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POLICY BRIEFING

SECURING A PATHWAY TO AMBITION THROUGH THE NEW COLLECTIVE QUANTIFIED GOAL

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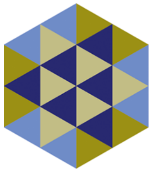
On the eve of COP29, this briefing proposes solutions to the most critical issues facing governments in setting a new global goal on climate finance in a challenging geopolitical and economic context. Taken together, these proposals provide the building blocks for a goal which maintains trust in the international process, account for and reinforce the International Financial Architecture (IFA) Reform agenda, and foster a positive feedback loop with global climate ambition. Central to this is the need for the goal to navigate a pathway between where we are now and where we need to be if developing country needs are to be met.

Summary

Climate finance is at the heart of collective commitment to climate action. Financing needs are vast – by any estimation in the trillions per year. Analysis suggests that even with strong scaling of domestic financing, at least $1 trillion will need to be delivered to developing countries annually – not including China - through international finance by 2030[1]. The agreement of a New Collective Quantified Goal (NCQG) on climate finance to replace the existing $100bn goal will be the focus of negotiations at COP29. Agreeing it will be key to maintaining trust in the Paris Agreement ahead of Nationally Determined Contribution (NDC) submissions next year, in the context of challenging geo-politics and a difficult economic outlook for many countries.

[1] LSE, **Finance for Climate Action: scaling up investment for climate and development**, November 2022



The gulf between the needs of developing countries and the availability of international support to meet those needs is vast. Mobilisation of finance at the scale needed, at affordable costs and with availability to all countries and types of actions will require deep reforms across the whole of the international financial system, but there is no pathway to a just and equitable transition that doesn't see a major increase in international support.

Ambitious implementation of current G20 proposals to boost international financial institutions (backed up by tens of billions in new capital) and a sustained increase in bilateral funding[2] could see a near tripling in climate finance by the early 2030s – a major improvement on where we are now, but still a long way from the c.$1tn per year in international finance needed.

Bridging the gap between where we are now and where we need to be will require significant shifts in positions countries have put forward in the UNFCCC, G20 and elsewhere. The necessary changes will require collective action outside the UNFCCC, including through deeper systemic reform to the development and financial sector; the unlocking of innovative sources of finance at scale which have previously been rejected by major economies; and a greater political willingness to raise and allocate finance for international climate purposes.

Not all of these decisions will be made at COP29 and countries will be nervous about fully committing to a goal predicated on delivery mechanisms that they do not control. But the negotiations on the NCQG provide an opportunity to make a partial step towards them, while putting in place a process to drive necessary reforms in the real world – much as the Paris Agreement already does for mitigation commitments. This briefing sets out a model for the NCQG that would allow countries to 'lock in' the ambition that is achievable now as they work to more fully respond to developing country needs. This includes:

1. Developed countries (and other countries willing to commit to providing support) committing to a step change in international support and the implementation of measures to increase the scale and effectiveness of the international development finance system. **This would reflect a concrete goal in the hundreds of billions per year.** This should be **combined with a defined goal to increase quality public finance for adaptation**, enhancing the existing goal to double public adaptation finance agreed at COP26.

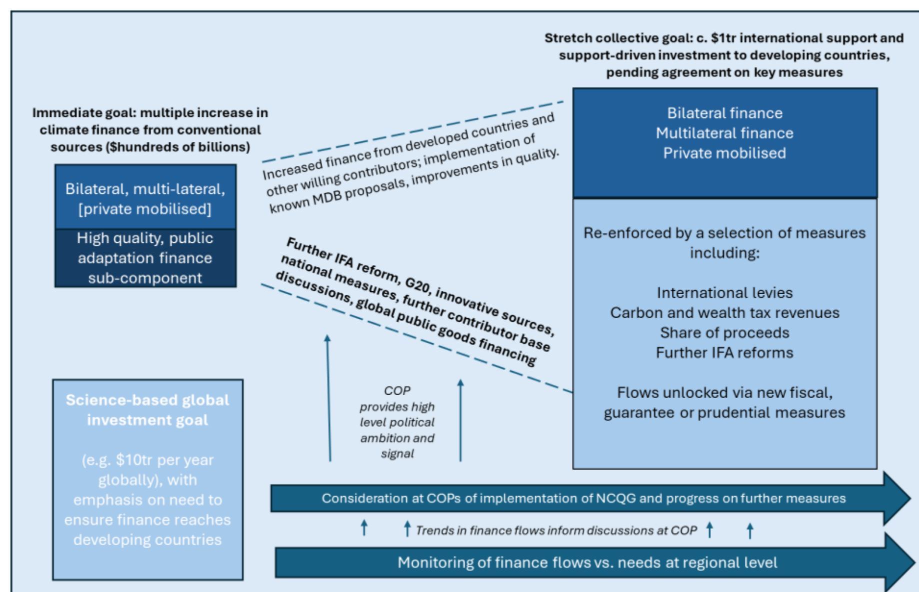
[2] NRDC, **Getting from here to there: Scaling up climate finance for the NCQG**, October 2024

