedding developing country needs requires a layered approach if the NCQG is to be effective in fully meeting the breadth of these needs. Six options are proposed:

1. **Reiteration of a desire for the NCQG to deliver nationally led, needs-determined financing of climate action.** Reassurances such as this in the NCQG are important for trust, and a reiteration that needs will shape the quality and quantity of climate finance could help ensure that undue conditionalities will not be placed on climate finance provision, appropriate financial instruments will be considered, and an international financial system fit for purpose will be pursued through the NCQG.

2. **A multi-tier magnitude goal reflecting both total needs and the identification of a more specific role in meeting those needs for the provision and mobilisation of finance.** Costed developing country needs do not give rise to an exact quantum to be met by an NCQG target, nor does it cover the breadth of needs as they relate to capacity-building, technology transfer, access and wider quality requirements. Developing country needs can, however, be used to set a top-tier and holistic goal for global ambition that speaks to a breadth of actors, with sub-goals reflecting both climate finance provision and mobilisation, as well as non-quantified needs.

3. **Sub-goals addressing quantitative and qualitative needs.** A number of sub-goals could be proposed for the NCQG, including by theme and sector, and addressing discrete topics such as locally led action. Separate quantitative mitigation and adaptation sub-goals are a clear option to better manage tensions and develop appropriate targets for climate finance mobilisation through public funds for these two themes. Consideration of financial instruments in adaptation and mitigation sub-goals is warranted given their significant implications for the intended beneficiaries, and for climate justice and equity. A key question remains on the sequencing of sub-goals, which must avoid creating perverse incentives for channelling or reporting on climate finance.

4. **New modalities to assess and address developing country needs.** The NCQG decision could support the ongoing articulation of developing country needs and priorities in a way that can best inform the post-2025 period. This could cover both methods to generate needs and consistent reporting on these needs, build capacity and ensure links to existing reporting systems. The NCQG might also consider how global, regional or national platforms can deliver programmatic approaches that better serve needs and priorities. This might be by theme (e.g. adaptation), sector (e.g. agriculture, transport), geography (e.g. SIDS, LDCs) or topic (e.g. methane, locally led action). Any platform would need to build on lessons from existing efforts, keep transaction

costs low and identify how new institutions will be more effective than existing ones (e.g. via budget support).

5. **A review and course correction system based on developing country needs.** The degree to which NCQG goals and sub-goals will need to be revised because of the dynamic nature of developing country needs and priorities will depend on how they are ultimately embedded within the NCQG. There are numerous routes for reporting, with differing objectives, focus, methods and ability to aggregate, which could prove useful. New useful review systems may be created that are more focused on outcomes such as meeting national mitigation or adaptation goals. Outcome assessments could lead to more effective climate finance than output-based metrics.

6. **Links are made between the NCQG and other agenda items and processes that determine and influence developing country needs.** The call for reform of the financial system to better serve the needs of developing countries has been heard loud and clear. As these conversations continue and evolve, both within and outside the multilateral system, the NCQG process should take advantage of emerging convergences of opinions. It can further link to ongoing processes within the multilateral system, including discussions on the Global Goal on Adaptation and the financing of loss and damage, to ensure complementarity.

Unlike other NCQG elements, there is strong agreement that developing country needs and priorities must be embedded in a new climate finance goal. How this will happen has not been explored in sufficient depth. This is an oversight, as meaningfully embedding developing country needs in the NCQG can set a path to more effective climate finance and increase trust in international cooperation on climate change. This paper identifies five challenges to embedding developing country needs in the NCQG, suggests two narratives intended to help overcome these challenges, and proposes six concrete options for including developing country needs in the design of the new climate finance goal. With six remaining NCQG technical expert dialogues,[1] this paper is intended to stimulate dialogue as deliberations move forward.

[1] Decision 3/CMA.3 in Glasgow established an ad hoc work programme on the NCQG for climate finance from 2022 to 2024 with four technical expert dialogues (TEDs) per year: a total of 12.

Introduction

The Sixth Assessment Report of the IPCC is clear on the urgency of deep and far-reaching transitions across all systems and sectors. Mitigation pathways are likely to lead to disruptive changes in economic structures, with distributional consequences within and between countries. Transitions are needed globally, but the IPCC report is clear that finance, as an enabler of the transition, is particularly important to scale in developing countries, and that decisions made today will have an impact globally for thousands of years to come (IPCC, 2023). The changes being called for are immense and are required at an ever-increasing pace. It is in this context that this paper considers developing country needs as we look to set a new goal on climate finance.

Intuitively, a New Collective Quantified Goal (NCQG) on climate finance that is guided by developing country needs would enable finance to be delivered more effectively. It could allow for greater adequacy and predictability of climate finance through a nationally appropriate mix of channels and instruments, in support of wider national priorities, policies and plans to deliver more just and sustainable development pathways. Indeed, the desire to meet and reflect the needs of developing countries in climate finance is embedded in various Articles and decision texts:

- The 1992 UN Climate Change Convention recognises the specific needs and special circumstances of developing countries that are particularly vulnerable to and bear disproportionate burdens of climate change (Article 3, principle 2). In implementing the commitment of developed countries to provide financial resources for developing countries (Article 4.3), consideration must be given to specific 'needs and concerns of developing country Parties', especially low-lying and other small island countries, countries with low-lying coastal zones, arid and semi-arid areas or areas prone to floods, drought and desertification, developing countries with fragile mountainous ecosystems and least developed countries (LDCs), since they are particularly vulnerable to the adverse effects of climate change (Article 4.8).

- Article 9.3 of the 2015 Paris Agreement, noting that developed country Parties should take the lead in mobilising climate finance, highlights that mobilisation should take into account the needs and priorities of developing country Parties. In seeking a balance between adaptation and mitigation in the provision of scaled up financial resources, Article 9.4 recommends that this takes into account the priorities and needs of developing country Parties, especially those particularly vulnerable to the adverse effects of climate change and that have significant capacity constraints, such as LDCs and Small Island Developing States (SIDS).

