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SHARM EL-SHEIKH CLIMATE NEWS UPDATE
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Finance outcomes at Sharm el-Sheikh

Delhi, 29 Nov (Indrajit Bose) — The Sharm el-Sheikh climate talks adopted a host of decisions on climate finance following intense negotiations among developed and developing countries. These include long-term climate finance (LTF); matters related to the Standing Committee on Finance (SCF); terms of reference for the second review of the functions of the SCF; new collective quantified goal on climate finance (NCQG); and matters relating to the Adaptation Fund (AF); report of the AF Board for 2022 and Fourth Review of the AF. Parties also agreed to establish a loss and damage fund (see separate TWN update 14).

All the decisions were bitterly contested and nearly every paragraph of the draft texts for decisions continued to be bracketed, with no solution in sight until the last day of the COP, with ministerial consultations convened on the NCQG. The decisions were adopted under COP 27, the 17th session of the Kyoto Protocol Parties (CMP 17) and the 4th session of the Conference of Parties to the Paris Agreement (CMA 4).

The key political fights on finance centred around proposals by developed countries to expand the donor base to include "emerging economies" or "high-income countries", which developing countries saw as deviating from the UNFCCC and Paris Agreement (PA) provisions.

There were also strong efforts by developed countries to push the financial responsibilities to the multilateral development banks (MDBs), international financial institutions (IFIs) as well as the private sector along with efforts to alter the eligibility criteria as to who should receive funding, which received a lot of pushback from the developing countries. This update presents the highlights of some of the key finance decisions adopted in Sharm el-Sheikh.

LONG-TERM CLIMATE FINANCE

Contentious issues in the draft text arose around capturing language in relation to the failure of developed countries in the delivery of the USD 100 billion per year by 2020 commitment; unfulfilled finance pledges to the AF; as well how to reflect the findings of the progress report on the USD 100 billion per year by the SCF. (The delivery of USD 100 billion per year by 2020 was extended to 2025 in the Paris COP in 2015).

Parties were also divided in terms of providing a further mandate to the SCF to continue to prepare progress reports on the USD 100 billion per year by 2025 goal. Contention also arose on how to reflect the other reports by the

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SCF on 'definitions of climate finance' as well as flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

(The SCF was tasked to prepare the reports on progress on the USD 100 billion goal, climate finance definitions and mapping of available information relevant to Article 2, 1(c), including its reference to Article 9 at COP 26 in Glasgow. See related TWN update.)

Developing countries wanted strong language in relation to the USD 100 billion goal not being met as well as the unfulfilled pledges to the AF. They also preferred for the SCF to continue to bring out the USD 100 billion progress report annually and said that more work is required on the climate finance definitions and pointed to problems arising out of aggregating climate finance due to the various definitions. They also called for a single definition of climate finance.

(The SCF report on 'definitions' includes a compilation and synthesis of information submitted by Parties and non-Parties, with an overview of definitions of climate finance used by Parties in their reporting under the Convention and the PA, and an overview of the definitions used outside of these agreements, by climate finance providers, data aggregators and governments. Developing countries in the past have called for a single multilaterally agreed definition of climate finance to better track climate finance flowing into developing countries, while developed countries wanted more than one definition to be accommodated.)

During the discussions, the **Africa Group** proposed the need to have discussions on lending instruments since the loan component (of what has been claimed to have been delivered thus far) in respect of the USD 100 billion per year by 2020 commitment remained very high.

Some developing country groups were not in favour of welcoming the SCF's report on Article 2.1 (c) of the PA, given the differences in interpretations among Parties on how to operationalize the article.

Developed countries while acknowledging their failure to mobilise USD 100 billion per year by 2020, wanted the decision text to focus on all elements of the progress report (mitigation actions and transparency on implementation aspects) and suggested that instead of an independent progress report on USD 100 billion per year by 2025, the SCF should assess progress as part of its biennial assessment and overview of climate finance flows report.

The **United States (US)** said further that the decision must be balanced in that the efforts of developed countries to meet their finance commitments must also be reflected in the decision.

While developed countries wanted to acknowledge the 'Climate finance delivery plan' progress report by **Germany** and **Canada**, developing countries were not in favour of acknowledging reports "outside of the process". Developed countries also wanted to highlight the role of the private sector more prominently in not being able to mobilise USD 100 billion per year by 2020, which led to counters by developing countries that developed countries are mandated to mobilise resources and it was therefore the latter's failure and responsibility, which could not be pushed to the private sector.

Further, developed countries also said that they do not see the need for further work on the definitions of climate finance by the SCF. They welcomed the SCF report on 'definitions' which showed "different definitions, bottom up approaches and different methodologies". They also wanted strong language to welcome the report on Article 2.1 (c) of the PA and introduced proposals which urged Parties to work through the MDBs to ensure scaled up support for climate goals, which were not acceptable to developing countries.