2. Acknowledgement that this alone is not enough and that other support measures – many of which require multilateral agreement outside the UNFCCC – are needed to reach $1tn in international finance to developing countries, and to ensure the UNFCCC is able to both account for and emphasise the need for those solutions to be implemented. **This would entail a stretch goal in the region of $1tn, led by developed countries but with a recognised need for collective action, and an acknowledgement that failure to achieve these solutions would require further discussions within the UNFCCC in future years.**

This dynamic process for driving finance reform would need to be combined with a compromise solution on the contributor and recipient base and underpinned by a range of technical agreements to improve transparency and access. This would be further enhanced by monitoring overall global investment flows against a science-based assessment of needs, which would pay particular attention to financing trends at a regional level to ensure overall financing levels in developing countries were increasing. Such an 'outer layer' would allow countries to better understand where support was most needed.

The proposals outlined in this briefing – summarised in the figure below – would maximise current commitments on quantity, quality and distribution of finance while allowing a positive feedback loop between the NCQG, global climate ambition and the wider agenda of IFA reform.

Figure 1: Overview of proposed NCQG model



Context – State of play in the climate negotiations

A key component of the Paris Agreement was a commitment to set a *new collective quantified goal* which would replace the commitment of developed countries to mobilise $100bn per year in climate finance to developing countries. At COP26 in Glasgow, governments agreed to a three year process to set the goal, culminating at COP29 in Baku. The goal is seen by many as a chance to reset difficult international relations on climate finance, and to build trust that developing countries will get the support they need to take climate action.

The existing $100bn climate finance goal was agreed in a different time. It has a number of widely acknowledged limitations, including its low level versus need, its lack of any criteria related to the quality of finance, and its reliance on divergent reporting approaches. Despite this, the $100bn goal catalysed a number of positive outcomes, including the creation of dedicated international climate finance budgets; the capitalisation of multilateral climate funds; and the acceleration of climate finance delivery through development banks. It is unlikely that climate finance as we know it would exist without it. But the new goal reflects an important opportunity to better acknowledge the scale and nature of the climate finance challenge as countries and people face mounting impacts.

Despite this importance, not enough has been done over recent years to lay the groundwork for a political agreement. This has been exacerbated by a multi-faceted and challenging geo-political outlook, dwindling ODA budgets, and rising climate and development needs, all in the context of a chronic sovereign debt crisis where many countries are spending more on debt servicing than they are receiving in development assistance.

The Brazilian G20 Presidency's efforts to bring together climate and finance ministers provided an opportunity to consider an integrated response which considered the structural and economic changes needed to respond to climate change *alongside* a bigger and better international support system. Whilst this saw progress on a range of issues, tense politics around climate finance and the dilution of discussions across a wide number of technical tracks has contributed to the lack of a coherent shared vision.

The gap between current climate finance and growing needs is stark. Most estimations of need for internationally mobilised finance in developing countries set this at a minimum of $1tn per year. How to meet these needs has been subject to much debate within the international community, in particular the

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level of international support that is needed to drive that investment alongside commercial finance and structural reform and who should be responsible for providing it. A number of analyses have set out potential ‘burden share’ arrangements for climate finance,[3] though it is highly unlikely that any formal arrangements will be agreed under the NCQG given the political commitments such arrangements would entail.

