New Collective Quantified Goal on Climate Finance

FINDING COMMON GROUND

Briefing Note

August 2024

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Executive Summary

The Paris Agreement's **New Collective Quantified Goal on Climate Finance (NCQG) for developing countries** is expected to be decided at COP29 in Baku, Azerbaijan, in November 2024. This briefing note outlines the negotiation process, key issues, and differences among Parties as they deliberate on the NCQG.

The NCQG negotiations process began at COP26 with the establishment of the Ad Hoc Work Programme (AHWP), featuring Technical Expert Dialogues (TEDs), of which nine have been undertaken, and annual High-Level Ministerial Dialogues (HLMDs). In 2023, the AHWP Co-Chairs identified options for NCQG elements based on the TEDs and submissions by Parties. The COP28 decision remained procedural, emphasizing early deliberations for a draft negotiating text before COP29. COP28 outcomes, including the first Global Stocktake (GST1) and the Global Goal on Adaptation (GGA), highlight the need for urgent support, increased ambition, and comprehensive climate finance mobilisation. The NCQG negotiations will soon enter the final political phase, which will involve trying to find a 'landing zone' required for a consensus and decision at COP29.

This briefing note looks at the deliberations on the NCQG thus far. It unpacks Parties' priorities and some of the areas of contention and looks ahead to COP29 by discussing areas where concrete progress could be achieved. The note highlights some of more salient issues under negotiation that Parties will have to resolve on the NCQG elements by COP29, notably:

1. How to structure the new goal in view of the scale of funding needed considering the needs and priorities of developing countries, which relates mainly to the types of funding and instruments to be used.
2. How to integrate criteria into the NCQG that relate to the characteristics of finance, and can they be differentiated by "quality[6]"?
3. Who should contribute to the NCQG and how to address the proposals for expanding the contributor base?
4. How to track the delivery of the goal and enhance transparency?

Understanding the key contentious issues and Party positions is a key step necessary to identify potential solutions in these highly political and technically complex negotiations. This is particularly the case for Heads of Delegations who will be confronted with the need to identify political solutions for technically challenging issues with under very limited time constraints.

To resolve the political challenges and diverging positions, Parties will need to find compromises and landing zones that build and maintain trust, learning from experiences with the USD 100 billion goal. To do so, we propose an approach to structure the NCQG according to **types of climate finance and varying degrees of quality** as follows: 1) public international funding in grant equivalent; 2) other public international funding at face value (of loans or other instruments); 3) private international finance (transboundary flows); and 4): private domestic finance. Allocation to the three climate action types, **mitigation**, **adaptation** and **loss and damage**, would then be undertaken.

We refrain from discussing monetary numbers ("quantum") as they will likely be a political decision once the questions above have been answered and the structure and framing of the NCQG are clear.

[6] Examples for such criteria may include accessibility and positive impacts on debt sustainability.

I. Background

As part of the Paris Agreement (Decision 1/CP.21), Parties agreed to set a New Collective Quantified Goal (NCQG) on Climate Finance from a floor of USD 100 billion per year by 2025, considering the needs and priorities of developing countries. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) is responsible for deciding on this new climate finance goal. The lessons learned from the process of setting the goal of USD 100 billion annually by 2020 underscored the need to establish a clearly defined and specific process to ensure it does not result in an "eleventh-hour" political decision.

