

SUBMISSION BY CHILE ON BEHALF OF THE AILAC GROUP OF COUNTRIES COMPOSED BY CHILE, COLOMBIA, COSTA RICA, HONDURAS, GUATEMALA, PANAMA, PARAGUAY AND PERU

New collective quantified goal on climate finance

Following the invitation by the CMA3, as per document FCCC/PA/CMA/2021/L.17 paragraphs 17 and 15, the AILAC group of countries welcomes the opportunity to provide views on the objective of the new collective quantified goal on climate finance.

From AILAC's perspective, the transformation required to achieve the Paris Agreement's long-term goals¹ requires profound and radical changes to the global economic system, to the ways we produce and consume, and to the resources we use to enable economic growth. In a context of accelerated population growth and unprecedented urban growth which significantly increase the demand for energy and resources, this transformation is meant to be a revolution, one that calls for innovative thinking and new models of development, models that at their core are climate-resilient and capable of driving and mainstreaming decarbonization.

Therefore, the process of setting a new collective quantified goal on climate finance represents a unique opportunity to:

- a. guide demand for low-emissions and climate-resilient finance and to scale availability of climate mitigation, adaptation and loss and damage-compatible finance as we approach 2030 –when global emissions must be reduced by 45% with respect to 2010 levels, as per the findings of the Intergovernmental Panel on Climate Change (IPCC)²- and in setting out trajectories to reducing emissions to net zero and ensure development patterns are climate-resilient by 2050, and
- b. delineate how finance flows are made consistent with these new models and revamp the climate financing system, with an underlying strategy towards effectively stimulating accelerated prototyping and scaling of these new solutions capable of the kind of disruptive innovation urgently required, particularly in the developing world while favouring economic recovery options that are climate compatible. The climate crisis needs a system designed to marshal the investment, financing, market and consumption choices of relevant stakeholders –governments, development finance institutions, commercial financial institutions, private equity, venture capital, infrastructure funds, institutional investors, credit rating agencies, corporate actors (banks, asset managers, pension funds, insurers,

¹ Article 2 of the Paris Agreement

1. This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:

(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and

(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

² IPCC, 2018: Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. P. rtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. P.an, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)], p. 12

credit rating agencies, accounting firms, shareholder advisory services, enterprises), households and project developers– to foster climate-compatible development pathways.

Climate finance, driven by international cooperation provided and mobilized by developed countries, is vital to support developing countries in transitioning, in a just manner, towards low emissions, resilient development. The sectoral and economic transformation that this transition entails is on a scale and within a timeframe faster than any in human history. This transition depends on plans and policies, not only to phase out polluting sectors but also for the creation of new jobs, new industries, new skills, new investments and the opportunity to create a more equal and resilient economy³ that is respectful of human rights, to ensure that no-one is left behind when designing and aligning policies and investments with these new development models.

In order to fulfill the long-term finance goal of the Paris Agreement and enable this transition, it is important to look at **all** financial flows —public and private, domestic and international— and ensure that international cooperation, enabled through the multilateral system and the very definition of the new collective goal on finance, directs support to the transition to a net-zero greenhouse gas emissions, climate-resilient world⁴.

Low-emissions, resilient transitions can be consistent in the long run with strong growth given the productivity gains from emerging energy-efficient, renewable technologies and a strong driver of job creation and job upgrading. Co-benefits could include improved air quality and health in cities resulting from diminished fossil fuel combustion, broader fiscal reforms, debt reduction or investment in nature and Sustainable Development Goals, as well as reduced economic risks from slowing climate change, pursuing social justice and poverty eradication. Also, building climate resilience can boost macroeconomic performance by limiting expected GDP losses⁵.

Hence, from our perspective, this new goal on finance opens a window of opportunity to enable the implementation of article 2.1a, 2.1b and 2.1c of the Paris Agreement through the following:

2.1a. Mitigation efforts to limit temperature increase to 1.5°C

The remaining emissions budget for 1.5°C is small and will be exceeded within ten to fifteen years at current emission rates. The window of feasibility to not surpass this global temperature increase is closing rapidly. **The global economic benefit of a low-carbon future is estimated at USD26 trillion by 2030 compared with staying on the current high-carbon pathway.** Hence, meeting the 1.5°C ambition means implementing solutions in parallel across all sectors - energy, industry, transport, buildings, food consumption, nature-based solutions (sources and sinks)⁶. The United Nations Environment’s Emissions Gap Report estimates that **existing, market-ready solutions can cut greenhouse gas emissions by more than 50% by 2030**⁷ and lead the pathway in setting out trajectories to reducing emissions to net zero by 2050. So, what are the related costs and investment needs of enabling these pathways and solutions?

³ Just Transition Centre, *Just Transition, A Report for the OECD*, May 2017, p. 1

⁴ Shelag Whitley, Joe Thwaites, Helena Wright and Caroline Ott, *Making finance consistent with climate goals. Insights for operationalizing Article 2.1 c of the UNFCCC Paris Agreement*, December 2018, p. 6

⁵ International Monetary Fund - IMF, *Fiscal Policies for Paris Climate Strategies – from principle to practice*, IMF Policy Paper, May 2019, p. 41

⁶ J. Falk, O. Gaffney, et al, *Exponential Roadmap 1.5*, Future Earth, Sweden, January 2020, p. 11

⁷ *Ibidem*, p. 34

Energy Transformation

The global energy system is already in an irrevocable transition to a more sustainable future; however, a greater acceleration centred on renewable energy and energy efficiency is needed immediately to keep global warming well below 1.5°C. Setting the world on a more climate-friendly path would require promptly shifting investments away from fossil fuels towards sustainable energy and also **investing an additional USD 15 trillion in the global energy system until 2050⁸, that is an energy system transformation enabled by investments of around USD 460 billion per year⁹.**

This transformation of the energy system also indicates higher GDP growth, achieving 2.4% more by mid-century than current plans would achieve. The cumulative gain between now and 2050 amounts to USD 98 trillion, greatly exceeding the additional investments needed for transforming the energy system. This transformation would effectively pay for itself, with every dollar spent bringing returns between three and eight dollars. Along with a sustainable energy future, the transition promises new patterns of socio-economic development with increasing jobs in renewables to 42 million globally by 2050, four times more than today. It is to be noted however that a transition to fully zero emissions (so that no CO₂ is emitted at all) will require a total investment of USD 130 trillion by 2050. Yet these higher costs are still significantly lower than the USD 62 to USD 169 trillion in savings from reduced externalities that would result from reaching zero emissions. As a result of these transformations, environmental and health benefits, along with broad improvements in people's welfare, would be felt in every region of the world¹⁰. Moving forward, investment decisions could be assessed based on their compatibility with building an inclusive low-carbon economy. Anything less would hinder the transformative decarbonisation of societies¹¹.