The structure and composition of the goal

Within the UNFCCC there has been some movement towards a multi-layered goal, comprising an **‘inner goal’ rooted in increased international bilateral and multilateral public finance** and an **‘outer goal’ focussed on a wider range of investment flows**. Agreement on these layers' scale and composition is the key challenge facing COP29, with developing countries in particular emphasising the need for clarity on the provision of high-quality support through the goal’s ‘inner’ layer.

Given this, the level of **the inner goal** and the quality of finance that underpins it will inevitably be contentious. Some have claimed that a starting point for negotiation should be only incrementally higher than $100bn. This reflects the strict wording of what was agreed in the Paris Agreement (that the goal would be from a *floor* of $100bn) but does not reflect its spirit of ambition. Even if the contributor base remains unchanged and effort remains flat, economic growth and inflation alone would take current climate finance levels from the existing contributor base to around $200bn by the early 2030s.[4] At the other end of the spectrum, a number of developing country negotiating groups have called for grant-based finance of $1tn or more, fully and directly responding to the level of needs faced.

The unlocking of this level of support would undoubtedly accelerate climate action and the just transition. But agreement at COP29 to allocate unprecedented levels of international public finance ear-marked specifically to climate is unlikely to be politically feasible, particularly given the risk of cannibalising other critical components of development budgets. This is particularly the case given that public and political support for development

[3] Center for Global Development, **Climate Finance: Fair Shares Revisited**, May 2024

[4] Center for Global Development, **Baselines for the New Climate Goal: Why $200 billion Means No Ambition**, October 2024

finance in general is fragile in many contributor countries, with some actively reducing their aid budgets.

The pathway for meeting these immense needs is also complicated, with the setting of the NCQG coinciding with a range of other discussions on 'innovative sources' of finance. These, combined with well-designed enabling policies and international action to assist developing countries on areas like fiscal space and indebtedness, could also unlock significant additional finance. These include international levies on high emitting sectors like shipping as proposed in the International Maritime Organization (IMO), wealth taxes as proposed by the Brazilian G20 Presidency, revenues from carbon pricing or carbon border adjustment mechanisms as implemented in the EU, the channelling of Special Drawing Rights under the IMF, and Share of Proceeds from Article 6 revenues as already agreed under the UNFCCC (and potentially extendable to similar schemes for aviation or in the voluntary carbon market).

However, discussions are generally immature and/or rely on multilateral agreements beyond the confines of the UNFCCC, many of which do not appear close to consensus and with varying degrees of maturity. This makes it difficult for contributor countries to make hard commitments at COP29 which are predicated on them. The quantification of the finance unlocked by them would also need careful consideration to avoid over-emphasising benefits in a manner that has sometimes been the case under the $100bn goal. But not encouraging such measures in the goal in any way would be a wasted opportunity. The challenge facing negotiators, therefore, becomes how to create a pathway between where we currently are and where we need to be. This starts with what concrete commitments can be made now.

A solution to this impasse could be for countries to reach agreement in Baku on a tangible immediate goal to urgently increase finance through conventional levers – all of which are available and scalable now – whilst also agreeing to accelerate international discussions on the new routes to international finance mobilisation that will be needed to deliver the sums that are closer to actual needs.

This would involve breaking down the 'inner layer' into: i) a more immediate commitment to urgently mobilise a figure in the hundreds of billions, predicated on a boost in bilateral public finance and support for the multi-lateral climate funds, as well as capitalisation and the implementation of efficiency measures at development banks; and ii) a more qualified 'collective stretch' goal which notes the need for global action in the coming years to unlock further sources of

finance, recognising the need for countries to work together to achieve this through a range of fora. A regular dialogue at future COPs could ensure sustained political pressure to secure breakthroughs.

For the former, recent analysis[5] indicates that with a set of reasonable assumptions around increased bilateral support, a significant boost to the (still undersized) multilateral climate funds, full implementation of the recommendations of various independent and G20 expert groups to boost multilateral development bank (MDB) investment levels (for which new capital in the tens of billions would be needed), finance in the region of $250-500bn per year could be mobilised from the conventional sources underpinning the $100bn in the early 2030s.[6]

This would be a major step change in the level of financial support provided to developing countries, though would remain short of needs. Whether or not the full amount would be achievable would depend on the degree to which governments were willing to allocate new finance, as well as drive changes through international financial institutions in line with widely acknowledged and well understood measures to scale and enhance their role in providing finance. There are a range of pathways for boosting capital to MDBs that could be explored even in the event that general capital increases cannot be agreed by boards, though this would be unlikely to achieve the most ambitious scenarios.

