RISING TO THE CLIMATE FINANCE CHALLENGE

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SUMMARY

Delivering the levels of finance necessary to implement climate solutions at the scale needed—almost U.S. $6 trillion for developing countries by the end of the decade according to the agreed outcome from the 28th Conference of the Parties (COP28) in Dubai—will be challenging. Nevertheless, available, accessible, and affordable climate finance from all sources will be a vital determining factor in the level of ambition and implementation of nationally determined contributions (NDCs) and whether the pathway to remain within the 1.5 degrees Celsius limit of the Paris Agreement can be realized.

In the short term, Parties must land a positive outcome on finance at COP29. Public finance must unquestionably continue to play a central role in climate action, particularly for countries or issues that cannot attract private finance at scale. The process toward agreeing the new collective quantified goal on climate finance (NCQG) in Baku must assure developing country Parties in that regard. Additionally, given the limits to public sector donor climate finance, the NCQG must also generate confidence that climate finance will flow from many sources and will not be limited to the narrow confines of the UN Framework Convention on Climate Change (UNFCCC).

NCQG discussions could usefully consider how developing country needs could be integrated into a holistic multi-layered approach which would consider lessons learned, including precedent from other fora, such as the Kunming-Montreal Global Biodiversity Framework.

To achieve the goals of the Paris Agreement will require a shift in the dynamic of climate finance discussions, necessitating political input from finance ministers and Heads of Government. Without this, progress will continue to be limited and uncoordinated. To this end, the UN Secretary-General could consider re-launching the High-Level Advisory Group on Finance in 2025.

A DIFFICULT CONTEXT FOR FINANCE

The UN climate regime will be confronted with trying external forces over the next few years, including at COP29 where climate finance will be center stage. The geopolitical backdrop is challenging: military conflicts are shifting the focus of foreign aid away from climate; debt distress is plaguing low- and middle-income countries; elections around the world are bringing uncertainties as to future climate policy direction; and there are evolving intersections, as well as tensions, between climate and trade discussions among major economies. The continued reform of international financial institutions, prioritized in particular through the Brazilian leadership of the G20, will also dominate this year's discourse.

Ongoing discussions on the future of the U.S. $100 billion goal and the NCQG seem disconnected from the reality of need in developing countries, which the outcome of the first global stocktake (GST) estimates at nearly U.S. $6 trillion in the pre-2030 period.[1] This important collective starting point is a key milestone in the context of considering the sectoral breakdown of financing needs. Public climate finance, although not the largest contributor to the climate finance solution,[2] must remain central in order to build trust and promote international collaboration. However, it is hampered by fiscal constraints in developed countries combined with harsh domestic political dynamics that have led to cuts in climate finance budgets and official development assistance broadly. This is unlikely to change ahead of

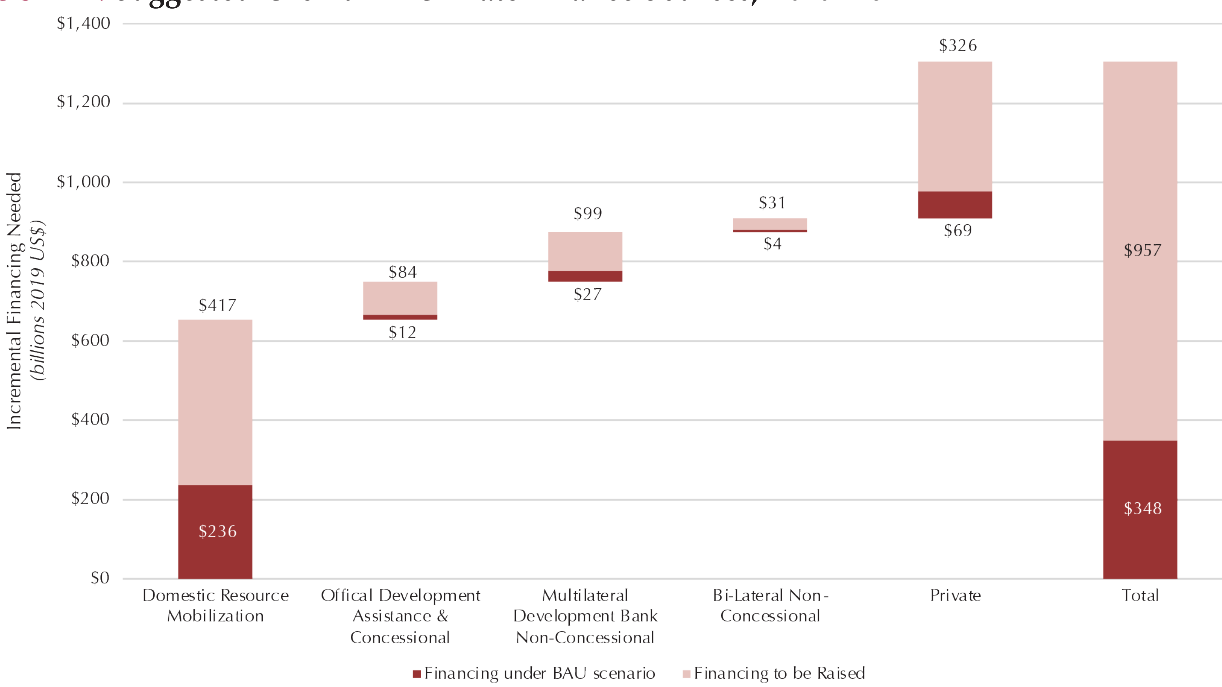
COP29, and unrealistic expectations as to how much the U.S. $100 billion can increase based on the current donor base present a significant risk, not only to the outcome in Baku but also to the future of the Paris Agreement.