Nature-Based Solutions

According to the IPCC, as long as the global economy releases more CO₂ into the atmosphere than it removes through carbon sinks, the climate will continue warming¹². Moreover, global population has grown by 37% since 1990, and food consumption has increased by 40%. Food consumption will continue to increase as the population grows and also as food consumption patterns change; demand for land to produce other products such as biofuels is also likely to increase. Food security is increasingly tied to international trading relationships, as is the vulnerability of forests, as agriculture in lower-income countries often develops in response to the demands of higher income countries¹³. Also, we need to be reminded of the fact that half of all our emissions from fossil fuels are pulled out of the atmosphere by soils, forests and the ocean. We have altered 50 per cent of Earth's land surface, and we must stop. The science calls for zero loss of natural ecosystems from 2020 onwards¹⁴. Therefore, governments in partnership with civil society and the private sector, need to provide

⁸ Climate Investment Platform. Retrieved from: <https://www.climateinvestmentplatform.com/energy-transition/track-4/>

⁹ These numbers respond to key findings and insights from a multimodel analysis of the energy investments required for achieving increasingly stringent international policy goals over the coming decades. Scenarios are derived from six global energy-economy modelling frameworks, each of which depicts a uniquely evolving energy investment landscape in futures spanning a continuation of today's trends (considering countries' NDCs) to those that are far more transformative (consistent with achieving the aspirational 2°C and 1.5°C targets espoused by the Paris Agreement). Main focus is put in particular on the upscaling requirements and portfolio shifts inherent in these diverging futures, with an eye toward the most evident 'investment gaps'. Thus finding that a transformation of the global energy system need not require a major increase in investments in total. A pronounced reallocation of the investment portfolio is, however, inevitable. NDCs will not provide the impetus for this structural shift. Instead, to chart a course toward 2°C and 1.5°C, annual investments in low-carbon energy (across the entire supply side, not just the power sector) will need to overtake fossil investments globally around 2025 or before, in David L. McCollum, Wenji Zhou, Christoph Bertram³, Harmen-Sytze de Boer, Valentina Bosetti, Sebastian Busch, Jacques Després, Laurent Drouet, Johannes Emmerling, Marianne Fay, Oliver Fricko, Shinichiro Fujimori, Matthew Gidden, Mathijs Harmsen, Daniel Huppmann, Gokul Iyer, Volker Krey, Elmar Kriegler, Claire Nicolas, Shonali Pachauri, Simon Parkinson, Miguel Poblote-Cazenave, Peter Rafaj, Narasimha Rao, Julie Rozenberg, Andreas Schmitz, Wolfgang Schoepp, Detlef van Vuuren and Keywan Riahi, *Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals*, Nature Energy 201

¹⁰ International Renewable Energy Agency (IRENA), *Global Renewables Outlook: Energy Transformation 2050*, Abu Dhabi, 2020, p. 16

¹¹ *Ibidem*, p. 17, 35

¹² Saget, Catherine, Vogt-Schilb, Adrien and Luu, Trang (2020). *Jobs in a Net-Zero Emissions Future in Latin America and the Caribbean*. Inter-American Development Bank and International Labour Organization, Washington D.C. and Geneva, p. 28

¹³ FAO, *State of the World's Forests 2016. Forests and agriculture: land-use challenges and opportunities*, Rome, 2016, p. 89

¹⁴ Johan Rockström, *Why we need to declare a global emergency now*, July 27, 2020, Financial Times, retrieved from: <https://www.ft.com/content/b4a112dd-cafd-4522-bf79-9e25704577ab>

incentives, creating enabling environments and foster Nature-based Solutions (NbS)¹⁵ with biodiversity safeguards so to enhance and restore forests, grasslands, wetlands and the ocean to protect the rich diversity of life that these ecosystems support, while improving coordination between policies on forests, agriculture, food, land use, rural development and national development¹⁶. NbS can provide one-third of the emissions reductions needed to meet the Paris climate agreement's mitigation goal for 2030¹⁷. Reforestation, biochar and improved agricultural practices have the potential to store up to 9.1 billion tonnes of CO₂e annually, eventually storing 225 billion tonnes by the end of the century¹⁸. Halting the loss of forests alone will benefit hundreds of millions of people, including many of the world's poorest people, whose livelihoods depend on forest goods and environmental services. It will also help combat climate change, protect habitats for 75% of the world's terrestrial biodiversity, and maintain ecosystem resilience – thereby supporting sustainable agriculture¹⁹.

As of 2019, financing for this purpose has been tracked to only USD 52 billion²⁰. Investment in NbS ought to at least triple in real terms by 2030 and increase four-fold by 2050 if the world is to meet its climate change, biodiversity and land degradation targets. This acceleration would equate to **cumulative total investment of up to USD 8.1 trillion, and a future annual investment rate of USD 536 billion**²¹, especially in sectors such as agricultural ecology, ecotourism and sustainable forestry and green infrastructure.

Infrastructure

The health, humanitarian, migration, social and economic crises set off by the COVID-19 pandemic requires a decisive, large-scale response guided by appropriate social and economic measures. As countries consider their economic stimulus options, they must still confront the challenge of ensuring sustainability and strengthening resilience while improving people's health and welfare. The need remains for an accelerated path to meet global climate goals through the decarbonisation of our societies²².

As per the research made by the IPCC, limiting global temperature increase to 1.5°C will require a major reallocation of the investment portfolio. To give a sense of the scale of investment that needs realigning, the IPCC references available statistics of the global stock of USD 386 trillion of financial capital²³ (USD 100 trillion in bonds, USD 60 trillion in equity and USD 226 trillion of loans managed by the banking system). **The private sector could deliver 70% of total investments needed to meet net zero goals.** As part of the Glasgow Financial Alliance for Net Zero, 450 firms with USD 130 trillion of assets under management have already called for aligning financial flows with the Paris

¹⁵ Nature-based Solutions are actions to protect, sustainably manage and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively, to provide both human well-being and biodiversity benefits. They are underpinned by benefits that flow from healthy ecosystems and target major challenges like climate change, disaster risk reduction, food and water security, health and are critical to economic development in IUCN, *Nature-Based Solutions*, retrieved from:

<https://www.iucn.org/theme/nature-based-solutions/about>

¹⁶ FAO, *State of the World's Forests 2016...*, p. 89

¹⁷ Sally Jewell, *Nature-Born Climate Commitments*, The Nature Conservancy, December 05, 2019, retrieved from:

<https://www.nature.org/en-us/what-we-do/our-insights/perspectives/natural-born-climate-commitments/>

¹⁸ J. Falk, O. Gaffney, et al, *Exponential Roadmap 1.5*, p. 15

¹⁹ FAO, *State of the World's Forests 2016...*, p. 88

²⁰ UNDP Biofin, 28 March 2020, retrieved from: <https://www.globallandscapesforum.org/glf-news/sustainable-finance-organizations-call-for-action-on-natural-capital-investment/> &

https://www.biodiversityfinance.net/sites/default/files/content/publications/workbook_2018/executive_summary.html

²¹ UNEP, 2021, *State of Finance for Nature 2021*, Nairobi, p. 6

²² IRENA, *Global Renewables Outlook...*, p. 5, 15

²³ Financial capital available for intermediation, definition found in McKinsey Global Institute, *118 trillion and counting: taking stock of the world's capital markets*, McKinsey&Company, 2005, p. 11

Agreement in order to enable significant economic benefits and attract increased investment that will create jobs in industries of the future^{24, 25}.

Infrastructure in all sectors of the economy will be created, built or enhanced as part of a natural cycle of development in the following decades. Therefore, creating pathways compatible with the Paris Agreement will require a massive transformation in existing global infrastructure and deep decarbonization of existing sectors²⁶. Current energy, transport, building and water infrastructure make up more than 60% of global GHG emissions²⁷. Due to the long lifetimes of emissions-intensive assets, finance flows alone are often unable to quickly transform capital stock²⁸. Infrastructure investments will shape not only development patterns but will also determine future emissions pathways²⁹ to avoid “carbon lock-in” or the tendency for certain carbon-intensive technological systems to persist over time, “locking out” lower-carbon alternatives³⁰. If we are to avoid global warming of 1.5°C, it is necessary to align **USD 90 trillion of investments in the next 15 years towards climate-compatible, sustainable and resilient infrastructure** -since these trillions will already be invested towards infrastructure- through coherent and credible climate policies that enable social, economic and technological transformations around decarbonization and resilience by mid-century for:

- Clean, efficient and climate-compatible energy systems,
- Smarter urban development and transportation,
- Sustainable land use and conservation of natural capital,
- Wise water management,
- A circular industrial economy³¹.