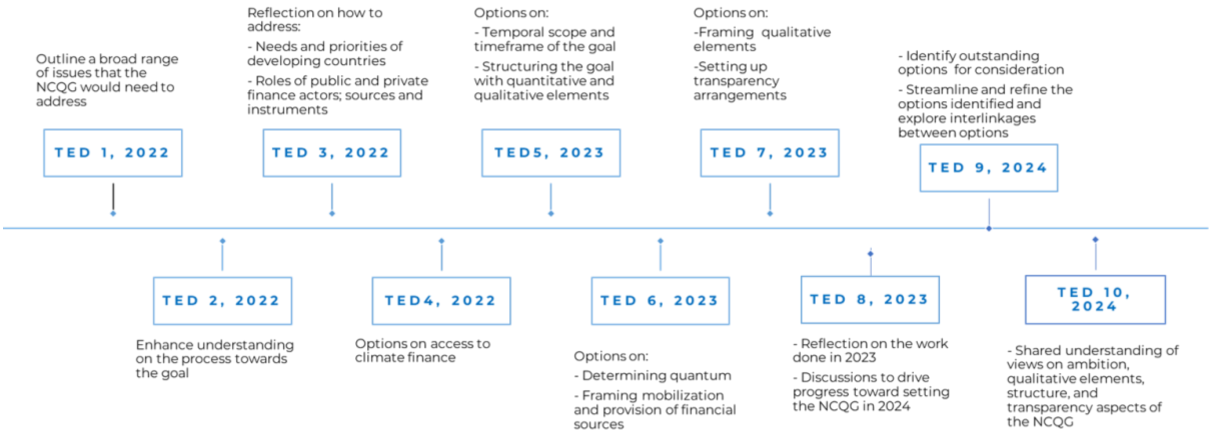
The purpose of this briefing note is to provide an overview of the key issues in the negotiations on the NCQG. We aim to shed light on the key differences among Parties, which persist in the NCQG deliberations by looking at Party submissions and inputs to the AHWP.

The negotiation process of the NCQG to date

At COP26, Parties decided (decision 9/CMA.3) that the NCQG deliberations[7] would take place between 2022 and 2024 and launched the AHWP under the CMA. The AHWP included up to four Technical Expert Dialogues (TEDs) per year with submissions and participation from a range of stakeholders including Parties, constituted bodies, climate finance institutions, and the private sector. Over 100 submissions have been made to date. The TEDs constitute the technical information gathering and learning phase to inform the nature of the NCQG (see Figure 1 for an overview). The AHWP also convenes annual High-Level Ministerial Dialogues (HLMDs) and CMA stocktakes.

The 2023 annual report of the AHWP Co-Chairs identified possible options on the key elements of the NCQG based on the TEDs and the submissions by Parties and Observers (see Figure 2).

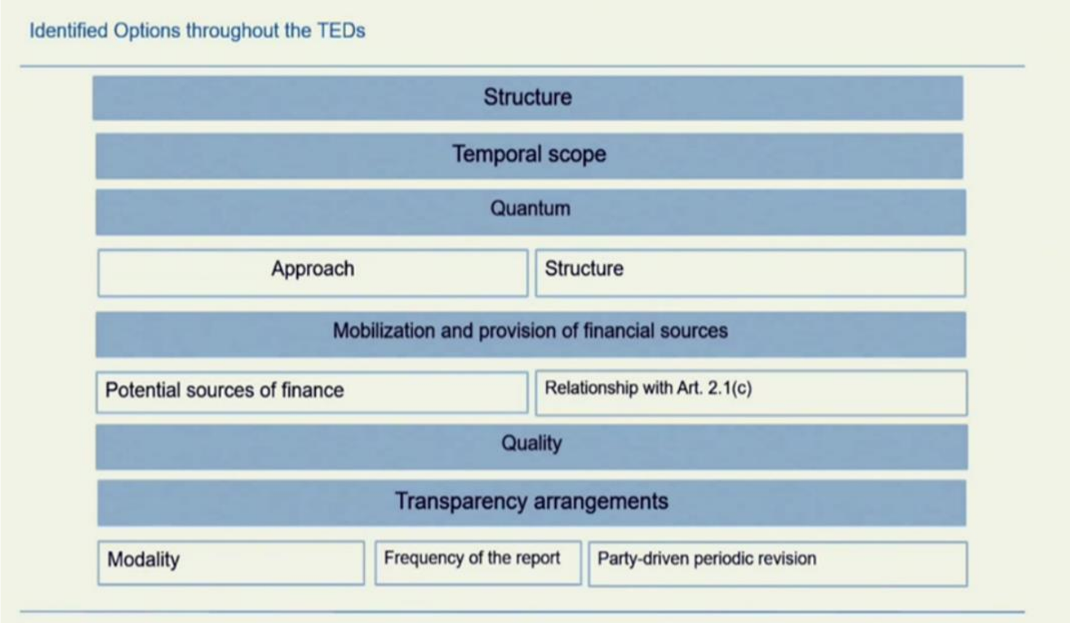
Figure 1: Overview of the elements and options discussed in TEDs under the AHWP to establish the NCQG



