

Developing countries oppose efforts by developed countries to depart from financial commitments

Bonn, 24 October (Hilary Chiew) – Developing countries were firmly opposed to any attempts by developed countries to depart from their obligations under the UNFCCC as regards the provision of finance in the post-2015 climate agreement.

They also insisted that the provision of finance by developed country Parties to developing countries must be made legally binding in the new agreement to ensure success of the Paris climate meeting next year. Many of them expressed concerns over views expressed by some developed countries that finance was merely a tool to an end, and that financial commitments need not be legally binding in the 2015 agreement but could be in a political declaration or in a decision of the Conference of Parties (COP).

They also expressed grave concern that some developed countries were saying that they could not agree to numerical targets for finance expressed in the new agreement. Instead, developing countries called for a clear financial roadmap with targets, time line and sources to be defined.

A number of developing countries, particularly those from **LDCs, the Alliance of Small Island States (AOSIS)** and the **Independent Alliance of Latin America and the Caribbean (AILAC)** were also of the view that “developed countries and those in a position to do so” should also contribute to climate finance.

These exchanges took place in a contact group meeting of the UNFCCC’s Ad Hoc Working Group on the Durban Platform for Enhanced Actions (ADP) which began in the late afternoon of 21 October and continued on 22 October. Parties discussed how to include finance as an

element in the 2015 agreement. The session on finance was presided by ADP Co-Chair Artur Runge-Metzger (European Union).

In response to intervention from Parties, Co-chair Runge-Metzger remarked that countries were standing firm on their positions and urged Parties to look for “a common landing ground”. This prompted a highly animated and firm retort from the delegate from China who responded that the “landing zone” is the Convention. He said that if the landing zone was not the Convention, then there should be another ad hoc working group established to rewrite the Convention, as the work of the ADP was under the Convention.

Responding to the explanation of several Annex I Parties that it was impossible to make financial commitments several years ahead due to national budgetary cycle constraints, the Democratic Republic of Congo wondered why it is then not an issue for their commitment to provide ODA at the scale of 0.7% of their GDP.

New Zealand said that for many donor countries, the obligation to quantify finance commitments in the new agreement will not work and this will be a barrier to their participation in the new agreement. This view was shared by other countries including Switzerland, Norway, and Australia.

Malaysia speaking for the Group of 77 and China (G77-China) said developed countries shall provide financial support to developing countries in accordance with their continued obligations as per the provisions of the Convention. The US\$100 billion per year by 2020 shall be the starting point for developed country Parties to enhance their financial commitments for the post-2020 period, with a

clear roadmap on scaling up the finance, including targets, timelines and sources. In this regard, the financial support should be primarily from public sources and private sources can only supplement it. Finance is a critical element for the post-2015 agreement, both for allowing for ambitious intended nationally determined contributions, for having an ambitious outcome, and for addressing the gaps in the current financial architecture and flows.

It stressed the need to operationalise issues of adequacy, accessibility, predictability, sustainability, transparency and additionality of the provision of finance by developed countries. The 2015 agreement shall reflect the priority of financing adaptation and deal with the gaps in this regard. G77-China wanted the agreement to focus on utilizing the current mechanisms like the Standing Committee on Finance (SCF) and allow for ambitious, sustainable and predictable resources for the financial mechanism, including clear quantified pathways. The Green Climate Fund (GCF) should be strengthened and anchored in the new agreement. It called for the initial resource mobilization (IRM) of resources for the GCF to reach a very significant scale that reflects the needs and challenges of developing countries to address climate change. It hoped that the IRM will end in November 2014 and would reach US\$15 billion as a start.

Jordan speaking for the Like-minded Developing Countries (LMDC) said the 2015 agreement should reflect the principle of common but differentiated responsibilities (CBDR). Developed countries should fully implement the pre-2020 financial commitments, and continue to provide new, additional, predictable, and sustainable funds to developing countries. Both public finance and private finance play important roles. However, public finance should be a major source that leverages larger scale of private finance. With a fully operationalised GCF, MRV (measurement, reporting and verification) of the provision of financing by developed countries should be enhanced. Finance needs to be used in an effective way, and be allocated in a balanced manner. In order to implement the pre-2020 financial commitments and enhance financial support to developing countries, developed countries need to provide a clear roadmap and timeline of their financial provisions.

