DEMANDS AND EXPECTATIONS FROM THE DEBT AND CLIMATE WORKING GROUP ON THE NEW COLLECTIVE QUANTIFIED GOAL (NCQG) PROCESS

Organizations that support this document: Latindadd, Global Youth Coalition; Debt Justice UK; Eurodad; Pacific Islands Climate Action Network (PICAN); MenaFem Movement for Economic, Development and Ecological Justice, Stichting Projekta, Center for Economic and Social Rights (CESR), ActionAid.

BACKGROUND

2024 is a crucial year for climate finance negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) because a new goal or climate finance commitment is going to be set in COP29 in Azerbaijan, as part of the process called “New Collective Quantified Goal” (NCQG) that started with an ad-hoc working program for 2022-2024.

This new goal will replace the unfulfilled and inadequate USD 100 billion pledge per year committed by developed countries in 2009.

(1) This briefing was elaborated based in a previous submission for TED7 of the NCQG process, by Eurodad, Debt Justice, Latindadd, Jubilee USA, ActionAid International, Debt Justice Norway, with the support of 41 organizations from the economic and climate justice movements.
The NCQG process is extremely important, because it gives the opportunity not only to increase the quantum of the goal, but also to improve the quality of the international climate finance flows and the response of the global financial system. NCQG should learn from previous mistakes and address the real needs and challenges of low and middle-income countries that are already both facing disproportionate impacts of the climate crisis and a very difficult economic context. This is particularly relevant in relation to the countries’ indebtedness as a consequence of a new colonial financial system in place as well as the current context of multiple crisis.

The process to set up a post-2025 New Collective Quantified Goal on climate finance is also an opportunity to rebuild trust on climate finance and to embed principles of economic equity and justice, addressing not only quantum matters, but also quality issues. With high climate finance needs and high debt burdens, it is key that the process to set an NCQG does not result in further indebtedness from climate finance.

However, this process also entails risks, including to continue relying on debt-creating instruments to mobilize climate finance, false solutions based on market mechanisms and overreliance on the participation of Multilateral Development Banks or the private sector. The focus also needs to be on the risk of dilution of the historical responsibility that global north countries have regarding the climate crisis, and therefore the need for reparations to the global south, in accordance with the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC).

This brief explains better these risks, to provide recommendations that could guide the decisions of party negotiators that are involved in this process, bringing global south and economic and climate justice perspectives, in the preamble of the Technical Expert Dialogue 9 (TED), to be held in Cartagena Colombia, from April 23-26.
KEY MESSAGES

Unsustainable debt burdens are threatening to jeopardize the very integrity of the Paris Agreement and the objective of limiting global temperature rise below 1.5°C, preventing meaningful efforts to implement mitigation and adaptation measures, as well as derailing measures to avert, minimize and address loss and damage, particularly for countries in the global south. Most indebted countries worldwide are also highly vulnerable to the impacts of the climate crisis. Therefore, we recommend that:

- The process of setting an NCQG should not result in further indebtedness from climate finance in the global south and thus should follow the principle of Common but Differentiated Responsibilities (CBDR) and adopt a climate justice perspective.
- The provision of international public climate finance in the form of grants, and highly concessional finance, should be at the core of the NCQG.
- The historical responsibility of global north countries should not be diluted by bringing more contributors to the table or aligning the new goal with Article 2.1.c instead of Article 9 of the Paris Agreement, as some rich countries are trying to do.
- This NCQG process should guarantee the provision of high-quality, new, public and additional, debt-free, pro-poor, gender-responsive, climate finance grants that are free from economic conditions.
- All climate finance contributions must be aligned with a human-rights, intergenerational equity, and a feminist gender-responsive approach.
- When a climate-extreme event such as a tropical storm takes place that significantly worsens a country’s economic outlook, there should be an immediate, interest-free suspension of all debt payments from that country across all creditors. This must go alongside additional, grant-based financing for addressing Loss and Damage. After a period of assessing the impacts of the shock, a debt sustainability analysis should be conducted, considering the losses and damages and the financing needs for recovery and reconstruction, followed by a debt restructuring, including cancellation if needed, across all creditors.
• Unconditional debt cancellation must be ensured for all countries that need it, across all creditors (bilateral, multilateral and private).
• New legislation in key jurisdictions, including New York and the UK, should be introduced to compel private creditor participation in debt relief processes
• Establish a multilateral debt workout process under the auspices of the United Nations that can help countries break the vicious cycle of escalating debt and climate crises.
• The NCQG process should guarantee direct access by the most vulnerable groups to climate finance. Most of the current climate finance mechanisms such as the Green Climate Fund (GCF), Adaptation Fund (AF) and Green Environment Facility (GEF) are mired in cumbersome procedures and time consuming bureaucracy. Accredited Entities who are eligible to access funds are oftentimes regional and national banks, United Nations Entities, MDBs and international financial institutions.
• It is very important that parties agree on a single concept for climate finance and a single methodology to measure it among parties, to promote transparency.
• The political decisions to be taken in 2024, should be guided by scientific evidence, as well as by the technical inputs obtained during the TEDs, and they should be needs-based.
INTRODUCTION

