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ICRA's CLIMATE SERIES
COP29

Steps to boost climate financing with focus on transparency; funding may fall short of developing countries' climate needs

December 2024

CLIMATE CHANGE

The biggest crisis of our time

Overview

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Key developments made at COP29 on climate funding and carbon markets.

However, the funding committed by developed countries is inadequate compared to the requirement articulated for developing countries.

Development of carbon markets opens a new finance avenue for developing countries and the LDCs.

Conference of the Parties (COP) is a series of conferences conducted by the United Nations Framework Convention on Climate Change (UNFCCC), which have been running since 1990. The common goal of COP has been to limit global warming to below 1.5 degrees Celsius (1.5°C) by 2050, compared to pre-industrial levels (Year 1900).

In November 2024, the 29th meeting of the Conference of the Parties (COP 29) was organised by UNFCCC. In this report, ICRA has analysed the key outcomes of the conference.

Climate finance:

- Developed nations have committed to tripling climate finance to $300 billion per year by 2035, up from the previous $100 billion per year goal. However, the Adaptation Gap Report 2024 highlights that the adaptation financing* needs of developing countries are projected to reach nearly $387 billion annually by 2030, making the increased funding insufficient to meet the actual requirements.
- Further, the funding received till 2022 from developed countries had significant portion (>20%) of its funding being non-concessional. The developing nations requested to provide funding as grants, concessional finance, and non-debt-inducing assistance, free from growth-restrictive conditions unlike earlier.

Carbon markets:

- COP29 witnessed adoption of essential rules, standards, and guidelines for international carbon trading. This is anticipated to enhance the transparency and credibility of carbon markets.
- This development aims to boost the demand for carbon credits while ensuring that emission reductions are accurately measured and verified.
- This development is expected to accelerate climate action and generate additional financial resources for developing and least-developed countries (LDC).

Source: ICRA Research
*Note: * Aadaptation financing is financing projects which are developed to help communities respond to the impacts of climate change*

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There has been renewed focus on transparency to strengthen trust and accountability for member nations.

COP29 also witnessed funding for forest projects, initiatives for LDCs, gender equality and involvement of local communities.

Transparency in climate reporting:

- At COP29, transparent climate reporting emerged as a key focus to enhance trust and accountability in global climate reporting.
- Review, training and reporting parameters under Enhanced Transparency Framework (ETF)* were defined.
- 13 countries took the lead in transparent climate reporting with Biennial Transparency Report (BTR) submission - a key reporting mechanism under the ETF.

REDD+ funding received:

- REDD+ is a framework negotiated under the UNFCCC to facilitate intergovernmental cooperation on forests and climate change.
- At COP29, the United Kingdom (UK) International Forest Unit has taken the pledge to provide funding of $3.8 million over four years for REDD+.
- The funding is expected to bolster forest projects (conservation, reduce deforestation, reforestation) in many countries, in line with the objective of limiting global warming to 1.5°C.

Other major steps at COP29

- Significant progress was made on the National Adaptation Plan (NAP) process, which is essential for addressing the medium- and long-term climate adaptation needs of countries, especially LDCs.
- Steps taken to elevate the voices of indigenous peoples and local communities in climate action.
- Reaffirmed the importance of gender equality and advancing gender mainstreaming.

At COP29, notable progress was made in bolstering climate finance with a renewed emphasis on improving transparency. However, the same may not be sufficient to limit the global warming to 1.5°C.