- Decision 1/CP21 para 53 establishing the NCQG process is also clear that this new goal must take into account the needs and priorities of developing countries. This is reflected in Decision 14/CMA1 and Decision 9/CMA3 para 17.

Embedding the needs of developing countries into climate finance provision and mobilisation recognises that each country has a different context and different ambitions. It also reflects ownership and agency, which is at the heart of the Paris Agreement and its nationally determined contributions (Article 3). The first annual report from the NCQG process, the reflection notes, fifth Technical Expert Dialogue (TED) summary and synthesis of submissions to TED6 all endorse the desire to meet developing country needs.

Kowalzig and Guzman (2023) emphasise that, as we move closer to a decision on the NCQG, sought by 2025,[2] more information is available now than in the lead-up to the 2009 decision to mobilise $100 billion a year, from a variety of sources, for climate action in developing countries. The 2018 IPCC *Special report on global warming of 1.5°C* suggests energy supply-side investments of $1.6–$3.8 trillion a year, globally, until 2050 (IPCC, 2018). Stern and Songwe (2022), in a report of the Independent High-Level Expert Group on Climate Finance, identify $1 trillion required spending a year by 2025 in emerging markets and developing countries (excluding China), and $2.4 trillion a year by 2030. The Energy Transitions Commission (ETC) suggests that capital investment requirements for a zero-carbon economy will reach $3 trillion a year by 2030, peaking at $4.5 trillion in 2040 (ETC, 2023). Clima Capital Partners and AVIVA Investors (2022) estimate that developing countries' NDC commitments would need aggregate financing of $7.8–$13.6 trillion between 2020 and 2030.

There is an expectation that needs can be embedded into the new climate finance goal through a quantitative figure – the quantum – based on these needs. This stems from a strong desire not to repeat the process of the $100 billion goal set in 2009, which has been seen as a political rather than technically guided target (Ciplet, Roberts and Khan, 2013; Roberts and Weikmans, 2017; Chhetri et al., 2020). Yet Guzman and Cardenas (2022) are clear that 'at present, there is not a comprehensive and complete vision of the climate finance needs of developing countries' mitigation and adaptation actions'. Although Guzman, Kowalzig and Melkie (2023) and Guzman and Cardenas (2022) both use the term 'needs' to refer to the resources required by developing countries to implement the Convention and the Paris Agreement, there is no formal guidance on how to measure such 'needs'. Submissions early in the NCQG process suggested focusing one of the Technical Expert Discussions on how to translate the needs and priorities of developing countries into a more detailed structure (AOSIS, 2022; Argueta et al., 2022).

In 2020, the Standing Committee on Finance undertook the *First report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement*, also known as the Needs Determination Report or NDR.[3] Compiled from reports prepared by developing country Parties and the wider literature, the NDR identified from 153 developing country Parties' NDCs (as of May 2021) $5.8–5.9 trillion of

[2] Decision 1/CP21 para 53.
[3] The SCF was requested at COP24 to prepare an NDR every four years (Decision 4/CP.24, para 13).

costed needs up to 2030. From 62 Parties' Biennial Update Reports (BURs), costed needs were identified at $11.5 trillion. Overall, the NDR found more articulated needs for adaptation, across the nine types of reports they reviewed,[4] but higher costed needs for mitigation (UNFCCC, 2021).

The challenge of such a broad interpretation of needs is that it requires a distinction between the specific roles of each form and the source of finance to best inform the NCQG. Stern and Songwe (2022) suggest that 'around half' of the financing identified as needed in developing countries and emerging markets can be expected to come from 'local sources' through strengthened domestic public finance and domestic capital markets. This leaves an estimated $1 trillion a year of 'external finance' by 2030 to meet investment needs. Of the costed needs identified in NDCs by the NDR, $502 billion will come from international sources, with $112 billion from domestic finance. No information is provided on possible sources for the remaining 89% of costed needs (UNFCCC, 2021). The ETC suggests that, of the $3 trillion per year needed by 2030, about $0.9 trillion will be required in middle- and lower-income countries, and at least $300 billion will be 'concessional finance' (ETC, 2023).

Although climate finance itself is a way to improve climate justice (Act Alliance, 2021), there is a risk that differentiated capacity and resources to estimate financial needs in developing countries will yield an inequitable result in seeking to meet expressed needs. The NDR opens by clarifying that numbers and costings are higher in the reports of some countries than others, but that this does not imply greater or lesser needs; rather, it reflects data availability, tools and capacities for determining and costing needs. Of the 535 costed needs (out of a total of over 2,000 identified needs) in the BURs of 62 countries, 95% of the total figure of $11.5 trillion was spread across only two country's BURs (UNFCCC, 2021).

The sole focus on establishing a dollar figure for needs is limiting, as the NDR is clear that, in addition to quantitative costed needs, there are also qualitative needs (UNFCCC, 2021). Ngwadla et al. (2023) note that the quantum of the goal is not equal to the sum of developing country needs, also noting that a process of calculating finance associated with discrete project activities is more associated with marginal shifts rather than transformation, which instead requires appropriate institutions, instruments and mechanisms for the delivery and use of finance. As the deliberations on NCQG evolve, it has become commonplace to hear about the 'quality' of climate finance. Although not defined, the term tends to refer to the terms on which finance is provided (and its links to debt sustainability), the target of climate finance (the needs of different populations, including vulnerable people, local and indigenous groups, women, youth and children), and ease of access (Argueta, 2022; EIG, 2022).

