CSE@COP29

CLIMATE FINANCE

The headline issue for COP29 is **the New Collective Quantified Goal on Climate Finance** (NCQG). It is a goal for provision of finance to developing countries — countries need to agree upon it at COP29.

Apart from NCQG, finance discussions have included Article 2.1c of the Paris Agreement. Its interpretations within UNFCCC are as yet inconclusive. Though of a broader scope than NCQG, Article 2.1c is linked to all finance aspects of climate action, and decoding it is crucial.

In COP28, operationalising the Fund for Responding to Loss and Damage was at centerstage, with developed countries pledging US $661 million.[1] At COP29, countries need to work out the Fund's operation and management and how to scale it up.

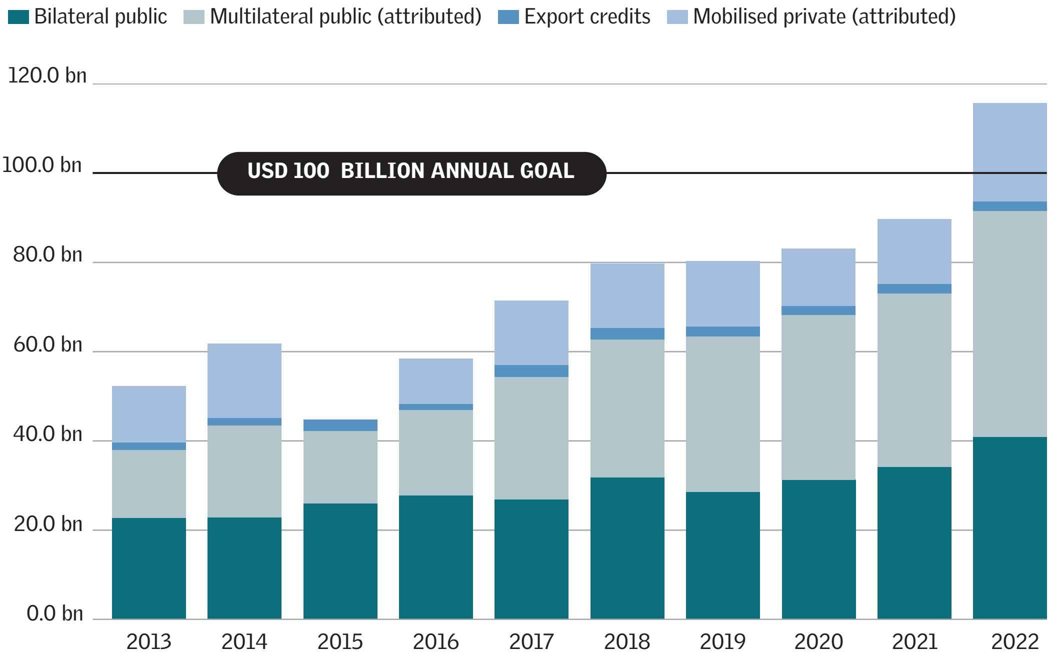
New Collective Quantified Goal on Climate Finance – NCQG

In 2009, developed countries had pledged US $30 billion between 2010 and 2012 and US $100 billion annually by 2020 for funding climate action in developing nations. The target amount, however, was not mobilised until 2022. The US $100-billion commitment was later extended to 2025 under the Paris Agreement of 2015 – but this target has been roundly criticised as a political compromise, falling far short of the trillions needed annually by developing countries until 2030.

In the light of this, the new post-2025 climate finance goal (NCQG) to replace the US $100-billion commitment — set to be decided in 2024 — assumes great significance. It is to begin from a floor of US $100 billion and reflect developing nations' finance needs.

Graph 1: Climate finance for developing countries

Amounts provided and mobilised by developed countries, billion USD



The gap in the private finance series in 2015 is due to the implementation of enhanced measurement methodologies. As a result, private flows for 2016-22 cannot be dierctly compared with private flows for 2013-14.

Source: OECD (2024), Climate Finance Provided and Mobilised by Developed Countries in 2013-2022.

