



Note

Climate Finance: What to Expect from COP27?

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Summary

High-level Climate Finance deliberations start at the COP27 in Sharm El-Sheikh, Egypt and will last for two weeks until 18 November. This Note aims to provide an overview of the climate finance architecture in the UNFCCC and summarises recent developments in Climate Finance talks in light of the COP26 outcomes. It then focuses on the priorities set for COP27, their prospects and potential impacts in the increasing need of developing countries and LDCs for financial support to meet adaptation and mitigation goals and to make up for their losses from adverse and extreme climate change-induced events.

Introduction

The financial capacities of countries are one of the key determinant factors of their ability to cope with or mitigate climate change impacts. The ability to mobilise financial resources and contribute to the global efforts against climate change varies significantly between the countries. Therefore, Climate Finance constitutes a core element in the United Nations Framework Convention on Climate Change (UNFCCC) adopted in 1991, constituting the multilateral regime for Climate Change global governance.

The UNFCCC refers to Climate Finance as the “local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change”¹. Financial assistance from developed Parties (Annex II Parties) to developing Parties is an integral part of the Convention, in line with its principle of “common but differentiated responsibility and respective capabilities”. Hence, developed Parties’ obligations and the importance of mobilising climate finance to assist less endowed and more vulnerable countries are emphasised again in the Kyoto Protocol and the Paris Agreement.²

Accordingly, the UNFCCC established a financial mechanism to facilitate the delivery of developed countries’ obligations and facilitate the provision of financial support to countries in need. The UNFCCC architecture of climate finance is driven by the Conference of the Parties (COP) decisions and has evolved throughout the years.³ The Standing Committee on Finance (SCF) was established at COP16 to assist the COP in its functions related to the Financial Mechanism.

It is essential to highlight that the UNFCCC financial mechanism, operational tools and funds are part of the broader global climate change activities available through bilateral, regional and multilateral channels. That said, in 2010, developed Parties committed in the Cancun Agreement of COP16 to mobilise jointly USD 100 billion per year by 2020 to address the needs of developing countries. And at COP21, the Paris Agreement called for a concrete road map to achieve this pledge by 2020.⁴

On 13 November 2021, COP26 adopted the Glasgow Climate Pact. In the Pact, Parties emphasised, “the need to mobilise climate finance from all sources to reach the level needed to achieve the goals of the Paris Agreement.” (Decision 1/CP.26, paragraph 25). Parties further noted, “with deep regret that the goal of developed country Parties to mobilise jointly USD 100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation has not yet been met.” (Ibid, paragraph 26).

On 2 and 3 February 2022, the Presidency of COP 26 and the incoming Presidency of COP 27 held their first informal consultation on 2022 priorities and the road to COP27. During their meeting, Parties identified their priorities for COP27, and Climate Finance was second on a list of eight issues⁵, following Adaptation and Loss and Damage. They acknowledged the Climate Finance Delivery Plan “to provide clarity on when and how the US\$100 billion goal will be met until 2025”⁶ and launched a process to determine the post-2025 climate finance goal emphasising the need to exceed US\$100 billion.⁷

¹ UNFCCC. Topics. Introduction to Climate Finance, <https://unfccc.int/topics/introduction-to-climate-finance>

² Ibid

³ Sajous, L. (2022). Climate Finance and Aid for Trade: Towards a Holistic Approach to Capacity Building, CUTS International: Geneva. Available at: https://www.cuts-geneva.org/pdf/KP2022-RRN-Climate%20Finance_and_Aid_for_Trade.pdf

⁴ UNFCCC. Topics. Introduction to Climate Finance, <https://unfccc.int/topics/introduction-to-climate-finance>

⁵ The eight priorities for COP27 were listed by the Parties as follows: Adaptation and loss and damage, finance, mitigation, Article 6, transparency, technology, science and engagement of observer organisations and non-party stakeholders.

⁶ <https://ukcop26.org/wp-content/uploads/2021/10/Climate-Finance-Delivery-Plan-1.pdf>

⁷ Co-chairs’ summary of the Presidencies consultations on priorities for work in 2022 2 – 3 February 2022. Available at:

This note aims to provide an overview of the events leading up to COP27 with regard to Climate Finance, highlighting the progress made in COP26. The note focuses on the Climate Finance priority issues subject to negotiations between the Parties during the current COP27 for better response to developing countries' needs and filling in the gaps separating the Parties from meeting the Paris Agreement Goal.