This working paper identifies concrete ways to embed developing country needs in the NCQG. It outlines the challenges to articulating developing country needs as they relate to the NCQG (Section 2) before offering narratives that can help break down those challenges (Section 3) and options to embed developing country needs in the deliberations and

[4] The NDR reviewed Adaptation Communications (ACs), Biennial Update Reports (BURs), Low Emission Development Strategies (LEDS), National Adaptation Plans (NAPs), National Adaptation Programmes of Action (NAPAs), National Communications (NCs), Nationally Determined Contributions (NDCs), Technology Action Plans (TAPs) and Technology Needs Assessments (TNAs).

decisions around the new climate finance goal (Section 4). With 18 months remaining of the NCQG technical expert dialogues, this paper is intended to stimulate dialogue that will evolve as the deliberations progress.

1 Challenges to embedding developing country needs in the NCQG

Five challenges to embedding developing country needs into the NCQG are identified in this working paper.

- **Challenge 1: Developing country needs are highly dynamic**

The UNFCCC NDR, considered perhaps the foremost analysis of developing country needs, is clear that 'needs are dynamically changing and may depend on different factors, such as temperature scenarios, mitigation pathways and adaptive capacity, extreme weather events, adverse effects of trade and economic barriers, and social factors such as poverty' (UNFCCC, 2021).

Mitigation reduces, although not to zero, the amount of adaptation that is required, and in turn will reduce the loss and damage that will need to be addressed. The Paris Agreement is established on the basis that country Parties will ratchet up their climate ambition through their NDCs every five years. While climate system change is likely to happen at a decadal scale, in contrast to estimations of developing country needs that might happen every five years, the link between mitigation and adaptation, suggests that financing should be frontloaded, rather than necessarily increasing over time, and or, financing will need to be reactive to global progress.

The November 2022 update of the Climate Action Tracker puts us on a path to a 2.7° Celsius warmer world.[5] NDCs are designed to change so that the world achieves a well-below 2°, or specifically a 1.5°, Celsius target. The Global Stocktake, mandated by Article 14 to assess global progress towards the Paris Agreement's goals, also seeks to raise climate ambition in the NDCs and through international cooperation. The Global Stocktake and NDC revision should, therefore, change both unconditional and conditional NDCs: those that have targets dependent on international climate finance flows.

The circumstances of countries can also change dramatically. Some countries experience extreme climate-related weather events, others change governments, leading to shifting domestic policies and politics, while the last few years have shown how global events affect us all. These national, regional and international changes have knock on effects on the needs of developing countries, and how their needs are prioritised, as well

[5] See https://climateactiontracker.org

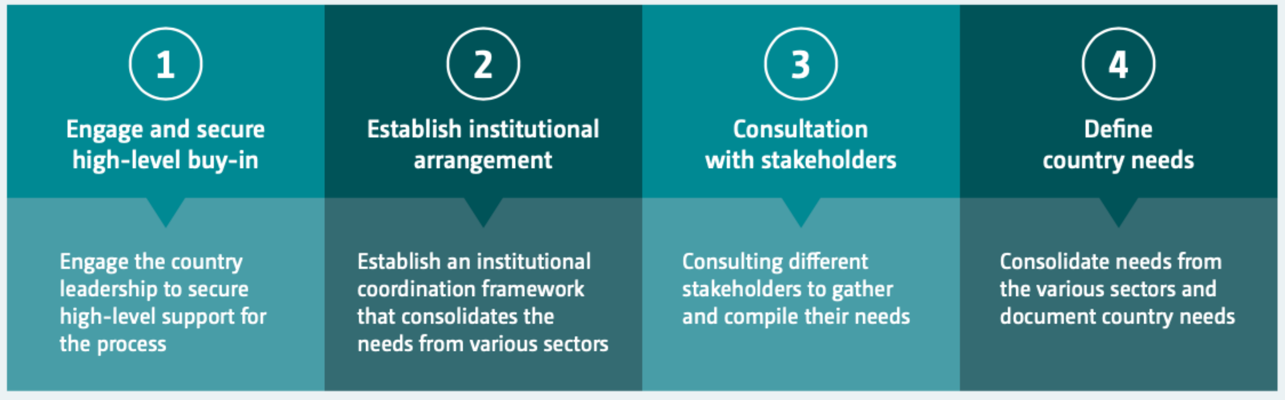
as these countries' ability to pay for action (including revenue-raising capacity and access to capital markets).

The implication of highly dynamic needs is that estimates of total needs and their prioritisation will go out of date fast and will need to be updated regularly.

- **Challenge 2: Developing country needs are hard to estimate in dollar terms**

Guzman and Cardenas (2022) highlight that needs assessments are constrained by, among other factors, capacity, ability to solicit multi-stakeholder inputs and participation in reporting processes, and limited international financial support. The NDR suggested that, for a needs assessment to have buy-in from national actors, and to inform high-level government decision-making, a number of steps had to be followed, each of which takes time and resources to develop (UNFCCC, 2021: Figure 1).

Figure 1 Common steps adopted by countries' committees or units to identify climate change needs



A needs estimate is not necessarily an implementation or investment plan. The NDR showed that many needs are not associated with a cost estimate. While some NDC cost estimates are constructed on the basis of pipelines of projects, others were built around sectoral targets (Clima Capital Partners and AVIVA Investors, 2022). For example, a need might be expressed as energy requirements, grid or transport network expansion, or healthcare access. This was found to be particularly true for adaptation and resilience because adaptation actions can often require long-term interventions, rather than short-term projects that are easier to estimate in monetary terms (UNFCCC, 2021).

Figure 1 underplays the challenge of developing a sufficient understanding of national targets, pathways and technologies across sectors in a way that allows for the exploration of appropriate financing and what is needed to unlock such financing. The financing process requires an understanding of the roles of different sources of finance, for example, domestic, international, public and private, and how they may interact. It also requires consideration of the type of provider, the need for short- or long-term financing, grant, debt or equity finance, as well as whether revenue streams are attached to projects and programmes. National reports analysed by the NDR did not always distinguish between sources of domestic and international funding (UNFCCC, 2021).