Source: Authors.

[7] All NCQG process-related information including summary notes and submissions are available on the United Nations Framework Convention on Climate Change (UNFCCC) website: https://unfccc.int/NCQG

Figure 2: Key elements of the NCQG



Source: UNFCCC (2024).

At COP28, following considerable divergence amongst Parties on several substantive elements of the NCQG, the final decision remained purely procedural outlining the work programme in the run-up to COP29. In decision 8/CMA.5, Parties decided on a shift to a mode of work that will enable the development of a draft negotiating text. Additionally, the decision states that the AHWP should allow for deliberations among Parties which will progress discussions early in the year, rather than waiting until COP29.

The COP28 decision further outlines that discussions on the NCQG will build upon the GST1 results and the GGA framework underscoring the complex interplay that must be managed by the COP29 presidency. The GST1 outcome (decision 1/CMA.5), in this regard, highlights the need to consider urgent support for current national efforts[8], increased ambition, and accelerated action, reflecting developing countries' evolving needs. The decision further highlights the need for enhanced provision and mobilization of climate finance from a wide variety of sources and instruments and channels. Additionally, the decision on the GGA framework (decision 2/CMA.5) seeks to narrow the adaptation finance gap, encouraging Parties to consider the GST1 outcomes and the UAE Framework for Global Climate Resilience[9] in the 2024 deliberations on the NCQG.

Other relevant developments at COP28 included the decision by Parties (decision 1/CP28 and decision 5/CMA.5) to operationalise the new funding arrangements, including a fund for responding to loss and damage as an entity with the operation of the Financial Mechanism of the Convention, which will also serve the Paris Agreement. The "Roadmap to Mission 1.5°C" was launched under the guidance of the Presidencies of COP28 - UAE, 29 -Azerbaijan and 30- Brazil

[8] Nationally determined contributions (NDCs) and national adaptation plans (NAPs) and adaptation communications, including those submitted as adaptation components of NDCs.

[9] The decision states the purpose of the UAE Framework for Global Climate Resilience is to guide the achievement of the GGA and the review of overall progress in achieving it with a view to reducing the increasing adverse impacts, risks and vulnerabilities associated with climate change, as well as to enhance adaptation action and support.

(“Troika”) as a potential vehicle to drive ambitious collective climate action and anchor implementation at COP29 and COP30.

In 2024, the TEDs moved to a stage of refining and identifying additional mutually understood options while exploring their interlinkages based on insights from the AHWP meetings. The TEDs and AHWP meetings will support the development of a substantive framework for a draft negotiating text and identifying ‘landing zones’ required for consensus for a decision at COP29/CMA6. During the NCQG deliberations at the 60th sessions of the Subsidiary Bodies (SB60), significant divergences between developed and developing countries remained. As a result, SB60 achieved only marginal procedural advancement towards the adoption of an ambitious NCQG at COP29. The primary outcome was a 35-page informal input paper[10] prepared by the AHWP Co-Chairs, which included a variety of Party perspectives. At the end of the sessions, Parties called on the Co-Chairs to prepare a more streamlined and balanced updated input paper with clearly defined options to reflect the perspectives of all Parties, incorporating the views expressed during the AHWP meeting and written contributions received in the intersessional period.[11]This year’s HLMD ahead of COP29 is packed with high expectations as observers expect it to produce political direction in the key areas of contention and help untangle opportunities for compromise. Further political mobilization outside the UNFCCC process discussions on the NCQG have featured at the Copenhagen Climate Ministerial held in March 2024, and the 15th Petersberg Climate Dialogue and the Group of Seven (G7) Ministerial Meeting on Climate, Energy and Environment, both held in April 2024. A key message from these events stressed the need for the new goal to consider a wide range of sources including public and private finance.

