



CLIMATE FINANCE

In 2009, developed countries committed to providing US \$100 billion in climate finance per year to developing countries from 2020. In 2021, the total climate finance provided by them stood at US \$89.6 billion according to OECD

Progress on deciding a New Collective Quantified Goal (NCQG) on climate finance by 2025 is slow. Developing countries hope to see discussions on the quality of finance at COP 28



Introduction

As the world prepares to take stock of the progress made on climate goals at the upcoming 28th United Nations Climate Change Conference (COP 28), the cornerstone of all climate action is once again under the spotlight—climate finance. No amount of planning, ambition and goal-setting can compensate for the lack of adequate, efficient finance for climate change. Since the United Nations Framework Convention on Climate Change (UNFCCC) was established in 1992, a plethora of mechanisms, institutions and funds have been created to enable the transfer of money where it is most urgently required.¹ Despite some progress over the decades, climate finance continues to be marred by fundamental issues. These issues broadly fall into two categories—firstly, the lack of sufficient money being mobilized and channeled towards addressing climate change, and secondly, the persistent disagreement on the very definition of ‘climate finance’.

The COP 15 in 2009, held in Copenhagen, marked an important milestone. Developed countries committed to jointly provide developing countries with US \$100 billion per year, from 2020 to 2025, to address their climate needs. Article 9 of the Paris Agreement (2015) also calls upon developed countries to provide developing countries with financial resources for adaptation and mitigation.² This commitment has not been honoured for a single year since 2020.

It is important to keep in mind that the US \$100 billion was considered an arbitrary target and not one that was reflective of the scale of money needed by developing countries to truly cope with the disastrous effects of climate change and for building resilience. The UNFCCC Standing Committee on Finance estimates that developing countries need between US \$5.8–5.9 trillion for the pre-2030 period to meet their climate goals.³ Further, the lack of clarity on which financial instruments are to be used, the monetary share of each developed country, and the type of projects that can be considered for financing have not allowed for climate finance flows to be streamlined, consistent or fair.⁴

The New Collective Quantified Goal (NCQG) on climate finance is to be decided before 2025 in an attempt to address these foundational issues. Through several technical and ministerial dialogues held between 2022 and 2024, the NCQG presents a chance for developing countries to participate in the decision of a climate finance target that is truly representative of their needs. Developing countries contribute the least to climate change. Therefore, the need to include fair and pragmatic assessments of their needs while deciding on a collective finance goal is essential. This factsheet captures the progress on issues related to climate finance since COP 27, ahead of the 28th Climate Change Conference in Dubai.

Status of the New Collective Quantified Goal (NCQG)

Key highlights from COP 27

- Negotiations on climate finance at COP 27 were contentious with disagreements between developed and developing countries on who ought to provide the finance.
- The European Union advocated for 'global efforts' rather than individual contributions from developed countries, while the Environmental Integrity Group, led by Switzerland stated that 'talking numbers' would further hinder climate ambition in 2024.
- The only agreement reached regarding the NCQG was that the new goal ought to build on the lessons learnt from the current goal.
- Calls for mobilizing more private finance were made by developed nations, as was the need for multilateral development banks (MDBs) to increase contributions.
- Calling for private sector mobilization for the NCQG however, arguably contradicts the principle basis for setting a goal such as the NCQG, as private finance mobilization cannot be considered 'provision' of finance by developed countries.
- Further, funding adaptation is unlikely to attract private investment in any case owing to its lack of potential for profitability.⁵

Where do things stand now?

So far, discussions on the NCQG have taken place under the aegis of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) through seven Technical Expert Dialogues (TEDs), one High-Level Ministerial Dialogue at COP 27 in Sharm el-Sheikh, and various consultations with party and non-party groups.⁶ Each TED sees submissions and deliberations from party and non-party stakeholders, and is guided by specific themes and questions. The options identified during the TEDs feed into the broader discussions of the CMA, helping to define the financial strategies and mechanisms that will support the global climate ambition.