Understanding how much public finance is needed to unlock an amount of private finance for climate action – as articulated in Article 9.3 of the Paris Agreement – is also highly dependent on the risk appetite of private actors. Several developing countries face real and perceived risks of investment by private actors, and the options for de-risking are constantly shifting (as currency and geopolitical conditions change, for example). This means that it is hard to make predictions about future dollar-term needs for private mobilisation, and any assumptions are unlikely to hold over such a diversity of sectors and geographies. This is exemplified by a 2016 estimate of the potential private finance mobilisation ability of international public climate finance. To achieve the $100 billion goal, OECD (2016) estimated that $24.2 billion of private finance would be mobilised in 2020, consistent with the private–public ratio achieved in 2013–2014. In 2020, it was estimated that $13.1 billion in private finance was mobilised by public climate finance from developed countries (OECD, 2022). Both OECD (2016) and OECD (2022) are clear that the ability of developed countries to mobilise private finance for climate action in developing countries is influenced not only by provider portfolios (their objectives, instruments and geographies), but also by the policies and enabling environments of recipient countries, as well as macroeconomic conditions.

The implication of the challenge that developing country needs are hard to estimate is that substantial resources will be required to estimate needs, particularly where expressed in dollar terms. Even where total costed needs are presented, it remains complex to draw conclusions about what proportion of developing country needs could be met through international public climate finance provision.

- **Challenge 3: Bottom-up methods to assess developing country needs are not comparable or aggregable**

The NDR illustrates that needs and priorities can be expressed across multiple types of reporting to the UNFCCC alone. Global approaches tend to extrapolate from national estimates or use larger assumptions than bottom-up modelling. Bottom-up modelling uses different timeframes, incremental versus total costs, or investment needs, differing assumptions for many variables and suffers from data gaps. The NDR also suggests that, to date, methods for estimating needs are biased towards mitigation, with adaptation needs determination focused on vulnerability and sector risk, rather than technology or macroeconomic or fiscal policies that can facilitate transformation. Even following UNFCCC reporting guidelines and guidance (e.g. TNA preparation), the NDR still found differences as the methods were adapted to national context or institutional and human capacities (UNFCCC, 2021).

A variety of initiatives and institutions outside of the UNFCCC are supporting developing countries in bottom-up needs assessments. Some are sector-focused, others focus on identification and prioritisation, and others are moving towards planning for investments. The success of these efforts might indicate why NDCs are becoming more granular over time, including by sector (UNFCCC, 2021).

The fact that methods to assess developing country needs are not comparable means that arriving at an aggregate NCQG goal is challenging.

- **Challenge 4: Not all developing country needs are financial**

The NDR, in the nine types of national reports reviewed, identified many needs around capacity-building (covering research, training and education, awareness-raising, institutional strengthening and coordination and policy development) as well as technology development and transfer. It also highlighted that not all adaptation needs are quantifiable, given the need for longer-term interventions and the relevance of socio-economic determinants (UNFCCC, 2021). As Guzman, Kowalzig and Melkie (2023: 4) note, support needs are different from investment needs 'and one cannot be substituted for another'.

Technology for climate action remains a key need for developing countries, spanning a diversity of sectors. Given the existence of guidance and methods for developing countries to prepare Technology Needs Assessments (TNA) and Technology Action Plans (TAP), the articulation of technology needs is more harmonised between countries. However, as with other needs assessments, some countries have identified specific technologies by sector, while others have costed technology adoption (UNFCCC, 2021). It is clear that the implementation of TNAs remains central to the success of the process of identifying needs, and this includes the embedding of technology needs in national policy frameworks, as well as using them to substantiate funding requirements from both domestic and national instruments (TEC, 2020).

Capacity-building needs can be difficult to establish and/or cost, given the diversity of routes and activities through which capacity can be built and the challenges in measuring impact. Although financial resources will always be needed, this does not necessarily imply a North to South transfer. This might be particularly true with respect to improving developing countries' access to climate finance. The Fifth Biennial Assessment and Overview of Climate Finance Flows illustrates how the ability and efficiency of access to climate finance, from a recipient perspective, considers a diversity of needs (UNFCCC, 2022a).

Developing country needs as they relate to access will also bring in sub-national and local actors. The Biennial Assessment presents a number of challenges to be overcome if these needs are to be met, including climate change planning processes that tend to start at national level, high transaction costs and real and perceived risks of project management, and difficulties in tracking (UNFCCC, 2022a).

While most discussions to date recognise the need for enabling environments for climate finance access and effectiveness – be it through appropriate capacities or domestic policy shifts needed to unlock barriers to (private) investment in adaptation and mitigation – there remains a tension between the NCQG and its link with Article 2.1c of the Paris Agreement. Although Article 2.1c remains unclear in scope and operationalisation,[6] it speaks to actions that support 'making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'. Watson (2022) highlights that developing countries have raised concerns that efforts to integrate Article 2.1c into the NCQG discussion risk distracting from the mobilisation and provision of climate finance in favour of domestic policy and finance flow shifts, or add

[6] See both the Standing Committee on Finance mapping of available information relevant to Article 2, paragraph 1(c), of the Paris Agreement (UNFCCC, 2022b) and their Synthesis of views regarding ways to implement Article 2, paragraph 1(c) of the Paris Agreement (UNFCCC, 2022c).

conditionalities on climate finance. This is a tension that will need to be resolved in the context of supporting countries to articulate and make progress on needs and their prioritisation, particularly those that relate to scaling private finance for climate action through the NCQG.

Not all developing country needs are financial; a sole focus on the needs influencing the NCQG quantum will likely not fully meet the breadth of developing country needs.

