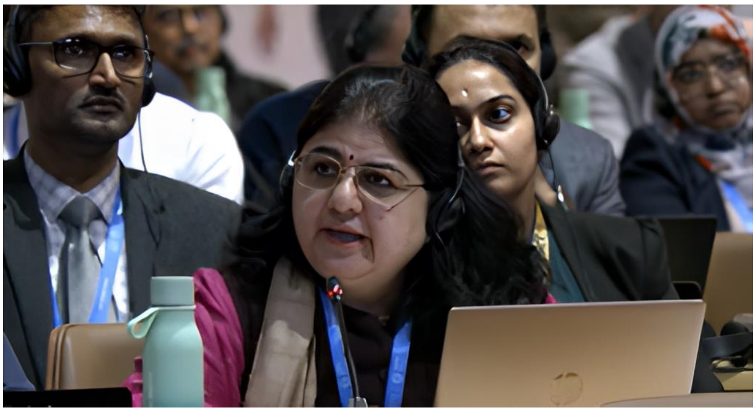
KHAZANAH RESEARCH INSTITUTE

VIEWS 47/24 | 12 DECEMBER 2024

Climate Finance Controversy: No deal better than a bad deal?

Yin Shao Loong and Nurul Farhana Abdul Shukor



Indian delegate Chandni Raina blasts the COP29 Presidency and UN climate secretariat over the controversial climate finance outcome.

Views are short opinion pieces by the author(s) to encourage the exchange of ideas on current issues. They may not necessarily represent the official views of KRI. All errors remain the author's own.

This view was prepared by Yin Shao Loong, Deputy Director and Nurul Farhana Abdul Shukor, a contract research assistant at the Khazanah Research Institute (KRI). The authors are grateful for valuable comments from Vicente Paolo Yu and Meena Raman.

Authors' email address:
yin.shaoloong@krinstitute.org
cra.nurulfarhana@krinstitute.org

Photo: Screen capture from UNFCCC livestream of the COP29 closing plenary.

Information on Khazanah Research Institute publications and digital products can be found at www.KRInstitute.org.

Introduction

The November 2024 United Nations climate summit in Baku, Azerbaijan (COP29) reached a controversial agreement on the next decade of climate finance for developing countries. This Views examines the outcomes and implications of this agreement.

Developing countries had asked for $1.3 trillion per year in new climate financing with a significant core provision of $600 billion[1]. The amount pledged was a minimum of $300 billion, averaging out to a mere $1.9 billion per developing country, with a much looser commitment to reach a blended financing goal of $1.3 trillion by 2035. By comparison, one independent recommendation put climate finance needs at $5 trillion a year[2].

[1] TWN (2024)
[2] Fanning and Hickel (2023)

This inadequate new climate finance goal jeopardises developing countries' climate targets because a lack of finance will risk failure to reach those targets. Collectively this will undermine the Paris Agreement's temperature stabilisation goal of 1.5°C. 2025-2035 is a critical decade for emissions to peak and then begin dropping rapidly. Developed countries have effectively decided to underfinance efforts. Meaning that the world is on track to a higher level of warming with higher associated risks.

The Climate Finance Outcome at COP29

Under the terms of the UN Climate Convention and its Paris Agreement, owing to their significant historical contribution to global warming, developed countries are obligated to take the lead in contributing climate finance to developing countries. However, the COP29 finance decision fell short of this.

The 2015 climate summit (COP15) mandated a "new collective quantified goal" (NCQG) on climate finance to be reached before 2025. Negotiations on the NCQG began in 2021 and concluded at COP29 in 2024, which led to Baku being dubbed the "finance COP".

Following days of fraught negotiations COP29 was unable to close on its official ending date of Friday 22 November. Talks ran on until the wee hours of Sunday when the NCQG decision was controversially passed without consensus by the presidency. The NCQG outcome was hotly contested by a number of developing countries[3].