Key figures in climate finance, 2023

Since 2015, the Organisation for Economic Cooperation and Development (OECD) has been tracking the climate finance flows from developed to developing countries. The OECD data serves as the primary mode of tracking progress on the achievement of the US \$100 billion climate finance goal. In 2021, OECD put forth a forward-looking analysis that stated that the US \$100 billion goal 'could be met' in 2023.⁷ As of November 2023, OECD put out a statement stating that the goal had already been met in 2022, however, there is no verified or conclusive publicly available data to match this claim.⁸

On 16 November 2023, OECD released its latest analysis, presenting the aggregate trends in annual climate finance that has been provided and mobilized by developed countries for developing countries between 2013 and 2021.¹⁰ The report also provides recommendations that focus on increasing private finance mobilization and scaling up adaptation finance as they are considered the 'bottlenecks' in climate finance. Highlights from the latest analysis are:

AT COP 27, DEVELOPED COUNTRIES CALLED FOR MOBILIZING MORE PRIVATE FINANCE BUT THAT CANNOT BE CONSIDERED A PROVISION OF FINANCE, AND GOES AGAINST THE PRINCIPLE BASIS OF SETTING A GOAL LIKE THE NCQG TO BEGIN WITH

TED 7 at a glance⁹

Seventh technical expert dialogue: snapshot

- The latest TED 7, conducted in Geneva in September 2023, focused on two key areas:
 - options for ways to reflect qualitative elements of NCQG
 - options for setting up transparency arrangements to track the progress towards achieving NCQG
- On the former, suggestions focused on the need to ensure the delivery of the finance goal (to the largest extent possible) through grant-based and concessional finance, and on the need for climate finance to support domestic Nationally Determined Contribution (NDC) efforts of various parties.
- Suggestions on substantive steps to reflect qualitative elements in the NCQG at TED 7 and previous dialogues have included identifying sub-goals/targets, parameters of success etc. On the latter, the deliberations touched upon the challenges with the Enhanced Transparency Framework (ETF)—one of the primary modes of tracking climate finance progress—of the Paris Agreement.
- Further, the need to address confidentiality issues with the tracking of the US \$100 billion finance flows by the Organisation for Economic Cooperation and Development (OECD) was also discussed; and recommendations for addressing transparency gaps such as deciding on a definition of climate finance, capacity building for developing countries to facilitate adequate climate-project reporting, etc. were also provided.

The dialogue ended with suggestions for political consideration to be taken up at the high-level ministerial dialogue to be conducted in December 2023 at COP 28 in Dubai.

- The total climate finance provided and mobilized by developed countries for developing countries in 2021 was US \$89.6 billion, marking a 7.6 per cent increase over 2020. Yet, this remains US \$10.4 billion short of the annual goal of US \$100 billion.
- A large part of the US \$89.6 billion comprised public climate finance (which includes bilateral and multilateral sources). Between 2013 and 2021 it almost doubled from US \$38 billion to US \$73.1 billion.
- Adaptation finance decreased by 14 per cent in 2021 to US \$4 billion. However, cross-cutting finance (that which supports adaptation and mitigation efforts) increased from US \$6 billion in 2020 to US \$11.2 billion in 2021.
- The mobilized private climate finance amounted to US \$14.4 billion in 2021, 16 per cent of the total (for this component comparable data are only available from 2016).
- Finance for mitigation continued to represent 60 per cent of the total climate finance provided and mobilized in 2021, while adaptation comprised 27 per cent and cross-cutting 13 per cent.
- Between 2016 and 2021, energy, transport and storage, agriculture, forestry and fishing, and water supply and sanitation were the leading sectors that saw climate finance investments.
- Climate finance from developed countries (provided bilaterally and through multilateral channels) between 2016 and 2021 reached US \$73.1 billion. However, the trend of loans dominating this component continued. Loans represented comprised over two-thirds of the total, amounting to US \$49.6 billion, while grants were under 30 per cent at US \$20.1 billion, and equity investments remained marginal. The dominance of loans rather than more affordable, inexpensive sources of finance from developed countries has remained a contentious issue.