The scars of the U.S. $100 billion have sown division between developing and developed country Parties, aggravated by a lack of agreed definition for climate finance and subsequently disputed calculations for measuring private mobilization. The latest UNFCCC Standing Committee on Finance (SCF) report on clustering definitions[3] highlights the lack of consensus on expanding efforts to move away from the SCF's existing operational definition, making agreement on this issue within the NCQG remote. Accordingly, maximum transparency on definitions used in reporting could provide a necessary balance and way forward for the new goal.

A further challenge is that there is no definitive understanding of finance needs, leading to several different estimates of needs capturing both international flows and domestic sources. The SCF *Needs Determination Report*,[4] which gathered explicitly costed needs in various UNFCCC reports,[5] estimated global NDC implementation at U.S. $5.8-5.9 trillion cumulatively until 2030. The SCF is expected to publish the second *Needs Determination Report* at COP29, but it is unclear how the timing of this report's release might affect the NCQG outcome. Another reputable estimate comes from the Songwe-Stern UN Independent High-Level Expert Group on Climate Finance (IHLEG) report which exceeds these estimates, assessing needs closer to U.S. $2.4 trillion annually by 2030 in developing countries with the exception of China, recognizing that this calculation accounts for significant domestic resource mobilization (**Figure 1**).[6] The SCF report's more inclusive estimate—encompassing all UNFCCC Parties—and its reference within the multilaterally agreed GST outcome make it the most logical option for consideration within the NCQG.

On adaptation and loss and damage (L&D), financial needs will continue to grow as climate impacts intensify, with estimates for adaptation alone exceeding U.S. $200 billion annually.[7] For L&D in particular, Parties must consider if and how these needs will be captured within the NCQG. Parties must also prioritize further progress toward doubling adaptation finance.[8]

FIGURE 1: Suggested Growth in Climate Finance Sources, 2019–25



Source: Amar Bhattacharya, Meagan Dooley, Homi Kharas, Charlotte Taylor, and Nicholas Stern, Financing a big investment push in emerging markets and developing economies for sustainable, resilient and inclusive recovery and growth, (London, UK: Grantham Research Institute on Climate Change and Environment and London School of Economics and Political Science, and Washington, DC: Brookings Institution, 2022). https://www.lse.ac.uk/granthaminstitute/publication/financing-a-big-investment-push-in-emerging-markets-and-developing-economies/.

Against this backdrop, climate finance negotiations in the context of the UNFCCC can seem overly technical and focused on narrow outcomes. Too often, finance ministries are not at the table. The negotiations are, at best, marginal to mobilizing climate finance at the scale necessary. Initiatives that gather both environment and finance ministers, like the new G20 Task Force for the Global Mobilization against Climate Change (TF-CLIMA)[9] are a step in the right direction but primarily focus on private finance mobilization. While progress on debt restructuring through initiatives such as the Global Sovereign Debt Roundtable[10] and Climate-Resilient Debt Clauses[11] is encouraging, greater headway is needed at a structural level.

Within this difficult context, how can Parties land a positive outcome at COP29? Leaving Baku with no agreement or a low-ambition outcome on finance would have negative repercussions for the entire climate regime. The NCQG decision to be adopted at COP29—and the understandings reached on climate finance outside the landscape of the UNFCCC—will set the parameters for the level of ambition and implementation of the new NDCs due by February 10, 2025.