*Source: ICRA Research   Note: * ETF establishes standardised guidelines for countries to report their climate actions and make climate data consistent, comparable, and transparent across all member nations*

Climate finance: Climate finance goals tripled; inadequate compared to actual requirements of developing countries

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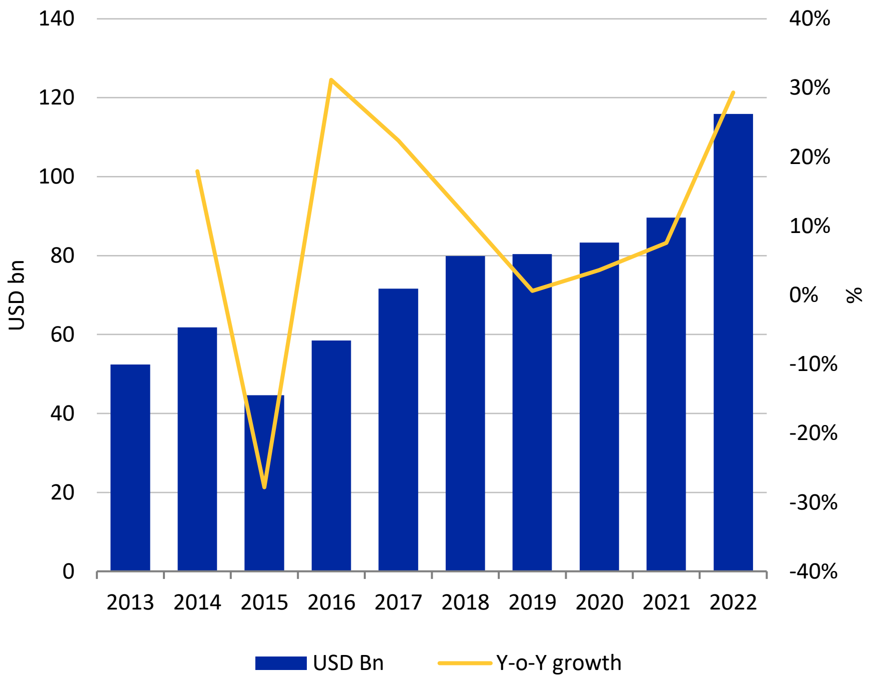
Target of $100 billion per year goal met by developed countries

- At COP15 in 2009, developed nations had made a pledge to channel $100 billion a year to developing nations, to help them adapt to climate change and mitigate further rises in temperature. According to the data published by the Organisation for Economic Co-operation and Development (OECD) developed countries have met the goal in 2022. This achievement comes two years after the original 2020 target year, but one year earlier than the projections of the OECD prior to COP26.

New Collective Quantified Goal (NCQG) introduced with $300 billion per year goal

- NCQG fund was introduced in 2021. The NCQG is a new annual financial target that developed economies must meet from 2025 to provide climate finance to developing nations. Funding under the NCDQ fund was tripled to $300 billion per year by 2035, up from the previous $100 billion per year commitment mentioned above.
- However, according to the Adaptation Gap Report 2024, adaptation financing needs for developing countries are nearly $387 billion per year up to 2030. The new goal - funding of $300 billion per year is inadequate compared to the actual requirements of developing countries.

Exhibit: Climate finance provided and mobilised by developed countries



Source: COP29 website, Organisation for Economic Co-operation and Development (OECD), Industry, UNFCC, ICRA Research

Climate finance: Developing nations emphasised on unconditional concessional finance

Exhibit: Climate finance provided and mobilised by developed countries till 2022

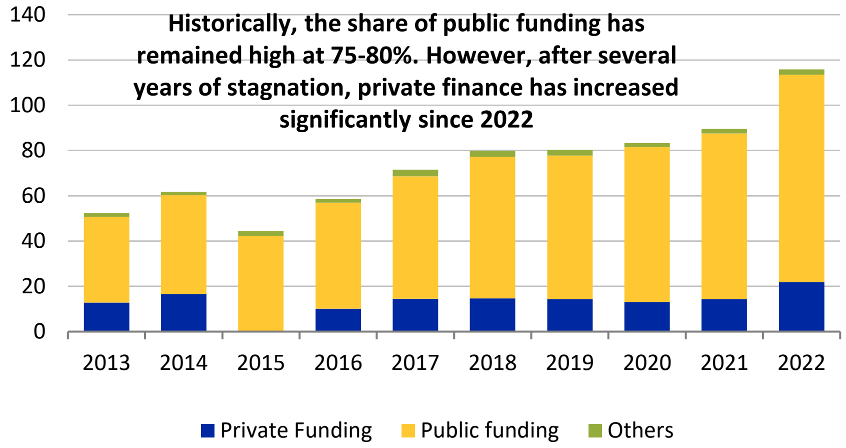
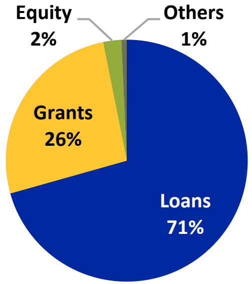
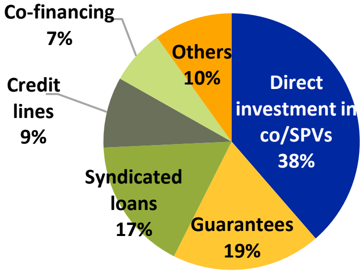