Contention also arose around proposed language around "donors" in the draft text, with the **G77 and China** sharply expressing concerns over the critical dilution in language from "developed" countries to "donors" stating that climate finance is a commitment and not a donation by developed countries. Discussions continued to be heavily contentious and various iterations of the draft text were prepared throughout COP 27.

Finally, following long hours of negotiations, in the decision adopted, Parties note with "*deep regret that the goal of developed country Parties to mobilize jointly USD 100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation has not been met, including due to challenges in mobilizing finance from private sources, and welcomes the ongoing efforts of developed country Parties towards achieving the goal of mobilizing jointly USD 100 billion per year*".

The decision also "*urges developed country Parties to fully deliver on the USD 100 billion per year goal urgently and through 2025, noting the significant role of public funds*". The decision also welcomes pledges made to the AF and "*urges developed country Parties to fulfil their pledges on time*".

The decision also "*reiterates the need for grant-based resources in developing countries, in particular for adaptation, and in particular for the least developed countries (LDCs) and small island developing States (SIDs)" and "requests Parties to continue enhancing their enabling environments and policy frameworks to facilitate the mobilization and effective deployment of climate finance*".

On the USD 100 billion report, the decision "*notes the different estimates of progress towards achieving the goal of mobilizing jointly USD 100 billion per year from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources, and recognizes the lack of a common definition and accounting methodology in this regard*".

The decision also "*requests the SCF to prepare biennial reports, including a summary of key findings, on progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation, taking into account other relevant reports, for consideration by the COP 28 (November 2024), 31 (2026), and 33 (2028) sessions and notes the final report will be considered in the context of matters relating to the SCF*".

The decision "*notes" the SCF report on definitions of climate finance as well as the "complexity arising from the diversity of definitions of climate finance in use by Parties and non-Party stakeholders in the context of aggregate accounting and reporting of climate finance*".

The decision "also notes" the SCF report on the mapping of available information relevant to Article 2, paragraph 1(c), of the Paris Agreement, including its reference to Article 9 thereof".

MATTERS RELATED TO THE STANDING COMMITTEE ON FINANCE (SCF)

Discussions saw a repetition of the contentious issues around the reports by the SCF, which were also raised during the LTF discussions, with the 5th Biennial Assessment and Overview of Climate Finance Flows (BA5) being discussed in depth.

(The SCF has been tasked to prepare a biennial assessment and overview of climate finance flows [BA] drawing on available sources of information and including information on the geographical and thematic balance of such flows, and Parties are expected to deliberate on the summary and recommendations of the fifth BA [BA5], which covers the period of 2019-2020. The BA5 mentions that "challenges were encountered in aggregating and analysing information from diverse sources with varying degrees of transparency" and that challenges remained in "filling data gaps, particularly on private finance for adaptation activities and for mitigation activities in the AFOLU (agriculture, forestry and land use sectors), the waste and the water and sanitation sectors". The BA5 also mentions that the classification of data such as by geographical region or by granularity is not uniform across data sources. It is due to such challenges that "no aggregation of data from different sources for finance flows from developed countries to developing countries was carried out" for BA 5.)

Developing countries expressed that it was regrettable that the BA is not able to present aggregated data due to limitations in methodologies. Following further discussions, in the decision adopted under the COP, Parties welcomed the BA 5 and took note of the recommendations and noted "*with concern that* *global climate finance flows are small relative to the overall needs of developing countries*".

The decision acknowledges "*the improvement in quality, transparency and granularity of information in the BA 5 while recognizing that data limitations persist, particularly in relation to private climate finance, including private finance mobilized by developed country Parties through bilateral and multilateral channels, and finance in sectors other than energy and transport, and requests further work in this regard in the 6th BA, including in relation to data by region, private finance mobilized from public interventions and financing arrangements relevant to averting, minimizing and addressing loss and damage*".

On the definitions of climate finance, the decision notes the SCF's work on the issue as well as "*the complexities associated with the diversity of definitions of climate finance in use by Parties and non-Party stakeholders in relation to ensuring clear aggregated accounting and reporting of climate finance*".

The decision requests the SCF to prepare a report for consideration by COP 28, "*building on the Committee's work on definitions of climate finance, on clustering types of climate finance definitions in use that could be considered within the UNFCCC process, including with a view to updating the Committee's operational definition of climate finance, as appropriate, and supporting Parties in their national reporting efforts, and invites Parties and external stakeholders to make further submissions via the submission portal by 30 April 2023*".