The importance of the COP Presidency Troika and the “Roadmap to Mission 1.5”[12] in working to spark enhanced international cooperation, notably at the political level, cannot be overstated. Parties will be looking to the G20 Leaders’ Summit, which overlaps with COP29, for important positive and constructive political direction on the scale of available quality climate finance. NCQG discussions need to be managed in a way that supports enhanced ambition rather than undermining it and must be seen in the wider context of action on climate finance—the vast majority of which is occurring beyond the UNFCCC and outside its mandate.

THE WAY FORWARD FOR THE NCQG

It is essential that the purpose and aspirational framing of the NCQG is clarified ahead of COP29. Article 2 of the Paris Agreement articulates a vision of the overall goal Parties aspire to for a future world, including on finance by “[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”[13]

At the same time, the NCQG must not seek to renegotiate the carefully balanced compromise of the Paris Agreement, which includes the financial obligations set out in Article 9. This contains the understanding that “as part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments, and channels, noting the significant role of public funds, through a variety of actions, including country-driven strategies, and taking into account the needs and priorities of developing country Parties.” The NCQG must also reflect the Paris Agreement’s understanding that the “provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation” and that Parties other than developed country Parties “are encouraged to provide or continue to provide such support voluntarily.”[14]

In the context of the sustainable development goals and Article 2.1(c) of the Paris Agreement, the NCQG should operationalize needed, deliverable, and accessible finance flows. But there is still no clear consensus on how to do this. To build the trust necessary for conversations on how to operationalize Article 2.1(c), both in the NCQG and through the Sharm el-Sheikh Dialogue,[15] assurances need to be given that requirements will not be imposed on Parties regarding finance allocations and that public finance will continue to be central to support for developing countries.

THE ROLE (AND LIMITATIONS) OF PUBLIC FINANCE

Parties need to use the limited time between now and Baku effectively in order to reach a constructive outcome on the NCQG at COP29. Failure to do so could: damage trust within the UNFCCC; weaken the prospect of more ambitious NDCs due within three months or so of COP29 concluding; and deal a fatal blow to the chance of getting the world on track to staying within the 1.5 degrees Celsius limit of the Paris Agreement. The stakes could not be higher.

Understandably, a significant focus within the NCQG process has been for some to push for a highly enlarged international public finance goal to be provided by developed country Parties. Public finance is crucial to building trust and creating opportunities for greater international collaboration. It must be strategically targeted to countries and sectors that are difficult to support with other sources of finance. Public finance is essential to de-risk and leverage enhanced private sector investment and reduce the cost of capital in developing countries. In that context, it is critical to recall that the vast majority of global finance flows are within the G20, and to the extent that they are climate-aligned at all, they focus on mitigation. There is ample evidence, for example, that the global acceleration towards renewable energy is concentrated in just a few regions and countries. International public finance will continue to be vital to address "market failures" that require support to draw in private capital or are unable to do so.

At the same time, given the current geopolitical and economic context, an approach that focuses solely on expanding public finance—which has largely been the case under the UNFCCC—risks leading to a difficult dynamic and embroiling Parties in arguments throughout 2024 that will at best lead to an incremental increase in public sources and will do relatively little to close the overarching finance gap. This approach would miss a critical opportunity to catalyze real transformation of the international finance system.

The reality is that public finance from the conventional donor countries will not be able to reach the near U.S. $6 trillion needed between now and 2030—roughly U.S. $1 trillion per year—presenting severe challenges for countries reliant on increased grant funding to implement their climate policies. Even if public finance were to increase—for instance, the Songwe-Stern IHLEG suggests bilateral official development assistance should double to U.S. $60 billion annually by 2025[16]—these additional funds still would not be enough to meet the Paris vision set out in Article 2.

Traditionally, discussions on public finance have focused on international aid that has fiscal implications for donor countries and is therefore challenging in the current context. There needs to be additional focus on fiscally neutral measures, such as monetary policy operations incorporating a climate lens. This discussion needs to involve finance ministries and central banks and requires high-level political ownership, which a new High-Level Advisory Group on Finance (AGF 2.0) could provide. The first AGF, established in 2009, was instrumental in identifying paths to increase global climate finance available (see *Shifting the Dynamic* below).