II. State of play on the NCQG: What are the key issues and priorities for Parties?

Submissions by Parties and deliberations in the TEDs and AHWP meetings have allowed to identify a number of key issues. Notably, the analysis of the Party submissions is not exhaustive but highlights some of the key points included in the discussion. In the run up to COP29, negotiators need to understand these issues and the key differences between Parties to aid in the development of “bridging proposals” or “landing zones”.

a) Approaching the structure of the NCQG

Some Parties have proposed a **multi-layered** structure of the NCQG to potentially facilitate broader contributions and more nuanced funding strategies. [12] Those favouring this view interpret the NCQG in the context of **contributors**, **sources**, and **instruments** operationalising the goal. It is these structural features that are expected to influence (and potentially determine) the quantum.

Some Parties oppose such a structure in favour of a simple single layered structure that takes into account the lessons learned from the shortcomings of the previous USD 100 billion goal.[13] Some Parties have expressed the view that the NCQG should be structured with **thematic sub-goals** (scope) for **mitigation**, **adaptation**, and **loss and damage** response.[14] However, some Parties insist loss and

[10] See: UNFCCC (2024): https://unfccc.int/sites/default/files/resource/MAHWP2_second_update.pdf
[11] See: https://unfccc.int/sites/default/files/resource/MAHWP2_Information_on_progress_made.pdf
[12] For example: EU (2024): https://bit.ly/44YhvqG
[13] For example: AOSIS (2024): https://bit.ly/3V21V8K; LDC (2023): https://bit.ly/3Vjo4B0; UNFCCC (2024): https://unfccc.int/sites/default/files/resource/Co-chairs_progress_and_input_MAHWP2.pdf
[14] For example: AILAC (2024): https://bit.ly/4aI0W3k

damage should not be included in the NCQG discussions, arguing that there is no legal obligation to finance loss and damage or need for compensation.

b) Temporal scope

Unlike the USD 100 billion goal that had an envisaged time frame 'by 2020', no decision has set a time horizon for the NCGQ. Parties have generally discussed: 1) a short time frame with a **five-year cycle** for the goal; 2) a medium time frame with a **10-year cycle**; and 3) a **long time frame** to align with efforts to reach net zero targets.

Parties in favour of shorter time frames indicate this allows for **flexibility** to take into account changing needs, the evolving nature of the global economic landscape including macroeconomic variables such as inflation rates, and election cycles. Moreover, this timeframe would be consistent with the NDC and GST cycles.[15]

Parties supporting the ten-year cycle argue it is **aligned with countries' budgeting** processes.[16]

Parties in favour of a longer timeframe argue this is essential for **long-term planning and investments** and enables policies to yield tangible climate benefits. Furthermore, it would provide further signals to accelerate structural changes to the financial system.

c) Mobilisation and provision of financial sources

Parties have varying interpretations with respect to who should provide and mobilise financial flows to meet the NCQG.

Potential sources of finance

Some Parties suggest **expanding the contributor base** for the NCQG beyond developed countries, which were responsible for the USD 100 billion goal.[17] This view points to the evolving international economic landscape[18] and suggests contributions should be based on the 'evolving capabilities' of Parties, their Gross Domestic Product (GDP), Gross National Income (GNI), and emission levels. Parties further base this view on Article 9.3 of the Paris Agreement. They argue that the NCQG needs to be seen as a "global effort" and other Parties in a position to do so should also provide financial support.[19]