UNFCCC Financial Mechanism

The UNFCCC Financial Mechanism currently consists of several operational entities and funds. Article 11 of the Convention entrusted the Global Environment Facility (GEF) with the partial operation of the financial mechanism. GEF funding is drawn from donor countries and organisations. GEF deploys it to fund projects and programmes to assist developing countries and countries with economies in transition to meet the objectives of international environmental conventions and agreements.

At COP16, Parties established the Green Climate Fund (GCF) and designated it as another operating entity of the UNFCCC financial mechanism.⁸ It is "the world's largest climate fund, mandated to support developing countries raise and realise their Nationally Determined Contributions (NDC) ambitions towards low-emissions, climate-resilient pathways."⁹ According to the Eleventh GCF Report distributed on 1 September 2022, GCF approved 23 climate projects worth USD 2.06 billion over the reporting

period (1 August 2021 to 31 July 2022)¹⁰.

In addition to GEF and GCF, Parties established special funds: the Special Climate Change Fund (SCCF), the Least Developed Countries Fund (LDCF), both managed by the GEF, and the GCF under the Convention; and the Adaptation Fund (AF) under the Kyoto Protocol.¹¹ A summary of these special funds is provided below.

Least Developed Countries Fund (LDCF)

The LDCF supports the least-developing countries in their efforts to tackle climate change and implement national adaptation plans.¹² As of December 2021, the LDCF has approved USD 1.3 billion for 293 projects, with cash transfers to projects worth USD 534 million.¹³

Special Climate Change Fund (SCCF)

Administered by the GEF, the SCCF finances projects involved in adaptation, technology transfer, and capacity building; energy, transport, industry, agriculture, forestry and waste management; and economic diversification.¹⁴ As of December 2021, the SCCF has approved USD 284 million for 72 projects.¹⁵

Adaptation Fund (AF)

The AF was created in 2001 under the Kyoto Protocol, aiming to fund concrete projects in developing countries to increase climate

https://unfccc.int/sites/default/files/resource/HoDs%20Consultation_Priorities%20for%202022_Co-chairs%20Summary%20FINAL.pdf

⁸ UNFCCC. Topics. Climate Finance in the Negotiations, <https://unfccc.int/topics/climate-finance/the-big-picture/climate-finance-in-the-negotiations>

⁹ <https://www.greenclimate.fund/about>

¹⁰

https://unfccc.int/sites/default/files/resource/GCF_Eleventh%20Report%20of%20the%20GCF%20to%20the%20COP%20of%20the%20UNFCCC.pdf

¹¹ Ibid

¹² Sajous, L. (n.d.). Note Climate Finance and Aid for Trade: Towards a Holistic Approach to Capacity Building. [online] Available at: https://www.cuts-geneva.org/pdf/KP2022-RRN-Climate%20Finance_and_Aid_for_Trade.pdf.

¹³ Introduction: climate finance. (n.d.). [online] Available at: https://climatefundupdate.org/wp-content/uploads/2022/03/CFF2-Global-CF-Architecture_ENG-2021.pdf.

¹⁴ Unfccc.int. (2020). The Special Climate Change Fund (SCCF) | UNFCCC. [online] Available at: [https://unfccc.int/topics/climate-finance/resources/reports-of-the-special-climate-change-fund#:~:text=The%20Special%20Climate%20Change%20Fund%20\(SCCF\)%20was%20established%20under%20the,waste%20management%3B%20and%20economic%20diversification.](https://unfccc.int/topics/climate-finance/resources/reports-of-the-special-climate-change-fund#:~:text=The%20Special%20Climate%20Change%20Fund%20(SCCF)%20was%20established%20under%20the,waste%20management%3B%20and%20economic%20diversification.)

¹⁵ Introduction: climate finance. (n.d.). [online] Available at: https://climatefundupdate.org/wp-content/uploads/2022/03/CFF2-Global-CF-Architecture_ENG-2021.pdf.

resilience and reduce the adverse effects of climate change¹⁶. These projects include, among others, water resources management, disaster risk reduction, and sectoral capacity building¹⁷.