Status of proceedings

COP28 – a shift from process to negotiations mode: The outcome of the first Global Stocktake (GST) at COP28 in Dubai acknowledged that NCQG deliberations should take into account the need for climate finance for ambitious, effective Nationally Determined Contributions (NDCs). As the GST decision also noted, financial architecture reform, scaling up new and additional grant-based, highly concessional finance and non-debt instruments are just as critical to support developing countries. These considerations are crucial and must inform the NCQG outcome.

Formal deliberations on the NCQG have been ongoing since 2022 under the Ad Hoc Work Programme on NCQG of the UNFCCC. COP28 in Dubai marked the culmination of the first year of the deliberations, comprising eight Technical Expert Dialogues and two High-Level Ministerial Dialogues. The key outcomes were:

- Agreement among countries to move from procedural discussions to more detailed deliberations on the substantive elements of the new goal – the amount, options for different structures, transparency, timeframes etc.
- Parties decided to complete technical discussions and move into negotiations-oriented work for the coming year.
- Several disagreements on elements of the goal were also articulated: expansion of the contributor base; quantum; and thematic structuring of the goal were some of the points of contention among developed and developing countries.

Intersessional work — completion of technical deliberations: In line with the decision made at COP28, three Technical Expert Dialogues (TEDs) and Ad Hoc Work Programme Meetings were conducted in 2024. Ahead of the first round of these talks held in Cartagena, countries submitted their written inputs for the 2024 work plan – for the first time, countries such as India put forward actual numbers for the 'quantum' or amount of the goal: they suggested US $1 trillion annually till 2030.

At the talks in Cartagena, developing countries including the Like-Minded Developing Countries group called for a recognition of the 'un-enabling' environment of global financial systems that places barriers on the Global South for adequately accessing climate finance. This included the need to address high costs of capital for low-carbon transitions, high debt burdens, and existing imbalance in geographical concentration of climate finance in the new goal. The need for grant-based, concessional finance was stressed.

These talks were also happening when the highly contentious contributor base debate exploded – the US and the EU advocated strongly for an expansion of the list of potential contributors to the NCQG to reflect 'modern economic realities', beyond just 'developed' nations. This was strongly opposed by developing groups, including LMDC, Arab Group, African Group etc. The latter actually called for explicit burden sharing arrangements as part of the new goal, wanting the distribution of responsibility among developed country contributors to be clear from the onset.[2]

Bonn — divergences are amplified: At the second meetings of experts and Parties in Bonn, Germany, deadlocks among developed and developing countries grew stronger. The AGN proposed $ 1.3 trillion per annum as the amount, the Arab Group proposed $ 1.1 trillion annually, and India and LMDC proposed $ 1 trillion. None of the figures were engaged with by the developed countries – instead, they doubled down on the call for expanding the contributor base, wanting a decision on that before getting to any discussions on 'how much.' There was some semblance of convergence on elements of transparency, access features and the principles that should underpin the new goal. But developing countries did not want to discuss this in detail, wanting to make headway on the quantum first. The talks concluded with an updated input paper prepared by the co-chairs – this was criticized by developing country groups as not adequately capturing their views, and providing an 'imbalanced' end to the talks. In particular, the text was considered to have disproportionately focused on the 'multi-layered' structure option, which is drastically different from the thematic sub-goals of mitigation, adaptation and loss and damage that developing country groups have been pushing for.[3]

Baku intersessional — deadlocks continue: After the mid-year climate talks in Bonn, countries met in Baku, Azerbaijan for the third round of talks in September 2024. An updated input paper containing a range of proposals from the negotiating Parties was provided to take the discussions forward – the focus of which were sources, instruments, access, recipients, transparency and the way forward.

The critical concerns that emerged from the discussions were the need for defining climate finance and providing a regional balance (based on different contexts) within the recipient base. On sources, concessional, non-debt and public funds were stressed by vulnerable countries for supporting adaptation and loss and damage. Developed countries still failed to commit on the quantum of finance and, instead, stressed on expanding the contributor base to reflect new economic realities. The proposal for a multilayered goal — with a global private investment target and a public finance 'core' —, for the NCQG to be practical and achievable was reiterated (as advocated for by developed countries).[4]

Expectations from COP29

The headline issue in COP29 is the New Collective Quantified Goal (NCQG) on **climate finance**. On this, differences have remained between developed and developing country groups.