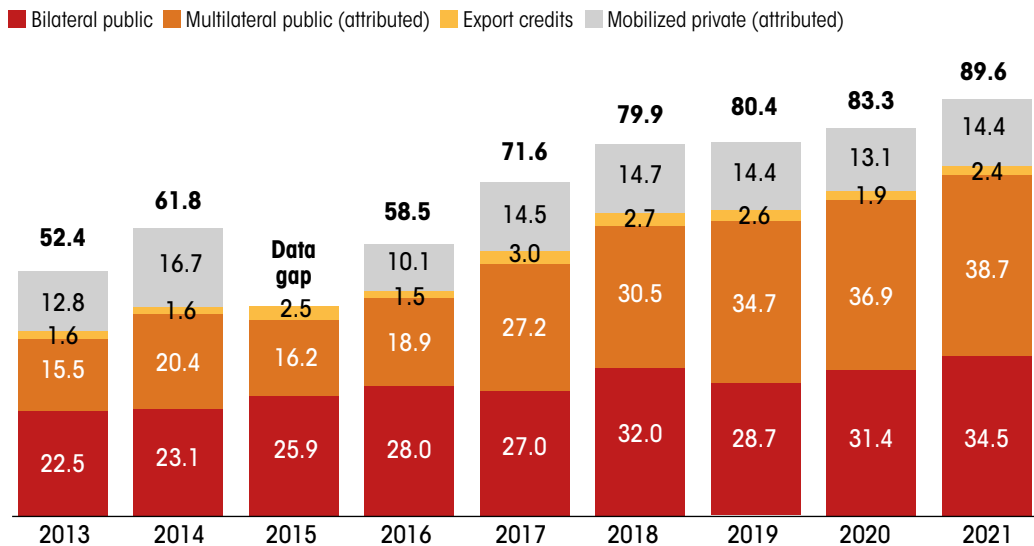
The OECD has highlighted the need to scale up adaptation financing and private finance mobilization. That the former is a crucial gap needing urgent fulfilling is well-known. According to the United Nations Environment Program's

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Figure 1: Climate finance by type 2013–2021 (US\$ billion)

Climate finance provided and mobilized in 2013–2021

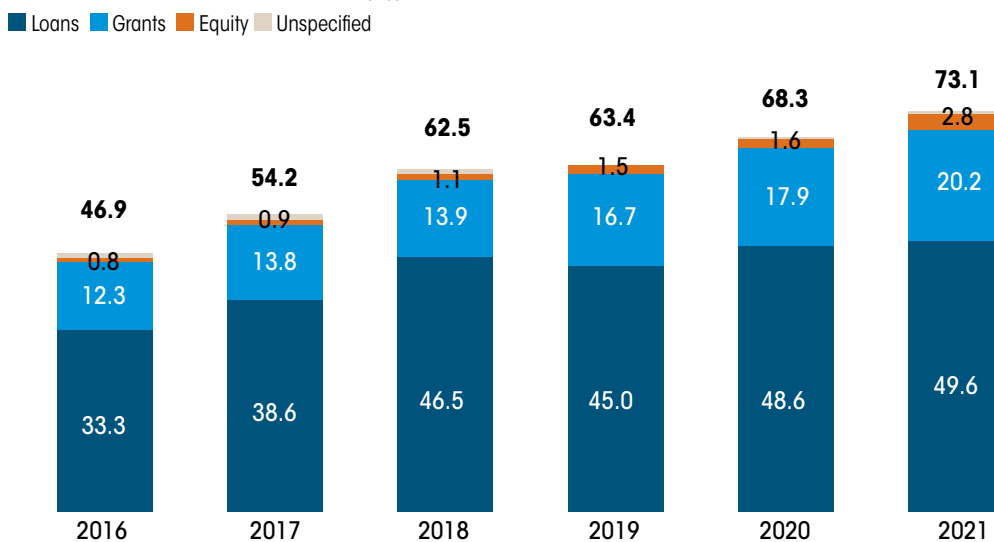


Note: Figures may not add up to totals due to rounding. The gap in time series in 2015 for mobilised private finance results from the implementation of improved measurement methodologies in OECD data collections from 2016 onwards. These improved methodologies measure the mobilisation effect of public interventions, taking into account the specific mechanisms employed to attract investments from the private sector, such as guarantees, collective investment vehicles, syndicated loans or project finance. Such an instrument-specific and granular approach is not fully compatible with the estimates developed for 2013–14. As a result, volumes of private finance mobilised and grand totals in 2016–18 and in 2013–14 respectively are not directly comparable.

