

## Important finance decisions adopted at climate talks

Penang, 21 Dec (Indrajit Bose and Meena Raman)- A host of decisions on finance related matters were adopted on 15 Dec at the 24<sup>th</sup> session of the UNFCCC's Conference of the Parties (COP24), as well as the Conference of Parties serving as the meeting of Parties to the Paris Agreement (CMA), in Katowice, Poland.

Nearly all the finance issues were contentious among developed and developing countries, with developed countries reluctant to make progress on them, until they had a clearer view of the final package of decisions under the Paris Agreement Work Programme (PAWP). Developed countries wanted to assess where developing countries stood on other matters of the PAWP, especially as regards decisions on nationally determined contributions (NDCs) and the transparency framework, before making progress on the finance matters. (See TWN Update 14 in this regard).

As regards the decisions adopted on finance in Katowice, according to a senior developing country negotiator who spoke to TWN, "there were wins and there were losses for developing countries", adding that "this is the nature of negotiations." However, on the whole, according to the negotiator, "developing countries got more wins than losses in the finance related decisions."

The decisions adopted included items related to the PAWP such as: the identification of ex ante information to be provided by developed countries in accordance with Article 9.5 of the Paris Agreement (PA); ex post information on financial support provided and mobilized under Article 9.7 of the PA; setting a new collective quantified goal on finance and the future of the Adaptation Fund.

There were also several decisions on finance matters adopted under the COP which included: matters related to the Standing Committee on Finance (SCF), guidance of the COP to the Green Climate Fund (GCF) and the Global Environment Facility (GEF); and long-term finance (LTF). This update presents key highlights of the decisions adopted, along with some of the contentious issues raised.

### FINANCE ISSUES UNDER THE PAWP

#### *Information to be provided under Article 9.5 of the PA*

Article 9.5 mandates developed countries to biennially communicate ex-ante information on the projected levels of public financial resources to developing countries.

Since the start of negotiations in 2017, developed countries refused to be drawn into a discussion on "modalities" for the communication of such information under Article 9.5, which was a key demand from developing countries led by the African Group, the Like-minded Developing Countries (LMDC) and the Arab Group. Discussions on the issue remained deadlocked with developed countries refusing to go beyond discussing the types of information or how the information would be useful to developing countries.

In what some called a "breakthrough" during a meeting of heads of delegations (HODs) meeting at COP 24, developed countries relented somewhat and agreed to discuss some "procedural aspects" in relation to the information to be provided.

Even then, the developed countries wanted to restrict the scope of the procedural aspects to when the information would be communicated

and where it would be housed. Developing countries wanted a process to assess the information as well.

The decision adopted reflects the timing of the communication; where the information will be housed (which would be a dedicated online portal on the UNFCCC website); a synthesis of the information to feed into the global stocktake (GST) in 2023; the conduct of biennial in-session workshops and high-level ministerial dialogue as well as the consideration of the compilations and syntheses of the information by the CMA.

The types of information to be provided is contained in an annex. Prior to the adoption of the decision, there was huge resistance from developed countries to indicate what “new and additional” resources would be provided, but this is now clearly required by the decision.

Some developing countries were unhappy with the reference to “providers of climate finance” in the annex in relation to “*information on the factors that providers of climate finance look for in evaluating proposals, in order to help to inform developing countries,*” as they viewed the term to be too general and not confined to developed countries who had the obligation under the PA to provide climate finance.

Developed countries also insisted that “other Parties providing resources” are also be required to provide the information on the projected levels of public financial resources to be provided to developing countries. In the decision adopted, “other Parties providing resources” are “encouraged” to do so, while developed countries are mandatorily required to provide the information as per Article 9.5 with the use of the word “shall biennially communicate” the information.

In the decision adopted, Parties recognized the “*importance of predictability and clarity of information on financial support for the implementation of the PA*” and reiterate that developed countries “*shall biennially communicate indicative quantitative and qualitative information...projected levels of public financial resources to be provided*” to developing countries. (Paras 1 and 2 of the decision).

