

Submission on views on elements of the work plan on MRV beyond the biennial assessment and overview of climate finance flows of the Standing Committee on Finance

Presented by the Climate Finance Group for Latin America and the Caribbean (GFLAC) in collaboration with its focal points and the organization E3G



I. Introduction

The creation of a measuring, reporting and verification system for climate finance is a way to increase the transparency regarding the financial flows that are transferred from one country to another. The relevance of the system is not only the identification of the quantitative analysis, but the purpose itself should be to identify the financial gaps and the level of effectiveness of the financial flows. In this sense, the main goal has to ensure that the climate finance as an implementation measure is actually helping to reduce emissions, to reduce vulnerability, to increase capacities and to facilitate the technology transfer. In that sense, the establishment of an MRV system will help to:

- Improve quality and access to climate finance flows information to enhance implementation
- Build trust between donors and recipients
- Identify gaps on climate financing
- Identify areas of opportunity to leverage resources (private and innovative sources)
- Improve the effective use of the resources. For example by avoiding duplication of resources and optimization of those that are available
- Create synergies among key actors
- To inform decisions for effective public policies to mitigate and adapt to climate change

a) What are the gaps in the MRV arrangements under the Convention for developed and developing countries alike?

After a gap analysis regarding the MRV arrangements under the Convention for developed and developing countries, GFLAC and E3G conclude that the work done so far have help to build and improve a system whereby developed countries are able to measure the level of their financial contributions to ensure compliance with the Convention regarding the financial support for developing countries (Article 3). Nevertheless, important challenges remind in order to achieve a common

understanding about how to measure and report such contributions as well as capture the story from the recipient side, so of these challenges are:

1. Countries do not use the same methodologies and concepts to denominate “climate related activities”; assumptions and underlining methodologies for data collection and assignment into climate finance categories in the biennial report (BR) and biennial update report (BUR) have not been defined and are left for consideration of each party which can decide its own approach.
2. Contributions reported by donor countries do not match those acknowledged by recipient countries. This is reinforced by an unbalanced system which doesn’t have the tools required to compare information on finance provided and received.
3. There is a gap in the guidance provided for MRV of finance for recipient countries. Whilst non-annex I parties should report in their BURs information on the financial support received for activities relating to climate change; Up-to-date there are not guidelines or a common tabulate format that can facilitate the process of reporting climate finance received and allow for comparability and analysis between developed and developing countries data.
4. Not all the countries have submitted their BUR.
5. The financial information reported in the BR and BUR don’t have enough granularity which make it difficult to understand what sort of activities are being covered with the finance, i.e. how much is directed towards administrative costs of the donor country (and/or intermediary agents) and the funds that are directly targeting projects. This result in ballpark figures of finance flows that don’t provide an accurate picture of current investments gaps and opportunities.
6. It’s often difficult to differentiate between climate finance committed, allocated and executed, as this status varies from different points of view. The story from the recipient side is currently missing in this regards, thus it’s hard to track the real status of finance.
7. The tools and processes currently in place do not allow for an adequate assessment of whether climate finance is fulfilling commitments and contributing towards achieving the targets of the convention.
8. Whilst South-South cooperation and private finance flows are mounting their role on climate related issues, those aren’t being currently tracked in the UNFCCC existing system for reporting.
9. There is a lack of progress in developing tools and guidance for the third pillar of the MRV system (Verification).
10. There is not sufficient information about contributions that is made public and accessible.

In order to improve the work of the Standing Committee on Finance is necessary to tackle these challenges. After doing practical work at national and international level is recognized that to create a fully harmonized system to measuring climate finance among all the countries under the UNFCCC will be difficult since there are circumstances, such as national context, currency exchange rates, different level of capacities and other aspects that will make difficult these full harmonization. However, the main goal should be to create “common rules” in order to create a common understanding among all countries respect to the principle of common but differentiated responsibilities and capabilities.

b) How can these gaps be addressed?

It is important to keep strengthening the mandates for the harmonization and common understanding among developed countries so far the main donor countries, but is necessary to create at the same time rules for developing countries, for now the main recipient countries, to encourage them to keep a comprehensive tracking system. This should be done in order to close the understanding gap that exists

between the two roles. At the same time, it is necessary to create rules for those developing countries that being mainly recipient countries have shown the willingness to support with financial resources, becoming new donors but with special characteristics and circumstances.

The SCF have to be able to strengthen the mandates made so far, and work in the construction of new mandates that allow the recognition of the differentiation of roles in the climate finance architecture.