To achieve the target of mobilizing US\$100

billion by 2020, developed countries should provide US\$40 billion by 2014, US\$50 billion by 2015, US\$60 billion by 2016, US\$70 billion by 2017, US\$80 billion by 2018, US\$90 billion by 2019, and US\$100 billion by 2020. Based on the full implementation of pre-2020 commitments, developed countries need to continue providing financial assistance, make legally binding commitments, and put forward a clear timeline and roadmap for financial provisions beyond 2020, said Jordan.

Unlike commitments made by developed countries, South-South cooperation is voluntary, mutually beneficial, and country driven collaboration among developing countries. South-South cooperation is free from obliged monitoring and reporting, and is outside the UNFCCC mechanism.

On institutional arrangements, the LMDC is of the view that the SCF, GCF and the Adaptation Fund need to have a clear timeline and roadmap to further facilitate the sustainability, predictability, and transparency of climate finance.

Due to different financial uses and allocations (e.g. mitigation, adaptation, technology transfer, and capacity building), GCF could open specific windows for financing for specific areas. The arrangements between the GCF and other bodies under the Convention need to be strengthened. The MRV of financial support should be enhanced to clearly define the definition of climate finance, common accounting rules, and reporting system.

Maldives representing the Alliance of Small Island States (AOSIS) stressed that finance is a fundamental building block of the agreement and must therefore contain commitments by developed countries that need to be scaled up. It should address the gap of the current financial architecture and flow. Both public and private finance has to be scaled up. It believed the Convention is the basis for the agreement and developed countries will have the same obligations. Scale and reliability of the means of implementation is critical to respond to urgent adaptation needs. The balance between adaptation and mitigation is most important in the finance component and effective prioritization of the most vulnerable is crucial, said Maldives.

It also called for time-bound financial targets and the need for MRV of support with a common reporting format. The GCF should be the pillar of the new regime playing a central role in the climate finance architecture. It invited Parties in a position to do so to channel a significant portion of post-2020 finance through the GCF and viewed this as an opportunity to rationalize the overall climate finance landscape.

Tuvalu representing the Least Developed Countries (LDCs) said the legal outcome must have the singular objective of providing a durable approach to finance which should be needs- and science-based, suggesting developing some sort of matrix along that. It said the GCF should be anchored in the agreement. It was disappointed with Switzerland that said there should be no discussion of pre-2020 finance in the agreement. It said a political declaration is easy but the process needs a faith-building exercise to ensure that finance promised up to 2020 will be realized and scaled up. It said that Parties have to accept that we are no longer in the world of non-Annex I and Annex I, noting South-South cooperation that needs to be encouraged and embraced. It proposed the following wordings to be reflected along the line of “Annex II and those countries in a position to do so”. This does not necessarily interfere with Article 4.3 of the Convention, it said. (Article 4.3 reads: “*The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1...*”)

It said finance should come from public sources with an indicative percentage and MRV of support should be in the agreement. It wanted ex-ante and ex-post assessment so as to have some understanding of what is going on in terms of financial support. It supported strong inputs from the private sector with a mechanism to leverage that without diminishing the role of public finance.

Tuvalu also echoed Norway’s suggestion on enhancement of readiness and the area of result-based action in REDD-plus. It wanted a mechanism to provide interest-free finance for developing countries to access renewable energy and energy efficiency. The MRV of finance needs to include biennial adaptation support report and specific financial arrangements for loss and damage. It also proposed inviting the

International Civil Aviation Organization and the International Maritime Organization to establish a levy as a new source of funds. It said there is need to promote South-South development of technology transfer as developing countries have better understanding of each other’s needs.

Speaking for the **Independent Alliance of Latin America and the Caribbean (AILAC), Costa Rica** said the agreement should include a global goal for the means of implementation (MOI) in order to achieve efforts by all Parties in accordance with CBDR and respective capabilities (RC). It should be complemented by a short term quantifiable goal to be fulfilled by Annex II Parties as well as by other countries with the capacity and position to do so. It said the quantified goal should be significantly higher than the existing goal of US\$100 billion. It said the fast-start finance exercise demonstrated the usefulness of short term quantifying goal for finance. Each country should determine their goal while countries with low responsibility and low capacity should receive support.