Source: Based on Biennial Reports to the UNFCCC, OECD Development Assistance Committee and Export Credit Group statistics, as well as complementary reporting to the OECD.

Figure 2: Public climate finance by instrument type 2016–2021 (US\$ billion)

Public climate finance from 2016 to 2021 by type of financial instrument



Note: Figures may not add up to totals due to rounding.

Source: Based on Biennial Reports to the UNFCCC and OECD Development Assistance Committee, as well as complementary reporting to the OECD.

Adaptation Gap Report 2023, developing countries' adaptation costs/financing needs stand at about US \$387 billion/year for this decade.¹¹ This highlights not only the need to scale up adaptation financing, but to increase the new climate finance goal to well above US \$100 billion.

The Climate Policy Initiative (CPI) has provided analysis on the overall global climate finance flows for the last decade (not just those from developed to developing countries like the OECD). Highlights from CPI's latest report, *Global Landscape of Climate Finance 2023*¹² published in November 2023 include:

- The average annual flow of climate finance in 2021 and 2022 was US \$1.3 trillion, double of the US \$653 billion of 2019 and 2020. Although this growth is significant, it constitutes merely one per cent of the global GDP.
- The primary driver for the increase has been mitigation finance, which has increased from US \$439 billion from 2019 and 2020 to US \$1.15 trillion.
- Adaptation finance has reached an all-time high of US \$63 billion. 98 per cent of this has stemmed from public actors. Even though the increase inspires hope, the fact remains that adaptation financing is lagging behind mitigation and barely meeting the levels needed by developing countries.
- Developed countries have been seen as the major contributors to the overall climate finance, with the highest contributions stemming from the private sector.
- The report also notes particularly improved coverage of finance data from three sectors— agriculture, forestry and other land use (AFOLU); buildings and infrastructure; and waste.
- 28 per cent of increased financial flows can be attributed to improvements in data collection.

TOTAL FINANCE FOR ADAPTATION REDUCED TO US \$4 BILLION IN 2021, A 14 PER CENT DECREASE FROM THE PREVIOUS YEAR

Way forward for the new collective climate finance goal

Despite the overall flows in climate finance displaying increasing trends, the need for finance flows to be fair and adequate remains pressing. Procedurally on the NCQG, COP 28 will host the eighth technical expert dialogue (TED 8) and a high-level ministerial dialogue. Crucial decisions on the quantum of finance, sub-goals and targets within the new goal, and political elements needing consideration of ministers are expected to be finalized in Dubai.

It is important to note that since the announcement of a collective climate finance goal, the developing world has demanded the use of non-debt creating financial instruments for climate finance. According to an analysis by Debt Service Watch published in October 2023, the current debt crisis faced by the Global South is the worst it has seen since decades. An average of 38 per cent of budget revenue (not including grants) is used for debt service across 139 countries. Low-income countries are worse hit, with this figure being 57.5 per cent.¹³ The trend of loans dominating the climate finance mix has remained unchanged over the years. This is a need that parties will hope to see addressed in the proceedings at COP 28.

At the Bonn Climate Change Conference in June this year, developing countries underpinned the need for finance and technology transfer as a prerequisite for the continuation of any discussions on climate ambition going forward. This is crucial and will hopefully feed into the discussions at COP 28 in Dubai.

Lastly and importantly, the failure of developed countries to provide climate finance through fair instruments within the timeline they committed to over the last three years has built an environment of mistrust. Climate action requires collective efforts, the prerequisite for which is honouring commitments.

Article 2.1c

The other crucial pillar of the climate finance discourse is Article 2.1c of the Paris Agreement. Article 2.1c relates to “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”¹⁴ It has been a contentious issue for various reasons, as described below.

What has happened since COP 27?

In October 2023, the Council of European Union called for a new dedicated agenda item at COP 28 to discuss ways to implement Article 2, paragraph 1(c) or Article 2.1c of the Paris Agreement which has emerged as a sticking point between developed and developing countries.¹⁵ On 16 June, 2022, Switzerland, on behalf of the Environmental Integrity Group (EIG), requested a designated agenda item on Article 2.1c.¹⁶ It pushed for efforts to shift public and private investments towards a low-emission and climate-resilient development pathway to achieve Article 2.1c, adding that policies that drive investments towards high-emission technologies and infrastructure, such as fossil fuel subsidies, will have to be phased out as soon as possible.