In para 4, developed countries are requested to submit the information “*...as specified in the*

*annex, starting in 2020.*” The annex contains a list of information that includes the following information on:

- *projected levels of public financial resources to be provided to developing countries, as available;*
- *indicative quantitative and qualitative information on programmes, including projected levels, channels and instruments, as available;*
- *policies and priorities, including regions and geography, recipient countries, beneficiaries, targeted groups, sectors and gender responsiveness;*
- *purposes and types of support: mitigation, adaptation, cross-cutting activities, technology transfer and capacity-building;*
- *factors that providers of climate finance look for in evaluating proposals, in order to help to inform developing countries;*
- *An indication of new and additional resources to be provided, and how Parties determine such resources as new and additional;*
- *relevant methodologies and assumptions;*
- *challenges and barriers;*
- *how Parties are aiming to ensure a balance between adaptation and mitigation, taking into account the country-driven strategies and the needs and priorities of developing country Parties;*
- *how financial support effectively addresses the needs and priorities of developing country Parties and supports country-driven strategies;*
- *efforts to integrate climate change considerations, including resilience, into their development support; and*
- *how support to be provided to developing country Parties enhances their capacities”.*

The decision in para 6 requests the Secretariat “*to establish a dedicated online portal for posting and recording the biennial communications.*” The Secretariat (in para 7) is also requested “*to prepare a compilation and synthesis of the information included in the biennial communications ...starting in*

2021...with a view to informing the global stocktake". The Secretariat has also been requested "to organize biennial in-session workshops beginning the year after the submission of the first biennial communications and to prepare a summary report on each workshop." (See para 8).

It was also decided that Parties will "consider the compilation and syntheses" of the information contained in the biennial communications and "the summary report on the in-session workshops" starting in Nov. 2021. (See para 9). Parties also decided "to convene a biennial high-level ministerial dialogue on climate finance beginning in 2021, to be informed, inter alia, by the summary reports on the in-session workshops". (See para 10). In para 11, Parties also requested the "President of the CMA to summarize the deliberations of the (high-level ministerial) dialogue... for consideration by the CMA at its succeeding session."

The CMA is also invited to "consider the compilations and syntheses and the summary reports on the in-session workshops." (See para 12). Parties decided also "to consider updating the types of information contained in the annex...in 2023 on the basis of the experiences and lessons learned..." (See para 13).

### **Information to be provided under Article 9.7 of the PA**

Under Article 9.7 of the PA, developed countries are required "to provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially in accordance with the modalities, procedures and guidelines (MPGs)..." under the transparency framework in Article 13 of the PA.

During the negotiations, developing countries wanted information on how the support provided and mobilized represented a progression from previous levels provided to developing countries, including on how the finance provided is new and additional. They also wanted the reporting to include information on the grant equivalency of the financial instruments used and the loan repayments by developing countries, in order to ensure that this was not counted as climate finance. Developed countries however were opposed to these demands. Long

and protracted discussions ensued and eventually, the developing country demands on information on progression, what is new and additional and the grant equivalence of the instruments used were in the decision as part of reporting arrangements under the transparency framework. What they did not manage to get is information on the loan repayments by developing countries.

During the negotiations, developed countries introduced new terms such as "reporting Parties" in the draft texts, as a replacement for developed country Parties and developing country Parties. This was vehemently objected to by developing countries who said that there was no basis for using such terms, as the PA had clear obligations for developed countries to report information on the finance provided and it only encouraged other Parties that provide support to provide such information.

The outcome of the discussions under Article 9.7 were incorporated into the MPGs adopted under the transparency framework under Article 13 of the PA.

In the decision adopted, in para 118, it is stated clearly that "Developed country Parties shall provide the information...in accordance with the MPGs contained in this chapter. Other Parties that provide support should provide such information and, in doing so, are encouraged to use the MPGs contained in this chapter".

The MPGs comprise information on:

- national circumstances and institutional arrangements relevant to reporting on the provision and mobilization of support;
- underlying assumptions, definitions and methodologies, as applicable, used to identify
- financial support provided and mobilized.

On underlying assumptions, definitions and methodologies, the information required include: (financial) instruments ( e.g. grant, concessional loan, non-concessional loan etc.) and funding sources reported, including how a Party has determined finance to be concessional and/or ODA (official development assistance), including by using information such as grant equivalency, institution and/or instrument-based approaches; how double counting among multiple Parties involved in the provision of

support was avoided; an indication of what new and additional financial resources have been provided, and how it has been determined that such resources are new and additional; how the information provided reflects a progression from previous levels in the provision and mobilization of finance under the PA, among others.

### ***New collective quantified goal on finance***

Discussions on the new collective goal on finance was difficult. Developing countries wanted a process on setting a new collective quantified goal on finance, that takes into account their needs and priorities from a floor of USD 100 billion per year, as mandated by a decision agreed to in Paris in 2015. The Paris decision (in para 53 of decision 1/C.P 21) states that the goal be set prior to 2025 by the CMA.

Developed countries led by the US, Canada, European Union, Japan, Norway, Switzerland and Australia refused to determine a process for setting a new collective goal on finance, claiming that it was too early to deal with this. They were also opposed to any mention of “needs and priorities” of developing countries.