Just Transition

A transition that fails to account for societal implications will exacerbate inequalities within and between countries, heightening geopolitical frictions³². Hence, this overall transition needs to be just and the subsequent broader economic transformation must be built on the strengths of individual countries. But they must equally enable them to overcome their structural dependencies so as to take fuller advantage of emerging opportunities. Among these dependencies, three types stand out, namely commodity dependence, technological dependence and trade dependence³³. The foregoing dependencies underscore the need for careful crafting of a series of policy interventions to enable a transition in which no one is left behind. A just and inclusive transition requires a global, multilateral approach, adequate mobilisation of resources and a tailoring of measures attuned to the challenges faced by various countries³⁴. This will represent a series of major challenges including:

- i) economic restructuring, resulting in the displacement of workers and possible job losses and job creation attributable to the greening of enterprises and workplaces;

²⁴ Shelagh Whitley, Joe Thwaites, Helena Wright and Caroline Ott, *Making finance consistent with climate goals...*, p. 9

²⁵ Glasgow Financial Alliance for Net Zero, *Amount of finance committed to achieving 1.5°C now at scale needed to deliver the transition*, retrieved from: <https://www.gfanzero.com/press/amount-of-finance-committed-to-achieving-1-5c-now-at-scale-needed-to-deliver-the-transition/>

²⁶ Lucy Kessler, Tyler Matsuo, Darius Nassiry, and Paul Bodnar, *Reinventing Climate Finance: Four Levers to Drive Capital Stock Transformation*, Rocky Mountain Institute, 2019, p. 9

²⁷ OECD, UNEP, WBG, *Financing climate futures. Rethinking infrastructure*, 2018, p. 1

²⁸ Consider the recent wave of announcements by governments of bans on the sale of internal combustion engine vehicles beyond a certain date. For example, in 2017, France announced a plan to ban the sale of gasoline and diesel vehicles by 2040. However, even if all new vehicles sold in France this year were electric, those sales would represent only about five percent of the total vehicle fleet. Turning over the entire fleet would take approximately 15 years, leaving combustion vehicles on the road past 2030. This challenge of capital stock transformation is only magnified for assets with longer lifetimes, most notably coal-fired power plants, which can have average lifetimes of over 40 years in Lucy Kessler et al, *Reinventing Climate Finance...*, p. 9

²⁹ OECD, UNEP, WBG, *Financing climate futures...*, p. 20

³⁰ Lucy Kessler et al, *Reinventing Climate Finance...*, p. 9

³¹ The Global Commission on the Economy and Climate, *The New Climate Economy. Unlocking the inclusive growth story of the 21st century: accelerating climate action in urgent times*, 2018, pp 10 - 11

³² World Economic Forum - WEF, 2022, *The Global Risks Report 2022*, 17th Edition, p. 9

³³ IRENA, *Global Renewables Outlook...*, p. 197

³⁴ *Ibidem*, p. 201

- ii) the need for enterprises, workplaces and communities to adapt to climate change to avoid loss of assets and livelihoods and unavoidable displacement and migration and
- iii) adverse effects on the incomes of poor households from higher energy and commodity prices³⁵.

Businesses, workers, and communities can be adversely affected by the downsizing or phasing out of economic activities that are inconsistent with net-zero emissions, such as the production of fossil fuels (or large scale agricultural subsidies that have a significant impact on deforestation³⁶). These impacts need to be anticipated, minimized, and compensated by targeted policies, international collaboration and complementary measures to align decarbonization with sustainable development goals and make it socially acceptable³⁷ through the provision of incentives for a just transition towards low-emissions sectors with measures for social protection and social dialogue, skills training, development of labour market policies and community development and renewal³⁸.

2.1b Increased adaptation and climate resilience

Vulnerable countries and communities are already experiencing severe losses and damages from unavoidable climate change impacts³⁹. Evidence of these losses occurring also shows that this will only get worse, even with ambitious climate action⁴⁰. As a result, developing countries are facing an increasing fiscal burden since climate vulnerability has already raised the average cost of debt⁴¹, thus having a broad impact on national measures of the cost of capital⁴² and diminishing fiscal space for investment in climate resilience⁴³. Moreover, sovereign debt has spiked because of the pandemic. Government debt globally increased by 13% points, to 97% of GDP in 2020. Already strained public finances in developing countries are at heightened risk from debt deleveraging. Debt crisis is a critical

³⁵ ILO, 2015, *Guidelines for a Just Transition towards environmentally sustainable economies and societies for all*, p. 5

³⁶ There is growing interest in improving the efficiency of agricultural subsidy programmes by changing their design from universal coverage to more targeted approaches. The rules and criteria now being applied to ensure that subsidy programmes and other budgetary allocations are efficient, effective and equitable in the long run include environmental compliance and performance standards (e.g. relating to deforestation and poverty alleviation), in FAO, *State of the World's Forests 2016...*, p. 40

³⁷ Saget, Catherine et al. *Jobs in a Net-Zero Emissions Future in Latin America...*, p. 37

³⁸ Just Transition Centre, *Just Transition, A Report for the OECD*, May 2017, p. 2

³⁹ Climate impacts are the physical manifestations of man-made climate change. They include rising sea levels, increased coastal flooding, and increased incidence of drought. Climate impacts generate economic costs. Climate vulnerability is an aggregate measure of a country's propensity to be affected by climate change. Climate vulnerability encompasses the level of sensitivity (as determined by geographic, demographic and economic factors) as well as the capacity to cope and adapt. Finally, climate risks are negative financial outcomes that are attributable to man-made climate change. Climate risks are highly heterogeneous and affect economic sectors in different ways and defined as the marginal increase in the rate of interest on sovereign debt that is attributable to national climate vulnerability in UN Environment, Imperial College Business School and SOAS University of London, *Climate Change and the Cost of Capital in Developing Countries: Assessing the impact of climate risks on sovereign borrowing costs*, 2018, p. 2

⁴⁰ Stockholm Environment Institute - SEI, *Designing a fair and feasible loss and damage finance mechanism*, October 2021, pp 4 & 6

⁴¹ These costs are above and beyond the rates attributable to macroeconomic and fiscal fundamentals. For example, in the last ten years, climate vulnerability has cost V20 countries an additional US\$62 billion in interest payments alone, including USD40 billion in additional interest payments on government debt, that is that for every USD10 paid in interest by V20 countries, an additional dollar will be spent due to climate vulnerability. The concept of Vulnerable 20 countries (V20) arose from the Climate Vulnerable Forum's Costa Rica Action Plan in 2015. By March 2018, member nations of the CVF and V20 had risen to total of 48 countries: Afghanistan, Bangladesh, Barbados, Bhutan, Burkina Faso, Cambodia, Colombia, Comoros, Costa Rica, Democratic Republic of the Congo, Dominican Republic, Ethiopia, Fiji, The Gambia, Ghana, Grenada, Guatemala, Haiti, Honduras, Kenya, Kiribati, Lebanon, Madagascar, Malawi, Maldives, Marshall Islands, Mongolia, Morocco, Nepal, Niger, Palau, Palestine, Papua New Guinea, Philippines, Rwanda, Saint Lucia, Samoa, Senegal, South Sudan, Sri Lanka, Sudan, Tanzania, Timor-Leste, Tunisia, Tuvalu, Vanuatu, Vietnam, Yemen. *Ibidem*, pp 1, 4, 5

⁴² *Ibid.*, p. 25

⁴³ Ulrich Volz, *Investing in a green economy: the pandemic is only a prelude to a looming climate crisis*, IMF Finance and Development, Fall 2020 Issue, retrieved from: https://www.imf.org/external/pubs/ft/fandd/2020/09/investing-in-a-green-recovery-volz.htm?utm_medium=email&utm_source=govdelivery

short- and medium-term threat to the world, and one of the most potentially severe risks over the next decade⁴⁴.

Under this scenario, it is necessary to underline that there is an adaptation finance gap⁴⁵ that is quite large and likely to grow substantially over the coming decades, unless significant progress is made to secure new and additional finance for adaptation, and to put into effect ambitious mitigation measures⁴⁶ in order to address the adaptation needs of developing countries, including to further strengthening national adaptation capacities, improving resilience, reducing vulnerability and closing this financial gap. Needs of developing countries are factually linked to different temperature scenarios, that is, as the global average temperature increases, so vulnerabilities and risks augment, therefore demanding additional climate finance. Growing insecurity resulting from economic hardship, intensifying impacts of climate change and political instability are already forcing millions to leave their homes in search of a better future abroad⁴⁷.

