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Weak finance mobilisation goal of USD 300 billion per year by 2035

Kathmandu, 29 Nov (Prerna Bomzan and Meena Raman): The controversially adopted decision on the new collective quantified goal on climate finance (NCQG), in the early hours of a protracted closing of the COP 29 talks on 24 Nov in Baku, sets a mere mobilization goal of USD 300 billion per year by 2035, with developed countries taking the lead, which is only a trebling of the USD 100 billion per year goal agreed to in Cancun, Mexico in 2010, which is a far cry from the needs of developing countries.

While the decision [in paragraph 3] highlights that the "costed needs reported in [the] nationally determined contributions [NDCs] of developing country Parties are estimated at USD 5.1–6.8 trillion for up until 2030 or USD 455–584 billion per year and adaptation finance needs are estimated at USD 215–387 billion annually for up until 2030…," the new finance goal failed miserably to respond adequately to the identified needs.

The decision [in paragraph 7] also calls "on all actors to work together to enable the scaling up of financing to developing country Parties for climate action from all public and private sources to at least USD 1.3 trillion per year by 2035".

Absent from the decision is a clear commitment from developed countries to provide for a core quantum from public resources to developing countries, which was a call by the **G77 and China**, throughout the negotiations.

Developing countries also pointed out that the USD 300 billion per year which is to be mobilised with developed countries taking the lead, has failed to represent real "progression beyond previous efforts" (of USD 100 billion per year), when one takes into account inflation over the years. (According to Dr. Fadhel Kaboub, an economist from Africa, at a very conservative inflation rate of 5%, the net present value of $300 billion mobilised in 2035 would be worth only USD175 billion in 2024). Many called the quantum "a joke" and an "insult" to developing countries.

It was also agreed [in paragraph 36] "to periodically take stock of the implementation of this decision as part of the global stocktake [GST] and to initiate deliberations on the way forward prior to 2035, including through a review of this decision in 2030". [The next GST is in 2028, following the first conducted in Dubai last year]. Clearly, a review of this decision will only take place in 2030, for a new goal to be set prior to 2035, which sets the timeframe for the goal to 10 years, which several developing countries said to be too distant in the future.

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The new climate finance goal, extremely low in ambition, thus came to be a weak and unfair deal imposed on developing countries, falling appallingly short of the legal obligation for the clear provision of grants and concessional loans by developed to developing countries, based on the latter's needs and priorities.

Furthermore, the swift adoption of the contested decision, silencing any objection, saw a violation of the principles of consensus and multilateralism, which was duly called out with grave disappointment by **India**, strongly objecting to the adoption of the decision. Its call was supported by **Bolivia**, **Nigeria**, **Malawi** for the **Least Developed Countries (LDCs)** as well as **Cuba**, who all decried an unacceptable weak decision, allowing yet again the great escape by developed countries from their historical responsibility to the climate crisis, unjustly shifting the burden to developing countries for more action with less or no support. (See TWN Update)

In essence, the NCQG negotiations and outcome exposed the flagrant efforts of developed countries to erode the bedrock principle of differentiation between developed and developing countries under the Convention and its PA, with grave implications for developing countries. During the evolution of the different iterations (all limited documents shared only to Parties) of the NCQG draft decision text, it was learnt that references to the Convention and the principle of historical responsibility got ultimately dropped, along with calls for clear commitments from developed countries for the provision of a definite quantum of public resources towards the NCQG. [See further details below].

HOW THE NEGOTIATIONS UNFOLDED

It is to be noted that the first week of the NCQG talks did not see any "technical" negotiations, eventually forwarding on 16 Nov, a Co-Chair's draft decision text [not agreed in status], to the second week of the political negotiations under the COP 29 Presidency. (See TWN Update).

The mode of work then turned into appointed Ministerial pair consultations led by **Yasmine Fouad (Egypt) and Chris Bowen (Australia)** on the three highly divergent, "political" issues of the quantum, structure and contributors of the NCQG. In parallel, "technical working sessions" were conducted with heads of delegations [HoDs] with Groups and Parties on issues of access, transparency, dis-enablers, context, preamble, among others. The two parallel tracks aimed to contribute to a draft decision text by the Presidency.