Other Parties, however, argue that **developed countries should continue to bear the primary responsibility** to provide financial resources to all developing countries and should continue to take the lead in mobilizing climate finance considering the needs and priorities of developing countries.[20] Some Parties also point out that expanding the contributor base goes beyond the mandate of the NCQG and could shift the focus from established financial obligations.[21]

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[15] For example: Arab Group (2024): https://bit.ly/3KlDI8G; LMDC (2024): https://bit.ly/3V21Hyq; India (2024): https://bit.ly/457nFon; Philippines (2024): https://bit.ly/3WVzNXp

[16] For example: AOSIS (2024): https://bit.ly/3V21V8K; LMDC (2024): https://bit.ly/3V21Hyq;

[17] For example: EU (2024): https://bit.ly/44YhvqG; US (2024): https://bit.ly/4bM1bLQ ; Australia (2024): https://bit.ly/3Vktrjn; Japan (2024): https://bit.ly/3wUrEbg; New Zealand (2024): https://bit.ly/3wOXR3L, Norway (2022): https://bit.ly/4bPpgRY

[18] For example: US (2024): https://bit.ly/4bM1bLQ

[19] For example: EU (2022): https://bit.ly/3V5ubY6

[20] For example: AOSIS (2024): https://bit.ly/3V21V8K, Arab Group (2024): https://bit.ly/3KlDI8G; India (2024): https://bit.ly/457nFon; LMDC (2023): https://bit.ly/3Vjn6oi

[21] For example: LMDC (2023): https://bit.ly/3Vjn6oi

Relationship between Article 9 and Article 2.1c of the Paris Agreement in the context of the NCQG

Article 2.1c of the Paris Agreement calls for "making **finance flows consistent** with a pathway towards low greenhouse gas emissions and climate-resilient development". Some Parties see a relationship between Article 9 and Article 2.1c in the context of broadening the contributor base.[22] One prominent argument in favour of this view also relates to the NCQG as a global effort with all Parties, as well as **non-Parties** (as envisioned in some proposals of a multi-layered structure), contributing to the NCQG.[23] These Parties propose that resources be mobilised from various sources—**public, private, domestic, international**— and include innovative instruments to achieve the true scale of investments needed. Moreover, this also supports the view that enabling environments in developing countries to attract private sector finance are needed.[24] Here, it must be noted that only a subset of climate action generates revenues that enable the attraction of private sector finance. However, for many adaptation activities this is not the case.

Parties that oppose linking the NCQG discussions to Article 2.1c point out that this linkage may shift responsibility to developing countries' domestic policies and introduce new conditionalities to the climate finance provided. They also point at the separate process underway— the Sharm el-Sheikh Dialogue on the scope of Article 2.1c and its complementarity with Article 9[25], the outcomes of which will be reported to the CMA in Baku.

d) Quality

Parties have also discussed the need to address the quality of climate finance provided (which ensures funding can be used effectively and efficiently) and the extent to which this will factor into the quantum of the goal. Some of the views expressed by Parties on quality are also linked to the **types of financial instruments** included in the goal. As noted by some Parties, one of the lessons learned from the USD 100 billion goal is that non-grant-based climate finance can increase indebtedness and the fiscal burden for developing countries.[26]

Several Parties have expressed interest in increasing **public grant-based financing** and **concessional finance** that does not increase the debt burden of countries.[27] Parties that hold this view have proposed identifying the suitability of such instruments for the different types of climate action (mitigation, adaptation, and loss and damage) and considering the special circumstances of least developed countries (LDCs) and small island developing States (SIDS)[28]. Related to the view of expanding the contributor base, one Party has argued that the eligibility to receive public international finance flows must be defined under the new goal.[29]