COP29 is where Parties will meet for what is to be the final round of negotiations to arrive at an outcome. It is for this that the co-chairs of the Ad Hoc Work Programme on NCQG had prepared a framework for a draft negotiating text. Along with the summary report of the co-chairs, the draft negotiating text also presents a summary of the proceedings thus far and places on record the various aspects of the goal that are to be deliberated upon.

For COP29 to succeed, leaders will have to iron out differences and overcome erstwhile negotiation deadlocks – if they cannot do that, this COP will end up as another missed opportunity at a very crucial time. The primary expectations from COP29 on NCQG are as follows:

- A just, equitable outcome on NCQG — the goal should be reflective of the needs of developing countries, be structured into thematic sub-goals of mitigation, adaptation and loss and damage, and have a predominantly public finance provision component. A private finance mobilisation target can be a complementary aspect of the goal, but not the driver of it.
- The expansion of the contributors to the goal must not be used as a bargaining chip against mutual cooperation.
- Acknowledgement of the un–enabling environment of international financial architecture must continue, and be built into the NCQG outcomes.
- Lessons from the failure of the US $100-billion goal must be duly incorporated to avoid repetition of past mistakes.

Article 2.1c of the Paris Agreement – the 'Paris Alignment of Finance Flows'

The concept of "Paris alignment of finance flows," outlined in Article 2.1(c) of the Paris Agreement, requires aligning finance with low-emission, climate-resilient development. Although a consensus on what exactly 'consistency' and this Article call for remains elusive, it generally covers actions by financial actors beyond the UNFCCC as well. This concept is discussed to inform negotiations under the Sharm el-Sheikh Dialogue on Article 2.1c and its complementarity with Article 9 of the Paris Agreement. Two workshops were held under this dialogue in 2024 in the lead up to COP29.

Status of proceedings — COP28 and beyond

The broader finance component within climate negotiations that has been discussed increasingly in recent years is Article 2.1c of the Paris Agreement. The outcome of the Global Stocktake at COP28 acknowledged the need for further understanding of Article 2.1c of the Paris Agreement on making finance flows climate-consistent.

Intersessional work – the Sharm el-Sheikh Dialogue on Article 2.1c: Two workshops on Article 2.1c and its complementarity with Article 9 were conducted in 2024, under the aegis of the Sharm el-sheikh Dialogue on Article 2.1c. The first workshop, held in Bonn, Germany at the mid-year climate talks focused on the Paris alignment of finance in the context of climate adaptation. It included panel discussions where experts and practitioners shared insights on aligning financial flows with adaptation and climate resilience goals, highlighting national and regional examples. The discussions also explored the benefits of integrating climate-consistent and scaled-up financial flows with broader sustainable development objectives, showcasing how these approaches can support both climate action and sustainable development.[5]

The second workshop of the dialogue, held in Baku, Azerbaijan focused on the international financial system and the role of actors within and outside the Paris Agreement for advancing climate action. This included discussions on the role of MDBs such as the World Bank, and the IMF's Resilience and Sustainability Trust. It also discussed transparency aspects, particularly bringing forth concerns of greenwashing and maladaptation. The dialogue also noted that current financial systems are unfit to support just transitions across the world.

Expectations from COP29

Though no session of the dialogue is scheduled for COP29, the linkages between Article 2.1c with the NCQG and its relevance therein is likely to feature in the NCQG negotiations. This has been a point of divergence among developed and developing country groups – with the latter calling for Article 2.1c to remain outside NCQG discussions, lest it be used to abdicate the responsibility of providing finance under NCQG by developed countries.