In the CMA decision on the issue, Parties requested the SCF "*to continue its work regarding ways to achieve Article 2.1 1(c) of the PA, including options for approaches and guidelines for implementation…for consideration by CMA 5 (November–December 2023) and invites Parties and stakeholders in the financial sector to make further submissions thereon via the submission portal by 30 April 2023*".

(In a separate decision, Parties also adopted the terms of reference for the second review of the functions of the SCF and invited submissions by April 2023 for consideration by the Subsidiary Body for Implementation at its 58th session in June 2023.)

MATTERS RELATING TO THE ADAPTATION FUND (AF)

Under matters relating to the AF, the Report of the AF Board for 2022 and Fourth Review of the AF were discussed with developing and developed countries divided over elements of the draft decision text.

During discussions, developing countries had expressed strong concerns over the unfulfilled pledges of developed countries to the AF. Contentious issues also arose on the fourth review of the AF in relation to diversifying the Fund's contributor base, as well as references to outstanding pledges and over the doubling of adaptation finance in the draft text proposed by the co-facilitators (See TWN Update 6). Some developing country groups wanted to name the countries that had not fulfilled their pledges in the decision; however, there was no agreement on this.

The **US** especially was firmly opposed to references inviting developed countries to contribute to the AF and said several times that all countries should contribute. On the fourth review of the AF, there was a protracted spat between the **Africa Group** particular and the **US**, over the latter's participation in the informal consultations (given that the US and Canada are not Parties to the Kyoto Protocol [KP], and the AF is under the Protocol). The **US** persistently wanted to include the reference to the 'CMA' (as the AF is also to serve the PA) in the next fifth review of the AF, despite the fact that the AF's authority is currently only under the CMP.

Additionally, **South Africa** for the **African Group** reminded that being a non-Party to the KP and with its observer status at the CMP, the US did not enjoy the right to make any textual amendments in the final decision-making to which the **US** contested, saying that the AF is in transition and will soon exclusively serve the AF. The UNFCCC legal counsel was called to solve the deadlock and provided an opinion against the US participation in the process. Following this, the **US** representative protested in being treated wrongly and walked out of the room.

Parties also had different views over whether to strengthen engagement with the private sector on adaptation, with developed countries as the proponents of such proposals.

Following discussions, in the CMP decision taken on the report of the AF Board for 2022, Parties noted "*outstanding pledged contributions of USD 174.60 million as at 8 November 2022*" and urged "*Parties to fulfil their pledges as soon as possible*". The decision also "*encourages continued and increased voluntary contributions of financial resources to the AF in line with the 2022–2025 resource mobilization strategy of the Fund*". Parties also noted several actions and decisions relating to the AF Board, including accreditation of entities, project pipeline, the approval of the resource mobilization strategy, etc.

The decision adopted also "*underscores the urgency of scaling up financial resources, including the provision of voluntary support, that are additional to the share of proceeds levied on certified emission reductions in order to support the resource mobilization efforts of the AF Board with a view to strengthening the AF*".

The decision adopted on matters relating to the AF under the CMA requests the AF Board to include in its annual report to the CMA "*an update on its progress in assisting developing country Parties in meeting their adaptation commitments under the PA*". The decision encourages the AF "*to support developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the LDCs and SIDs, in implementing their national adaptation plans and adaptation communications, including those submitted as adaptation components of nationally determined contributions*".

The decision also requests the Subsidiary Body for Implementation to continue consideration of matters relating to membership of the AF Board "*at its 58th session (June 2023) as needed, in view of the AF's transition to exclusively serve the PA*" and encourages the AF Board "*to continue its consideration of its rules of procedure in the context of serving the PA, including after the Subsidiary Body for Implementation has concluded its consideration of matters related to membership of the AF Board*".

In the decision on the fourth review of the AF under the CMP, Parties noted "*with concern the outstanding pledged contributions to the AF*" and urged "*Parties that have not fulfilled their pledges to do so as soon as possible*". The decision adopted "*stresses the importance of financial contributions to the AF, including in the context of urging developed country Parties to at least double their collective provision of climate finance for adaptation to developing countries from 2019 levels by 2025, in the context of achieving a balance between mitigation and adaptation in the provision of scaled-up financial resources…*". The decision also "*calls for continued and increased voluntary contributions of financial resources to the AF*" and "*notes the importance of further enhancing the predictability of resources channelled through the AF*".

The decision "*notes the resource mobilization strategy of the AF (2017–2020), which refers for the first time to subnational governments, the private sector and charitable foundations as possible additional sources of finance for the AF and encourages the AFB to continue its efforts to mobilize finance from a variety of sources under its next resource mobilization strategy (2022–2025)*". The decision also "*invites the Board to consider ways to strengthen the engagement of the AF with the private sector in order to increase private sector participation in adaptation action*".

