The COP29 Collapse*

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Extended by a day in a show of symbolism, this year's climate summit, the 29th Conference of Parties (COP29), ended in collapse. The widespread consensus that this was the case concealed, however, differences as to what reflected the collapse. Developed country governments have attempted to identify the collapse as being the result of a conscious effort by the oil-dependent Azerbaijani Presidency to facilitate an oil-exporter walk back on past commitments to phasing out fossil fuels. But this year's Summit was slated to be a Finance COP. It was to decide on the magnitude and form of the pretentiously titled New Collective Quantified Goal (NCQG), or the sum that the developed (Annexe 2) countries were to commit to transfer to the developing countries to support their plans to invest in mitigation and adaptation and spend on compensating victims of Loss and Damage. The failure to deliver an anywhere-near-satisfactory outcome on that is the real collapse.

The NCQG is not particularly new as an idea. It is meant to be a successor to the commitment made by the developed countries at COP15 in Copenhagen in 2009, to provide developing countries $100 billion a year in funding by 2020, as climate finance that was to be "additional" to conventional development aid. They had also agreed to revisit the number starting 2020 to arrive at an enhanced figure to be achieved starting 2025.

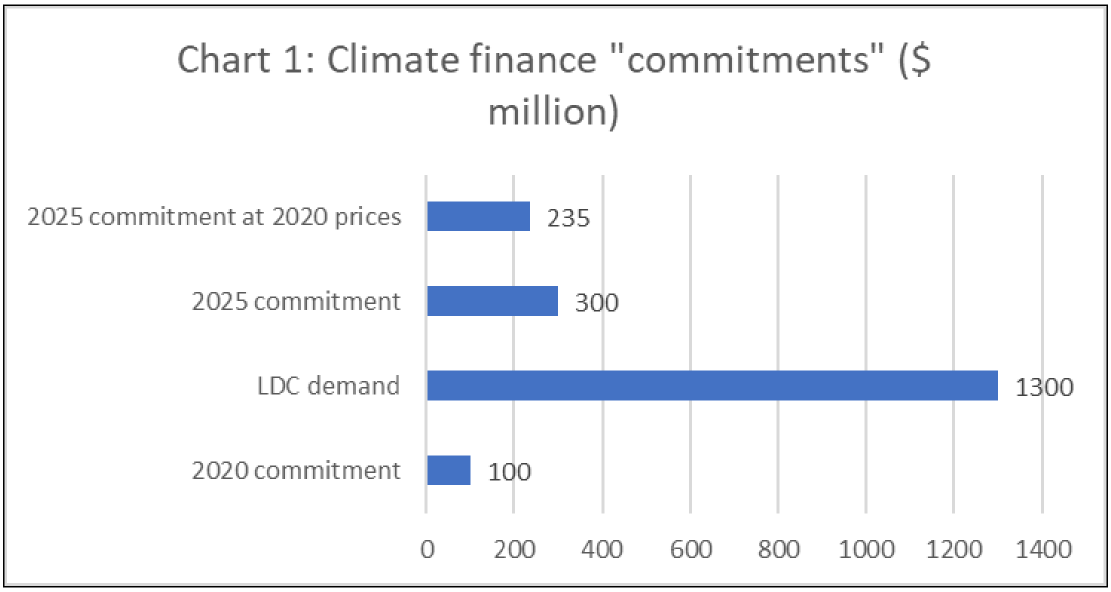
The question as to whether the developed countries delivered on their Copenhagen commitment and, if so when, has been controversial. The prime areas for disagreement were the definition of 'climate finance', or the elements to be included within its ambit; and the forms of finance (grants, concessional finance, and loans at market rates) that would qualify. The most favourable estimates of flows to be included when assessing whether the $100 billion target has been realised came, not surprisingly, from organisations like the OECD (the "rich nations club"), which considered all official flows in related areas, as well as private flows leveraged by public spending, as fit for inclusion. Others insisting that only grants or grant-equivalent sums should be included, came up with much lower estimates. But even with the OECD's favourable estimates, the 2020 target was recorded as achieved only in 2022.