It is clear that no country can implement NDCs based on public finance sources alone, making it vital that other sources of finance, including innovative sources such as those in discussion by the International Maritime Organization or taxation of financial transactions, be made to flow toward developing country Parties that need it. This could include further initiatives to redirect public funds to climate action through the phase-out of fossil fuel subsidies.

In this context, as part of the process to agree the NCQG, developing country Parties need to be assured that: (i) public sector finance will increase and remain at the core of the climate finance offer; and (ii) in addition to public sources, additional finance will flow at the scale needed from many sources, beyond the narrow limits of the UNFCCC mandate, or whatever might succeed the U.S. $100 billion goal.

A HOLISTIC APPROACH FOR THE NCQG

The process of agreeing the NCQG will need to consider how best to accommodate numerous sub-elements in its structure, including sources of finance, quantum, and contributors, as well as timeframes and themes.[17]

Practically, increased public finance can be imagined as the core of the NCQG, to be strategically targeted at market failures and used in concert with other sources of finance. Recognizing that political economy has been a significant obstacle to climate finance innovation, what limited public finance is available should be employed intentionally to: (i) help the poorest countries adapt; and (ii) leverage private finance that would not otherwise engage in accelerating the transition of emerging markets away from fossil fuels to renewable energy.

Parties should consider what guidance the NCQG could put forward on how different thematic spending should be treated. Recognizing the underlying barriers slowing climate finance flows varies based on country and context, it may undermine effectiveness to paint thematic areas with a broad brush, for example by prescribing that "all adaptation must be grant-based." Rather, some political targeting may prove more helpful in such guidance.

With regards to the NCQG's transparency arrangements, Parties could learn from efforts to deliver on the U.S. $100 billion goal, in terms of how to: measure effectiveness, utilize actionable climate finance definitions, and best capture private mobilization and efforts from a widened donor base without fueling mistrust. Thought should be given as to how transparency arrangements can best reflect the spectrum of finance contributed by Parties, inclusive of South-South cooperation.

Negotiators must also be mindful of the ongoing work on net-zero commitments within the private sector, which is increasingly responsive to new regulations on disclosure. While voluntary at this stage, an increasing number of firms are expected to disclose climate action and impacts following regulation. This could support the realignment of financial flows with important distributional impacts that must be fully considered. In that context, putting a time frame on achieving the goal in Article 2.1(c) of the Paris Agreement, perhaps 2050 to align with global net-zero emissions targets, could be motivating, particularly if progress towards its achievement is tracked. Such an endeavor could be addressed by either the NCQG or Sharm el-Sheikh Dialogue.

The NCQG mandate includes "tak[ing] into account the needs and priorities of developing country Parties," opening space for an outcome based on bottom-up needs determination.[18] The NCQG could reference a range of estimated needs as assessed in expert reports.

The integration of needs-based figures as part of a holistic approach could be a useful opportunity to open discussions on the different sources needed to mobilize climate finance at scale, such as the GST's near-U.S. $6 trillion. Parties should also be mindful to leave space for needs-based figures to fluctuate over time, future-proofing key elements of the NCQG. This reevaluation must be conducted on a consistent basis, for which many have suggested a revision timeframe of five or ten years—which would also be consistent with the rhythm of the Paris Agreement's ambition cycle.

The leading role that multilateral development banks (MDBs) must play in spurring greater availability of climate finance needs to remain a key focus, building on the outcomes of recent COPs. In particular, the MDBs must collaborate more closely with the private sector and greatly multiply climate finance flows. Notable successes include the hybrid finance model of the International Development Association (IDA) of the World Bank and the climate co-benefit emphasis of its projects, giving IDA the ability to leverage contributions three or four times. With the upcoming 21st IDA replenishment in December 2024, it is vital that donor countries build confidence that the greatest possible ambition for public climate finance has been put forward in multiple fora.

Further, initiatives to ensure that investment decisions are made in line with science-based scenarios, including by the MDBs, rather than a business-as-usual baseline, must be strengthened to increase the proportion of private finance mobilized for climate action. Investment decisions need to be weighed against projected increased costs of insufficient action to address climate change, including within the MDB reform process by embedding these changes within the revised World Bank indicators and corporate scorecard.

Such framing would represent a real effort to acknowledge the legitimate needs of developing country Parties and ultimately produce more meaningful outcomes. Further work will be needed to assess additional sources of finance to be mobilized. If a higher-level political process is launched—such as AGF 2.0 framed within the wider arc of the COP Presidency Troika and Mission 1.5—a needs-based NCQG outcome at COP29 could usefully focus on recognizing the scale of the challenge and the centrality of public finance while agreeing on a process to harmonize specific details, such as transparency requirements to track progress toward global finance goals.