On 2 November 2022, the Ministry of Environment, Forest and Climate Change under the Government of India argued that Article 2.1c cannot be opened as a standalone COP27 agenda item at this stage, stating that wealthy nations have not fulfilled their 2009 pledge of mobilizing US \$100 billion annually to assist developing countries to mitigate and adapt to climate change. "Reaching the US \$100 billion per year goal must come first, and the developed countries must be asked to show the roadmap for the same," the government stated.¹⁷ Developing countries worry that Article 2.1c could distract high-income nations from channelling funds into climate finance.

There are other issues, too. Despite being established in 2015, there is a lack of a shared understanding of what this climate-consistent finance goal entails, how to measure it, or how responsibility for its achievement will fall on nation-states or private actors.¹⁸

There is also a fear that wealthy nations could add conditionalities to the climate finance that is provided. For example, India, on behalf of the Like-Minded Developing Countries bloc, stated in its submission on the Sixth Technical Expert Dialogue under the Ad Hoc Work Programme of the NCQG, expressed concerns over Article 2.1c orienting finance away from activities which could help eradicate poverty. According to them, this is not in line with the Paris Agreement.¹⁹

Global South perspectives on Article 2.1c

India argued that Article 2.1c has to be read in conjunction with Article 9 on climate finance, which calls for financial flows from developed countries to help developing countries

DESPITE BEING ESTABLISHED IN 2015, THERE IS LACK OF A SHARED UNDERSTANDING OF WHAT A CLIMATE-CONSISTENT FINANCE GOAL TRULY ENTAILS, HOW TO MEASURE IT, OR HOW RESPONSIBILITY FOR ITS ACHIEVEMENT WILL FALL ON NATION-STATES OR PRIVATE ACTORS

mitigate and adapt to climate change while also factoring in country-driven strategies, and the priorities and needs of developing parties. The Global South perspective largely maintains that Article 2.1c should be approached in a just and equitable manner, sticking to the Common but Differentiated Responsibility and Respective Capabilities (CBDR-RC), based on science, with a gender-responsive approach and respect for human rights.

Experts have also pointed out that wealthy nations are being hypocritical as many continue to support high-emitting sectors and activities, both domestically and internationally. Since 2009, the G7 Bloc has pledged to phase out “inefficient” fossil fuel subsidies every year. In 2016, they came up with a timeline, committing to phase out subsidies by 2025. Despite these commitments, limited progress has been made with ending fossil fuel subsidies, as has been noted by civil society organizations in the Global South. In its Fossil Fuels Consumption Subsidies 2022 report, the International Energy Agency (IEA) estimates that global subsidies for fossil fuel consumption reached US \$1.1 trillion in 2022,²⁰ compared to subsidies for renewables which amounted to roughly US \$167 billion in 2017, according to an analysis from the International Renewable Energy Agency.²¹ Also, G7 governments continue to provide at least US \$100 billion in subsidies and public finance to the production and use of coal, oil, and gas, according to an analysis by the International Institute for Sustainable Development, an independent think tank based in Canada.²²

To address these concerns, COP 27 launched the Sharm el-Sheikh dialogue to enhance understanding of the scope of Article 2.1c of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement. The fourth session of the Conference of the Parties serving as the meeting of the

OVER AND ABOVE THE PROVISION OF CLIMATE FINANCE, THE BARRIERS TO ACCESSING FINANCE DUE TO THE FINANCIAL SYSTEM NEED TO BE ADDRESSED, PARTICULARLY FOR DEBT-RIDDEN COUNTRIES

Parties to the Paris Agreement (CMA4) at COP 27 requested the Secretariat to organize two workshops in 2023. The first one was held on 19 and 20 July, 2023 in Bangkok, Thailand, and the second one was held on the third and fourth of October 2023, in Geneva.

A report on the deliberations at both workshops will be prepared by the secretariat under the guidance of the presidency, for consideration by the CMA at its fifth session at COP 28 in Dubai.