Developing countries wanted $1.3 trillion a year with a significant core **provision** of $600 billion in grants or grant-equivalent public financing distinct from a **mobilisation** goal that would draw on a variety of public and private sources akin to blended finance[4]. Developed countries supported a mobilisation approach and wanted to "expand the contributor base", particularly to wealthier developing countries which countries such as India and China have strongly opposed[5].

The NCQG established a climate finance quantum of at least $300 billion a year until 2035. This quantum is to be comprised of a wide variety of sources, public and private, bilateral and multilateral, including alternative sources[6]. The $300 billion is half the provision of purely public finance which developing countries called for. Fulfilment of the target lies beyond the pledges of governments who are parties to the Paris Agreement and rests upon the voluntary action of private non-state actors.

This is effectively a mobilisation approach. Furthermore, contributions via multilateral development banks (MDBs) could draw finance from developing countries who are shareholders (typically minority) in MDBs. Thus, it indirectly expands the contributor base. Malaysia has a 0.39% share of the International Bank for Reconstruction and Development (IBRD) which is one

[3] Bomzan and Raman (2024); Chandrasekhar et al. (2024)
[4] Bomzan and Raman (2024)
[5] Ibid.
[6] UNFCCC (2024) Paragraph 8

of the core lending entities of the World Bank Group[7]. China and India's shares are 6.18% and 3.15% respectively. The US owns 16.74%.

Developed countries, their media and the UN Climate Secretariat lauded the $300 billion a year goal as a tripling of the previous $100 billion a year goal. Yet, developed countries failed to deliver this $100 billion goal every year since its inception in 2009[8].

The $300 billion goal is associated with a broad call for "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 $1.3 trillion per year by 2035"[9]. Read together, the two quanta suggest a disproportionate reliance on private finance to achieve climate finance needs for developing countries.

This carries the risk of finance provision at market rates which would be burdensome or fiscally stressful for many developing countries who face debt sustainability challenges[10]. Developing countries have thus demanded grants or grant-equivalent finance in order to reduce risk.

Adequacy of Finance

The adequacy of the Baku NCQG decision is also in question. $300 billion a year does not tally with developing countries' needs based on their nationally determined contributions (NDCs)[11] which total an estimated $5.1 – 6.8 trillion from 2023 until 2030, or $670 – 971 billion a year[12]. Even the $1.3 trillion mobilisation aspiration falls short in this regard. Furthermore, the present value of $300 billion in 2035 at a conservative inflation rate of 2.5% is $229 billion in today's money, a drop in value of nearly a quarter and less than an actual tripling of finance. There is too little finance for too much need.

Malaysia's National Energy Transition Roadmap (NETR) estimates the investment needs for energy transition at up to RM1.3 trillion, averaging out to RM50 billion ($11.3 billion) per year. Spread out amongst 155 developing countries, the $300 billion amounts to just $1.9 billion a year which falls far short of Malaysia's needs.

The NCQG decision extends until 2035 which covers the third NDC commitment period which Malaysia and other countries are presently deliberating ahead of submission in 2025. Since the quantum falls well below stated needs for the next five years and is likely to be well below needs for 2030-2035 developing countries face a dilemma fulfilling their NDC obligations under the Paris Agreement. On the one hand, they are expected to raise mitigation ambition. On the other, they are expected to do so with inadequate finance.

This gives grounds for pessimism about achieving the Paris Agreement's temperature target of 1.5°C warming. This has serious implications not only for Malaysia's climate security, but also for the assumptions of its energy transition plans which only account for a 1.5°C scenario. If a higher

[7] World Bank (n.d.)
[8] UNFCCC (2023); Oxfam (2024); Kowalzig (2024)
[9] Paragraph 7 of the NCQG
[10] UNCTAD (2024)
[11] NDCs typically refer to greenhouse gas mitigation and climate adaptation efforts that countries undertake to fulfil their obligations under the Paris Agreement on climate change.
[12] UNFCCC (2024)

level of warming is now the best-case scenario this would imply lower mitigation costs but correspondingly higher adaptation costs. The latter as a whole have not been clearly costed.