Exhibit: Public climate finance as per financial instruments



~80% of loans extended by public funding was concessional*

Exhibit: Private finance mobilised as per leveraging mechanism



~75% of private finance was mobilised through investments in companies and Special Purpose Vehicles (SPVs), guarantees, and syndicated loans

*Source: OECD, ICRA Research; Note: * preferential terms than those available on the market*

- The funding received by developed nations was in the form of loans, grants, equity, guarantees etc. (please refer the graphs above) – with significant portion (~20%) of the funding being non-concessional.
- At COP29, developing nations', including India, emphasised on receiving the funding in the form of grants, concessional finance, and non-debt-inducing assistance with no growth-restrictive conditions.

Carbon markets: Progress made on carbon market could offer additional finance to developing countries and LDCs

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What is Article 6 of the Paris Agreement?	
	▪ Article 6 of the Paris Agreement sets a mechanism on how countries can pursue voluntary cooperation to reach their climate targets. ▪ Through this mechanism, a country can reduce emissions in its own area and have those reductions credited so that it can sell them to another country. That second country may use them for complying with its own emission reduction obligations under Nationally Determined Contributions (NDCs)*.

- At COP29, member nations reached a long-awaited agreement on finalising Article 6 of the Paris Agreement, which governs carbon trading.
- Although introduced in 2015, progress on Article 6 was delayed by disputes over transparency and the operational framework of carbon markets.
- The adoption of key rules, standards, and guidelines for international carbon trading at COP29 is expected to enhance the credibility and demand for carbon credits while ensuring that emission reductions are both measurable and verifiable.
- Carbon markets hold the potential to strengthen climate action and provide additional financial resources for developing and least developed countries. With the advancements made at COP29, these markets are poised to become more transparent and reliable.

Exhibit: Major clauses of Article 6 which were finalised at COP29

Clauses	Steps taken at COP29
Article 6.2 (refer annexure 1)	COP29 provided clarity on how countries will authorise the trade of carbon credits and how registries tracking this will operate. Environmental integrity will be ensured upfront through technical reviews in a transparent process.
Article 6.4 (refer annexure 1)	Countries agreed to a centralised carbon market under Article 6.4 crediting mechanism. Mandatory checks for projects, right to appeal decision or file a complaint by anyone affected by a project, to align with science are some of the features finalised at COP29.
The Supervisory Body setting up the new carbon crediting mechanism has been handed a long 2025 to-do list and will continue to be accountable to them.	

*Source: COP29 website, UNFCC, ICRA Research Note: * Pease refer ICRA's report on carbon credits on https://www.icra.in/Research/ViewResearchReport/4979*

Transparency: Transparent climate reporting initiated with BTR submission by 13 countries

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The Enhanced Transparency Framework (ETF) is defined in Article 13 of the Paris Agreement on Climate Change. It is designed to ensure accountability, trust, and global progress in addressing climate change. The ETF also establishes standardised guidelines for countries to report their climate actions and support, making climate data consistent, comparable, and transparent across all member nations.