One approach could be a framing for the NCQG that comprises multiple components:

- public finance as its core, including an increase to the U.S. $100 billion goal to reflect the maximum possible ambition of donor countries
- a focus on increasing private-sector mobilization
- an overall quantum of developing country needs to be fulfilled by climate finance from all sources, including public and private, international and domestic, as well as innovative sources
- an overarching vision that, over time, aligns the greater international financial architecture with the goals of the Paris Agreement.

Each of these components could have an associated timeline against which progress towards their achievement could be tracked. Quantitative targets would, at minimum, be needed for the core of public finance provided, though further quantitative targets could be proposed to mobilize an overarching investment target.

Without making any assumptions or implying the legal relationships between these components—a controversial topic in the UNFCCC—**Figure 2** seeks to illustrate this idea.

Figure 3 sets out the key sources of climate finance that need to be considered within the overarching global investment goal.

No doubt, there will be aspects of this that Parties will not like, for varying reasons. Some will recoil from the notion of setting additional quantum targets or of tracking progress toward achievement of Article 2.1(c). But without this, how can there be confidence that finance will flow? Others will not like placing the public sector component in a wider context. But without that, how will we ever reach the scale of climate finance needed? Some are resisting a significant increase in public finance contributions citing uncertainty in national circumstances. But without this, how can climate ambition be met without greatly increasing the burden of debt?

LEARNING FROM OTHER FORA

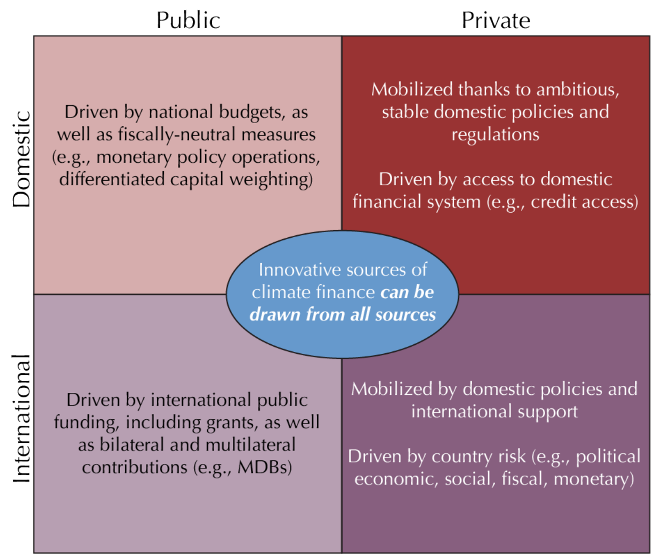
Learning from other fora could be useful, while respecting the specific context of the UNFCCC. The Kunming-Montreal Global Biodiversity Framework (KMGBF or GBF) under the Convention on Biological Diversity (CBD) could be a useful model for the NCQG. Finance target 19 of the GBF sets out an overall mobilization goal of U.S. $200 billion per year by 2030, which includes targets for public finance and alignment of private finance, all without differentiated contributors.

Further, Parties could consider how proposed innovative financing mechanisms might be addressed by the NCQG, such as: increasingly popular notions of levies on shipping or oil and gas production; recent announcements of a global tax on billionaires;[19] the Group of African States proposal for "[p]romotion of inclusive and effective tax cooperation" taken forward by the UN General Assembly;[20] those undertaken by the new Taskforce on International Taxation;[21] and those researched by the Organization for Economic Co-operation and Development (OECD).[22]

If Parties are committed to fulfilling the vision of the Paris Agreement in Article 2, finance discussions must be widened and elevated to the political level to raise awareness and assess the full implications of mobilizing funds for mitigation, adaptation, and L&D.

FIGURE 2: The Climate Finance Landscape

FIGURE 3: Sources of climate finance for mitigation, adaptation, and loss and damage or consideration within the NCQG



SHIFTING THE DYNAMIC

Any solution to scale up climate finance to meet the vision set out in the Paris Agreement requires elevating the discussion to the political level, bringing finance ministers and heads of government to the table. Without this higher-level engagement, the actions needed globally to scale up finance will remain limited and uncoordinated.