The commitment made as part of the Glasgow Climate Pact to at least double the provision of adaptation finance, in the context of scaled-up financial resources is a good step in the right direction but it is not enough to ensure a transition to resilience in alignment with the Paris Agreement, since it will get us, in a best case scenario, to approximately USD 40 billion annually, while **annual adaptation costs to all developing countries are currently estimated to be in the range of USD 250 billion^{48,49}, and expected to increase from USD 155 billion to USD 330 billion by 2030, and between USD 310 billion and USD 555 billion by 2050.** These UNEP estimates of economic costs of climate change in developing countries are higher than before and estimated generally in the upper range due to higher warming scenarios and over the next two decades, even under ambitious mitigation scenarios⁵⁰. Nowadays, the Standing Committee on Finance estimates current adaptation finance to only adding up to some USD 14.5 billion in 2018⁵¹, thus showing the size of the adaptation finance gap that is in front of us and needs to be sorted out.

Moreover, annual global weather-related insured losses increased from about USD 10 billion in the 1980s to about USD 50 billion in the last decade⁵² and to USD 280 billion in 2020 only⁵³, with an additional USD 200 billion on annual global weather-related uninsured losses⁵⁴. Looking into the future, studies have estimated that **annual loss and damage finance needs range from USD 290-USD 580 billion by 2030, USD 551 – USD 1,016 billion by 2040 and USD 1,132 – USD 1,741 billion by 2050⁵⁵, with developing countries shouldering most of the burden.** These loss and damage costs are separate from the costs of adaptation⁵⁶ and, according to recent research neither post-

⁴⁴ WEF, 2022, *The Global Risks Report 2022...*, p. 14

⁴⁵ The adaptation finance gap can then be defined and measured as the difference between the costs of, and thus the finance required, for meeting a given adaptation target and the amount of finance available to do so. Assessment of the adaptation finance gap is facilitated by the availability of a common monetary metric. UNEP, *The Adaptation Finance Gap Report 2016*, United Nations Environment Programme 2016, p. xii, 2

⁴⁶ *Ibidem*, p. xiv

⁴⁷ WEF, 2022, *The Global Risks Report 2022...*, p. 9

⁴⁸ UNEP, *Adaptation Gap Report 2020*, p. xiv

⁴⁹ These costs result of assessing the costs of adaptation against available international public adaptation finance. The overview of estimates of the costs of adaptation contrasts bottom-up estimates (national-level studies) with top-down estimates (global-level studies) of varying scope, to provide an estimate of the costs of adaptation at the global level, in *Ibid.*, pp. xii, xiv, 6

⁵⁰ UNEP, *Adaptation Gap Report 2021. The Gathering Storm. Adapting to climate change in a post-pandemic world*, 2021, p. xiv, 29 & 30

⁵¹ UNFCCC Standing Committee on Finance, *2018 Biennial Assessment and Overview of Climate Financial Flows*, 2018, UNFCCC, p. 10

⁵² IMF, *Fiscal Policies for Paris Climate Strategies – from principle to practice*, IMF Policy Paper, May 2019, p.17

⁵³ Climate Policy Initiative – CPI, *Global Landscape of Climate Finance 2021*, December 2021, p. 8

⁵⁴ Mark Carney, Governor of the Bank of England, Statement of 23 September 2019 at the United Nations Climate Action Summit, retrieved from: <https://www.bankofengland.co.uk/speech/2019/mark-carney-remarks-at-united-nations-climate-action-summit-2019>

⁵⁵ Markandya, A. and González-Eguino M., *Integrated Assessment for identifying climate finance needs for loss and damage. A critical review*, 2018, in Climate Risk Management, Policy and Governance

⁵⁶ Estimates available include the following: • ActionAid (2010) cites Hope's 2009 study estimating a range of USD 0.3-2.8 trillion in 2060, with an annual average of \$1.2 trillion. • Baarsch et al. (2015) suggest loss and damage costs for developing countries of around USD 400bn in 2030, rising to USD 1-2 trillion by 2050. • DARA (2012) estimate global climate change-induced loss and damage in 2010 at almost USD 700bn (with over 80% of net losses falling on developing countries), rising to USD 4 trillion by 2030 (with developing countries bearing over 90% of net losses). Climate Justice Programme, Heinrich Böll stiftung, Stamp Out Poverty, *Submission on the*

disaster humanitarian aid nor adaptation finance are adequately addressing the needs of communities that are already experiencing loss and damage⁵⁷. Economic losses directly suffered from climate change, reduce countries' ability to invest in climate change mitigation and adaptation measures⁵⁸. Now, seeing this the other way around, every dollar invested in building climate resilience could result in between USD 2 and USD 10 in net economic benefits, or said otherwise, that **USD 1.8 trillion investment in adaptation measures** (early warning systems, climate-resilient infrastructure, improved dryland agriculture, global mangrove protection and resilient water resources) **would bring a return of USD 7.1 trillion in avoided costs and other benefits, as calculated by the Global Commission on Adaptation**⁵⁹.

2.1c Financial consistency with low-emissions and resilience

While deliberations on the new goal may contribute to operationalize Article 2.1c, this will not substitute developed country Parties' obligations of provision and mobilization of finance to the developing world, as per Article 9 of the Paris Agreement, that give continuation and enhance developed countries financial obligations enshrined in the UNFCCC. Article 2.1c), being one of the long-term goals of the Paris Agreement, can act as an enabler and an amplifier of efforts to realize Article 2.1a) and 2.1b) and its operationalization should reflect the interconnection of finance flows to the overall ambition of the Agreement so to keep temperature increases to below 1.5°C and building resilience. From this perspective, Article 2.1c) relates to all financial flows; public and private, domestic and international, green and brown, and all Parties are obliged to promote finance flows to be consistent with decarbonization and resilience.

The 2020 SCF Biennial Assessment Report estimates climate finance flows for 2017-2018 around USD 775 billion, out of which USD 48.7 billion are multilateral and bilateral financing⁶⁰ and only USD 14.5 billion have been destined to adaptation⁶¹. Out of these figures, it is relevant to underline that the GCF, the central piece of climate funding of the climate regime, has mobilized only a total of USD 27.2 billion as of 31 July 2021 (3.5% of global climate finance flows). As underlined in the previous section, funding for adaptation remains largely insufficient, and the World Bank points out that without adaptation and good development, climate change could force more than 100 million people into extreme poverty by 2030⁶². The global poor -and with it the number of food insecure people- have been estimated to increase by at least 2% for any % point slowdown of the global economy derived from the current health crisis⁶³. Moreover, the OECD, the World Bank and UNEP estimate that USD 6.9 trillion a year is required up to 2030 to meet climate and development objectives⁶⁴.

Strategic Workstream on Loss and Damage Finance, 28 February 2017.

⁵⁷ SEI, *Designing a fair and feasible loss and damage finance mechanism...*, p 6

⁵⁸ Press release, *Vulnerable countries and international partners announce collaboration to climate-proof economic growth*, 11 April 2019, retrieved from: <https://www.v-20.org/wp-content/uploads/2019/04/PRESS-RELEASE-V20-WBsprings.pdf>

⁵⁹ Ulrich Volz, *Investing in a green economy: the pandemic is only a prelude to a looming climate crisis...* and UNEP, *Adaptation Gap Report 2020*, p. xi

⁶⁰ UNFCCC Standing Committee on Finance, *2020 Biennial Assessment and Overview of Climate Financial Flows*, 2021, UNFCCC

⁶¹ UNFCCC Standing Committee on Finance, *2018 Biennial Assessment...*, p. 6, 13, 54, 63, 64, 80

⁶² World Bank Group - WBG, *Shock Waves: Managing the impacts of climate change in poverty*, 2016, p. 20.