At COP29, transparent climate reporting emerged as a key focus to enhance trust and accountability in global climate action. Member nations agreed to strengthen frameworks. Some of the key actions at COP29 are noted below:

Advancing Transparency and support	▪ Member countries agreed to the timely completion of ETF reporting. ▪ Provision of technical training and support has been extended to developing countries for reporting under the ETF. ▪ Review process has also been introduced.
Submission of BTR	▪ Biennial Transparency Report (BTR) is a key reporting mechanism under the Paris Agreement's Enhanced Transparency Framework (ETF). It requires countries to regularly submit detailed information on their climate actions and progress toward achieving their NDCs. ▪ 13 countries - Andorra, Azerbaijan, European Union, Germany, Guyana, Panama, Japan, Maldives, Spain, Turkiye, Kazakhstan, the Netherlands and Singapore have already submitted their first BTRs in November 2024 – which has a deadline of December 2024 for all member countries. This will lead the way for transparent reporting.

Source: COP29 website, UNFCC, ICRA Research

REDD+: Funding for REDD+ to strengthen forest conservation

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- REDD+ is a framework negotiated under the UNFCCC to facilitate intergovernmental cooperation on forests and climate change. REDD+ stands for "Reducing emissions from deforestation and forest degradation in developing countries". The "+" refers to additional activities that protect the climate.
- REDD+ provides technical and financial support to developing countries to implement forest management options.

Countries benefitted from REDD+ programme till date

- 19 countries including Argentina, Brazil, Cambodia, Chile, Costa Rica, Indonesia, Malaysia, Vietnam and Mexico are benefitted from REDD+ funds.
- REDD+ helps combat deforestation, reforestation and forest conservation.

Funding sources for REDD+ programme

- Climate funds and countries like the United Kingdom, Germany, Norway have contributed towards the funding for the REDD+ programme.

At COP29, the UK International Forest Unit has taken pledge to provide funding of $3.8 million over four years.

- As per the Emission Gap Report 2024 by the United Nations Environment Programme, GHG emission cuts of 42% are needed by 2030 and 57% by 2035 (from 2023 levels) to limit global warming to 1.5°C. As per the report, it remains technically possible, with solar, wind and forest projects, for fast emission cuts.
- The funding by the UK International Forest Unit is expected bolster projects in many countries with the objective of limiting global warming.

Exhibit: GHG emissions in 2023 and expected GHG reduction

2023 — ~57 $GtCO_2e$ (gigaton of carbon equivalent)

GHG emission reduction needed by 2030 — 42%

GHG emission reduction needed by 2035 — 57%

Source: COP29 website, UNFCC, ICRA Research

COP29 also witnessed initiatives for LDCs, local communities and gender equality

NAP	▪ The National Adaptation Plan (NAP) process was established in 2010 under the UNFCCC. ▪ At COP29, significant progress was made on the NAP process, which is essential for addressing the medium and long-term climate adaptation needs of countries, especially the Least Developed Countries (LDCs). ▪ Key discussions focused on innovative financing, technical support, and accelerated action to meet the 2025 submission deadline for NAPs.
Involvement of local communities	▪ COP29 took a decisive step forward to elevate the voices of indigenous people and local communities in climate action. ▪ The adopted decision acknowledges the progress made by these groups in fostering collaboration and underscores their leadership in addressing the climate crisis.
Gender equality	▪ The Lima Work Programme on Gender and Climate Change is a framework adopted under the UNFCCC to ensure that gender equality and the empowerment of women are integrated into global climate action. ▪ At COP29, the Lima Work Programme on Gender and its associated Gender Action Plan were extended for another decade, reaffirming the importance of gender equality and advancing gender mainstreaming throughout the convention. ▪ COP29 also agreed to develop a new gender action plan for adoption at COP30, which will set the direction for concrete implementation.

Source: COP29 website, UNFCC, ICRA Research

Annexures

Annexure I - Article 6 of Paris Agreement dated January 2016

2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.

4. A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Agreement for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement, and shall aim:

(a) To promote the mitigation of greenhouse gas emissions while fostering sustainable development;

(b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;

(c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution; and

(d) To deliver an overall mitigation in global emissions.

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Thank You!