The first iteration of the draft decision text by the Presidency was issued on Thursday, 21 Nov morning, resulting in conflicting reactions with the developing countries especially pushing back, expressing frustration over the persistent absence of the mention of any number on the quantum by the developed countries.

This was followed by the Presidency calling for a "single-setting" meeting with Hods, to hear views on the text, issuing the next iteration of the draft decision early on 22nd Nov [which was the final day of the talks]. Following continued disappointment and disagreement by developing countries especially on the low quantum and references to new contributors (involving developing countries), the next move by the Presidency saw upping the ante with vigorous rounds of consultations and "shuttle diplomacy" [negotiations conducted by the Presidency between Parties at odds] through 23rd Nov, including continued political negotiations at the highest level with Ministers present, [which were reportedly mired by undue pressure from the developed countries maintaining their rigid stance and pushing for a weak deal with their responsibilities diluted, while adding more pressure on developing countries.]

It was learnt that three iterations of the draft decision text were produced on 23 Nov, which saw frantic last-ditch attempts towards consensus building on the lingering sticky issues of the quantum and the contributors to the goal. A non-consensus draft decision text with a miniscule revision of the quantum was eventually bull-dozed through in the early hours of 24th Nov.

The following brief below of the adopted NCQG decision focuses on the goal formulation comprising structure, quantum and contributors, that remained the most contested and controversial until the very end.

NCQG STRUCTURE: MULTI-LAYERED APPROACH OF MOBILIZATION AND INVESTMENT

Developing countries had throughout the negotiations called for a simple, single layer structure – a provision and mobilization goal of an ambitious quantum informed by their needs and priorities with an amount of at least USD 1.3 trillion per year from developed to developing countries with a significant provision component of at least USD 600 billion per year [from developed countries] and not by any means, an investment goal.

[At the stocktake session convened by the COP 29 Presidency to report on the state of the negotiations on 21nd Nov, the Ministerial pair leading the consultations on the NCQG had reported that discussions in respect of a provision component of the quantum saw proposals in the range of USD 400-900 billion per year, out of the mobilization goal of USD 1.3 trillion annually.]

However, the NCQG structure finally took the shape of a multi-layered approach of mobilization and investment with no provision component, which had been the overbearing position of developed countries from the outset. Sources said that the goal formulation largely reflected textual language by the **United States (US)**, [thus, accommodating its demands and getting locked into a very weak deal, when the US is soon expected to withdraw from the PA under the Trump administration.]

Reliable sources said that the US interpretation of the NCQG was on the basis of the goal in Article 9.3 of the PA [which provides that "As part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds…"]. The US also maintained that this was a voluntary effort as Article 9.3 uses the term "should" instead of "shall".

Developing countries on the other hand read the NCQG has a goal involving both a mobilisation component, as well as a provision component from developed to developing countries as stated in Article 9.1 of the PA [which states that "Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention".]

Key paragraphs 7-10 of the decision pertain to the multi-layered goal formulation, comprising structure, quantum and contributors, and supported by preceding and succeeding paragraphs in this regard.

As stated above, paragraph 7 "Calls on all actors to work together to enable the scaling up of financing to developing country Parties for climate action from all public and private sources to at least USD 1.3 trillion per year by 2035". It forms the outer layer in the form of an aspirational target, calling on all actors and from public and private sources, which is supported by paragraph 4 in relation to financing that reads, "…and that there is sufficient global capital to close the investment gap but there are barriers to redirecting capital to climate action, and that governments, through public funding and clear signals to investors, are key in reducing these barriers".

In addition, paragraph 6 "Reiterates the importance of reforming the multilateral financial architecture and underscores the need to remove barriers and address dis-enablers faced by developing country Parties in financing climate action, including high costs of capital, limited fiscal space, unsustainable debt levels, high transaction costs and conditionalities for accessing climate finance". One dis-enabler highlighted by developing countries was on the negative impacts of "unilateral measures" such as the carbon border adjustment mechanism [CBAM] which did not find place in the NCQG decision.