China stressed that the agreement should be based on the provisions of the Convention, including respecting the differentiation between developed and developing countries. It was concerned that the role of the private sector was overstated. It said combating climate change is a global public good and would therefore require public finance, noting that the private sector is market-oriented and is not reliable to meet future needs. Public finance should play a key role and should be referred in the agreement while private finance can only play a complementary role. It said climate finance is not a donation but a commitment of developed countries and they have no time to reopen the debate. Regarding adequacy of finance, the US\$100 billion should be the starting point to scale up while a clear roadmap is needed to define support in terms of targets, timeline and sources such as US\$110 billion for 2021, US\$120bil for 2012 and so on and it should be inscribed in the agreement. Upfront information on financial resources to be provided by developed countries should be included in the intended nationally determined contributions (INDCs). On the GCF, China said the initial resource mobilization should be finalised with substantial pledges by November and the formal replenishment process should start as soon as possible.

Following China's intervention, Co-chair Runge-Metzger remarked that Parties are standing firm on their positions and urged Parties to look for "a common landing ground".

This prompted a highly animated and firm retort from another Chinese delegate who responded that the "landing zone" is the Convention. He said that if the landing zone was not the Convention, then there should be another ad hoc working group established to rewrite the Convention!

On whether finance is a tool or an end, referring to the Chinese philosophy of 'yin and yang', it said that finance could be a tool sometimes or could be an end in itself. According to the Durban mandate, the provision of finance is supposed to be enhanced in the post 2020 time frame.

On whether there should be short term or long term finance targets, if developed countries could not say how much they could provide, it asked how developing countries, especially SIDs, LDCs and Africa, take enhanced actions in the post 2020 agreement. There needs to be some roadmap or target for long term certainty, it added. It stressed that to make progress in the negotiations, concepts that our outside the Convention should be deleted.

South Africa cautioned that Parties are supposed to strengthen the implementation and not rewrite the Convention. It expressed concerns by the position of New Zealand and others. It supported the global goal on means of implementation. It believed that if temperature rise is to be limited to below 2C, as a guiding principle for finance, this would mean about US\$1 trillion per year. This link needs to be made. It called for the GCF and existing institutional arrangements to be anchored in the agreement, and for a mechanism to ensure predictability of finance based on an agreed percentage formula to calculate Annex II contributions. It also believed that a range of global policies governing resources for mobilizing and identification of public sources can be captured in the agreement. There is also need to enhance MRV of support and a review mechanism to evaluate and redirect resources. It believed strongly in country ownership and actions need to be based on those identified by developing countries according to their priority.

Brazil underscored that while all Parties are required to take actions, the full potential of developing countries can only be achieved with international financial support. It was doubtful about having finance support in political declarations (as suggested by some developed countries) and this would be unacceptable for developing countries. It expressed dismay that some developed countries are attempting to rewrite the key provisions on finance in the Convention. It said the agreement should seek to implement and operationalise the support in a sustainable manner by anchoring and strengthening the institutional arrangements. It said developing countries need assurance of the scale and predictability of finance and they cannot be put in a situation where mitigation is dealt with in a quantifiable manner but finance and support are left to the last hour of COP21 (in Paris). It cautioned that we should avoid getting into that situation.

India said that the provision of funding to assist actions on the part of developing countries is a measure of the seriousness or otherwise of the developed countries in considering the climate change issue as a genuine common global problem that requires genuine collaboration. That is why financial assistance was enshrined throughout various articles of the Convention and is a clear obligation on the part of the developed country Parties. If we find today that there has been a lack of seriousness or commitment on the part of some Parties to fulfill the obligations that have been taken earlier, it does not inspire confidence. This does not provide any positive indication for any future agreement for the still remaining and the still very important pre-2020 period or the INDCs or any post-2020 arrangement. India stressed that this is clearly a question of political will or the lack of it. Another aspect is the growing emphasis in certain quarters on the role of private sector finance in discussions on climate change or sustainable development agenda. We are talking about a multilateral agreement between governments. Private sector, by its very nature, moves to generate short-term profits. All countries have national policies in place to attract domestic and foreign private investment. But issues such as climate change adaptation involve a different framework. Since the capacities of developing countries remains limited and the scope of their challenges is still very large, despite all the often misinformed or motivated

talk of changed realities, public financial support would be critical in going forward in tackling this with any seriousness, said India.

On the reference to South-South cooperation, India said this is a completely different form of cooperation based on historical solidarity among nations that had faced various forms of exploitation or colonization. It is completely different from the historical obligation involved in the North-South development assistance. It did not accept any attempts to bring the ongoing South-South cooperation under any framework designed for North-South financial flows.