⁶³ Rob Vos, Will Martin and David Laborde, *How much will global poverty increase because of COVID19?*, International Food Policy Research Institute, retrieved from <https://www.ifpri.org/blog/how-much-will-global-poverty-increase-because-covid-19>

⁶⁴ OECD, UNEP, WBG, *Financing climate futures. Rethinking infrastructure*, 2018, p. 1

At the same time, the SCF calculates that fossil fuel investments add up to USD 977 billion and fossil fuel subsidies to USD 472 billion per year⁶⁵ while losses from natural catastrophes amount to USD 339 billion⁶⁶ (Figure 1).

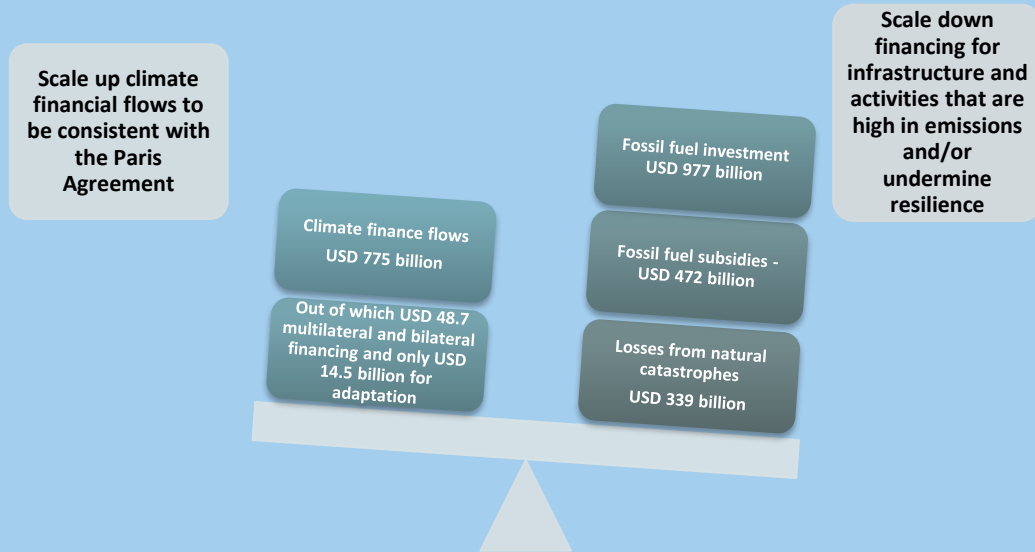


Figure 1. Net Climate Finance

Sources: 2018 & 2020 SCF Biennial Assessment and Overview of Climate Financial Flows

Current financial flows show a very unbalanced picture, one that illustrates that for addressing climate change, it does not suffice to scale up climate funding, rather a more **comprehensive approach of net climate finance**⁶⁷ (the value of climate finance flows minus financial flows to high-emissions and maladaptive activities) would be desirable so as to gradually eliminate financing and investments towards fossil fuels – in accordance with the latest decision made by the CMA in Glasgow “to phase out inefficient fossil fuel subsidies”⁶⁸- and lead to avoiding locking in, while low-emission technologies receive a sustained increase in financing and just transition policies are put into work⁶⁹. It also means divesting from activities that create or increase physical risks to communities and society, and proactively supporting or incentivizing activities that directly help adaptation and resilience or enable more climate-resilient development⁷⁰. In essence, it is necessary to pursue to transition to what has been called Paris-aligned development cooperation (i.e. that does not undermine the Paris Agreement but rather contributes to the required transformation, that catalyzes countries’ transitions to low-emissions, climate-resilient pathways, that supports the short- and long-term processes under the Paris Agreement and that proactively responds to evidence and opportunities to address needs in developing countries)⁷¹.

Now, the new goal provides with an opportunity to define different lines of work, that also relate to the scope of Article 2.1c, besides applying an approach of net climate finance, around how the

⁶⁵ UNFCCC Standing Committee on Finance, 2020 Biennial Assessment..., pp. 12 & 13

⁶⁶ UNFCCC Standing Committee on Finance, 2018 Biennial Assessment..., p. 13

⁶⁷ The concept of net climate finance represents the value of climate finance flows minus financial flows to high-emissions and maladaptive activities, which are currently heavily skewed toward dirty investments. Paul Bodnar, Caroline Ott, Joe Thwaites, Laetitia de Marez, Bianka Kretschmer, *Net Climate Finance. Reconciling the Clean and Dirty Sides of the Finance Ledger*. Discussion Paper, Rocky Mountain Institute, 2017, p.1.

⁶⁸ Decision 1/CMA.3, paragraph 36

⁶⁹ OECD, *Aligning Development Cooperation and Climate-Action: The only way forward*, OECD 2019, p. 13

⁷⁰ OECD, *Framing paper on climate-resilient finance and investment*, 2021, p. 18

⁷¹ OECD, *Aligning Development Cooperation and Climate-Action: The only way forward*, OECD 2019, p. 13

multilateral regime provides a global framework for finance flows climate consistency, that may include:

- Developed country commitments to implement Article 2.1c, both in relation to domestic and international financial flows, including, amongst other areas, through enabling carbon pricing, fossil fuel subsidies reform, greening development finance flows, green budgeting and macroeconomic modelling and public levers⁷² to drive climate finance consistency,
- Financial support from developed countries to developing countries in facilitating applying climate finance consistency, inter alia, to:
 - Align public and private financial flows to the implementation of NDCs and long-term low emissions, resilient development strategies
 - Enable public levers to drive climate finance consistency (i.e. monetary/financial policy and regulation (standards, plans, accounting systems and lending requirements), fiscal policy (taxation, levies, royalties, public procurement, price support or controls), information instruments (certification and labelling, transparency initiatives, disclosure requirements), public finance and use of different financial instruments (loans, grants, guarantees, equity, insurance))⁷³
 - Set up national MRV systems for climate finance consistency
 - Set up green taxonomies
 - Enhance the ability of national and local environments to attract green private finance
- Enhanced transparency in relation to the implementation of Article 2.1c in order to provide high-quality detailed information to be taken into account in the Global Stocktake, as well as inclusion in the reporting of the provision and mobilization of financial support to developing countries for the specific purpose of enabling climate finance consistency, through an additional column to CTFs of support provided and mobilized for 2.1.c, which should be added up and assessed as an input to the GST.
- Increased engagement with different financial stakeholders (Figure 2) through a guiding framework and regulatory guidance that provide with concrete signals and benchmarks over climate finance consistency to marshal necessary investments towards climate-compatible, sustainable and resilient infrastructure and technologies, and avoid stranded assets

⁷² Shelagh Whitley, Joe Thwaites, Helena Wright and Caroline Ott, *Making finance consistent with climate goals...*, p. 8