In the decision adopted, Parties agreed to initiate in Nov 2020, “*deliberations on setting a new collective quantified goal from a floor of USD 100 billion per year, in the context of meaningful mitigation actions and transparency of implementation and taking into account the needs and priorities of developing countries*”. (See para 1). Parties also agreed to consider in its deliberations “*the aim to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*”. (See para 2).

### ***Adaptation Fund***

In relation to the Adaptation Fund (AF), the contentious issues were mainly on the timing of when the Fund would serve the PA; whether the AF would serve exclusively the PA or both the PA and the Kyoto Protocol (KP) at the same time; and sources of the funding for the AF.

Developing countries wanted the AF to start serving the PA as soon as possible. Developed countries were of the view that the AF could not

serve both the KP and the PA at the same time. In relation to sources of funding for the AF, developed countries wanted “innovative” sources of funding which some developing countries were opposed to. Developing countries also did not want to change the governance structure of the AF Board, while the developed countries were in favour of doing so. (The AF serves the KP at present and the AF Board comprises 16 members and 16 alternates representing Parties to the KP).

In the decision adopted, it was decided under the CMA that the AF shall serve the PA from 1 Jan 2019, subject to the decision by the Conference of Parties serving as the meeting of Parties to the KP (CMP) on this.

On the sources of funding, Parties agreed that “*a variety of voluntary public and private sources*” besides “*the share of proceeds from the Article 6.4 mechanism of the PA*” would finance the AF. (The Article 6.4 of the PA refers to a mechanism to promote mitigation and support sustainable development).

In the decision adopted by the CMP, it was decided that that AF “*shall exclusively serve the PA and shall no longer serve the KP once the share of proceeds under Article 6.4 of the PA becomes available*”. Parties also decided that that the AF “*shall continue to receive the share of proceeds, if available, from activities under... the KP*”.

It was also decided that both developing and developed countries who are Party to the Paris Agreement are eligible for membership on the AF Board and requested the Subsidiary Body for Implementation (SBI) to consider the matter in June 2019.

## **DECISIONS ADOPTED UNDER THE COP**

### ***Standing Committee on Finance (SCF)***

Several issues surfaced during the discussions on the SCF. These included how to reflect the summary and recommendations of the 2018 ‘Biennial Assessment and Overview of Climate Finance Flows’ (BA) in the decision.

(One of the functions of the SCF of the UNFCCC is to assist the COP with measurement, reporting and verification (MRV) of support provided to developing countries. As part of the function, one of the activities the SCF undertakes is preparation of a BA. A BA comprises a summary

and recommendations, and a technical report. While the technical report is prepared by external consultants, the summary and recommendations are prepared by SCF members.)

(The adoption of the summary and recommendations itself had been riddled with difficulties. Discussions on the Summary and Recommendations saw divergences at the 19th meeting of the SCF held from 29-31 October, 2018 in Bonn following a proposal from the US for a footnote that read: “The usage of certain terms [e.g. developed, developing, South-South] herein does not imply consensus on the meaning of these terms amongst nor prejudice the views of Parties.” There could be no agreement among the committee members to reflect the footnote, and even though several attempts were made to resolve the matter, the US did not agree on the mention of developed and developing countries in the Summary and Recommendations. Following the 19th meeting, the impasse was resolved inter-sessionally. According to sources, the US and the other developed countries insisted on the use of the term “climate finance providers” instead of developed and developing countries. Besides these, the 2018 BA also states that trends in climate finance point to increasing flows towards beneficiary countries, while outlining the challenges and limitations in the making of the BA. These include the lack of an agreed definition of climate finance, data uncertainty and data gaps, making data difficult to compare.)

In Katowice, when developed countries wanted to selectively introduce some of the findings into the decision text, developing countries objected to it, and recalled the challenges and limitations of the report. In the decision adopted, Parties welcomed, “with appreciation” the BA and annexed the summary and recommendations of the report to the decision. (See para 3).

Also in issue was on a giving mandate to the SCF to work on needs assessment of developing countries, which the developed countries were opposed to.

Another issue was over references to Article 2.1(c) of the PA, which refers to making “*finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*”. Developing

countries did not want a selective reference to only a part of Article 2 and were of the view that the entire Article 2 should be reflected, as it makes clear that the PA is “*about enhancing the implementation of the Convention...in the context of sustainable development and efforts to eradicate poverty*” (Article 2.1) and that the PA “*will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in light of different national circumstances*”. (Article 2.2).

The decision adopted in Katowice encourages the SCF “*to take into account the best available science in future biennial assessment and overviews of climate finance flows*” and requests the SCF to use in the BA “*the established terminology in the provisions of the Convention and the PA in relation to climate finance, where applicable*”. (This is to ensure that no new terminologies are used that depart from the Convention and the PA). (See paras 4 and 5).