The NCQG Negotiation Process & Stakeholder Reactions

With climate change so prominent on the international agenda in recent years, why was the climate finance outcome in Baku so short of expectations?

The climate denialism of the incoming Trump presidency notwithstanding, in Baku the US-led efforts to block ambition on climate finance. This despite the Biden presidency of the US presenting itself as a climate champion. The EU, another self-styled climate leader, sheltered behind US opposition and initially refused to commit to a collective target of more than $250 billion a year[13].

The COP29 president Mukhtar Babayev has provided an account of the negotiation process[14]. Likely seeking to avoid blame he has identified developed countries as the main culprits. Babayev claimed that: "it was a mistake for western countries to insist that the final draft deal – and particularly the draft financials – not be unveiled until the penultimate day. To the Global South this, rightly, made it look like a fait accompli.[15]"

Babayev himself controversially gavelled the finance decision through in the final plenary without waiting to confirm consensus[16]. Indian officials were particularly incensed, with one rushing to the stage to plead for a chance to take the floor. Indian delegate Chandni Raina vehemently rejected the process:

> This has been stage managed, and we have been extremely, extremely disappointed in this incident. Trust is the basis for all action. This incident is indicative of a lack of trust, a lack of collaboration on an issue which is a global challenge which faces all of us and especially developing countries which are not responsible for it. ...We absolutely object to this unfair means followed for adoption [*applause*]. ...We are extremely hurt by this action of the Presidency and the Secretariat. ...We are disappointed in this outcome which clearly brings out the unwillingness of the developed country parties to fulfil their responsibilities. We cannot accept it,

she said to cheers.

Cuba, Bolivia, Peru, Pakistan and Nigeria joined India in voicing their objections to the process with Nigeria describing the outcome as "an insult". Their objections were unable to reverse the decision. Despite the procedural irregularity, the decision is likely to set the terms of climate finance for the next 10 years. This is supposed to be a critical decade for global emissions to peak then fall, but there won't be enough money to go around.

---

[13] Babayev (2024)
[14] Ibid.
[15] Ibid.
[16] UNFCCC (2024)

Conclusion

The COP29 NCQG decision was a victory for developed countries as the climate finance quantum does not mandate any scaling up of public finance contributions from developed countries. Article 9.3 of the Paris Agreement calls for developed countries to take the lead in mobilising climate finance and notes a "significant role of public funds". Crucially, in the NCQG there is no requirement for new and additional public financial resources over the previous $100 billion a year goal. Much is left to the private sector or even developing countries themselves to provide. The inclusion of finance from multilateral sources provides a back door for expanding the climate finance contributor base to developing countries themselves. The EU in its closing statements welcomed all these outcomes and pointed to the current difficult geopolitical environment.

In the final days of COP29, activists pushed the idea that for developing countries "no deal is better than a bad deal". The forceful gavelling by the COP presidency took this tactical ace out of the Global South's hand.

The overall quantum is far below the trillions needed by developing countries. There is no clear mechanism to achieve scale in mobilisation. Furthermore, as underlined by the support for the Indian delegate's statement, trust is lacking between developed and developing countries. Trust was already in deficit before COP29 began. It left Baku in tatters.

The 1.5°C goal of the Paris Agreement, and by extension the net zero goals of Malaysia and many other countries, are similarly on the rocks. A shortfall of finance means falling short of the 1.5°C temperature stabilisation goal. This means that the world is on track for a higher degree of warming. Countries such as Malaysia whose climate and energy transition policy is built on a single temperature scenario will have to go back to the drawing board because the richest countries in the world have effectively decided to defund 1.5°C. With little international finance available, Malaysia should also appropriately scale the ambition of its NDC covering the 2035 period, which it must submit in 2025.