Paragraph 8 is key as it sets the NCQG goal, reading, "Reaffirms, in this context, Article 9 of the PA and decides to set a goal, in extension of the goal referred to in paragraph 53 of decision 1/CP.21, with developed country Parties taking the lead, of at least USD 300 billion per year by 2035 for developing country Parties for climate action:

(a) From a wide variety of sources, public and private, bilateral and multilateral, including alternative sources;

(b) In the context of meaningful and ambitious mitigation and adaptation action, and transparency in implementation;

(c) Recognizing the voluntary intention of Parties to count all climate-related outflows from and climate-related finance mobilized by multilateral development banks [MDBs] towards achievement of the goal set forth in this paragraph." [Paragraph 8(c) comes with a footnote as follows: This does not prejudice any decision under any governing body of any MDB, noting that each bank operates within its own mandate and governance structure and the intention reflected in this paragraph relates to the PA]".

Paragraph 8 forms the inner layer in the form of a core NCQG mobilization goal of at least USD 300 billion per year by 2035, in the context of the aspirational scaling-up of finance target in paragraph 7 of at least USD 1.3 trillion per year by 2035 from all actors, both public and private.

The reaffirmation of Article 9 of the PA in paragraph 8 which sets the NCQG goal is important for developing countries, as it includes implicitly to Article 9.1 of the PA. Getting an explicit reference to Article 9.1 was challenging in view of the US stance. It is learnt that the insertion and retention of "Article 9" of the PA was only possible due to consistent push by developing countries towards a more balanced package.

However, the NCQG turned out to be a low ambition goal of mobilisation of climate finance, although with developed countries taking the lead in the effort to do so, as they have done in relation to the earlier USD 100 billion per year goal.

NCQG QUANTUM: LOW AMBITION MOBILIZATION GOAL

Much to the anger and frustration of developing countries over the elusive quantum until the end, developed countries refused to announce it arguing that it is dependent on the structure and contributors of the goal. The **US** in particular always referred to the quantum "from a floor of USD 100 billion per year" reflected in the decision in Paris from 2015, which decided to set the NCQG in accordance with Article 9.3 of the PA.

It is learnt that the two quantum figures referred to in paragraphs 7-8 of the final decision first appeared in the revised iteration of the Presidency's draft decision text on 22 Nov: paragraph 7 carrying the first outer layer figure of USD 1.3 trillion per year by 2035, while paragraph 8 carrying the inner core NCQG component figure of only USD 250 billion per year by 2035 [which was referred to as "a joke" by several developing countries who had proposed a range of USD 400-900 billion].

On 23 Nov, after evolution of three iterations of the draft decision text, the final NCQG mobilization goal was set by paragraph 8 of the final decision "of at least USD 300 billion per year by 2035", which is learnt to have been the maximum flexibility extended by developed countries to increase the quantum, according to sources. This was indeed a real blow for developing countries.

Further, paragraph 16, resulting out of last minute negotiations for a more balanced package, provides some comfort which decides that "a significant increase of public resources should be provided through the operating entities of the Financial Mechanism, the Adaptation Fund, the Least Developed Countries Fund and the Special Climate Change Fund and also decides to pursue efforts to at least triple annual outflow from those Funds from 2022 levels by 2030, at the latest with a view to significantly scaling up the share of finance delivered through them in delivering on the goal contained in paragraph 8 above".

COUNTING OF CLIMATE-RELATED OUTFLOWS FROM [MDBS] TOWARDS THE NCQG

Paragraph 8(c) was particularly problematic for **India**, as it believed that the para will make it a "major contributor", along with other developing countries who are also shareholders in the MDBs as well. India scathingly remarked that this is a deflection of the responsibilities of developed countries.

It is learnt that India had called for the deletion of the paragraph altogether for it to join consensus, but this request was not entertained. Considerable pressure was however exerted on India to accept the deal as is, by higher-up officials of the **European Union**, the **US**, the **UAE** as well as the **COP 29 Presidency**. In its statement objecting to the adoption of the decision which was bull-dozed through, India called the process "stage-managed" and assailed the NCQG decision as "nothing more than an optical illusion". [See related TWN Update].

The reference to the "voluntary intention of Parties to count all climate related outflows from and climate finance mobilised by MDBs" added further confusion, and is bound to raise many questions about how such intention is to be expressed and whether the counting of the outflows would be automatic.