A second, more aspirational goal could be outlined based on assessment of the revenue generation potential of a range of measures outlined above, with an aim to bring annual international finance mobilization for developing countries more in line with the assessed need of $1tn or more. Such a goal could take a later implementation date than a more immediate scale up in established forms of support which is based on more mature and concrete proposals, *or* the date could be left open-ended, with the intention of this goal ultimately superseding the lower goal once channels for meeting it had been identified.

Meeting such a goal would require progress on measures outside the UNFCCC process, and the high level of political complexity in implementing some of the more challenging proposals for unlocking new sources of finance should be acknowledged. Reflecting these measures in the goal, while appropriately acknowledging the challenges of implementing them, would add much-needed

[5] NRDC, **Getting from Here to There: Scaling up Climate Finance for NCQG**, October 2024

[6] Reaching the higher range of this figure would rely on increasing the range of contributors to the NCQG and a moderate increase in private finance mobilisation ratios.

collective momentum and accountability within the UNFCCC for moving from theory to action in the scaling up of new sources of finance. In the more immediate term, an ambitious increase in conventional support would help build the trust and political space needed and see developed countries show the 'leadership' they have committed to under the Paris Agreement.

Linking support and investment: An outer investment layer

The **outer goal** has also been the subject of much debate. This has primarily concerned whether there should be an overall global investment goal for *all* countries or a goal related solely to investment in developing countries. Many developing countries are concerned that a goal which included global climate finance flows would reduce the necessary focus on mobilising finance *to* the Global South, with investment in OECD countries masking the failure to mobilise finance for climate and sustainability goals in vulnerable countries.

Whilst it is clear that the new goal must drive finance flows to developing countries where the majority of investment needs lie, it is in the interest of all countries to reach global finance levels needed to meet the Paris Agreement and Sustainable Development Goals. Further, deciding on an appropriate level for an *overall* investment goal which only included a subset of countries brings to the fore the question of *which* countries are included: for instance, a goal which includes investment to countries like China (excluded from a number of external reports including that of the Independent High Level Expert Group) and other high-income non-Annex I parties would need to be significantly higher than one which excluded them for it to accurately map on to needs. This is likely to prove highly politically contentious when setting and monitoring any goal.

Setting a global investment goal – whether as part of or separately to the NCQG – would offer a true assessment of whether finance is flowing in line with the Paris goals. A solution could be to set a science-based overall investment target (in the trillions annually, with one estimate of needs at c. $10tn[7]) under which Parties commit to continued monitoring of the alignment of finance flows with needs on a regional and thematic basis. This would better inform Parties in their dialogue on how support levels correspond to financing needs, and allow for attention to be drawn to shortfalls in specific geographies (for instance, in the event that despite overall finance flows increasing, adaptation finance flows in vulnerable countries remain short of needs) and provoke consideration of how this could be responded to.

[7] Climate Policy Initiative, **Top-down Climate Finance Needs**, May 2024

Both the UNFCCC Standing Committee on Finance and the IPCC already have strong mandates on the determination of financing needs which could inform such a goal, while a number of initiatives outside the UNFCCC process, such as CPI's Landscape of Climate Finance,[8] are already taking a more granular regional approach to finance flow tracking which could inform monitoring. Such information will become increasingly available from both the financial and development sectors as green and transition finance measures are implemented.

This model would turn a global goal on finance flows from a liability to an asset for developing countries concerned about the lion's share of climate finance flows being to renewable energy in Western countries, as they would now have a clear means to provoke a discussion within the COP process where particular regions were disproportionately impacted by a shortfall in overall finance flows.

Any consideration of why overall finance flows are not reaching the levels needed would have to take into account both the scale and quality of international support *and* wider ambition levels, policy and regulatory frameworks and macro-economic factors guiding investment (including fiscal headroom). These issues are likely to be considered at length in Belem through discussions on Article 2.1c (Parties have already agreed the NCQG should be set in the context of Article 2.1c). How the NCQG interacts with these wider factors is key to understanding the relationship between support levels and investment needs.