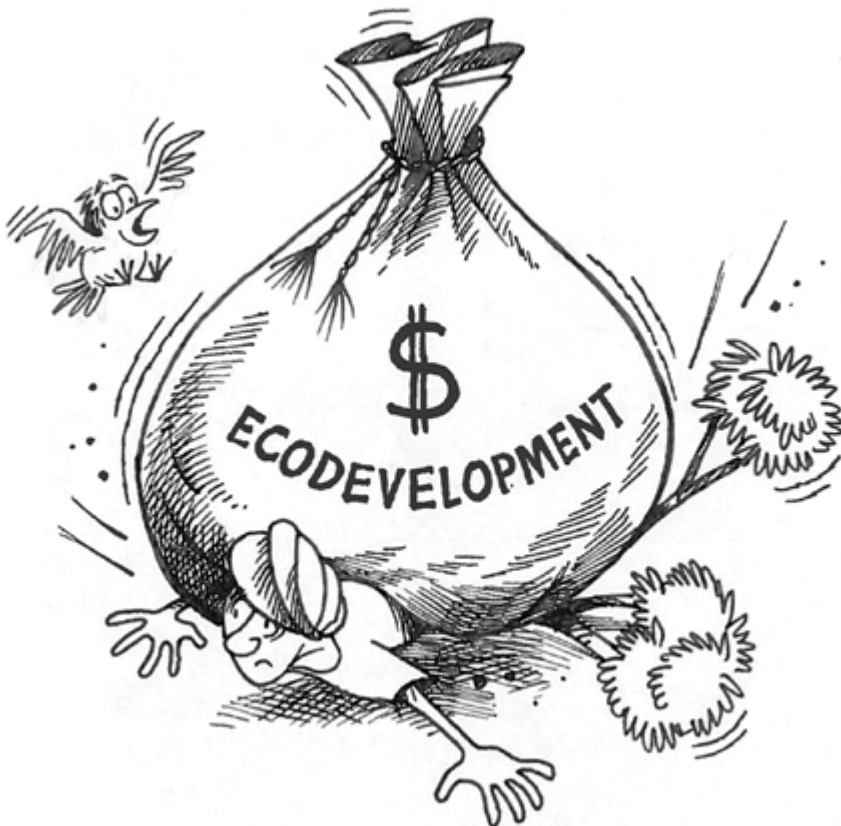
Additionally, the Standing Committee on Finance (SCF), which was established in COP 16 to assist the COP in exercising its functions in relation to the financial mechanism of the Convention, is working to map the available information relevant to Article 2.1c of the Paris Agreement, including its reference to Article 9. The SCF was tasked with this job at COP24. The idea was to reflect how different financial actors, in both the public and the private spheres, support the achievement of the goal set out in that paragraph.

In 2023, the CMA, in its fourth session, requested the SCF to continue its work regarding ways to achieve Article 2.1c of the Paris Agreement, including options for approaches and guidelines for its implementation. At the SCF stakeholder webinar on work held on November 2, 2023, the SCF co-facilitator Kevin M. Adams stated that net-zero target setting and commitments need approaches, methods, and indicators to meet them while also calling for efforts to ensure robustness, credibility, and transparency of financial sector targets and commitments. He noted that only a few initiatives towards consistency of finance flows with climate-resilient pathways were registered. The SCF summarized that private financial sector initiatives have a footprint in every region in the world, but are more concentrated in Europe and North America, while public sector initiatives have a broader global coverage with increasing participation of developing countries in recent years. The members reported a 16 per cent increase in the number of policy and regulatory measures on green finance. Charlotte Gardes-Landolfini, IMF noted that technical assistance and capacity building are needed

to assess the need for climate finance to be scaled up and to what extent it is following the Paris-aligned pathways.