- **Challenge 5: Not all developing country needs are 'nationally owned'**

The UN Secretary-General's May 2023 policy brief on reform of the international financial architecture highlights that, in its current state, it is not fit for purpose in a world of climate change, increased systemic risks, extreme inequality, entrenched gender bias, highly integrated financial markets vulnerable to cross-border contagion and demographic, technological, economic and geopolitical change. The brief highlights the system's inability to mobilise stable and long-term finance for climate action (UN, 2023). Needs, therefore, are not only nationally owned, but also require international reforms.

Many (developing) countries face unsustainable debt crises, exacerbated by the pandemic and energy and food security crises (see IMF, 2022). Once international debt is acquired, countries may prioritise debt payments over other types of government expenditure and/or introduce austerity measures to repay debt, reducing finance to sustainable development and wider economic objectives.[7] As such, it is unlikely that providing the bulk of climate finance through traditional debt instruments will be appropriate from an equity perspective, especially for climate actions that do not generate a cash flow (as is the case for some adaptation action). It is also important that more responsible borrowing and lending practices are implemented globally, alongside options such as debt forgiveness, swaps and restructuring (Mustapha, 2022; UN, 2023).

Changes to the international financial architecture are increasingly becoming topics of debate. In addition to a *need* to transform the sovereign debt architecture in order to scale climate action, this includes increasing liquidity support for developing countries, reform of multilateral development banks (MDBs) and developing innovative solutions (see, for example, UN, 2023; or information on the Bridgetown Agenda and outcomes of the Summit for a New Financing Pact held in June 2023).

The reality that not all developing country needs are 'nationally owned' means that, for the NCQG to truly support the implementation of the Paris Agreement and Convention in developing countries, it is necessary to address the transformation of the international financial system. This was captured in the Sharm el-Sheikh Implementation Plan coming out of COP27, which highlights that the scale of funding needed globally for climate action will 'require a transformation of the financial system and its

[7] See the iGST Finance Working Group submission to the third technical dialogue of the Global Stocktake at: https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202303061051---iGST%20Finance%20Working%20Group%20GST%20submission%20to%20TD1.3.pdf

structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors'.[8]

[8] Paragraph 54, 1/CMA.4 available at: https://unfccc.int/event/cma-4?item=8#decisions_reports

2 Supporting narratives for embedding needs in the NCQG

Several narratives may be helpful in advancing consideration of needs in the NCQG, breaking down challenges and edging towards options that will need to be finalised at the end of 2024. They are:

- *The articulation of developing country needs is valuable in its own right.* The NDR suggests that national efforts to cost adaptation and mitigation needs can better identify gaps in financial support and ways to leverage public and private resources (UNFCCC, 2021).

  The 2022 ad hoc report of the co-chairs – building on discussions at TED1 and TED2 – specifically highlighted questions as to how the diversity of needs assessments can inform the NCQG, while noting that needs assessments are also helping to inform financiers and public institutions to design the instruments that fill gaps. This paper proposes that the articulation of developing country needs can provide strong signals to government departments, including Treasury and Finance, as well as corporations, of the future direction to which to direct attention and financial incentives. However, care must be taken not to duplicate processes and overload governments with multiple and overlapping identification, planning and reporting processes for needs. Nor should there be conditions for the existence of thorough needs assessments or investment plans before financial resources are provided or mobilised.

  This provides a rationale for countries to continue to spend significant time and effort across various processes and institutions, to support the prioritisation of actions and coordination between international and national stakeholders, and to provide valuable knowledge with respect to a fit-for-purpose climate finance architecture.

- *As more developing countries articulate the challenges they face in accessing capital markets to finance climate action, through needs assessments, the systemic inequities in the current international financial system will be highlighted and the need for reform strengthened.* The market failures that have led to climate change and the structure of power in the financial system cannot be overcome with diplomacy alone (Mackenzie, 2021). Although the UNFCCC does not govern the financial system, calling attention to systemic inequities as they relate to financing for climate action in developing countries builds the case for new institutions of finance and investment and shifts in international governance arrangements and regulatory regimes, as requested by Ngwadla et al. (2023).

3 Options for embedding developing country needs in the NCQG

Recalling Decision 1/CP.21 para 53 and Decision 14/CMA1, and in response to Decision 9/CMA.3 para 17, the new climate finance goal must serve the objectives of the Convention and work toward implementation of the Paris Agreement. In doing so, the desire to meet and reflect the needs of developing countries in climate finance is embedded in various treaty Articles and decision texts.

At the time of writing, six Technical Expert Dialogues of the Ad Hoc work programme on the NCQG have been completed. The TEDs, and the formal and informal reporting from the NCQG process, have all endorsed the desire to meet developing country needs and priorities. This working paper identifies six options for embedding needs in the NCQG.

3.1 Reiteration of a desire for the NCQG to deliver nationally led, needs-determined financing of climate action

The focus of developing country needs in the NCQG process is a hard-won fight that embeds national determination and ownership as well as upholding the spirit of the Paris Agreement. It is reflective of the principles of aid effectiveness, as a relevant but parallel process for development financing.[9] Embedding needs in the NCQG, despite the five challenges outlined above, is critical. It puts developing countries in the driving seat of programming climate finance in line with national sustainable development priorities, and can shape the quantity and quality of climate finance by avoiding undue conditionalities on climate finance provision, as well as the development and use of appropriate financial instruments and an international financial system.

3.2 A multi-tier magnitude goal reflecting both total needs and the identification of a more specific role in meeting those needs for the provision and mobilisation of finance

[9] https://www.oecd.org/dac/effectiveness/45827300.pdf

The compilation and synthesis of submissions for TED6 noted that a lack of methods and data to establish bottom-up needs should not prevent an appropriate quantum being set. At the same time, the challenges outlined above suggest why total developing country costed needs do not give an indication of an exact quantum to be met by an NCQG target, nor does it cover the breadth of needs related to capacity-building, technology transfer, access and wider quality requirements.

The question then becomes, given that a quantitative goal *will* need to be established and it should be linked to something tangible, how can we best use the information we have on financial needs in developing countries to set the quantity?