This may mean that less needs to be spent on reducing emissions and more correspondingly needs to be spent on adaptation. It also implies greater levels of loss and damage for those impacts that lie beyond our ability to adapt.

While the NCQG limits the terms of mitigation and adaptation finance over the next 10 years it does not cover loss and damage. Thus, developing countries including Malaysia can focus efforts on more just and equitable loss and damage outcomes. They will also need to find creative ways to mobilise sufficient finance for their climate transition needs. Strong negotiation outcomes will rest on forging common positions across developing countries and exploiting opportunities to conscientise developed countries to balance their hunger for geopolitical conflict with their global responsibilities. The upcoming Brazilian climate presidency is likely to prioritise a fairer deal for the Global South.

References

Babayev, Mukhtar. 2024. 'I'm Glad We Got a Deal at Cop29 – but Western Nations Stood in the Way of a Much Better One'. *The Guardian*, 25 November 2024, sec. Opinion.

https://www.theguardian.com/commentisfree/2024/nov/25/cop-29-western-nations-global-south-brazil.

Bomzan, Prerna, and Meena Raman. 2024. 'Weak Finance Mobilisation Goal of USD 300 Billion per Year by 2035'. Third World Network (TWN). 29 November 2024. https://seors.unfccc.int/applications/seors/attachments/get_attachment?code=4D78D7VMKVX6VOH8T9U14T39RPCWBGD6.

Chandrasekhar, Aruna, Daisy Dunne, Orla Dwyer, Simon Evans, Josh Gabbatiss, Molly Lempriere, Wanyuan Song, Ayesha Tandon, and Giuliana Viglione. 2024. 'COP29: Key Outcomes Agreed at the UN Climate Talks in Baku'. Carbon Brief. 24 November 2024. https://www.carbonbrief.org/cop29-key-outcomes-agreed-at-the-un-climate-talks-in-baku/.

Fanning, Andrew L., and Jason Hickel. 2023. 'Compensation for Atmospheric Appropriation'. *Nature Sustainability* 6 (9):1077–86. https://doi.org/10.1038/s41893-023-01130-8.

Kowalzig, Jan. 2024. 'Rich Countries' Efforts: Less than a Third of Reported $116bn in Climate Finance'. The German Contribution to International Climate Finance. 12 July 2024. https://www.germanclimatefinance.de/2024/07/12/rich-countries-efforts-less-than-a-third-of-reported-116bn-in-climate-finance/.

Oxfam. 2024. 'Rich Countries Overstating "True Value" of Climate Finance by up to $88 Billion, Says Oxfam'. 9 July 2024. https://www.oxfamamerica.org/press/press-releases/rich-countries-overstating-true-value-of-climate-finance-by-up-to-88-billion-says-oxfam/.

TWN. 2024. 'Call for New Finance Goal of at Least US$ 1.3 Trillion per Year'. Third World Network (TWN). 13 November 2024. https://www.twn.my/title2/climate/info.service/2024/cc241104.htm.

UNCTAD. 2024. 'A World of Debt 2024: A Growing Burden to Global Prosperity'. United Nations Publication.

UNFCCC. 2023. 'Decision -/CMA.5, Outcome of the First Global Stocktake (GST1)'. United Nations Framework Convention on Climate Change.

———, dir. 2024. *Closing Plenary of COP, CMP, CMA*. https://grandreserva.unfccc.int/virtual-meetings/9502f48e-3b9e-4f72-9296-c7ef28487333/attend/ondemand?_gl=1*1x0x2l6*_ga*MTI1OTMzMjc5LjE2NjU3MTkxOTM.*_ga_7ZZWT14N79*MTczMzgxNDIxNC40Ny4xLjE3MzM4MTUwNDIuMC4wLjA.

World Bank. n.d. 'International Bank for Reconstruction and Development Subscriptions and Voting Power of Member Countries'. https://thedocs.worldbank.org/en/doc/a16374a6cee037e274c5e932bf9f88c6-0330032021/original/IBRDCountryVotingTable.pdf.