Beyond the quantum: Political priorities for reaching agreement

Beyond the level and broad structure of the goal, there are a wide range of areas under negotiation relating to how, where and from whom finance should be delivered and reported. Whilst all these issues are important, many (such as reporting requirements and issues relating to simplifying access) are likely to be resolved at technical level by negotiators and/or continually considered throughout implementation. The following key issues will, however, likely need resolution at political level to enable the setting of the goal:

Finding a solution on the contributor base

Discussions on who will be responsible for contributing to the goal remain at stalemate, with many developed countries highlighting that several other

[8] Climate Policy Initiative, **Global Landscape of Climate Finance 2024**, October 2024

countries now have income levels, emissions levels or international support programmes that warrant an expansion of the contributor base.[9] Broad opposition to this from developing countries stems from concerns that such an expansion would be used to reduce the responsibilities of the existing contributors to provide support, or that countries not yet in a position to contribute will eventually be expected to provide support, with expansion of the donor base being a starting point for diluting the principle of common but differentiated responsibilities.

Article 9.3, under which the NCQG discussions were initiated, is clear that the mobilisation of climate finance is a global effort led by developed countries, and any solution would need to demonstrate this leadership. One option could be for countries beyond the conventional contributor base to have the ability to 'opt-in' to the goal, enabling them to join the contributor base on a voluntary basis and for this decision (to opt-in) to be recorded publicly. Once a party had opted in, there would be a strong expectation that they would not be able to retract their intent to contribute. A decision text this year could include reference to a first tranche of new contributors, lined up through bilateral engagement (as has already been the case for some countries, such as Korea[10]).

This would allow for a credible stretch goal to be set this year, with a starting base of contributors, with discussions on whether further countries would join the effort to be carried into future years. This should not in any way dilute the requirement for developed countries to provide support; nor should it imply that contributing to the goal reflected any broader change in the status of countries under the Paris Agreement or their legal requirement to provide support.

Thematic sub-goals: Adaptation and Loss & Damage

There have been a range of discussions on whether the NCQG should include sub-targets, in particular to address the imbalance of finance flowing for mitigation versus adaptation or loss & damage. This also touches on the need to ensure the 'inner layer' of the goal provides sufficient reassurance on the provision of high-quality public finance, especially grant-based resources for adaptation (as stipulated under Article 9.4 of the Paris Agreement).

A permanently fixed ratio for finance between mitigation, adaptation and loss & damage is challenging for a number of reasons – including that the level and

[9] E3G analysis, for instance, has estimated that in recent years China has contributed $3bn per year in climate finance outside the MDBs, with this likely to be an under-estimate given limitations in tracking. B

[10] The White House, **United States-Republic of Korea Leaders' Joint Statement**, May 2022

nature of finance for these issues will evolve over time, with adaptation investment needs in the shorter term requiring lower gross levels of investment but a higher degree of concessionality.

One option – already with precedent following agreement to an adaptation goal at COP26 – could be a sub-goal for a minimal provision of high-quality (e.g. concessional or grant-equivalent) adaptation finance. For instance, in setting the goal Parties could commit to at least a further doubling of public adaptation finance in the immediate term, with an intent to increase further over time (noting that this will still be significantly short of even the current adaptation gap – a lower bound estimate of the gap is $187bn[11]). A strong outcome for IDA replenishment, including an increased adaptation target, could provide a scaffolding on which this commitment could be implemented. To enable better tracking of the quality of finance, this could be coupled with a commitment to make grant-equivalent reporting – currently voluntary under the Paris Agreement – mandatory.

A sub-goal for loss & damage, and even whether or not the goal includes loss & damage, is likely to be more challenging to agree. This is intrinsically linked to discussions on the contributor base, with the Paris Agreement not stipulating (unlike for mitigation and adaptation) differentiation of responsibilities between developed and developing countries in funding the response to loss & damage nor including reference to loss & damage in Article 9. But finance for loss & damage has significantly evolved since the Paris Agreement was signed, and there is a strong expectation from many countries that the NCQG will also cover loss & damage given growing needs.

In any scenario, the goal must acknowledge the need to significantly boost funding for loss & damage (coupled with increased commitments for the Fund for Responding to Loss and Damage), with either the NCQG or the wider COP29 outcome ensuring there is a forward process to ensure financing contributions increase in line with growing needs.