The gaps identified above will need to be addressed in order to build a comprehensive MRV of finance system. However, there are three areas where the SCF can initiate work to address the development of a suitable MRV of support system:

1. Work to develop mandates to recognize the different roles that donors and recipient countries play in the MRV system, in a way that the story of climate finance can be told from sources to end, and recognition of a new category for provision of climate finance (south-south cooperation).
2. Whilst there are mandates for M and R, further work is needed in the V pillar of the MRV system in order to ensure an effective impact of the climate finance.
3. Develop a mandate and required tools to ensure an effective measure of the private finance as well as the public finance allocated to deal with climate change.

The establishment of working plan with a short, medium and long-term vision will help to the SCF to cover all the gaps founded. In the following sessions of this document we present a number of proposals for a work plan that could be undertaken by the SCF under its work stream of “MRV of support beyond the biennial assessment and overview of Climate Finance Flows”. The activities focus in the short and mid-term vision considering the need to establish a clear mandate in the Paris Agreement and its immediate implementation pathway.

II. Gap analysis and recommendations per pillar

In order to analyse the gaps of the different pillars, the next group of questions were applied:

1. Are there common criteria and definitions agreed for M,R,V climate finance flows?
2. Is there an agreed process to carry out the M,R,V?
3. Are there agreed roles for carrying out the process? (Responsibilities, governance)
4. If existing, how clear, robust and effective are the criteria, definitions, processes and roles?
5. Is there available guidance/support for parties to carry out this work?
6. Do the relevant institutions in the process have the capacity to deliver?
7. Is it binding for all the parties?
8. How transparent is the process? Are there criteria and methodologies available to the public?

a) Measuring gaps

The measurement should include the amount of resources transferred from one country to another integrating both the vision of developed countries as providers, and developing countries as recipients. At the same time has to be able to adapt to the new reality including the role of emerging economies willing to contribute in the south-south cooperation as an exercise to improve the transparency of the climate finance architecture as a whole.

In the context of the Convention there is a mandate to monitoring the international climate finance and there are proposals to use common tools such as the common tabular format, however this is not being used in the same way by the different developed countries, which makes difficult the comparative analysis among them. At the same time, this measuring mandate has been focused in the participation of donor countries and therefore is not a general mandate for all the countries under the Convention, which creates an understanding gap among donors and recipients.

According to the SCF mandate, is necessary to work in a methodology to measure the climate finance flows. In this sense the SCF in collaboration with the SBI, SBSTA has the opportunity to deliver a route map to design and encourage the implementation of a common measuring system. The main challenge is to create a clear, robust, effective, and common understanding about not only the measuring rules but also the purpose of the measuring system that should be directly link with the V pillar of the MRV system.

The guidance that exists so far for developed countries are a good start but are not clear and robust enough since do not provide the details needed to do a comprehensive measurement of the climate flows. The measuring pillar is focus in the quantitative analysis of the flows reason why should be able to create specific criteria for the countries to allow the identification of the most accurate numbers. The existent methodologies for measuring such as the MDBs, the OCDE's, the UNDP's, and other independent methodologies have established criteria however is necessary to work in the common understanding among them because not all the countries are familiarize with these methodologies.

In order to ensure a comprehensive climate finance measurement is also important to measure the amount of money invested at the national level in climate related activities through national budgets. For developed countries this report should be beyond the international financial support that provide to the developing countries. The measuring of public finance at the national level should also apply to developing countries since an increasing number of countries are already making efforts to measure their national contributions as part of their BURs and now as part of their INDCs. The analysis of the public expenditure allocated to climate related activities at the national level through the national budgets is a way to identify the national investment gaps as well.

On the other hand the role of the private finance is becoming more important reason why is necessary to ensure the measuring of these resources as well.

Recommended activities for the work plan

- To define further rules and details of the information that the developed countries have to measure¹ and to ensure the common application of these guidance (further information in pillar R).
- To create rules for the climate finance measuring from the recipient countries perspective, providing clear guidance about the information that has to be provided regarding the amount of climate finance received. Is important to verify that these rules are compatible with those provided to the developed countries. The understanding should be the same but the level of details could vary.
- To define a common guidance about the definitions and processes to measure climate finance based in the lessons learned from existent methodologies (OCDE, MDBs, PNUD, and other independent exercises). The SCF and the Secretariat already work in the analysis of existent methodologies, based on that is necessary to build a set of rules that should apply to the countries considering their status donors, recipients and potential donors.

¹ The submission of the GFLAC and E3G regarding MRV provided some recomendations on this regard.