EXPANDING THE CONTRIBUTORS TO THE MOBILISATION GOAL

The developed countries persisted with their efforts to "expand the contributors" by including developing countries, based on their "evolving capacities" and forcing "every country in a position to do so" to contribute to the NCQG. This effort was somewhat thwarted with no such references in the decision in relation to the goal.

However, the controversial paragraph 8(c) of the decision referred to above which sets the NCQG goal, attempts to broaden the contributors, making developing countries as new contributors in their role as shareholders of the MDBs, besides references to efforts from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources.

Also, paragraph 7 on USD 1.3 trillion target calls on "all actors" as well from all public and private sources.

Further, paragraph 12 of the decision highlights the role and effectiveness of the MDBs and, "Encourages Parties, in carrying out their functions as shareholders of MDBs, to continue advancing efforts to promote an evolution agenda for bigger, better and more effective MDBs in order to address global challenges and poverty eradication and maximize impact in developing country Parties". In addition, paragraph 23 adds concerns and implications on "development finance", with the expansion of the role of the "international financial institutions, including MDBs" in addressing climate change.

Paragraph 23 of the decision "Invites international financial institutions, including MDBs as appropriate, to continue to align their operational models, channels and instruments to be fit for purpose for urgently addressing global climate change, development and poverty, in accordance with their mandates and in line with the direction of their governing bodies, including by: (a) Deploying a range of instruments, in particular non-debt-inducing instruments; (b) Considering shifting their risk appetites in the context of climate finance; (c) Continuing to contribute to scaling up climate ambition and finance, including by simplifying access to finance; (d) Continuing to enhance the effectiveness of climate finance provided and mobilized; (e) Considering scaling up highly concessional finance for developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries [LDCs] and small island developing States [SIDs]; (f) Aiming at increasing grant financing disbursed to the LDCs and SIDs."

ENCOURAGES DEVELOPING COUNTRIES TO MAKE CONTRIBUTIONS VOLUNTARILY

Paragraph 9 of the decision "Encourages developing country Parties to make contributions, including through South-South cooperation on a voluntary basis". However, it is important to note that this paragraph is not linked to paragraph 8, which sets the NCQG. This recognition of "on a voluntary basis" recognises Article 9.2 of the PA, which states that "Other Parties [as opposed to developed countries], are encouraged to provide or continue to provide such support voluntarily."

The preservation of the voluntary nature of the contribution was a key demand from developing countries, especially China, India and Saudi Arabia.

Also important to note is paragraph 10 of the decision which reads, "Affirms that nothing in paragraphs 8-9 above affects any Party's development or recipient status", raises questions on what is intended by this para. [The provisions of the PA are clear on the obligations of developed countries and that all developing countries are entitled to receive financial resources.]

BAKU TO BELEM ROADMAP TO USD 1.3 TRILLION

In the final hours of intense negotiations, paragraph 27 of the decision came into being. This para decided "to launch, under the guidance of the Presidencies of the sixth [Azerbaijan] and seventh [Brazil] sessions of the CMA, in consultation with Parties, the 'Baku to Belém Roadmap to 1.3T', aiming at scaling up climate finance to developing country Parties to support low greenhouse gas emissions and climate-resilient development pathways and implement the nationally determined contributions and national adaptation plans including through grants, concessional and non-debt creating instruments, and measures to create fiscal space, taking into account relevant multilateral initiatives as appropriate; [and] also requests the Presidencies to produce a report summarizing the work as it concludes the work by CMA 7".

This proposal is said to have come from the **SIDS** with the original paragraph exploring options to design and implement appropriate minimum allocation floors, in particular for LDCs and SIDS, which, however, was dropped from the final decision.

The **Alliance of Small Island States (AOSIS)** and **LDCs** had walked out of the negotiations on Friday, 22 Nov, condemning that the process lacked inclusivity while the substance of the draft decision text lacked reflection of their key demands and redlines such as the minimum allocation floor. Paragraph 27 was an effort to pacify the SIDs and LDCs to join the consensus.

The NCQG decision, which has already seen objections and controversy over its adoption, is bound to be under intense debate and scrutiny, when the climate talks resume next year.