Parties also welcomed the decision of the SCF to host its 2019 Forum on “*climate finance and sustainable cities*”. (See para 9).

The decision also requested the SCF “*to map, every four years, as part of its biennial assessment and overview of climate finance flows, the available information relevant to Article 2.1(c), of the PA, including its reference to Article 9 thereof*”. (See para 10). This can be seen as a compromise accommodating both developed and developing country demands. Article 9 refers to the provision of support by developed countries to developing countries, while Article 2.1(c) refers to “*finance flows*”.

The SCF was also requested “*to prepare, every four years, a report on the determination of the needs of developing country Parties related to implementing the Convention and the PA, for consideration by the COP...and CMA*” starting in Nov 2020. (See para 13).

The SCF is also encouraged “*to provide input into the technical paper of the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with climate change impacts on the sources of financial support*”. (See para 11). The provision of financial resources for loss and damage has been a demand of many developing countries, especially from the Small Island Developing

States, while developed countries, especially the US are opposed to advancing discussions on this matter.

### **Guidance by the COP to the GCF**

The decision adopted in Katowice urges the GCF Board “to address the remaining policy gaps, including on...policies relating to the approval of funding proposals, including project and programme eligibility and selection criteria, incremental costs, co-financing, concessionality...; review of the accreditation framework....”. (See para 3).

In para 4, it urges the GCF Board “to continue its consideration of procedures for adopting decisions in the event that all efforts at reaching consensus have been exhausted...”. (Decision-making in the absence of consensus has been a sticky issue in the GCF and despite several attempts, the Board has not been able to adopt a decision on the issue. The Board has in particular not been able to agree on a voting mechanism. The issue was discussed at the Oct 2018 at the 21<sup>st</sup> meeting of the Board in Bahrain. See related [TWN update](#)).

The decision in para 5 welcomes “the launching of the first formal replenishment process and the Board’s decisions on the inputs and processes related to the Fund’s replenishment, which take into account the needs of developing countries”. Developed countries were against any references to the “needs of developing countries” in the text during the discussions in Katowice.

### **Guidance by the COP to the Global Environment Facility (GEF)**

During the closing plenary of COP 24 late evening of 15 Dec, when the proposed decision on the guidance to the GEF was put up for adoption by the COP Presidency, the US raised an objection and wanted amendments to para 7 of the decision, which initially read as follows:

*“Requests the GEF, in fulfilling its mandate to ensure access to its resources by all eligible developing country Parties, to support these developing countries in fulfilling their commitments under the Convention;”*

According to the US, the para was “outside the mandate of guidance as established in the memorandum of understanding between the COP and the GEF”. The US proposed the following amendment: “Requests the GEF, as

*appropriate, to ensure that its policies and procedures related to the consideration and review of funding proposals be duly followed in an efficient manner”*. The decision was adopted with the said amendment.

The US objection caught many developing countries off-guard. Clearly, the US intention is to limit some developing countries in having access to the GEF’s resources.

Further, the decision in para 3 adopted recognized “with concern the decrease in allocation to the climate change focal area...compared with the sixth replenishment” of the GEF and urged “all Parties that have not made pledges for the seventh replenishment of the Global Environment Facility to do so as soon as possible”. (At the 7th replenishment meeting of the GEF, of the total of US\$ 4.1 billion pledged, only \$3.3 billion is actually new funding and is an aggregate 37 per cent decrease compared to GEF’s 6th replenishment.)

### **Long-term finance (LTF)**

In the decision adopted on the matter, developed countries were urged “to continue their efforts to channel a substantial share of public climate funds to adaptation activities and to strive to achieve a greater balance between finance for mitigation and for adaptation, recognizing the importance of adaptation finance and the need for public and grant-based resources for adaptation”. (See para 4).

Parties also decided in para 9 that “the in-session workshops on long-term climate finance in 2019 and 2020 will focus on (a) the effectiveness of climate finance, including the results and impacts of finance provided and mobilized; (b) the provision of financial and technical support to developing country Parties for their adaptation and mitigation actions in relation to holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels”.

It was also decided in para 13, that the “fourth biennial high-level ministerial dialogue on climate finance, to be convened in 2020...will be informed by the reports on the in-session workshops on long-term climate finance and the

*2020 Biennial Assessment and Overview of Climate Finance Flows”.*

(A high-level ministerial dialogue on finance was held on Monday, 10 Dec. during the climate talks in Katowice, developing countries underscored the need for clarity and predictability on the sources of climate finance for decision-makers to ensure that climate

considerations are mainstreamed into national development plans and policies. See related [update](#).)

The finance decisions in Katowice are indeed critical in advancing further progress in ensuring adequate and predictable climate finance for developing countries in the coming years.