Equity, justice in Article 2.1c needed

An equitable Article 2.1 c should enable the scaling up of public climate finance from developed countries as well as the transformation of the wider global financial system to make it more just and equitable for developing countries. There is a growing clamour for reforming the global financial architecture, which is supported by institutions like the World Bank and the International Monetary Fund, created in 1945 after the Second World War. It was designed by and for industrialized countries of the post-war period—a time when neither climate risks nor social inequalities were considered development challenges, says the United Nations Development Programme, in a May 2023 document titled, *Our*



What to expect at COP 28

- New Collective Quantified Goal on Climate Finance
 - The eighth technical expert dialogue (TED 8) and the High Level Ministerial Dialogue will be held at COP 28 in Dubai
 - Decisions on the quantum of finance, sub-goals and targets within the new goal, and political elements needing consideration of ministers are expected to be discussed in Dubai
 - Discussions on quality of climate finance provided, such as the need to move away from loans dominating the finance mix are also expected

- Article 2.1c
 - A report on the deliberations so far at the two workshops on Article 2.1c conducted since COP 27 is to be prepared for consideration at the fifth session of the CMA in COP 28 in Dubai
 - Continued discussions on whether the focus for climate finance must be on Article 2.1c (as has been advocated by developed countries) or on the need to focus on Article 9 in confluence with Article 2.1c, as has been the demand from several developing country Parties are also expected to be furthered

Common Agenda Policy Brief 6 Reforms to the International Financial Architecture. The existing architecture, it added, has failed to support the mobilization of stable and long-term financing at scale for investments needed to combat the climate crisis and achieve Sustainable Development Goals.

Several civil society organizations have called for a finance system transformation as debt distress is limiting the fiscal space in developing countries and preventing the scaling of finance flows consistent with the goals of the Paris Agreement. If wealthy nations or multilateral agencies do not provide debt restructuring and cancellation, new finance (even if given at concessional rates) will be used to repay existing debts and cannot be used to address the climate crisis. 10 out of 67 low-income countries have fallen into debt

distress, according to the World Bank debt sustainability analysis published in March 2023.²³ This means these countries can no longer fulfil their financial obligations and need debt restructuring, which involves debtors and creditors negotiating on terms such as reducing interest on the loan or postponing the due date for repayment to make it easier for the borrower country to pay back. Further, 30 low-income countries are at a high risk of debt distress.

Additionally, groups from developing countries have stressed that the root causes of debt distress, including the unjustly high costs of borrowing for lower-income countries, and the lack of grant-based assistance, should be addressed. Further, global economic inequalities are reflected in unfair trade systems and unfair inequitable access to technologies. Technology transfer, including for the urgent shift to renewable energy is essential.

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ARTICLE 6 OF THE PARIS AGREEMENT

While the negotiation carves out further guidance on Article 6, bilateral deals between countries are making Article 6 operational.

Parties need infrastructure and institutional capacities to understand the opportunity cost of trading mitigation outcomes

Non-market approaches under Article 6 are equally important and require more attention than they currently receive




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ADAPTATION GOAL

Even after eight Glasgow Sharm El-Sheikh (GlasS) workshops on the Global Goal for Adaptation (GGA), adoption of the GGA framework at COP 28 may be tricky. The GGA framework has to be in line with the principle of common but differentiated responsibilities and respective capacities.

Grant-based contributions for adaptation finance, especially to the Adaptation Fund, from developed countries have to increase by many times to reduce the Adaptation Finance Gap.




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MITIGATION

Climate change mitigation is achieved by limiting or preventing GHG emissions and by enhancing activities that remove these gases from atmosphere.

Current Nationally Determined Contributions (NDCs) are insufficient, with estimates suggesting a temperature rise between 2.1 to 4.0C by 2030 if these pledges are implemented.

Shifting to a low-emission energy mix, tripling renewable energy capacity, and phasing down fossil fuels require addressing regional imbalances, redirecting financial flows to underserved regions, and incentivizing renewable adoption in developing nations.




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METHANE IS ALL THE TALK ACCOMPANIED BY A WALK?

The Global Methane Pledge, announced in 2021, has now been signed by 149 countries. Many countries have announced methane policies, but they lack depth and specificity, and reporting rigour.

Oil and gas companies have set methane intensity targets but continue to expand production.




FACTSHEET

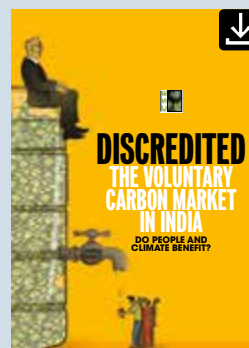
LOSS AND DAMAGE

Estimations of economic, non-economic and ecological losses due to ongoing and future impacts of climate change are termed as loss and damage (L&D).

The world needs to provide L&D finance under the broader climate justice and equity framework.



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