There has been a suggestion that finance is only a means to an end. The implication being that it is not really an obligation and also, perhaps, that other means are available that could also do the job at hand. India did not know whether there are other means available that will do the job. Otherwise it may have already achieved far greater success in meeting the challenge of climate change. It said further that there continues to be even a lack of clear definition of climate finance, methodologies, data inconsistencies and verification with regard to finance. Besides issues such as capitalization of the GCF, there continue to be struggles to control the Fund. If there is political will, these issues can be resolved quickly. India said greater political will on the part of developed country Parties is therefore necessary.

The **Democratic Republic of Congo (DRC)** said the provision of scaled up, predictable, new and additional financial resources will allow developing countries to increase their ability to undertake ambitious mitigation action and to undertake sound and coherent adaptation measures to make them more resilient to the adverse effects of climate change. Therefore, we need to urgently address the scale of finance in the context of the agreed goal of keeping the temperature below 2C, while allowing for a regular review process of the availability of resources and dealing with issues of their predictability and adequacy. It said burden sharing for the provision of climate finance is to be among developed country Parties and the biennial submissions from developed country Parties should contain their updated strategies and approaches for scaling up climate finance from 2014 to 2020.

Financing under the Convention should be channelled through the GCF, including for

technology transfer and approaches enhancing international cooperation such as joint mitigation and adaptation approaches on forests. However, the GCF should capitalize on the know-how and experiences of existing relevant Funds and may increase its highly anticipated catalytic role by helping finance some of the good projects these existing Funds have in their pipelines.

Enhancing MRV of the provision of financing by developed country Parties will create a virtuous cycle that can allow us to concretely grasp the range of financial means that will allow us to collectively undertake action and close the mitigation gap, said. the DRC.

It begged to differ with Switzerland's view that the pre-2020 finance discussion should not be part of this discussion. In our view, it is actually essential. We have elephants in Africa and the one thing we have learned through looking at their behaviour is that when they are on a fast course, it is quite difficult for them to make a sharp turn. On the contrary they must make a slow and gradual turn to change direction. And to illustrate this analogy, we have seen how some large elephants in this world of GHG emissions have not been able to make the necessary sharp turn from their 1990 emissions level but could only undertake that turn from their 2005 levels. In the same sense it is important that countries start mobilizing the financial resources early enough to meet the 2020 objective. Otherwise, the finance elephant will not meet the 2020 mark, added DRC.

It wondered why Switzerland and other developed countries have agreed to a commitment to fund ODA at the scale of 0.7% their GDP and refuse to do so for an urgent matter such as runaway climate change? How come their long-term ODA commitment does not have a bearing on their budgetary cycles, it questioned. Finance will have a crucial role in enabling the capacity of developing countries in the preparation of their INDCs, said the DRC. It also said that developed countries should provide upfront information in their INDC on financial contribution in terms of type, scale and pathway and developing countries should also present their MOI needs to achieve their INDC.

Guyana said the differentiation on financial contributions between developed and developing countries is natural as a consequence of Article 4.3 and should not be a source of concern. The provisions of the Convention are not to be

renegotiated. Some may choose to contribute but for others it is an obligation. It said definition of climate finance should be anchored in the agreement and the guiding principle is new and additional and not ODA. While it agreed that finance is a tool and not the objective, if we do not have the tool for the job, then it becomes the objective.

It said a robust system of MRV will require tracking of progress and distinguishing between climate finance and ODA. It believed that the US\$100bil should be anchored in the agreement as a starting point while finance for post-2020 could be an absolute figure or percentage but the key is it needs to be adequate. It also wanted simplified direct access for LDCs and Small Island Developing States and those who are most vulnerable, with GCF playing a central role.

Iran warned that if there is no attempt to enhance action on finance there will be little ambition left in the post-2020 period. The financial mechanism should be made more robust with predictable funding going into the operating entities and Parties must provide clear roadmap for public finance with specific targets, timeline and sources. It said burden-sharing must be done among developed countries and expressed concern that private finance would mean creating an enabling environment to facilitate investment that requires developing countries to provide greater market access. It reminded Parties that we are here to negotiate strengthening of the Convention and not rewriting it.