The first-year synthesis report of the NCQG indicates a 'wealth of knowledge and perspectives' (NCQG, 2022). Estimates of investment need could play a role in soft coordination and advocacy as they give 'a ballpark estimate of the scale of the challenge' (Watson, 2016). They can therefore be used to set a top-tier global ambition for the quantum. This could even be set as a 'floor' for the quantum, in order to address a lack of data, if this is universally agreed. Sub-goals can then be used to reflect both provision and mobilisation, where provision will refer to developed country – and other voluntary – targets, and mobilisation will refer to a target of private finance raised for climate action, as well as other non-quantified needs targets, as discussed in the next option.

There is a precedent for a two-tier goal such as this. In 2022, the Kunming-Montreal Global Biodiversity Framework (GBF) was agreed. It includes a number of targets to be achieved by 2030, including mobilising 'at least $200 billion per year in domestic and international biodiversity-related funding from all sources – public and private', in addition to a goal to 'raise international financial flows from developed to developing countries, in particular least developed countries, small island developing states, and countries with economies in transition, to at least US$20 billion per year by 2025, and to at least US$30 billion per year by 2030'. The GBF also speaks to the phase-out of environmentally harmful subsidies and the monitoring, assessment and disclosure of biodiversity-related risks and biodiversity impacts of companies and financial institutions through their operations, supply and value chains, and portfolios (GBF, 2022). However, it is worth noting that this is the first quantified goal under the Convention on Biodiversity and therefore sets a target precedent, but has not yet proven effective at delivering finance, or from the perspective of reporting and accountability.

In setting a two-tier goal, the NCQG could establish a more holistic framing of 'finance' that is currently missing from the discussion (with some scope for the end phase of the Global Stocktake to address this). For many years, the deliberations of the UNFCCC and the Paris Agreement have focused on the flow of finance from developed to developing countries, and for good reason given the differing historical responsibilities for climate change, the respective responsibilities under the multilateral agreement and the varied capabilities of the countries. But on its own, this conversation does not capture the breadth of actions that public and quasi-public actors, corporates and financial institutions can take to scale up the financing of climate action that the UN Secretary-General, for example, is calling for (UN, 2023).

3.3 Sub-goals addressing quantitative and qualitative needs

Several submissions and literature on the NCQG have called for sub-goals that could address developing country needs and priorities. In light of the challenge involved in scaling adaptation finance provision and mobilisation,[10] the separation of adaptation and mitigation goals has been raised and supported, particularly in TEDs. The value of such separation stems from the fact that some mitigation and adaptation actions have quite different objectives and diverse roles for finance, particularly with respect to mobilising private finance. Pauw et al. (2022) illustrate a 'dual role' embedded in the $100 billion target that is potentially in conflict in the pursuit of mitigation or adaptation: on the one hand, mobilising large-scale investment, and on the other, transferring resources from developed to developing countries to increase equity in addressing climate change. As such, quantitative sub-goals in the NCQG for mitigation and adaptation action may help in developing appropriate targets for mobilisation.

This would have implications for the 'balance' sought between adaptation and mitigation in Article 9 of the Paris Agreement in providing climate finance. This is not fully addressed in this paper, though it deserves attention. Balance in the Paris Agreement has never been defined, though in the Green Climate Fund it has been articulated as a 50:50 allocation of resources on the basis of grant equivalents (GCF, 2011). The challenge of this approach is that the adaptation needs of some countries exceed the mitigation needs, some contributors have more than half of the funding allocated to adaptation, and equivalent grant reporting can be prohibitively complex when multiple financial instruments and financiers are combined (Pauw et al., 2022). The TED5 summary suggests that balance between mitigation and adaptation could be defined on a science and needs-basis, rather than 50:50 (NCQG, 2023), while the fifth BA suggests it could also be measured by the number rather than the cost of interventions, projects or activities (UNFCCC, 2022a). However, neither addresses whether balance would be assessed in aggregate at the contributor or recipient country level. Should a separate sub-goal for adaptation appropriately address the need to scale such finance, it may be that 'balance' does not require further definition.

A number of submissions to the NCQG process have called for sub-goals on mitigation, adaptation *and* loss and damage. This paper does not address the pros and cons of a sub-goal within the NCQG on loss and damage, but suggests that consideration of such a sub-goal is required. In particular, discussion is required on the appropriateness of the existing climate finance architecture (including whether the governance and implementing entities of multilateral climate change funds are fit for purpose); whether climate finance instruments and channels are or could be sufficiently risk-taking to programme finance for addressing loss and damage to those that need it the most; and whether the processes for accounting for climate finance would provide any disincentives to the provision and mobilisation of finance to address loss and damage.

[10] Given insufficient levels of funding to respond to worsening climate change impacts in developing countries, COP26 urged developed countries to at least double their collective provision of adaptation finance from 2019 levels by 2025, but lack of a roadmap and clear metrics is hampering progress.

Consideration of financial instruments in sub-goals is also warranted, with a key question being sequencing after or within any proposed adaptation or mitigation sub-goal. The form of financing has significant implications for the intended beneficiaries, and for climate justice and equity. Financial instruments will be appropriate or inappropriate according to geography, sector and project, and will determine if it reaches those intended, crowds in more finance, or even crowds out critical government spending in other areas. A sub-goal on financial instruments requires flexibility and must avoid perverse incentives. For example, guarantees that can provide credit enhancement against a range of risks have significant potential to leverage private finance, but are often considered too complex to implement and are not always ODA-eligible[11] (Mustapha, 2022). Sub-goals on financial instruments will also need to account for their differential use between countries with varying capital market access (Lankes, 2021). Given the different roles of financial instruments in mobilising finance, a sub-goal on public/private finance instead of on financial instruments may be considered and would align with the desire in Articles 9.3 and 9.4 to seek use of public funds for adaptation. A public/private sub-goal could, however, face definitional as well as accounting challenges when it comes to private finance flows.