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[22] For example: Japan (2024): https://bit.ly/3wUrEbg
[23] For example: EU (2022): https://bit.ly/3V5ubY6
[24] For example: US (2024): https://bit.ly/4bM1bLQ
[25] See: https://unfccc.int/topics/climate-finance/workstreams/sharm-el-sheikh-dialogue/sharm-el-sheikh-dialogue
[26] For example: AGN (2024): https://bit.ly/4577kQK
[27] For example: AILAC (2024): https://bit.ly/4aI0W3k; Arab Group (2024): https://bit.ly/3KlDI8G; AGN (2022): https://bit.ly/3Ko9Mss; LMDC (2023): https://bit.ly/3Vjn6oi
[28] For example: AOSIS (2022): https://rb.gy/4sdsrp
[29] US (2024): https://bit.ly/4bM1bLQ

Acknowledging the scale of finance required, some Parties have said that the goal should consider innovative financial instruments. such as **debt swaps**, **guarantees**, and **blended finance**, to complement public grant-based finance and increase fiscal space.[30]

Accessibility of funding appears to be the area with the most convergence with most Parties recognizing the need for the **ease of access** to climate finance. Some developing country Parties have highlighted the difficulties faced in accessing funding from the climate funds and similar sources in a timely manner and called for more streamlined and simplified processes.[31] However, other Parties emphasize the need to ensure climate finance is **used effectively**.[32] Questions remain on the standards and procedures to be used to monitor progress on quality based on the impacts and outcomes of different types of climate finance.

e) Transparency arrangements

Building on the lessons learned from the USD 100 billion goal, Parties agree on the need to enhance transparency of implementation of the NCQG.

Definition of climate finance

Parties diverge on the need for and the details of a **universal climate finance definition** and robust methodologies on 'what counts as climate finance'[33]. Some Parties that support such a definition further call for a clear agreement on burden-sharing among developed countries to establish predictable, transparent, and accountable financial contributions.[34]

Reporting frameworks

Parties have proposed transparency arrangements for tracking and reviewing progress towards the NCQG.

Broad consensus exists among parties regarding the use of **existing transparency frameworks and mechanisms** under the Paris Agreement. A first consideration is to report on the NCQG under the Enhanced Transparency Framework (ETF).[35] A concern among some Parties is whether the ETF can capture **private finance** and possible **non-Party contributions** under the NCQG.[36] Some Parties propose that a **centralised and legitimate body**, such as the Standing Committee on Finance (SCF), should regularly reports on progress on the NCQG[37] and ensure the NCQG elements are adequately reflected in the ETF.

Other Parties propose **setting up an additional body** to assess and inform progress on the goal.[38]

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[30] For example: US (2024): https://bit.ly/4bM1bLQ; Japan (2024): https://bit.ly/3wUrEbg; AOSIS (2022): https://bit.ly/3wVoCU6 ; AILAC (2023): https://bit.ly/4e34al6
[31] For example: Vanuatu (2023): https://bit.ly/3yNN9uK; LDC (2023): https://bit.ly/4e4MyoH
[32] For example: EIG (2022): https://rb.gy/4pgblc; EU (2024): https://bit.ly/44YhvqG
[33] For example: India (2024): https://bit.ly/457nFon; AOSIS (2024): https://bit.ly/3V21V8K; Arab Group (2024): https://bit.ly/3KlDI8G; LMDC (2023): https://bit.ly/3Vjn6oi; SUR (2024): https://rb.gy/9hvarj
[34] For example: ABU (2023): https://rb.gy/ux6t8j
[35] UNFCCC (2024): https://unfccc.int/sites/default/files/resource/TED9%20AHWP1_Compilation_Synthesis_final.pdf
[36] For example: LDC (2023): https://rb.gy/sh9mq3
[37] For example: Arab Group (2024): https://bit.ly/3KlDI8G;
[38] For example: AOSIS (2022): https://rb.gy/4sdsrp