That experience had generated doubt as to whether the NCQG would be instituted at all and scepticism on whether it would be anywhere near what was needed. Meanwhile, there were proliferating estimates of the total quantum of spending needed to ensure mitigation that would keep global warming below the desired ceiling of 1.5-2°C, to invest in adaptation to adjust to the consequences of the climate change that is ongoing, and to compensate countries for the Loss and Damage they would suffer because of the extreme weather events precipitated by ongoing climate change. It became clear that as much as two-thirds of such spending would be required by the developing countries.

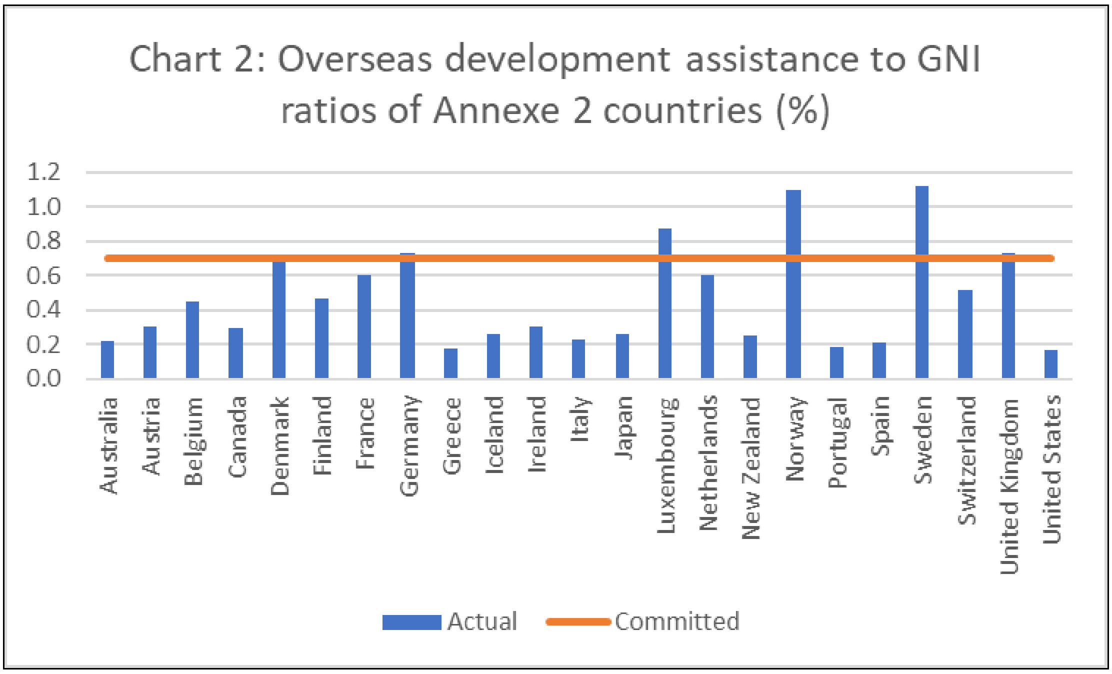
There was also clear evidence that it was the developed countries that in the course of their wealth accumulation had contributed a lion's share of carbon emissions and exhausted a huge and disproportionate share of the carbon budget available if warming had to be in the 1.5-2°C range. They, therefore, had to take responsibility to slow down emissions, ensure that the world approached net-zero emissions soon, and the world's population learn to adapt to the climate change that was anyway occurring. In any case, the less developed countries, many of which are debt stressed and forced to embrace fiscal austerity, are in no position to mobilise the required volume of finance themselves. The developed Annexe 2 countries had to provide much of the finance for investments that (in most required areas) promise no, or extremely low, returns. It was this reality that was captured in the idea of "common but differentiated responsibilities, and respective capacities" included in the Paris (Climate) Agreement.

With that background, discussions on the NCQG have been underway for the last four years. Based on "expert" estimates of the needed finance, of the share of that which would have to spent in the less developed countries, and the likely sums that could be mobilised by less developed country governments, the needed flow of climate finance from North to South has been variously estimated at upwards of $1 trillion a year, going up to as much as $3-4 trillion. Based on one set of such estimates, the less developed countries had expected—and therefore demanded—that the NCQG would settle at $1.3 trillion a year starting 2025, and that much of this would be in the form of grants and the rest, if needed, in the form of concessional finance.