One option could be for the UN Secretary-General, in collaboration with the Brazilian G20 and COP30 Presidencies, to re-launch the High-Level Advisory Group on Finance as the AGF 2.0. The first AGF was established in 2009 by UN Secretary-General Ban Ki-moon to identify innovative ways to increase climate finance.[23] The formation of the AGF 2.0 could be announced in 2025 as a vehicle to push climate finance outcomes—and reforms—forward following the outcomes in 2024 from the G20 and COP29 in a systematic effort to bring together existing workstreams on climate finance.

Assuming it followed the same general approach as its first iteration, the AGF 2.0 would have high-level political ownership, co-chaired by leaders from one developing country and one developed country following the model of the first AGF, which was led by the prime ministers of Ethiopia and Norway.[24] The initiative would be underpinned by working groups focused on specific sources of finance and key topics to be addressed. It would also feature private sector participation to enable a dialogue between the public and the private sector.

Building on the critical work of the IHLEG, the COP28 Leader's Global Climate Finance Framework,[25,26] the Coalition of Finance Ministers for Climate Action,[27] and the forthcoming outcome on finance at COP29, the AGF 2.0 could have the objective of: (i) identifying the challenges to mobilize various sources of climate finance needed to meet the vision set in Article 2 of the Paris Agreement; (ii) catalyzing the policy solutions needed to overcome these challenges and realign financial flows, both public and private, domestic and international; and (iii) rebuilding trust through action-oriented solutions identification.

The very initialization of the AGF 2.0 would help build confidence in the process of formulating, submitting and subsequently implementing new NDCs, and provide a broader context for climate finance beyond the limited boundaries of what is achievable within the UNFCCC process. This group could also keep vital pressure on climate finance objectives and goals stemming from the NCQG.

CONCLUSION

This holistic framing set out above could assist Parties and other relevant stakeholders in beginning an honest, open, and comprehensive conversation about delivering the climate finance needed. Such a conversation needs to acknowledge that countries must collaborate in their efforts to make finance flows consistent with the overarching goals of the Paris Agreement, if those goals are to be realized. At the same time, public finance will need to be at the heart of the offer to those developing countries that are not well placed to attract private finance at scale to meet their needs.

Political engagement at the highest levels will be necessary to drive the way forward. An AGF 2.0 with key political leadership could be an important forum to do so.

The needs of developing country Parties have already found a collective assessment through the first GST outcome. While public finance must remain at the core of the NCQG, it is clear that the bridge between the U.S. $100 billion goal and almost $6 trillion cannot be filled with public sources alone.

ANNEX: UNFCCC MANDATES

At COP15, developed country Parties committed to a collective goal of mobilizing U.S. $100 billion per year for climate action in developing countries.[28] At COP16, Parties formally recognized that "developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly U.S. $100 billion per year by 2020 to address the needs of developing countries."[29]

At COP17, Parties decided to "undertake a work programme on long-term finance in 2012, including workshops, to progress on long-term finance in the context of decision 1/CP.16, paragraphs 97–101."[30]

At COP21, Parties decided that "in accordance with Article 9, paragraph 3, of the Agreement, developed countries intend to continue their existing collective mobilization goal through 2025 in the context of meaningful mitigation actions and transparency on implementation."[31]

The reference to Article 9, paragraph 3, of the Paris Agreement underscores that the U.S. $100 billion goal is a collective, voluntary goal where "developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, […]." There is no agreement on the donor base beyond 2025.

At COP21, Parties also decided that, prior to 2025, the CMA would set a NCQG. Mandates related to the substantive form of the NCQG include the following key features:

- "a floor of USD 100 billion per year"[32]
- "taking into account the needs and priorities of developing country Parties"[33]
- "the aim to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[34]

At COP26, Parties initiated the NCQG ad hoc work programme. The work programme's annual activities have consisted of: four technical expert dialogues (TEDs); a high-level ministerial dialogue (HLMD); stocktaking and guidance; and submissions by Parties and non-Party stakeholders to gather input on key elements of the NCQG.[35]

At COP28, Parties decided to transition the mode of work to enable the development of a substantive framework for draft negotiating text. This work includes at least three TEDs with corresponding ad hoc work programme meetings for Party discussion before COP29.

C2ES Resources

The New Collective Quantified Goal: Elements for Consideration, July 2024
https://www.c2es.org/document/the-new-collective-quantified-goal-on-climate-finance-elements-for-consideration/

The New Collective Quantified Goal on Climate Finance: Issues and Options, March 2024
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Climate Finance Landscape Analysis: Themes and Trends, February 2022
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ENDNOTES

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