Frequency of reporting

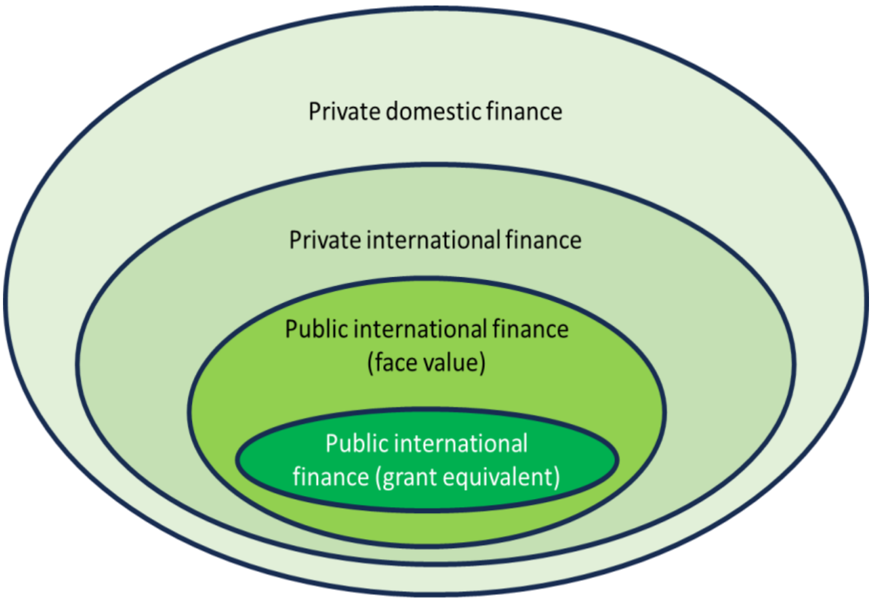
Parties generally indicate that the review and reporting process could be developed **every two and/or five years** to align with the time frame of other UNFCCC processes and reports, such as NDCs, the GST, or Biennial Transparency Reports (BTR).[39]

III. Looking ahead: What could a decision on the NCQG structure look like?

Progress on the NCQG hinges on how Parties consider **contributors, including public and private**, as well as **international and domestic sources** of finance. Finance **types** and **instruments** are also critical features of the deal. **Recipients** of climate finance and allocation to mitigation, adaptation, and loss and damage complete the picture. The deal must live with the **unwillingness to agree on a common definition of climate finance**[40].

Structuration of the decision could thus be done sequentially according to **types of climate finance in varying degrees of quality** as follows: 1) public international funding in grant equivalent; 2): other public international funding at face value (of loans or other instruments); 3): private international finance (transboundary flows); and 4): private domestic finance. This would allow **all current definitions of climate finance to coexist** (see Figure 3 below) and, thus, should be palatable to the different country groups.

Figure 3: Concentric ring approach to NCQG

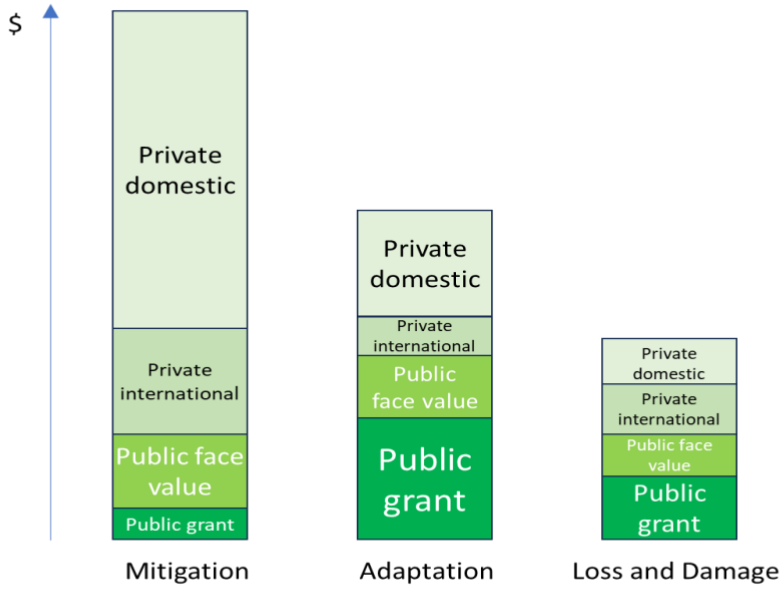


As a second step, allocation to the three-climate action types (**mitigation**, **adaptation** and **loss and damage**) would be undertaken. As the attractiveness of the action types for the private sector as well as their ability to harness revenues differs, the shares of the different climate finance types should differ as conceptually shown in Figure 4.