⁷³ *Idem*

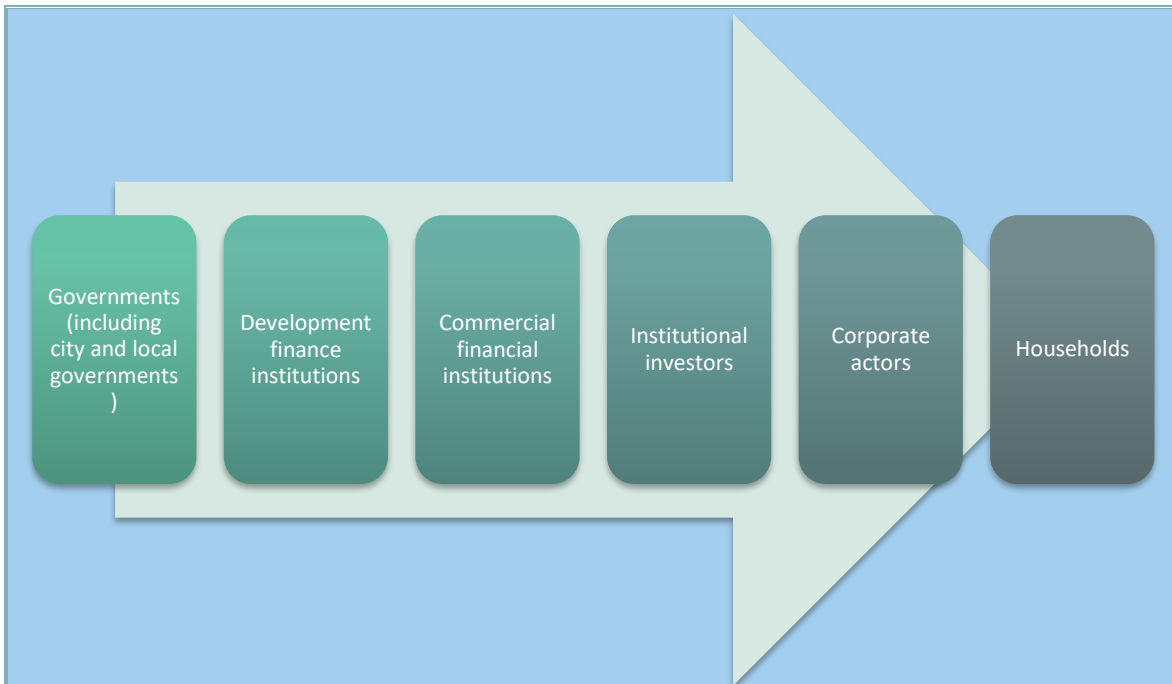


Figure 2. Relevant actors to direct investments towards low-emissions, resilient development models

This guiding framework for the abovementioned stakeholders should include the mainstreaming mitigation and adaptation climate considerations into investment decisions, policies and planning and align⁷⁴ portfolios with the long-term goals of the Paris Agreement starting by **aiming to transition investment and budgetary portfolios to net-zero GHG emissions and climate resilient development by 2050 and to disclose climate-related risks and opportunities, including with regards to the organization’s budgetary/businesses/strategy/financial planning as well as its metrics and targets⁷⁵, and the carbon footprint of investment and budgetary portfolios⁷⁶**. It should also aim to the following:

Governments (including subnational, city and local governments)

- Align national policies to strong and ambitious NDCs and long-term low-emissions and resilient development strategies and the long-term goals of the Agreement, in order to foster high-quality and meaningful projects, programs and actions
- Prepare and develop investment programs and projects consistent with NDC plans, Adaptation Plans and the LTS
- Develop green taxonomies to drive these investment programs and projects
- Scaling up sustainable, low-emissions, resilient infrastructure investments through the developing of platforms for project preparation that include sustainable criteria and project guidance
- Increase investment in R&D that can accelerate the deployment of new clean, low-emissions, resilient technologies
- Work towards measures that can enhance the effectiveness, equity and acceptability of carbon pricing⁷⁷ according to national circumstances

⁷⁴ Alignment means ensuring that development pathways are low-emissions and climate-resilient and as a result, sustainable in the face of the multi-layered challenges that developing countries now face. In OECD, *Aligning Development Cooperation ...*, p. 19

⁷⁵ Task Force for Climate-Related Financial Disclosures (TCFD), *Final Report, Recommendations of the Task Force for Climate-Related Financial Disclosures*, June 2017, p. v It is to be noted, however, that the recent 2021 guidance of the TCFD does not cover adaptation and resilience

⁷⁶ IMF, *Fiscal Policies...*, p. 18

⁷⁷ The Coalition of Finance Ministries for Climate Action, *Helsinki Principles*, retrieved from: <http://pubdocs.worldbank.org/en/600041555089009395/FM-Coalition-Principles-final-v3.pdf>

- Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices⁷⁸, including through:
 - Foster that mandates of state-owned enterprises, when applicable, cooperation agencies, export credit agencies and public investment funds, national budgets and expenditures are compatible with climate goals⁷⁹
 - Integrating climate-related risk in financial system information through guidance, labelling schemes and mandatory requirements,
 - Strengthen climate-related risk management by integrating environmental factors into oversight, supervision and stress testing⁸⁰,
 - Building capacity for and integrating financing for: 1) resilience-building into fiscal policy frameworks, 2) investments in physical resilience and 3) building fiscal buffers to respond to shocks, especially from natural disasters. This financing requires building capacity in fiscal and debt sustainability analyses to integrate:
 - i. probabilistic assessments of the frequency and severity of climate-related natural disasters and slow-onset climate-related damages (accounting for how damages are diminished through climate-proofing investment);
 - ii. comprehensive financing strategies for ex ante fiscal buffers and ex post disaster expenditures;
 - iii. national budget financing (required beyond external finance) of physical adaptation and mitigation investments⁸¹
- Mobilize private sources of climate finance by facilitating investments and the development of a financial sector which supports climate mitigation and adaptation⁸², including through showing domestic leadership, stimulate innovation, policy reforms and greater capacity to better align fiscal incentives and pricing and help public and private investments flow⁸³, including through gradually increasing current spending on research and development of low-emissions and resilient technologies throughout their life cycle; as well as blended finance mechanisms to manage risk and promote private sector involvement.
- Develop and enact coherent policies and incentives across the economic, environmental, social, education, training and labour portfolios to provide an enabling environment for enterprises, workers, investors and consumers to embrace and drive a just transition towards environmentally sustainable and inclusive economies and societies while ensuring that public investments guarantee social development goals and promoting the creation of more decent jobs, including, as appropriate, anticipating impacts on employment, adequate and sustainable social protection for job losses and displacement, skills development and social dialogue⁸⁴
- Assess the establishment of national just transition⁸⁵ funds to support activities to address climate action and related employment risks through the implementation of just transition plans for

⁷⁸ *Ibidem*

⁷⁹ UNEP Finance Initiative, *Extending our horizons*, UNEP, p. 66

⁸⁰ IMF, *Fiscal Policies for ...*, p.18

⁸¹ *Ibidem*, pp 38, 39

⁸² The Coalition of Finance Ministries for climate Action...

⁸³ OECD, UNEP, WBG, *Financing climate futures...*, p. 106

⁸⁴ ILO, *Guidelines for a Just Transition towards environmentally sustainable economies and societies for all*, 2015, p. 6

⁸⁵ The Preamble of the Paris Agreement underlines that “the imperatives of a just transition of the workforce and the creation of decent work and quality of jobs in accordance with nationally defined development priorities” are to be taken into account on its implementation. Also, the International Labour Organisation provides guidance on a **just transition** to environmentally sustainable economies and societies; signalling that enabling a just transition will represent a series of major challenges including, among others: i) economic restructuring, resulting in the displacement of workers and possible job losses and job creation attributable to the greening of enterprises and workplaces; ii) the need for enterprises, workplaces and communities to adapt to climate change to avoid loss of assets and livelihoods and involuntary migration and iii) adverse effects on the incomes of poor households from higher energy and commodity prices; whilst if well managed, it may create potential opportunities in a) net gains in total employment from realizing the potential to create significant numbers of additional decent jobs through investments into environmentally sustainable production and consumption and management of natural resources; (b) improvements in job quality and incomes on a large scale from more productive processes, as well as greener products and services in sectors like agriculture, construction, recycling and tourism; (c) social inclusion through improved access to affordable, environmentally sustainable energy and payments for environmental services, for

workers and vulnerable communities, including indigenous peoples and local communities, regions and industry sectors, thus investing in vocational education and training, reskilling and retraining, extended or expanding social protections for workers and their families, and grant, loan and seed capital programs for diversifying community and regional economies⁸⁶

- As for subnational, city and local governments, it is recommended to:
 - rethink land use and transport strategies and seize the development benefits of low-emission, resilient planning,
 - develop capacity to more effectively plan and finance right infrastructure (e.g. clean public transport and greater vehicle efficiency, city cycling infrastructure, energy efficiency for new and existing buildings including sustainable cooling or others in accordance with local realities),
 - align national and local fiscal regulations to encourage and enable low-emissions, resilient investment and behaviours
 - build climate-related and project analysis and financing capacity at the city and local level
 - use of innovative instruments such as green bonds⁸⁷