Providing assurance to middle income countries on continued access to international support

Reliance on ODA and the development finance architecture to deliver climate finance is a longstanding area of contention for many countries. One area where this will become more acute in the coming years is the increasing divergence

[11] UNEP, **Adaptation Gap Report 2024**, November 2024

between countries that are eligible to receive climate finance under the UNFCCC and countries that are eligible to receive ODA. This issue has already caused strained relations at the boards of a number of climate funds and MDBs, particularly as developed countries and institutions implement policies which limit the use of concessional finance in upper-middle or middle income countries – often where there is the greatest need to invest to reduce emissions.

These countries also face major challenges in generating the fiscal space needed to mobilise climate finance and bring forward the enormity of capital investment needed to ensure a just transition. This issue is much wider than the NCQG, encompassing decisions by the boards of individual institutions and governments setting lending policies, OECD DAC rules on ODA eligibility, and a variety of discussions around potential use of new and innovative instruments and indirect means to account for the climate transition in macro-economic modelling (see below section). Ultimately, these economies need to see a pathway for implementing their plans that aligns with an equitable and just transition – with many basing these plans on sustained and targeted international support.

There has been some positive movement, including through the World Bank Evolution Roadmap[12], but the need for support at scale for global public goods warrants greater political attention. At minimum, the NCQG will need to provide reassurance and clarity on continued access to support for these countries, and should point to a way forward for higher-level discussions on the role of the international development and financial architecture in assisting them through the transition.

Given that this issue is broader than climate and previous efforts to consider ODA rules under the DAC have faltered at the first hurdle, one option would be a deeper dialogue through next year's Financing for Development discussions. Real world examples of how a range of support measures are being used in these countries – such as through country platforms – could inform these discussions whilst securing and rewarding ambition from leading economies.

Implications for COP29

Landing an ambitious NCQG agreement in Baku will require both high-level political compromise and creative technical solutions. This will need to bridge

[12] IMF/World Bank Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, **From Vision to Impact: Implementing the World Bank Evolution**, April 2024

the gap between where countries currently are and what is needed to deliver on Paris, and a collaborative approach to the negotiations will be critical given the political backdrop. The model set out in this briefing provides a number of potential options to facilitate this bridge building, recognising that this outcome is imperfect for many Parties and that much more needs to be done to support developing countries. The following key actions summarise what is needed to reach agreement in Baku:

> Governments should consider a staged goal with clear commitments to increase finance through levers that are available now (likely to be in the hundreds of billions) with a more stretching goal that recognises the need for international action on a wider range of financing measures. The levels of these goals are highly sensitive to assumptions between **what types and levels of finance can be delivered** from different sources.

> Agreement in Baku will require governments to have an understanding of how increased bilateral support and measures to increase wider development finance through current levers – which can be projected with a degree of confidence now – interact with more uncertain future financing levels from more novel sources. **This could create a positive synergy between the NCQG and IFA reform agenda,** whilst bridging the gap between needs and current supply of finance.

> **High level political leadership** will be needed to resolve the most politically charged issues, including:

- Agreement between developed countries and any potential new contributors, likely to require some form of 'opt-in' mechanism for willing new providers. Any decision text should make clear that this does not lessen the burden for existing contributors.
- Assurance that there will be a significant increase in high quality public finance, especially for adaptation in vulnerable countries. This could take the form of a quantified sub-goal. The COP29 outcome will need to give assurance that there will also be a significant increase in finance for loss & damage, whether through the NCQG or elsewhere.
- A way forward for considering how emerging markets which are approaching or have reached ODA graduation thresholds will retain access to concessional climate finance or otherwise be supported. This is likely to need consideration beyond the confines of the UNFCCC – and could for instance be considered under next year's

Financing for Development discussions – but could be reflected in the NCQG decision.

- Strong signals from the G20 leaders meeting in Rio during the second week of COP29. This will be particularly important should discussions not start constructively in Baku. Despite challenging politics, the G20 could show a strong signal of commitment to increasing overall climate finance, acknowledging the need for new capital alongside efficiency measures towards a tripling of MDB lending, and showing an openness to further consideration of measures to mobilise innovative finance and tackle developing country indebtedness. A continued dialogue spanning climate and finance ministries in or outside future G20s, building on the Brazilian Presidency's TF CLIMA, would prove synergistic in delivering the NCQG and furthering momentum.

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