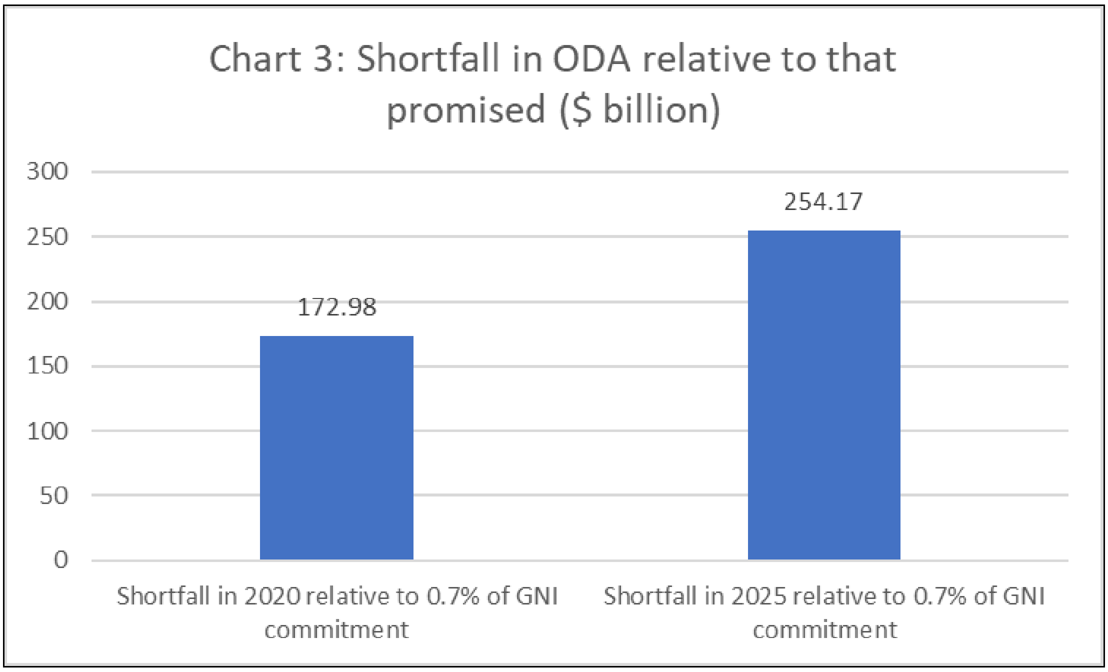
The collapse at COP29 seemed inevitable when the developed countries attempted to arrive at a "compromise" figure of $250 billion The collapse occurred when the final document upped that to just $300 billion, which many less developed countries dismissed as a "joke", since it fell short of the minimum needed by a full $1 trillion. Not only does the $300 billion figure fall hugely short of the expectations of the less developed countries, but assuming a 5 per cent annual inflation rate on average, it amounts to just around $235 billion in terms of 2020 prices (Chart 1). Moreover, there is no clarity on what form even that significantly reduced sum would take, with no specification on the share of grants, concessional loans and other forms of flows.



The stance of the developed countries should not surprise. In 1970, developed countries committed to raising their overseas development assistance to 0.7 per cent of the gross national income. Despite that figure being reiterated repeatedly, even by 2020 few developed Annexe 2 countries had delivered on that commitment (Chart 2).



In absolute terms the shortfall in ODA provided by these countries in 2020, relative to their 1970 commitment, amounted to $172.98 billion. Allowing for nominal GNI growth of 8 per cent, and assuming that the ratio of the shortfall relative to GNI remains the same, the shortfall in 2025 would work out to $254.17 billion (Chart 3). So, the $300 billion on offer, which in any case is meant to be "additional" and not come out of traditional ODA, is less than $50 billion above the committed sum of ODA that is unlikely to be delivered in 2025. The description "joke" for such an offer is indeed well deserved!



*** This article was originally published in the Business Line on November 26, 2024.**