Development finance institutions

- Strengthen mandates and incentives to deliver transformative and scaled-up climate action including by striving to make their activities consistent with low-emissions, resilient development and reducing or phasing out investments in emissions-intensive technologies⁸⁸ and maladaptive activities
- Adopt core definitions and mechanisms to ensure Paris alignment at the system level⁸⁹
- Foster to adopt a shadow carbon price to acknowledge the potential carbon cost including in credit assessments as a means to promote among companies, institutions and other stakeholders the benefits of a low-carbon transition and shift more resources towards sustainable projects⁹⁰
- Develop and implement instruments that attract private actors (i.e. guarantees, capital and loans in domestic currency, debt swaps), new investors and sources of funding and use concessional financing strategically to deliver transformative climate action and build enabling environments and climate markets⁹¹ including by working with governments to develop enabling policies and regulations, environments and markets (strengthening local capital markets to attract working capital and lower the cost of doing business through a greater focus on mobilisation of commercial and private financing⁹²) to scale up commercial investment, optimising the risks that development banks carry, and using concessional finance –through blended finance, for example- in cases where investments are critical to achieve climate goals, but cannot be viably financed through non-concessional windows⁹³, either by commercial banks or other financial institutions, including aimed at local or regional governments.
- Increase the availability of grants and concessional instruments to developing countries governments

Commercial financial institutions

- Mainstream climate considerations including through:
 - Building out climate scenario models to support financial risk analysis
 - Developing data and analytics for borrower level climate risk analysis
 - Methodological enhancements to the portfolio of impact assessment

instance, which are of particular relevance to women and residents in rural areas; in ILO, 2015, *Guidelines for a Just Transition...*, p. 5.

⁸⁶ Just Transition Centre, *Just Transition...*, pp 17, 18

⁸⁷ OECD, UNEP, WB, *Financing climate futures...*, pp 16, 117, 119, 120

⁸⁸ *Ibidem*, p. 105

⁸⁹ OECD, *Aligning Development Cooperation ...*, p. 16

⁹⁰ César Gabriel Espinosa García, *Shadow Carbon Pricing and the role of development banks*, LSE & NAFIN, March 2018, p. 1, 2, 16

⁹¹ OECD, UNEP, WB, *Financing climate futures...*, p. 16

⁹² *Ibidem*, pp 102 & 105

⁹³ *Ibid.*, pp 110 & 111

- Integration of transition risk assessment in each organisation⁹⁴
- Foster products and services that have a lower emissions profile or contribute to GHG reductions and adaptation/climate related risk reduction, and are more competitive, increasing financing demand. Such opportunities for commercial banks to better serve clients include investment in energy efficiency technologies, new energy generation and production sources, low-emissions products and services, low-carbon infrastructure. Banks can therefore position themselves to meet the growing demand for low-carbon corporate lending in such segments and help clients from more carbon-intensive industries adapt to the new environment⁹⁵.

Institutional investors

- Integrate environmental, social and governance factors throughout operations and embed climate into economic and financial priorities
- Engagement with assets owned to better understand climate impacts and stimulate alignment with the Paris Agreement, by integrating climate factors into capital allocation choices across listed equities, fixed income, property and infrastructure as well as private assets and decarbonizing portfolios by reducing or removing allocations to high-carbon assets and direct flows towards assets aligned with the low-carbon economy
- Policy dialogue with local, national and international policy-makers to put in place the reforms needed to correct the market and policy failures that create the climate problem⁹⁶
- Scale up and issuance of green financial instruments/bonds⁹⁷

Corporate actors (banks, asset managers, pension funds, insurers, credit rating agencies, accounting firms, shareholder advisory services, enterprises)

- Develop corporate plans for the consequences of climate change consistent with the Paris Agreement along with company commitments to social dialogue to ensure a just transition and to foster corporate responsibility for environmental risks to communities⁹⁸ thus embedding climate into economic and financial priorities and improving the sustainability/climate compatibility of their operations
- Manage climate, environmental and social risks associated with their financing activities, including by means of introducing investment diversification away from high-carbon assets to protect long-term financial interests of beneficiaries in affected sectors⁹⁹
- Foster to adopt a shadow carbon price to acknowledge the potential carbon cost, in advance to future regulations or actual carbon pricing¹⁰⁰
- Identify opportunities to support clients in finding, scaling up and issuance of green financial instruments/bonds

What we can draw as general conclusions and elements on how the new goal can contribute to accelerate the achievement of Article 2 from our research and reflections above relate to the fundamental importance of providing this new finance goal with a longer-term perspective that matches the ambition

⁹⁴ OECD, UNEP, WB, *Financing climate futures...*, p. 64

⁹⁵ UNEP Finance Initiative, *Extending our horizons...*, p. 7

⁹⁶ Nick Robins et al., *Investing in a just transition...*, p. 6

⁹⁷ A good example of those instruments are the [Blue Bonds for Conservation](https://www.nature.org/en-us/what-we-do/our-insights/perspectives/playbook-for-climate-action/?tab_q=tab_container-tab_element_975944242) which were created as an opportunity for island and coastal nations to reinvest in their natural resources by refinancing their national debt in a way that secures funding for conservation work that also benefits their economies. The countries' governments commit to protect at least 30 percent of their near-shore ocean areas, including coral reefs, mangroves and other important habitats for climate resilience, and engage in ongoing conservation work such as improving fisheries management and reducing pollution. Then, organizations such as TNC leverage public grants and commercial capital to restructure the nations' sovereign debt, targeting lower interest rates and longer payment periods. A portion of those savings fund the new marine protected areas and the conservation activities to which the country has committed. Retrieved from The Nature Conservancy Playbook for Climate Action: https://www.nature.org/en-us/what-we-do/our-insights/perspectives/playbook-for-climate-action/?tab_q=tab_container-tab_element_975944242

⁹⁸ Just Transition Centre, *Just Transition...*, p. 9

⁹⁹ Nick Robins et al., *Investing in a just transition...*, p. 26

¹⁰⁰ César Gabriel Espinosa García, *Shadow Carbon Pricing ...*, p. 16

of the long-term goals of the Paris Agreement, so that at least it has a **2050 horizon with short and mid-term stepping-stones by 2030 and 2040**. It is however relevant to underline that the implementation of the new goal, as well as its conceptualization must be updated as a result of the technical assessment of each Global Stocktake (from 2028 onwards), in assessing the collective achievement of the purpose and long-term goals of the Paris Agreement, as well as opportunities for enhanced action and support, as envisaged in Article 14 of the Agreement and Decisions 1/CP.21 and 19/CMA.1, and on the basis of the best available science, including from the IPCC.

In the same sense and as explained throughout the various elements of the implementation of Article 2 from the new goal's angle, for AILAC it is critical that this goal weights quantitative and qualitative elements of it in a manner that is **comprehensive and multidimensional**. Thus, a quantified goal(s), defined giving a central role to public funding by developed countries and their leadership in mobilizing climate finance, as per Article 9 of the Paris Agreement, is also supported by a series of qualitative elements on how this goal/s are to be achieved, by taking into account the needs and priorities of developing countries in this transition to 1.5°C.

Therefore, the definition of the **quantum** should be done through the use of different sources of input, including bottom-up information – e.g. national quantification of needs for the implementation of NDCs– and top down reports and inputs – e.g. Adaptation Gap Report, IRENA's Report, IPCC SR1.5, SCF Needs Report and its Biennial Assessments of Global Climate Finance Flows, OECD, UNSG and OXFAM Reports on the USD 100 billion goal, amongst others,– and to be translated around key thematic areas of climate action, i.e. adaptation, mitigation, loss and damage. These thematic areas could potentially become quantified thematic subgoals that combine different financial sources while underlining the preponderance and specific role of public finance from developed countries to developing countries (e.g. public, grant-based for adaptation; public and private for mitigation, public, grant-based and for loss and damage).