There may also be scope to consider sub-goals by sector. It is unlikely, however, that these will be well served by quantitative targets, and it may be better to think through new modalities that meet sectoral needs for capacity, technology, or policies, as discussed below. Sectoral needs, particularly those expressed in non-financial units, may also be used in monitoring the impact of finance as it contributes to meaningful adaptation and mitigation action.

A quantitative local-level access target has been suggested for the NCQG (Act Alliance, 2021; AOSIS, 2022).[12] This may be hard to operationalise as a quantity, and localising climate finance might be better served by a qualitative target as this relates to access to climate finance, and hence finding the appropriate modalities in the climate finance architecture may become more important than an overarching goal. For finance to reach local levels, it might be anticipated that it should be accepting of higher transaction costs, or a higher risk tolerance might be needed, for example. Embedding needs in the NCQG as they relate to local-level access and ensuring finance reaches underserved groups, including women, and meets the needs of children, might be better done through new modalities, as discussed below, rather than as sub-goals.

A core issue not addressed in this paper is the vulnerability of country groupings and the implications of this for climate finance needs, access and allocation. Article 9 of the Paris Agreement emphasises that the provision of scaled-up financial resources should take into account the priorities and needs of LDCs and SIDS, which are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints.[13] Article 4.8 of the Convention sets out the circumstances making countries

[11] This paper does not imply that climate finance is ODA, particularly given developing countries go beyond ODA-eligible countries, but it recognises that much climate finance is also ODA-eligible.

[12] The LDC 2050 plan includes a goal that 70% of all climate finance should support local climate action by 2030 (LIFE-AR, 2019), though it does not specify any new modalities to operationalise this goal.

[13] Not all stakeholders assume that the NCQG is rooted in Article 9 of the Paris Agreement and so focused on the provision and mobilisation of resources from developed to developing countries. This conversation is ongoing in the TEDs.

particularly vulnerable to the impacts of climate change. The Green Climate Fund, in its governing instrument, speaks to the urgent and immediate needs of particularly vulnerable LDCs, SIDS and African states (GCF, 2011). This debate is also live in the context of loss and damage funding arrangements. Although defining 'particularly vulnerable' is politically challenging, it is worth considering how country circumstances affect access to and allocation of climate finance, including its nature (e.g. grant or debt), and whether vulnerable populations are being left behind. This may require consideration in the NCQG of options for further articulating vulnerability, such as the mention of Fragile and Conflict Affected States, and/or may require consideration of how the climate rationale of projects can better capture multi-dimensional vulnerability.

3.4 New modalities to assess and address developing country needs

In assessing and articulating developing country needs and priorities, it is possible that the NCQG decision could support the ongoing articulation of developing country needs that can best inform the post-2025 period. This would help governments undertaking these complex exercises despite very limited budget to put towards such activities (Guzman and Cardenas, 2022). Ngwadla et al. (2023) suggest that institutional arrangements to orient the multilateral process toward a needs-based regime could be funded through the UNFCCC Financial Mechanism.[14] This could cover methods and reporting, including through existing reports such as forward-looking adaptation communications and NDCs, as well as backward-looking National Communications and Biennial Transparency Reports. It has also been suggested that needs reporting feeds into the Enhanced Transparency Framework (Guzman and Cardenas, 2022). The support system underpinning the Framework, currently under development, could deliver needs information to the NCQG.

In addressing needs and priorities, the NCQG could consider how global, regional or national platforms can deliver more programmatic approaches to both mitigation and adaptation action. This may be particularly useful in addressing the more qualitative needs expressed by developing countries, especially where experiences are shared. This learning could be based on the Just Energy Transition Partnership (JETP) model. JETPs are voluntary partnerships between developed and developing countries that respond to the particular financing challenges facing developing countries that are highly dependent on fossil fuels, recognising the costly and disruptive effects on lives and livelihoods of the energy transition (Naidoo et al., 2023). They involve an offer from an international partner group to support developing countries to advance their NDC goals in an ambitious, just and inclusive manner, through bespoke financial arrangements. Such an arrangement and the planning it entails, as evidenced in South Africa, Indonesia and Viet Nam, requires consideration of a breadth of policy,

[14] The UNFCCC established the Financial Mechanism to provide financial resources to developing country Parties. It is accountable to the Conference of the Parties, which decides its policies, programme priorities and eligibility for funding. In addition to operating entities under the Financial Mechanism, including the Global Environment Facility and Green Climate Fund, Parties have established the Adaptation Fund under the Kyoto Protocol, the Special Climate Change Fund and the Least Developed Countries Fund.

capacity and technology needs, as well as investment planning. It is worth noting that the model is not yet proven.

It is not feasible to establish a JETP equivalent country platform in each developing country, and other programmatic approaches might be considered by theme (e.g. adaptation), sector (e.g. agriculture, transport), geography (e.g. SIDS, LDCs) or topic (e.g. methane, locally led action). Any platform or initiative would need to reflect on what worked and what did not work in the past, including with Nationally Appropriate Mitigation Actions (NAMAs) and their associated registry and National Adaptation Plans of Action (NAPAs), as well as existing global campaigns such as the Global Methane Pledge[15] and the New York Declaration on Forests.[16] It would also need to identify why such a platform would be more effective than existing routes or budget support, for example, in ensuring that transaction costs are not unnecessarily high, or that new processes and institutions are not created where existing ones could have served a similar function.

