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SUSTAINABLE FUTURES COLLABORATIVE

Ratcheting Ambition in Climate Finance: Key Challenges and Goals for COP29

Introduction

The 29th Conference of the Parties (COP29) to the United Nations Framework Convention on Climate Change (UNFCCC), scheduled to be held in Baku, Azerbaijan, in November 2024, presents another pivotal moment in global climate action. A key area of focus at COP29 will be the decision on a New Collective Quantified Goal (NCQG) for climate finance, which is meant to replace the 2009 pledge by developed countries to provide $100 billion annually to developing countries by 2020.

Seen as a key symbol of trust, transparency, and cooperation between developed and developing countries, the NCQG is a crucial lever for strengthening the shared responsibility and mutual commitment essential for tackling the climate crisis.

This issue brief provides an overview of key issues to watch in NCQG discussions, exploring the role and relevance of the NCQG, strategies for its effective implementation, and implications of the outcome for broader climate diplomacy. The brief is based on insights shared during SFC's recent webinar, *"Climate Finance at COP 29: What New, Collective, Quantified Ambition?"*, held on October 28, 2024, which aimed to summarise and contextualise the current state of play in climate finance negotiations as COP29 approaches.

The speakers for this webinar were Joe Thwaites, Senior Advocate at the Natural Resources Defense Council (NRDC); Jonathan Beynon, Senior Policy Associate at the Center for Global Development (CGD); and Avantika Goswami, Programme Manager at the Centre for Science and Environment (CSE). The session was moderated by Aman Srivastava, Fellow and Coordinator, Climate Policy, at the Sustainable Futures Collaborative (SFC).

Key Issues and Possible Solutions

1. Quantum of Funding

One of the key issues is the quantum of funding. Multiple estimates exist of the climate finance needs of developing countries. The UNFCCC's Standing Committee on Finance's Second Needs Determination Report costed needs alone of USD 455 to USD 584 billion based on the nationally determined contributions (NDCs) of 98 developing countries.[1] The Independent High-Level Expert Group on Climate Finance suggests a mix of public and private financing to mobilise USD 2.4 trillion annually by 2030 for developing countries (excluding China).[2] Similarly, India's submission to the UNFCCC also proposes a minimum NCQG quantum of $1 trillion per year, largely funded through grants and concessional finance.[3] While estimates vary, they indicate that at least USD 1 trillion annually will be essential to address the climate crisis, well above the previous USD 100 billion target.[4] Yet, securing these funds remains challenging in the face of economic and geopolitical strains, with many developed countries grappling with competing domestic priorities.

Panellists highlighted the scale and importance of these requirements and discussed how the quantum can be increased through the following key strategies: MDBs could increase concessional lending and mobilise public-private investment through guarantees and blended finance, while innovative sources like levies on high-emission sectors (oil, gas, shipping, aviation) provide additional funding avenues. To avoid burdening developing countries with debt, the emphasis remains on prioritising grants and concessional terms, with improved transparency and accountability measures to ensure effective tracking and impact of climate finance.

COP29 will take place from November 11 to 22 at Baku Stadium. Credit: Wikimedia

2. Expanding the Contributor Base for Climate Finance

Another point of debate surrounding the NCQG is about who will count among the contributors. Developed countries argue that many developing countries—such as China, Mexico, South Korea, Singapore, Israel, and oil-rich countries in the Middle East—have experienced significant economic growth and are capable of contributing to global climate

1 https://unfccc.int/sites/default/files/resource/2ndNDR_ES_SCF35_unedited%20version_0.pdf
2 https://www.nrdc.org/bio/joe-thwaites/getting-here-there-scaling-climate-finance-ncqg
3 https://www.indiaspend.com/explainers/explained-why-a-new-climate-finance-goal-already-has-countries-fighting-928016#:~:text=India%20had%20become%20one%20of,every%20year%20from%202025%20onwards.
4 https://zerocarbon-analytics.org/archives/economics/expanding-the-contributor-base-a-solution-for-all-climate-finance-woes

finance efforts.[5,6] ***Jonathan Beynon from CGD summarised this tension, saying, "The binary distinction between developed and developing countries is increasingly unhelpful due to the diversity in income and emissions across countries. Developed countries have historically produced the majority of CO_2 emissions since 1850, but developing countries now account for most of the cumulative emissions and current emissions. However, there is significant variation within the developing category, with low-income countries contributing minimally to emissions. The data suggests that 42 percent of all greenhouse gas emissions since 1850 have been emitted in the last 30 years, and more than two-thirds of that comes from developing countries".***[7] Conversely, developing countries highlight the historical—and unmet—responsibility of developed countries and view this debate as an attempt to shift that responsibility.