Countries in the global south have historically contributed the least when it comes to causing climate change, yet they are impacted most by the impacts of global warming\(^2\). Their additional over-exposure to ongoing loss and damage is harming their ability to finance climate and development measures, because they are sucked into a cycle of climate-induced debt and fiscal deficits. This in turn inhibits their ability to tackle climate change and pursue the Sustainable Development Goals (SDG), which becomes a vicious cycle that repeats\(^3,4\). Climate finance is a part of the solution. However, rich countries still have not met the climate finance goal to mobilize USD 100 billion annually to developing countries and these funds are difficult to access for vulnerable communities and the application processes are bureaucratic and inefficient, to the extent that the Green Climate Fund (GCF) can take 5 years to approve a project.

Also, by using financing mechanisms that exacerbate the polycrises of climate change, debt and inequalities, climate finance contributors are not supporting global climate action or enabling climate justice.

Climate justice is about recognizing that the climate crisis has been caused by the global north (including through resource exploitation in the global south)\(^5\). This means that the global north has a far greater responsibility to act first and to act quickly. However, the existing global climate finance goal of US$100 billion per year has never been met, and currently 68 per cent of public climate finance is being delivered through loans\(^6\). Moreover, countries in the global south that are highly vulnerable to climate change also include

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\(^6\) OECD (2023) ‘Climate Finance Provided and Mobilised by Developed Countries in 2016-2021: Aggregate trends and opportunities for scaling up adaptation and mobilize private finance’, OECD, https://doi.org/10.1787/e20d2bc7-en
many middle-income countries, which are often not eligible for other forms of grant or concessional climate-related development finance due to their income status\(^7,8\).

It is this inverse relationship between climate risk/vulnerability on the one hand, and responsibility on the other, that forms the basis of climate justice debates\(^9\). The United Nations Framework Convention on Climate Change (UNFCCC) recognizes the inequity of the climate crisis. Its framework is structured so that countries with the biggest historical responsibility for causing climate change – namely countries in the global north – have the lead responsibility in tackling climate change, which includes providing finance to support the journey of countries in the global south to achieve economic growth that is not rooted in high greenhouse gas (GHG)-based economies\(^10\). All of this is underpinned by the UNFCCC’s principle of Common but Differentiated Responsibilities (CBDR)\(^11\). Article 9 of the Agreement enshrines the right to climate finance for developing countries. This also materializes in the Convention under the classification of countries in Annex 1, Annex 2 and non-Annex countries\(^12\).

A huge gap between climate finance commitments and global south needs. The commitment to mobilize USD 100 billion yearly to global south countries falls short compared to the needs that have been estimated, considering that these countries need between US$5.8 trillion and US$5.9 trillion to implement their National Determined Contributions (NDCs) by 2030; they also need around USD 215 – 387 billion annually for adaptation and USD 4.3 trillion per year for clean energy.

Considering the unfulfillment of climate finance commitments by rich countries, the limitations of the financial mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC), the needs of

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\(11\) Ibid.

“developing” countries to face the climate crisis, and the little time that according to science predictions humanity has left to stop the climate crisis, different, agile solutions are needed to guarantee access to “fair financing”.

THE URGENT NEED TO DISCUSS DEBT RELIEF OPTIONS

Irresponsible climate lending is exacerbating the global south’s exposure to climate change and global economic shocks. It is unjust that 2/3 of climate finance is provided as loans that must be repaid. In 2021, US$49.6 billion, or 68 per cent\(^\text{13}\) of public climate finance attributable to global north countries was in the form of non-concessional and concessional loans. Meanwhile grants totaled just US$20.2 billion (28 per cent) of climate finance\(^\text{14}\). However, in spite of their urgent climate finance needs, lower income countries spent five times more on debt repayments in 2021 than on tackling climate change\(^\text{15}\). Both low- and middle-income countries spent US$372 billion on debt repayments in the same year\(^\text{16}\).