[39] For example: AOSIS (2022): https://rb.gy/4sdsrp; LMDC (2023): https://bit.ly/3Vjn6oi

[40] For a bold vision of a deal, see Michaelowa, Axel. (2022): A vision for international climate finance after 2025, in: Michaelowa, Axel; Sacherer, Anne-Kathrin (eds.): Handbook of International Climate Finance, Edward Elgar, Cheltenham, p. 478-488.

Figure 4: Climate finance types and climate actions



This approach allows a **modular negotiation** where elements seen as overly contentious can be discarded without jeopardizing the basic structure. Also, concessions can be achieved by enabling trade-offs between different components.

For example, a **public grant adaptation goal**[41] seems to be generally agreeable, as shown by the COP28 decision to urge developed countries to at least double their collective provision of climate finance for adaptation to developing countries from 2019 levels by 2025. Such a goal would help to address two long-standing key demands by developing country Parties, namely for more predictable financial resources and for increased funding for adaptation. It could also be an important element in the operationalisation of the GGA.

Similarly, the international private sector **voluntary carbon market investments and credit acquisitions**[42] could be taken into account under transboundary flows of private finance. This would be in line with the current tendency of private sector players to harness "mitigation contributions" abroad. This may include fees or shares of proceeds levied on transactions in international carbon markets, including voluntary ones, to support different types of climate action e.g., adaptation.[43]

The differentiation provided by this proposal will allow for **defusing the tension regarding expansion of the contributor base**, as would enable increasing the quantum without putting the entire burden on current contributors. New contributors could also focus their contribution on specific climate action, as shown in the past by contributions of developing countries to the Fund for responding to loss and damage and the Adaptation Fund.

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[41] See the proposal for a new, collective public-sector goal on adaptation grant finance by Müller, Benito. (2022): The New Collective Quantified Goal on Climate Finance, https://blog.oxfordclimatepolicy.org/the-new-collective-quantified-goal-on-climate-finance/

[42] For an overview of how carbon credits can act as a tool for mobilising public and private finance for additional emission reductions and removals (mitigation outcomes), see: Ahonen. et al. (2023): https://perspectives.cc/publication/raising-climate-ambition-with-carbon-credits/

[43] A proposal by ecbi on how to operationalise a Share of Proceeds for Adaptation for the Voluntary Carbon Market can be accessed at: https://oxfordclimatepolicy.org/sites/default/files/ecbi%20VCM-SOPA-Paper.pdf

Abbreviations

ABU	Argentina, Brazil, Uruguay
AGN	African Group of Negotiators
AHWP	Ad Hoc Work Programme
AILAC	Independent Alliance of Latin America and the Caribbean
AOSIS	Alliance of Small Island States
BTRs	Biennial Transparency Reports
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP	Conference of Parties
EIG	The Environmental Integrity Group
ETF	Enhanced Transparency Framework
EU	European Union
GDP	Gross Domestic Product
GGA	Global Goal on Adaptation
GNI	Gross National Income
GST	Global Stocktake
G7	Group of Seven
HLMD	High-Level Ministerial Dialogue on Climate Finance
LDCs	Least Developed Countries
LMDC	Like-Minded Developing Countries
NAPs	National Adaptation Plans
NCQG	New Collective Quantified Goal
NDCs	Nationally Determined Contributions
SB60	60th Sessions of the Subsidiary Bodies
SCF	Standing Committee on Finance
SIDS	Small Island Developing States
TED	Technical Expert Dialogue
UAE	United Arab Emirates
UNFCCC	United Nations Framework Convention on Climate Change
US	United States