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A first reading of the Co-Chair's negotiation tool on finance

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With less than three months until Heads of States will gather in Paris to seal a deal on the global climate governance architecture starting in 2020, negotiators are meeting again this week in Bonn to make progress on a text for negotiations at the UNFCCC COP21. Finance will be one of the major pillars of the new agreement, but also one of the most difficult to negotiate. Discussions between countries wearing Annex I and non-Annex I hats have been thorny, overshadowed by the lack of technical and political clarity on developed countries' progress towards meeting the \$100 billion financing target.

To speed things up this summer, the two co-chairs have proposed a "[tool](#)" which systematically allocates the options laid out in the "official" Geneva text into three categories. Part one consists of potential elements of a legally binding

core agreement,^[1] and part two of potential elements of a COP decision with non-legal force. Part three is essentially a placeholder for all remaining options on which further clarity is needed before a decision on their legal status can be made. While the tool has been picked up by Parties in Bonn as an instrument to restructure the text, it does not provide a replacement for the Geneva text.

One thing that the tool has clarified on finance is that options on many crucial elements leave substantial leeway. Judging from the number of options and square brackets left, decisions on which Parties are to provide and/or to receive international public finance largely remain in the red zone. Divergent views will require some hard talks to be reconciled between now and Paris, which may appear as a negative sign at first. However, the good news is that the fundamental elements have been included in the core agreement part (12-19). Below are three highlights:

1. *To progressively shift all investments to achieve 2°C consistent mitigation, adaptation and sustainable development (Article 12, Option 4).* This option is important for two reasons. Firstly, by acknowledging that the investment shift required is economy-wide and therefore of several magnitudes higher than the \$100 billion, it broadens the scale of the finance discussions under the UNFCCC and brings it closer to discussions in the real economy. Secondly, it recognizes the need to simultaneously finance climate and development objectives. The latter is a reiteration of a similar statement on co-benefits in the [outcome document](#) of the Third International Conference on Financing for Development (FFD3), held earlier this year.^[2]
2. *A collective objective to mobilize mitigation finance from all sources; and the need to provide international adaptation finance to Parties in need of support.* Interestingly, while the question of which countries are to provide international finance for mitigation will likely form the subject of a heated debate (Article 12, Option 1), adaptation finance *should* be homogenously provided by all Parties in a position to do so (Article 12, Option 5). These conceptual differentiations between mobilisation and provision, and between the sets of countries responsible to provide international financing for adaptation and for mitigation, could play important roles of clarification in the agreement.
3. *The increased priority to provide financing for adaptation (Article 13.2.a) and countries most in need (Article 15)* has been recognised, but further clarity is needed. To this end, the model of the 50:50:50 [allocation rules](#) of the Green Climate Fund (50:50 to mitigation and adaptation, and 50% of adaptation finance to Least Developed Countries, Small Islands Developing States, and Africa States) may prove to be useful in developing a quantitative target for adaptation and countries most in need, potentially as a sub-target of a continued 100 billion collective target by developed countries and other countries in a position to do so.

All this being said, the \$100 billion bill remains the elephant in the room. Developed countries are demonstrating willingness to provide further clarity on progress towards meeting the \$100 billion financing target, although they are doing more outside than inside the UNFCCC. One example is the [Background Report on Long-term Climate Finance](#), which was commissioned by the German G7 Presidency ahead of the Leaders' Summit in June. For those interested in climate finance, the UN Sustainable Development Summit in New York, the World Bank Group and IMF Autumn Meetings in Lima and the G20 Leaders' Summit in Antalya will be spaces to watch this autumn.

^[1] A protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties. ^[2] Well-designed actions can produce multiple local and global benefits, including those related to climate change (Paragraph 62, AAAA).