Any additional debt, in the form of climate finance loans, imposes an additional barrier to them being able to implement robust climate measures. Indeed, research\(^\text{17}\) for the International Monetary Fund (IMF) concludes that small climate-vulnerable states’ debt levels increase quickly after climate-related events. This is a result of the impact on their economies, and because they can only take on new debt at high interest (their climate vulnerability means they are deemed to be high risk) in order to finance reconstruction. Furthermore, the repayment of such loans impacts countries’ ability to provide high-quality public services, such as access to clean drinking water after a climate event. The most heavily indebted nations are expected to reduce public expenditure by 3 per cent on average between 2019 and 2023\(^\text{18}\). This in turn has implications.

\(^{(13)}\) OECD (2023) ‘Climate Finance Provided and Mobilised by Developed Countries in 2016-2021: Aggregate trends and opportunities for scaling up adaptation and mobilize private finance’, OECD, https://doi.org/10.1787/e20d2bc7-en

\(^{(14)}\) Ibid.


on, for example, eradicating poverty, increasing gender parity and achieving higher education goals, which in turn negatively affects the fulfillment of the 2030 agenda for Sustainable Development.

Clearly, climate change acts as a multiplier of debt burdens, and it is these high debt burdens that are impacting the global south’s ability to tackle climate change and phase-out of fossil fuels. Indeed, the need to raise foreign currency to repay debts compels many countries in the global south to rely even more on fossil fuel and extractive industries or industrial agriculture oriented for export – thereby further accelerating the climate crisis. The climate crisis and debt crisis thus mutually reinforce each other – entrenching an unsustainable global economic system.

In the context of widespread debt crises, new lending to global south countries is often allocated to servicing existing debt repayments largely owed to private creditors, effectively bailing out these creditors rather than being allocated to addressing the climate crisis. This will exacerbate the debt crisis, prevent countries from responding to the climate crisis, and cause a further debt crisis down the road when these new loans eventually fall due. This effectively undermines the ability of countries in the global south to respond to their own national needs, including the climate crisis. It also challenges the very “new and additional” character of climate finance if new loans and grants finance are dedicated to existing debt repayment. That is why debt restructuring and relief must go hand in hand with the provision of climate finance.

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As climate vulnerabilities have increased for countries in the global south, so has these countries’ need to access long-term concessional finance. As a result, Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs) have played an increasing role in the delivery of climate finance. However, MDBs and IFIs often have strict eligibility requirements to access finance – based, for example, on the Gross Domestic Product (GDP) criteria of eligible countries. They usually prioritize loans over grants; apply austerity-based policy conditions to their finance (which have been shown to have harmful outcomes for countries and communities in the global south, including increasing poverty and inequality); lack transparency; and finance projects that cause climate change, including fossil fuel projects. Countries in the global north attributed US$36.9 billion of their climate finance to multilateral finance institutions in 2020, and 91 percent of multilateral public climate finance (excluding multilateral climate funds) was provided in the form of loans. What is more, between 2016 and 2020, only approximately 23 per cent of MDBs’ climate finance loans were concessional, and these were provided based on a country’s income level, creditworthiness and debt sustainability analysis (DSA).

However, these metrics do not take into account the overwhelming impact of climate change on a country’s income, debt levels or industries. For instance, a study by researchers in India concludes that the “higher economic dependency on climate-sensitive sectors makes [global south] countries more susceptible to climate change.” This makes clear the need for alternative measures of vulnerability and financing needs, such

(28) Ibid.
as the multi-vulnerability index being developed by the UN for Small Island Developing States (SIDS)\(^\text{30}\). The ability to finance the implementation of climate measures is crucial for overall sustainable development. This is evidenced by an International Monetary Fund (IMF) working paper, which states, “[q]uasi-continuous post-disaster reconstruction and emergency repairs of climate-vulnerable infrastructure also impose strains on the availability of financing for other development goals”\(^\text{31}\).

The lack of access to highly concessional finance from MDBs means that countries in the global south are often indebted to MDBs. A total of 91 countries in the global south already owe 30 per cent of their external debt to multilateral institutions\(^\text{32}\), all while having estimated financing needs of between US$5.8 trillion and US$5.9 trillion to implement their (public and private sector) Paris Agreement climate action plans by 2030\(^\text{33}\). It is clear that, as countries in the global north seek to expand the climate finance contributors’ base and share their responsibility for meeting climate finance goals with multilateral financial institutions, the global south’s exposure to more non-concessional loans and debt increases. Meanwhile, the hold these institutions have over the global south’s climate action and economic priorities also increases.