The **quality** of the goal relates to set of principles that will govern the goal (i.e. net climate finance¹⁰¹, effectiveness, leverage ratio potential and risk appetite, others) as well as a series of qualifiers to the quantum, including keeping temperature increases to below 1.5°C; addressing the needs and priorities of developing countries for mitigation, adaptation and loss and damage; the context of sustainable development and poverty eradication; and the very operationalization of Article 2.1c. When we, developing countries, look at the lessons learned from the current USD 100 billion goal, we know that we do not want to replicate the quantity, quality and composition gaps that we are facing on adaptation finance (i.e. 20-25% of total climate finance), on loss and damage finance (i.e. no data available), on how climate finance has deepened the levels of indebtedness¹⁰² and worsening the fiscal burdening of developing countries (i.e. 80% loans portrayed as climate finance), on the difficulties to access climate finance that all of our countries have faced in terms of scale, timings, bureaucracy and learning curves both to UNFCCC climate funds and other sources of climate finance, and on how little mobilization has actually flown to the developing world (more than 75% of 2019/2020 tracked climate investments flowed domestically with 76% of global flows dominated in Western Europe, US and Canada and East Asia and the Pacific¹⁰³). We need to do more. We need to do better. We must rebalance these gaps towards a win-win comprehensive, climate-compatible financial transition driven by international cooperation, led by developed countries.

¹⁰¹ Increasing climate finance while reducing high-emissions finance

¹⁰² Mounting debt in most developing countries further complicates the context. With reduced fiscal space due to the social and economic consequences of the COVID-19 pandemic, many countries are left without options to access capital markets and dealing with looming sovereign credit downgrades. For instance, in 2020, Latin America and the Caribbean faced the sharpest economic contraction (-7.7% and -20% respectively in GDP and investment growth) within the developing world. Without exception, all countries in the region have experienced a deterioration in their fiscal situation and an increase in general debt levels. As things stand, the debt of the general government at the regional level is expected to rise from 68.9% in 2019 to 79.3% of GDP in 2020, making Latin America and the Caribbean the most indebted region in the developing world and the region with the highest external debt service relative to exports of goods and services at 57%, in ECLAC, 2021, *Financing for development in the era of COVID-19 and beyond. Priorities of Latin America and the Caribbean in relation to the financing for development global policy agenda*. Retrieved from:

https://www.cepal.org/sites/default/files/publication/files/46711/S2100063_en.pdf

¹⁰³ Climate Policy Initiative, *Global Landscape of Climate Finance 2021...*, pp 4 & 29

Now, let us be clear: no matter what source of information is used to define **the financial transition to 1.5°C, it will come in trillions of dollars**. Throughout this position paper we have presented financial needs estimates that when added up represent **adaptation¹⁰⁴, mitigation^{105,106} and loss and damage¹⁰⁷ annual finance needs for developing countries that amount to USD 1.9 trillion by 2030, USD 2.3 trillion by 2040 and USD 3.2 trillion by 2050**. The Climate Policy Initiative (CPI) calculates that estimated needs will be USD 4.5 – 5 trillion annually¹⁰⁸, while the first SCF Report on the determination of needs of developing countries calculates NDC related costed needs in a range of USD 5.8 – 5.9 trillion by 2030¹⁰⁹. We must acknowledge, as a matter of fact, that the mobilization of billions of dollars has not and will not suffice the purpose of the Paris Agreement neither the scale of resources that the current climate crisis requires us to repurpose. It is as relevant to underline that the global economic benefit of this transition will also be measured in trillions of dollars but with the difference that these benefits will internalize, for the first time in history, the climate and environmental “externalities” of ambitious climate action.

To finish, we would like to share a set of questions that we consider could help us frame our negotiations and enable the necessary quantitative and qualitative changes **to the financial system, including that of international cooperation**, to ensure that we do not surpass an increase in temperature beyond 1.5°C:

1. How can the multilateral process help ensure that in the next 15 years¹¹⁰ we shift from the billions to the trillions and ensure that business as usual investments that are high in emissions and/or do not guarantee resilience to climate impacts are being reduced and phased out?
2. How do we direct finance towards carrying out a just transition to low-emissions, resilient development while supporting economic recovery options from the current global health crisis? What is necessary to manage stranded assets as part of this transition?
3. How to operationalize Article 9 through this goal and make the best use of public finance provided and mobilized by developed countries to foster this transition to 1.5°C?
4. How can the multilateral funds of the climate regime¹¹¹ play an enhanced role in driving action, mobilizing and aligning finance to the Paris Agreement long-term goals in a scale and speed much larger than the current one – less than 5% of global climate financial flows–?
5. How can we make use of specific financial instruments to address different needs and priorities of developing countries (e.g. public finance, grant-based for adaptation and a combination of instruments for mitigation)?
6. What is the role of multilateral development banks (MDBs), other development finance institutions and development agencies –including central banks and financial regulators-, in aligning financial flows with the objectives of the Paris Agreement? How do we translate public climate-compatible investments into profits? What changes need to be made in the governance of multilateral development banks and other development finance institutions so that they can effectively crowd-in the private sector? What can shareholder countries request from management?

¹⁰⁴ UNEP, *Adaptation Gap Report 2021...*, p. xiv, 29 & 30 & UNEP, *Adaptation Gap Report 2020*, p. xiv

¹⁰⁵ McCollum et al, *Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals*, Nature Energy 201;

¹⁰⁶ UNEP, 2021, *State of Finance for Nature 2021...*, p. 6

¹⁰⁷ Markandya, A. and González-Eguino M., *Integrated Assessment for identifying climate finance needs for loss and damage...*

¹⁰⁸ *Ibidem*, p. 5

¹⁰⁹ Standing Committee on Finance, *First report on the determination of needs of developing country Parties related to implementing the Convention and the Paris Agreement*, 2021, p. 7

¹¹⁰ The Global Commission on the Economy and Climate, *The New Climate Economy...* p. 8

¹¹¹ The Global Environment Facility and Green Climate Fund (GCF) as the Operating Entities of the Financial Mechanism of both the Convention and the Paris Agreement; the Least Developed Countries Fund, Special Climate Change Fund that serve both the Convention and the Paris Agreement; and the Adaptation Fund that serves the Kyoto Protocol and the Paris Agreement.

7. Beyond public finance and without substituting developed countries financial obligations to provide and mobilize climate finance towards developing countries, what other stakeholders and financial flows are to be taken into account in this goal? How do we engage with different stakeholders to transform the current trends of financing and investments on high-emitting sectors, particularly the energy sector (reduction and avoidance of locking in) and low-carbon technologies (sustained increase) in line with the long-term goals of the Paris Agreement? How can the United Nations, through the definition and implementation of the new goal, drive actions by these stakeholders?
8. How to take into consideration “the needs and priorities of all developing countries” in relation to mitigation, adaptation and loss and damage? How to address the differentiated needs of regions and subregions of the developing world (e.g. the Caribbean, Latin America, Africa, Middle East, Central Asia, South East Asia, the Pacific)? How can developed countries assist developing countries in establishing the costs of their expressed needs for mitigation, adaptation, L&D and others?
9. How can private finance be leveraged and mobilized in a much larger scale and rapid pace, considering that the “billions to trillions” agenda is yet to deliver? What are the implications of paving the way to low-emissions, resilient development for business models? What new financing approaches are required? What are the implications and opportunities to ensure that these other actors deliver on Paris-aligned commitments?
10. How do we ensure that commercially feasible technologies are evenly deployed all over the world to enable a technological transition towards a 1.5°C world? How can investments be de-risked and hedged so that private investors can invest beyond developed markets?
11. How can further innovations be financed through public and private sources for both for emissions reductions and resilient development?
12. What other systemic changes need to occur in the development finance architecture for climate finance to flow to developing countries? What needs to be revised in terms of international finance institutions, credit rating agencies and other actors?
13. How can we incentivize the private sector to mobilize financing towards adaptation and resilience building?