Long-Term Finance (LTF) Pledges and Dialogues

During COP15, developed countries pledged to deliver \$100 billion annually by 2020. However, developed countries could not fulfil this pledge, resulting in its extension to 2025. Oxfam reported that as of 2020, developed countries contributed \$83.3 billion¹⁸. Despite a four per cent increase from the \$80.4 billion provided in 2019, contributions still fall short of meeting the objective¹⁹.

At COP17, the Work Programme on Long-Term Climate Finance was established with the aim of “progressing on the mobilisation and scaling up of climate finance” from various sources.²⁰ The Work Programme was concluded at COP19, but the high-level dialogue on LTF was extended to 2020. At COP26, this dialogue is extended again to complete in 2027 (Decision 4/CP.26).²¹

COP27 Priorities and Prospects

During the Head of Delegations (HoD) consultations held on 2 and 3 of February 2022, the Presidency of COP 26 and the incoming Presidency of COP 27 held the first consultation in preparation for COP27. They discussed the priority issues for COP27, which included a work plan to fulfil the USD 100 billion/yearly financing by 2025. The process to fulfil the long-term climate financing include the following:

● *Fulfilment of the USD 100 billion goal and the process to set a new collective quantified finance goal*

At COP26, Parties further “Note(d) with deep regret that the goal of developed country Parties to mobilise jointly USD 100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation has not yet been met” (1/CP.26. Art.26).

According to the Note on the Fourth biennial high-level ministerial dialogue on climate finance, distributed by the President of COP26 on 26 August 2022, “reported public finance provided and mobilised through bilateral and multilateral channels... still falls short of the amount required to meet the goal of jointly mobilising USD 100 billion annually for climate finance by 2020.”²²

The report and its recommendations for the “Climate Finance Delivery Plan: Meeting The US\$100 Billion Goal”²³, enhancing the transparency of the process and scaling up long-term finance to meet the needs of developing countries, will be subject to deliberations at COP27 for prospective decisions.

● *Direct and Ease of Access to Finance*

Direct access to financial support remains critical for recipient countries. During the HoD informal consultations on 14-15 October 2022, Parties recognised “the recurrent issues faced by recipient countries around accessibility and heavy procedures and the need for inclusivity and making finance accessible at the sub-national level.”²⁴ This recognition comes as developing country parties argue that a hindrance to receiving financing is the bankability of projects, which can be “intended as profitability, which is

¹⁶ https://unfccc.int/Adaptation-Fund?gclid=CjwKCAjw8JKbBhBYEiwAs3sxN_N1NTCCHkodsgcLctfWFh3OuTod9wrNe9J4OXbSKqalSF8CtZRiJBoCqRoQAvD_BwE

¹⁷ <https://www.adaptation-fund.org/projects-programmes/>

¹⁸ <https://www.oxfam.org/en/press-releases/true-value-climate-finance-third-what-developed-countries-report-oxfam>

¹⁹ Ibid

²⁰ <https://unfccc.int/topics/climate-finance/workstreams/long-term-finance>

²¹ <https://unfccc.int/topics/climate-finance/workstreams/long-term-climate-finance-ltf>

²² <https://unfccc.int/documents/611318>

²³ <https://ukcop26.org/wp-content/uploads/2021/10/Climate-Finance-Delivery-Plan-1.pdf>

²⁴ Heads of Delegations informal consultations on Climate Finance. (2022.). [online] Available at: https://unfccc.int/sites/default/files/resource/HoD%20summary_Climate%20Finance_Alexandria.pdf.

not feasible for many climate activities, in particular, adaptation activities.”²⁵

According to the Global Landscape of Climate Finance 2021 Report by Climate Policy Initiative, in 2019-2020, 61 per cent of climate finance was raised as debt, of which only 12 per cent was low-cost or concessional debt²⁶. Hence, the use of innovative financial tools and the role of non-state actors are expected to be discussed in COP27.

► *Financing to support the phasing out of coal*

During COP26, 23 countries committed to phasing out coal; this list included Indonesia, Vietnam, Poland, South Korea, Egypt, Spain, Nepal, Singapore, Chile and Ukraine. Banking and financial institutions such as HSBC, Fidelity International, and Ethos also announced at COP26 that they would end the funding of unabated coal.²⁷

Supporting the transition of these countries is expected to be deliberated at COP27.