On the issue of the timeframe of the short term quantifiable goal, **Colombia** said it would propose that the cycle and terms of MOI should be linked with the cycle for mitigation and adaptation. To the question on how to integrate the AILAC's proposal on global goal of MOI, it said there are three components: global transformation goal, short term collective goal and updating the quantitative number on a regular basis to ratchet up the MOI over time. It should accommodate changing needs and capacity and linking the needs of mitigation, adaptation and finance.

Nigeria said the adequacy, predictability and sustainability of climate finance must be subjected to MRV. It hoped to see balanced decisions where countries with comparable level of responsibility support adaptation and

mitigation as part of their fair share in the global effort to fight climate change.

Bolivia proposed to strengthen non-market based approaches by creating a specific mechanism that would include a more holistic perspective of climate change which links mitigation, adaptation and sustainable development; and the joint mitigation and adaptation for sustainable management of forest.

In response to developed countries, **Egypt** said there should be no separating of mitigation and finance from a legal binding agreement. It welcomed the proposal to build upon short term and long term targets for finance but needed clarity on the cycle of finance after 2020. On using GDP as a scale for reference, it is not in favour as this might open the door for reinterpretation.

Malaysia was not convinced that the classification as means and ends or tools and objectives are useful for including or excluding issues from the 2015 agreement. Financing is the first and most important means – it facilitates technology transfer, which facilitates adaptation which protects mitigation which achieves the objectives of the Convention. The rationale for distinguishing between voluntary contributions from developing countries and financing obligations by developed countries is evident from Articles 4.3, 4.4, 4.5 and 11.1 of the Convention. Parties need to understand that *respective capabilities* depend on much more than income. They hinge as well on assets and infrastructure, which, income notwithstanding, are limited in most developing countries. If equity is to be rationalised, we need to recall also that sustainable development cannot be achieved without freedom from debilitating debt.

Norway did not support a legally binding finance commitment and did not think it is feasible to determine who should contribute and how much. It expects finance to be captured in COP decisions. It said the agreement should include all commitments by all Parties for domestic actions in line with domestic circumstances. It expected all Parties to do the same. It said countries should mainstream climate change into development plans, address fossil fuel subsidies, use market mechanisms and put a price on emissions.

The **European Union** said that private sector finance should be enshrined in the agreement

while public finance serves as catalyst. It will stand by its responsibilities including enhancing its own effort and continue to provide support. It wanted to anchor the crucial role of climate finance in the new agreement where there is a role for all Parties.

New Zealand said that all Parties should consider their abilities to support financially and to also help themselves. For many donor countries, the obligation to quantify finance commitments in the new agreement will not work; this will be a barrier to their participation in the new agreement. It stressed the importance of the private sector.

The agreement should acknowledge the changing shape of economic landscape and should have collective commitment by Parties in a position to do so to support those most in need to meet their obligations. In terms of transparency of climate flow, it is the responsibility of Parties that provide and receive. It also said the COP can promulgate a political declaration that takes a form of agreement to shift a percentage of capital flow from brown to green investments.

Switzerland said not all elements need to go into the agreement and could be in a political decision, while technical discussions are best to be addressed through COP decisions. It said that it is important to have a common understanding that finance is a crucial tool but not an objective. Hence, there is no need to speak about finance in the new agreement; hence, strengthening the tool need not be addressed in the agreement but could be done through a COP decision.

Japan said the 2015 agreement should prioritise resources to those who are vulnerable and recognize the significance of private funds to do

that. Assistance to SIDs, LDCs and African countries particularly in adaptation should be supported. It said support should come from a broad donor base especially in the post-2020 world.

The United States said developed countries will continue to uphold their responsibility under the Convention and will not shift the burden to the private sector. The 50-50 split of resources for mitigation and adaptation as done in the GCF will be reflected in the agreement as well. It said the idea of short term quantitative goal implies that mitigation is contingent on receipt of finance and only developed countries will contribute going forward. It is however of the view that countries other than LDCs can put forward unconditional contribution. It said we need to pay attention to private sources so that the public sources can mobilize it and lay the groundwork for policies in developing countries for private funding. The agreement should recognize the establishment of effective enabling environment to build climate resilient economies and encourage Parties to reduce financing for high carbon investment and climate-proof their investments.

Australia said the agreement should reflect current realities and did not want a legally binding numerical commitment on finance. It said that it is impossible for countries in their budget process to make specific budget commitments years in advance. It also said the agreement cannot set a numerical target to attract the private sector as the private sector cannot be forced to do that, adding that it is the enabling environment that will attract them.+