As highlighted above, without debt restructuring and relief, any new loans to countries in the global south will likely have to be used to repay existing creditors as opposed to being allocated to climate action. The World Bank already holds 20 percent out of US$686.3 billion\(^\text{34}\) of the Vulnerable Group of Twenty (V20) climate vulnerable countries’ external public debt, while other MDBs hold an additional 20 per cent. Thus, if a high proportion of the new loans for climate finance come from MDBs, an even larger share of lower income country debt will be owed to MDBs.


This will further impact the global south’s ability to implement robust climate measures. Additionally, when debt relief inevitably does take place in the coming years, it will fall exclusively on public institutions and governments in the global north, instead of sharing the burden with private lenders. This will mean that it will be far more expensive for public finances than if private lenders were compelled to provide debt relief now.

The international, institutional and legal framework that regulates climate policy and climate finance sits within the UNFCCC, as do the Financial Mechanisms that serve the UNFCCC and its Agreements e.g. the Paris Agreement. As such, to ensure that all financial flows support the objectives agreed within the UNFCCC’s multilateral fora, climate finance provided outside of the auspices of the UNFCCC – such as via MDBs and IFIs – should be grounded in the principles of the UNFCCC.

**THE PRIVATE FINANCE DEBT TRAP**

The high debt level of many countries in the global south makes it hard to raise capital, particularly for projects with low profit margins such as adaptation projects, or to cover the economic loss and damage derived from climate change. Under the current narrative, which emphasizes the need for trillions of dollars to tackle the climate crisis and the excuse that there is not enough public money, private finance is often promoted as a solution, and is portrayed as a sector that can help fill financing gaps. Indeed, the private sector is already capturing the bulk of climate finance. Averages for 2019/20 show that the private sector received 2.5 times more climate finance globally than the public sector and public-private sector combined.

Worryingly, public money is increasingly being used to balance the perceived risk of the private sector investing in infrastructure that supports the energy transition in the global south, notably via public-private partnerships (PPP) and guarantees. However, a 2020 study shows that,

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amongst other things, PPPs create hidden debt that private finance costs more than government borrowing, and public authorities often bear the risk of project failures (i.e. contingent liabilities). Moreover, an IMF staff note states that “[g]reater private finance for infrastructure exposes poor households to higher costs for services”\(^{(37)}\). Privately financed water or energy infrastructure could impact the ability of vulnerable communities and poorer households to access these vital basic services in the wake of a climate impact, due to being unable to afford the market prices to access vital services, possibly as a result of lost livelihoods caused by a climate impact.

This would be disastrous for communities, impacting local and/or regional economies, and exacerbating inequalities within countries. The private sector typically prioritizes wealth generation and profit, and thus lacks the incentive to fund high-quality, accessible public services, climate resilience, adaptation measures and loss and damage. There is also a risk of greenwashing, which needs regulatory oversight and binding standards.

Using private finance and involving private sector stakeholders in project implementation fails to recognize how private sector practices have exacerbated financial and climate vulnerabilities, and how they compound each other. For instance, research from Imperial College London shows that “for every US$10 [global south] countries spend on interest payments, an additional dollar of interest is added due to climate vulnerability”\(^{(38)}\). It is clear that finance from the private sector is a costly expense for countries in the global south, a practice that traps these countries in financial deficit, as they often slash public expenditure in order to service public debt\(^{(39)}\). The shrinking space for public climate finance that communities, regions and civil society can access\(^{(40)}\) risks leaving entire communities behind, as the world seeks to address climate change.


The UNFCCC Secretariat published a Recognition and Accountability Framework for non-Party stakeholder climate action\(^{41}\) to create greater accountability of such stakeholders’ climate action. In principle, this would also cover private sector engagement in climate action. However, as outlined above, using the private sector as a climate finance contributor comes with risks, and the dispersed nature of the private sector (different international, national, regional, local regulations and laws) will make it very difficult to ensure that commitments from this sector fall under the auspices of the UNFCCC.

Recognising that the UNFCCC does not have the mandate to take decisions on global economic policy, the NCQG must be a space to be proactive about preventing further indebtedness from climate finance in the global south. This is vital to protect the very integrity of the Paris Agreement. As such, we make the following recommendations on the scope of the NCGQ goal.

### KEY RECOMMENDATIONS AND DEMANDS FROM CIVIL SOCIETY

- The process of setting an NCQG should not result in further indebtedness from climate finance in the global south and thus should follow the principle of Common but Differentiated Responsibilities (CBDR) and adopt a climate justice perspective.
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• It is very important that parties agree on a single concept for climate finance and a single methodology to measure it among parties, to promote transparency.

• The political decisions to be taken in 2024, should be guided by scientific evidence, as well as by the technical inputs obtained during the TEDs, and they should be needs-based.