Fund for Responding to Loss and Damage

Status of proceedings at COP28 and beyond

'Loss and damage' refers to those impacts of climate change that are unavoidable — countries cannot really use adaptation as a protection against them. The Fund for Responding to Loss and Damage (LDF) aims to enable developing countries to financially respond to the impacts of climate change-induced natural disasters and extreme weather events. In 2022, the major climate and weather events had led to more than US $109 billion in losses.[6]

COP28 in Dubai saw the operationalisation of the UNFCCC Fund for Responding to Loss and Damage. Total pledges by developed countries amounting to US $661 million have been made since. The World Bank was agreed upon – after much political differences – as the body that could serve as the interim host of the Fund, as a Financial Intermediary Fund (FIF) for four years. Three meetings of the board of the Fund have been conducted till now.

The first board meeting of the fund prioritised three key structural aspects: the relationship with the World Bank, the selection of an executive director and establishment of additional rules of procedure for the new Fund's board.[7] At the second meeting in July 2024, Philippines was selected to host the board of the Fund.[8] The meeting also took forward the discussions on access modalities and financial instruments to be used via the Fund.

The third meeting of the board in Azerbaijan saw two key outcomes:

- Conclusion on the formal hosting arrangements for the secretariat of the Fund and trustee agreement on the terms and conditions for the operation of the Fund.

- Appointment of the Executive Director of the Fund for four years — the Senegalese banking expert Ibrahima Cheikh Diong (currently affiliated with the Arab Bank for Economic Development in Africa on ESG) has been selected for the position.

The fourth meeting of the Fund has been scheduled for December 2024.[9]

Expectations from COP29

Formal deliberations on how to finance the Fund and take its operationalisation forward are likely to gain momentum at the next board meeting of the fund after COP 29.

Above all else, discussions on the Fund have brought up the central question — the scale of the Fund. Projected economic costs of loss and damage until 2030 by varying estimates lie in the range of US $400 billion to US $580 billion per year. By 2050, this figure is likely to be over US $1 trillion.[10]

Loss and damage is being advocated as a separate thematic sub-goal under NCQG by developing country groups, while developed countries have advocated for a different structure altogether. Loss and damage is expected to feature at COP 29 mainly as a point in these negotiations.

International financial architecture reform

Initiatives at COP28

The need to address structural changes in the global financial architecture in the context of climate change was also recognised and reiterated at COP28. Issues of sovereign debt, high cost of capital and inherently unequal structures of international financial institutions hindering climate ambition in developing countries were highlighted.[11]

The key initiatives announced at COP28 in this regard included:
- Global Expert Review on debt, nature and climate launched by the governments of Kenya, Colombia and France
- The UAE Leader's Declaration on a Global Climate Finance Framework
- International Taxation Taskforce launched by France in partnership with Kenya, Barbados and Spain

- Multilateral Development Banks Taskforce for scaling up 'debt-for-nature' swaps
- Initiative to scale up use of Climate Resilient Debt Clauses by multilateral development banks
- UAE's climate focused investment vehicle 'Alterra' worth US $30 billion (how much of the actual proceeds are to be channeled to the Global South is unclear)
- World Bank to increase annual amount spent on climate-related projects to 45 per cent of its financing over 2024-2025
- First High Integrity Carbon Credits from forestry to be launched next year, potentially delivering 24 million credits before the end of 2024

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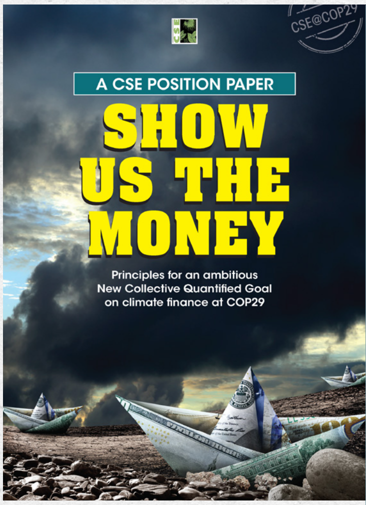