► *Align financial flows with the Paris Agreement (Article 2.1c of the Paris Agreement)*

Also known as Paris Alignment, this alignment entails mobilising private and public finance towards the objectives of the Paris Agreement, specifically on climate change.²⁸ Doing so will increase financial flows towards the global response to climate change.²⁹

The SCF is responsible for assisting the COP in its functions related to the Financial Mechanism. These responsibilities include providing a biennial assessment of climate finance flows and determining the needs of developing countries in

accordance with the Paris Agreement.

The SCF ensures that private and public finance flows are in accordance with Article 2.1c of the Paris Agreement, which stipulates “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”

During the fourth biennial assessment (BA)³⁰, the SCF found that there has been significant growth in relevant initiatives since the Paris Agreement took effect. However, the SCF noted that assessing the real-economy impact of financial sector initiatives remains challenging. While activities to achieve the goal in Article 2.1c are widespread across all actors (e.g. the financial sector, including investors, banks and regulators), making financial flows consistent with a pathway towards low GHG emissions and climate-resilient development is dependent on real-economy initiatives. A report by the SCF on Paris Alignment will be considered for decisions and actions at COP27.

► *Funding arrangements for Addressing Loss and Damage*

At COP26, a proposal for establishing a separate fund facility for developing countries affected by Loss and Damage was considered. The proposal generated mixed opinions as some Parties believed that a separate fund would lead to further fragmentation and preferred to enhance the coherence and complementarity within the existing financial landscape³¹. It was decided to hold the Glasgow Dialogue to facilitate the discussion of funding arrangements of loss and damage activities.

²⁵ Ibid.

²⁶ <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/>

²⁷ Unfccc.int. (2020). End of Coal in Sight at COP26 | UNFCCC. [online] Available at: <https://unfccc.int/news/end-of-coal-in-sight-at-cop26>

²⁸ Rydge, J. (2020.). Aligning finance with the Paris Agreement: An overview of concepts, approaches, progress and necessary action. [online] Available at: [https://www.lse.ac.uk/granthaminstitute/wp-](https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/12/Aligning-finance-with-the-Paris-Agreement-3.pdf)

[content/uploads/2020/12/Aligning-finance-with-the-Paris-Agreement-3.pdf](https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/12/Aligning-finance-with-the-Paris-Agreement-3.pdf).

²⁹ Ibid.

³⁰ “Report of the Standing Committee on Finance.” UNFCCC, 28 Oct. 2022.

³¹

https://unfccc.int/sites/default/files/resource/Summary_HoDs_L_D_14-07-22.pdf

On 13 June 2022, a proposal was received from Pakistan, on behalf of the Group of 77 and China, to include this matter as a sub-item under the agenda for COP27³². The Glasgow dialogue is expected to continue its deliberations at COP27 in view of strengthening the support to developing countries and filling in financial gaps affecting their capacities to address loss and damage associated with the adverse impacts of climate change.

● *Adaptation Finance (AF).*

Funding for AF has consistently been more challenging to attract than mitigation finance.³³ During COP26, a comprehensive two-year Glasgow–Sharm el-Sheikh work programme on the global goal on adaptation (2022-2023) was established. This work programme will help establish the Global Goal on Adaptation outlined in the Paris Agreement.³⁴

During the Ministerial Meeting on Implementation held 12-13 May 2022, many ministers called for a more focused approach to delivering “transformational adaptation”, addressing the gaps across policies, planning, implementation and finance. They highlighted the importance of making progress in COP27 through the Glasgow-Sharm el-Sheikh Work Programme on the Global Goals on Adaptation. They also recognised that adaptation should be better integrated into development planning and programmes.

Conclusion

It is evident that COP27’s success relies on the ability of Parties to make a difference in Climate Finance's various strands. It is also the moment for developing Parties to come together strongly and advocate for their financial needs to meet their Climate Change mitigation and adaptation objectives, as well as to minimise the loss and damage to which they are the most vulnerable.

³² https://unfccc.int/sites/default/files/resource/cp2022_01E.pdf

³³ Global Environment Facility. (2021). Climate finance and the urgency for adaptation in the developing world. [online] Available at: [https://www.thegef.org/newsroom/blog/climate-finance-and-](https://www.thegef.org/newsroom/blog/climate-finance-and-urgency-adaptation-developing-world)

[urgency-adaptation-developing-world.](https://www.thegef.org/newsroom/blog/climate-finance-and-urgency-adaptation-developing-world)

³⁴ Pringle, Patrick, et al. “What next for the Global Goal on Adaptation.” Climate Analytics, Dec. 2021.



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