In addressing the contributor base debate, a balanced approach respects both the legal obligations of developed nations under the UNFCCC and Paris Agreement to provide climate finance, while encouraging voluntary contributions from other countries with significant capacity, as supported by Article 9.2.[8] Once adopted at COP29, the NCQG might initiate further processes to build consensus on contributions from individual countries, with criteria that evolve in alignment with the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC). This dynamic framework might help adapt to changing capacities and responsibilities over time.[9]

3. Composition of Climate Finance

The traditional delivery of climate finance primarily through loans has heightened debt burdens for many developing countries, potentially hindering their capacity for climate action. Additionally, the high cost of capital for green technologies in these economies often makes financing inaccessible. *Avantika Goswami of CSE highlighted this challenge, stating,* ***"Close to 70% of climate finance is in the form of debt or loans, which undermines the original idea of climate finance as reparations for developing countries."*** Moreover, Joe Thwaites emphasises that traditional funding sources, such as bilateral finance, will remain inadequate to meet the substantial finance required to effectively address climate change. Instead, a multi-layered approach to climate finance is necessary to ensure that developing countries can access the support they need. ***Joe Thwaites further highlighted that this climate finance structure could encompass an outer layer representing the total funding required—amounting to trillions in climate investment—and,***

5 https://www.climatechangenews.com/2024/08/16/as-swiss-propose-ways-to-expand-climate-finance-donors-academics-urge-new-thinking/
6 https://twn.my/title2/climate/info.service/2024/cc240501.htm
7 https://www.cgdev.org/blog/climate-and-development-three-charts-update
8 https://legal.un.org/avl/ha/pa/pa.html
9 https://climatenetwork.org/resource/climate-action-network-submission-ncqg/

Credit: https://cop29.az/

as a subset within, an inner layer specifically designating the share allocated to international support, including both public financing and mobilised private investments directed toward developing countries.

Getting back to the right instruments to deliver climate finance, addressing debt burdens will require a shift toward grants and concessional financing within the NCQG. Additionally, mechanisms to mobilise private finance will play an important role, with risk-reduction measures essential for incentivising private-sector investment in developing countries.

4. Accountability, Transparency, and Effectiveness in NCQG

Lack of a universally agreed definition and reporting framework for climate finance has hindered progress tracking, accountability, and equitable fund distribution. Despite pledges to prioritise vulnerable countries, climate finance flows remain insufficient to support Least Developed Countries (LDCs) and Small Island Developing States (SIDS) adequately.

A clear framework for transparency and accountability in climate finance is essential. Defining climate finance allows for standardised indicators to measure progress toward NDCs and other targets, helping prevent greenwashing and differentiate it from development aid. An Enhanced Transparency Framework (ETF) can facilitate consistent reporting on funds and promote additionality beyond existing Official Development Assistance (ODA) commitments. Establishing a quantitative minimum target for local finance in the national climate change goals, along with regular reporting, would be a significant advancement. ***Jonathan Beynon suggests that climate finance can draw lessons from development aid experiences by reducing fragmentation, improving disbursement speed, fostering local ownership, and aligning with national priorities.*** Key principles like country ownership, coordination, impact-focused planning, and capacity building can further enhance the efficiency and effectiveness of climate finance.

5. Overlap with Article 2.1c

While Article 2.1(c) of the Paris Agreement is still under discussion, it serves as an important backdrop to NCQG conversations. Article 2.1(c) calls for finance flows to be consistent with pathways toward low greenhouse gas emissions and climate resilience, though developing countries have emphasised maintaining the NCQG's focus on immediate climate finance commitments. ***Joe Thwaites pointed out that, "Achieving***

Article 2.1(c) alignment means not only scaling up climate finance but also shifting away from high-emission investments—this is key to true climate action." This alignment may ultimately require separate frameworks, as it could affect regulatory, fiscal, and private finance systems.

Conclusion

The NCQG negotiations carry immense political weight, and can establish a framework for future climate action by balancing the demands of developed and developing countries. A well-structured NCQG that prioritises developing countries' needs could allow for fairer and more ambitious climate action overall globally. Accessible and sufficient finance is a fundamental enabler of climate ambition, allowing developing countries to make meaningful contributions to global climate goals. Additionally, the NCQG connects with other crucial finance discussions under the UNFCCC, including the Loss and Damage Fund, adaptation finance, mitigation efforts, and financial system reforms.

Given the urgency of the climate crisis, swift and ambitious action is needed across all fronts of climate finance. This includes scaling up funding, improving accessibility, ensuring equitable distribution, and aligning global finance flows with the Paris Agreement objectives. Effective implementation of Article 2.1(c) could ensure that finance flows are not only supporting climate action but also systematically transitioning away from high-emission activities. The NCQG negotiations at COP29 represent a unique opportunity to secure an ambitious, equitable climate finance framework, setting a strong foundation for accelerated climate action and enhanced international cooperation. Achieving these goals will bolster a resilient global response and pave the way for a sustainable future that is accessible to all.

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About SFC
SFC is an independent research organisation analysing frontier issues in climate change, energy, and environment. We focus on the systemic changes required for India's transition to a sustainable, just, and resilient economy and society.