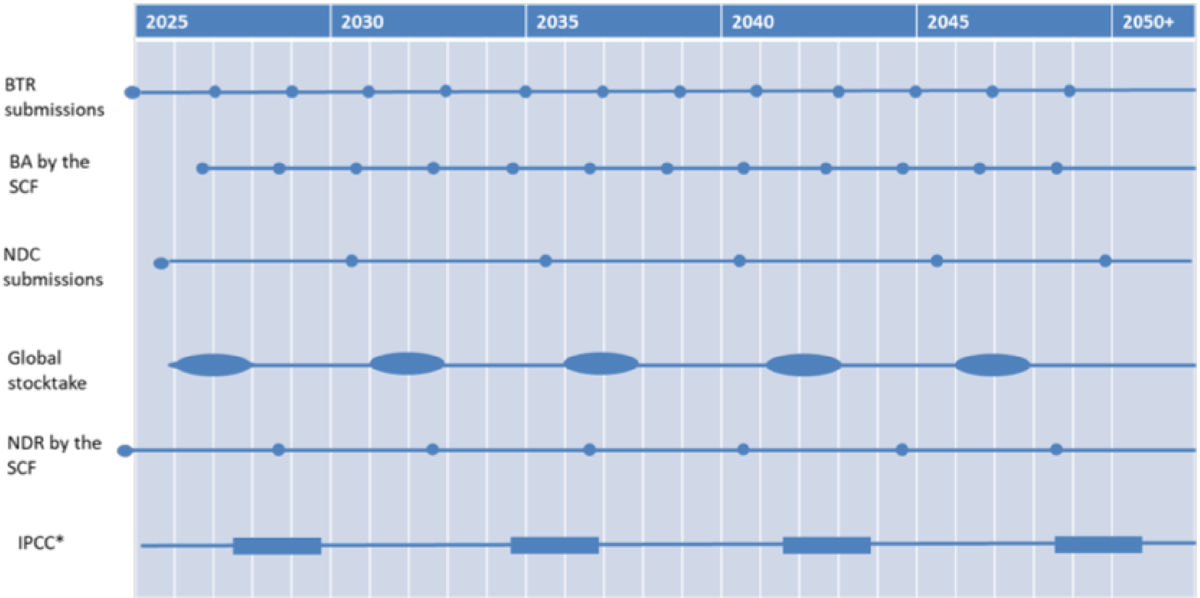
Such platforms or initiatives may be better placed to support non-financial needs and priorities through new modalities. Local climate finance access is often hindered by the prioritisation of large-scale results, avoidance of high transaction costs, insufficient support to local capacities to manage funds and processes, inappropriate co-financing requirements, and poor enforcement of policies for community engagement (Soanes et al., 2017). The NCQG could establish new modalities with greater risk-taking and smaller grants, and/or consider more performance-based approaches to the localisation of climate finance. Efforts to this end will open questions not addressed in this paper, such as the suitability of the current climate finance architecture of multilateral funds, which has long been flagged as requiring simplification and consolidation (Nakhooda et al., 2014; Amerasinghe et al., 2017).

3.5 A review and course correction system based on developing country needs

There is widespread agreement that developing country needs are dynamic. The degree to which NCQG goals and sub-goals will need to be revised in light of this will depend on how needs and priorities are embedded within the NCQG. The fifth TED addressed the temporal scope and structure of the NCQG and presents a number of options for timelines and how any revisions would align with the reporting cadence of other processes (NCQG, 2023: Figure 2). These include the Global Stocktake, NDC cycle, Biennial Transparency Reports and reports of the IPCC and Standing Committee on Finance. Each has differing objectives, focus, methods and ability to aggregate, suggesting that a layered approach to needs assessment might be required. The timelines for revision and the challenge of creating or adapting accounting and transparency systems to accommodate NCQG goals and sub-goals (quantitative or qualitative) are not further discussed here.

Figure 2 Timelines for available information from other processes to support the time frame of the NCQG

[15] See https://www.globalmethanepledge.org
[16] See https://forestdeclaration.org/about/new-york-declaration-on-forests/



Beyond regular reviews of the NCQG to monitor evolving needs (called for by Guzman, Kowalzig and Melkie (2023)), the alignment of finance with developing country needs may also be assessed by measuring the outcomes of finance flows. In this way, needs could be embedded in the NCQG by a focus on assessing the degree to which climate finance is being programmed towards meeting national mitigation and adaptation priorities, expressed as sectoral priorities, volumetric indicators or through other socio-economic indicators. Although successes will be harder to attribute to a particular source, modality, or financial actor, indicators of success could be identified at the provider or recipient level, or on a more collective 'portfolio' basis.

3.6 Links are made between the NCQG and other agenda items and processes that determine and influence developing country needs

This paper has emphasised calls for financial system reform to better serve the needs of developing countries as they finance climate action. The paper has also referred to emerging dialogues on Article 2.1c and the need to holistically address the financing of climate action. As these discussions continue and evolve, it will be useful for the NCQG process to track where opinions are converging, as well as making appropriate links to relevant agenda items. This might include any eventual agenda item on climate consistency of finance flows and developing country needs to operationalise or implement the agenda item, the final structure and indicators of the Global Goal on Adaptation and emerging modalities for the financing of loss and damage, to ensure complementarity.

Outside of the multilateral climate change process, there are many institutions that are helping developing countries articulate and finance their needs. Recognising that there are limits to the NCQG, its design can still seek to make best use of needs information and encourage commitments to wider reform, for instance, on debt and MDBs.

4 Conclusion

Embedding the needs and priorities of developing countries into a new climate finance goal is a largely uncontested element of the NCQG. The transition to low-emission, climate-resilient economies in developing countries, while deep, rapid, and disruptive, has global benefit, as not meeting the needs of these countries will have global costs for decades to come. Despite the desire to embed these needs, few concrete options have been proposed to translate them into the NCQG at the end of 2024.

This paper shows that developing country needs do not lend themselves immediately to quantum targets in the NCQG, and that it would be a disservice to developing countries if needs were reduced to this. Embedding developing country needs in the NCQG instead requires a layered approach, with quantitative and qualitative elements. Such multiple lenses on needs will better serve the broad suite of countries, country circumstances, communities and people that actually experience these needs, leading to much more effective climate finance.

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