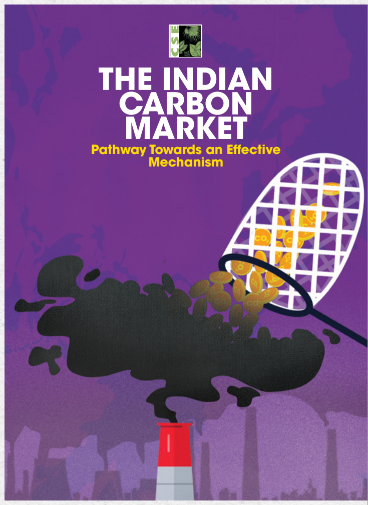

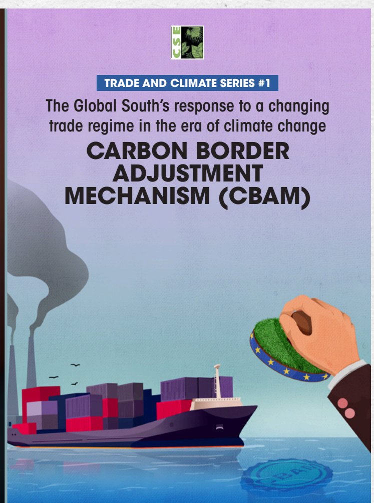

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ARTICLE 6 OF THE PARIS AGREEMENT

Article 6 of Paris Agreement is expected to take centrestage at COP29, as Parties seek to operationalise carbon markets. Article 6 establishes guidelines for cooperative approaches to reduce emissions and fulfil Nationally Determined Contributions (NDCs).

The rules surrounding emissions trading are important for accountability. If these rules are poorly framed, they could enable polluters to sidestep their obligations. On the other hand, if crafted well, they could enhance the integrity of global action.

The ongoing conversations are critical for a solid framework that prevents flawed mechanisms from redirecting efforts and investments away from meaningful climate action.


FACTSHEET

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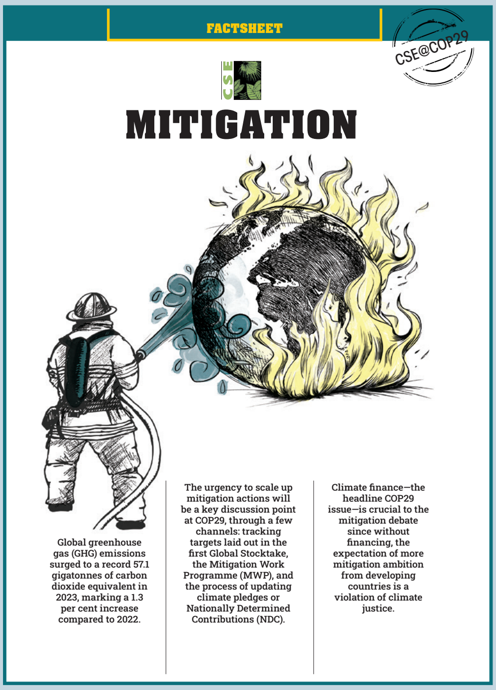
GLOBAL GOAL ON ADAPTATION

The growing frequency of extreme weather events highlights the urgent need for global climate adaptation. In 2024, India experienced extreme weather on 255 of 274 days across 34 states/union territories.[1] From 1970 to 2019, there were over 11,000 extreme weather events worldwide, causing 2.06 million deaths and US $3.6 trillion in losses.[2]

The adaptation finance gap has kept increasing, and now stands at US $194–366 billion per year. This gap is 10–18 times greater than the current international public finance being provided towards adaptation, which stood at US $21 billion[3] in 2021. Moreover, the estimated requirements may increase as countries fail to achieve their mitigation targets.

Negotiations towards adopting a framework for the global goal on adaptation (GGA) have been tedious. Disagreements have revolved around the lack of measurable adaptation targets, tracking methods and calls for increased support.[4]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MITIGATION

Global greenhouse gas (GHG) emissions surged to a record 57.1 gigatonnes of carbon dioxide equivalent in 2023, marking a 1.3 per cent increase compared to 2022.

The urgency to scale up mitigation actions will be a key discussion point at COP29, through a few channels: tracking targets laid out in the first Global Stocktake, the Mitigation Work Programme (MWP), and the process of updating climate pledges or Nationally Determined Contributions (NDC).

Climate finance—the headline COP29 issue—is crucial to the mitigation debate since without financing, the expectation of more mitigation ambition from developing countries is a violation of climate justice.

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