NEW COLLECTIVE QUANTIFIED GOAL ON CLIMATE FINANCE (NCQG)

Expanding the "donor base" to contribute to the goal, and developed countries' refusal to engage in discussions on quantum of the goal were the key contentious issues during the discussions on the NCQG.

Developing countries led by **G77 and China** said that they did not want to leave everything until 2024 and that Parties need to focus their discussions on the quantum of the NCQG. They called for a substantive decision on the matter focused on different aspects of the NCQG, including themes of the technical expert dialogues to be convened next year. A submission by the **Africa Group** had the following proposal on quantum to be included in the decision:

"*Underscores that the post 2025 mobilization goal must reflect the ambition, progression and the collective agreement to stay well below 2 degree C and aspire to stay within the 1.5 degree C temperature goal, and therefore agrees that the deliberations on the a quantum mobilization target should start from range of a commitment by developed countries to mobilize jointly at least USD 1.3 trillion per year by 2030, of which 50% for mitigation and 50% for adaptation and a significant percentage on grant basis from a floor of USD 100 billion, taking into account the needs and priorities of developing countries outlined in the Updated NDCs (nationally determined contributions)*."

Developed countries expressly rejected such proposals and said they did not see the point of "any early harvest" on the quantum and that the decision would have to be taken in 2024. The developed countries wanted the decision on NCQG to be largely procedural in nature and that they were not ready to take any substantive decision. The **US**, supported by other developed countries said that there is a need to discuss the contributor base in more detail and to expand the base of financial resources more for the SIDS and LDCs. Their interventions were also focused around private finance actors mobilizing finance and the importance of Article 2.1 (c) in accelerating private sector finance flows in the context of the NCQG.

Following several iterations of draft texts and with no resolution in sight, the issue was discussed at the ministerial level facilitated by ministers from **India** and **Australia**. Sources said that several developing countries made it very clear to the ministers that expanding the donor base to include developing countries to contribute to the NCQG was a "super red line", which must not be crossed.

Following further deliberations, Parties agreed to the draft text proposed by the ministers. In the decision adopted, Parties acknowledged "*the need to significantly strengthen the ad hoc work programme on the NCQG on climate finance in the light of the urgency of scaling up climate action with a view to achieving meaningful outcomes from the deliberations on all elements and setting the NCQG in 2024 taking into account the needs and priorities of developing countries*".

The decision "*also acknowledges the need for substantive progress in the deliberations on the NCQG on climate finance, which will be in line with decision 14/CMA.1 and take into account the needs and priorities of developing countries and include inter alia, quantity, quality, scope and access features, as well as sources of funding, of the goal and transparency arrangements to track progress towards achievement of the goal, without prejudice to other elements that will also be considered as the deliberations evolve, including matters relating to time frame*".

The decision "*further acknowledges that deliberations on the NCQG on climate finance should build on lessons learned from the goal of developed countries of mobilizing jointly USD 100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation and taking into account the needs and priorities of developing countries*".

The decision "*requests the co-chairs of the ad hoc work programme on the NCQG on climate finance, with a view to significantly advancing substantive progress in 2023, to:*
(a) Develop and publish by March 2023 a workplan for 2023, including themes for the technical expert dialogues to be held in that year…;

(b) Invite Parties, constituted bodies under the Convention and the PA, the operating entities of the Financial Mechanism, climate finance institutions, observers and observer organizations and other stakeholders, particularly from the private sector, to submit inputs via the submission portal on each technical expert dialogue to be held, on the basis of guiding questions well in advance of each technical expert dialogue to allow for those inputs to be reflected in the organization of the dialogues;

(c) Facilitate…broader participation of ministries of finance, non-State actors, multilateral development banks, the private sector, civil society, youth, academia and external technical experts in the technical expert dialogues, including through alternative means of engagement, recognizing the value that technical experts have contributed so far to the ad hoc work programme;

(d) Ensure that the timing of the technical expert

dialogues allows for the wide participation of all relevant stakeholders, including relevant experts;

(e) Organize the technical expert dialogues in an open, transparent and inclusive manner;

(f) Provide information on the discussions held and present information on the way forward, including possible options, following each technical expert dialogue and in their annual report on the ad hoc work programme with a view to achieving the objective of setting the NCQG on climate finance…and informing the deliberations thereon at CMA 5 (November– December 2023) and at the high-level ministerial dialogue on the NCQG on climate finance in 2023".

Parties also decided "*to continue its deliberations on setting a NCQG its fifth and sixth (November 2024) sessions, taking stock of the progress made and providing further guidance on the ad hoc work programme, taking into consideration the annual reports by the co-chairs of the ad hoc work programme, including the key findings contained therein, and the summary reports, including the recommendations therein, on the high-level ministerial dialogues*".

Besides these decisions, Parties also took decisions on guidance to the Green Climate Fund and Global Environment Facility.