- To define guidance for measuring public climate finance expenditure for both developed and developing countries.
- To define guidance for measuring private climate finance.

Mandates in COP21 should include:

- Mandate to measure climate finance in the developing countries (recipient countries) as well as strengthening the level of details of the climate finance measuring tools in developed countries as a way to reduce the information gaps and to increase trust among countries.
- Mandate to measure private climate finance.

Actions beyond COP21 should include:

- The definition of common but differentiated criteria that will be applied by developed and developing countries based in the SCF analysis of existent methodologies.
- The definition of criteria to measure private climate finance
- The definition of criteria to measure public climate expenditure for both developed and developing countries.

b) Reporting gaps

Currently there is a process set under the UNFCCC to report climate finance data through the National Communications (NC) which are presented by all parties every 4 years, as well as the Biennial Report (BR) and Biennial Updated Report (BUR) which apply to developed and developing countries respectively and should be presented every 2 years from 2014 onwards. However, there are overlaps between the NC and the BR/BUR which has not been clarified and which make it difficult for parties to report the information.

There are common tabular formats (CTF) defined for presenting financial information in the BR (Decision 19/CP.18) and a different format applies to the BUR, which has less precise requirements for information. The BR CTF has contributed to improve the reporting standards of climate finance; however finance information in the BUR is less robust, furthermore there are not guidance developed to support countries when filling the CTF in their BUR, which coupled with the lack of a defined methodology for collecting the data in first place, as mention in the “Measuring” section, make it very difficult for developing countries to provide good quality data, let alone comparable data.

Parties, SBSTA and secretariat have all defined functions and responsibilities to facilitate and provide the reporting on financial information. However, there are twofold challenges regarding the capacity to deliver: the strength of international governance and the national capacities to deliver; constrains for LDCs and SIDS have been recognised and thus far the reporting through BUR it isn't compulsory for them.

To support this process guidance information has been made available by the secretariat and financial support was made available by the GEF for development of BURs by developing countries. However, It's difficult to evaluate how effective this was given the low number of BURs presented so far.

It's important to notice that whilst the process is supposed to be mandatory, there are not sanctions neither clear incentives for parties to present quality information on time. All submitted BR/CTF, BUR and NC are available in the website; so far 43 BR have been submitted and 13BUR, including Brazil, Chile and Peru. Details on the processes, other relevant documents and guidelines are also in the UNFCCC website, however information is difficult to find, navigate and analyse.

Recommended activities for the work plan

Reporting climate finance has been improving over recent years with more standardised information defined. However there are important steps that need to be taken forward in order to improve reporting processes, for both developing and developed parties:

- Strengthen mandate for developed countries to report financial information using an improved CTF in the BR to reflect a common methodology for measuring and collecting data, including common definitions and assumptions which are currently left under each country view.
- To use the CTF that was proposed for developed countries, as a base to introduce a new CTF for developing countries to reporting financial support in the BUR. The data in the CTF of the BR and BUR should be directly comparable.
- Include a report of aggregate finance information in the Biennial Assessment and Overview of Climate Flows developed by the SCF. Such report should include a summary and analysis of the data provided in the BR and the BURs.
- To strengthen the NAMA Registry system extend it to cover needs and commitment on climate finance for effective matching of finance flows. This could be done by including links with INDCs, NAMAS, NAPS on other countries relevant plans. This could involve SBI, and SBSTA, with links to SCF MRV work in 2015.

Mandates in COP21 should include:

- Mandate to work in the improvement of the current BR CTF to include common definitions and assumptions to fill in the financial information and expand the granularity of the information requested.
- Mandate to develop a common tabular format for reporting financial information of support received in the BUR, ensuring the data provided in the BR and the BUR can be comparable.
- Mandate to request the inclusion of a summary and analysis of the data provided in the BR, the BUR and its aggregate in the Biennial Assessment and Overview of Climate Flows Report.

Actions beyond COP21 should include:

- Develop work to reflect the methodology for measuring information when improving the CTF for BR and building the new one for the BUR.
- Work to have a full assessment of financial gaps and opportunities, based on climate finance information presented by developed and developing countries in the BR and BUR, in the Biennial Assessment and Overview of Climate Flows that will be prepared for 2018 and 2020.

c) Verification gaps

Verification seeks to ensure that the information presented is correct and accurate; however, for the verification to be complete, it is necessary that it come from both developed and developing countries whose vision may vary. Verification must therefore close information gaps and expand transparency margins and then to ensure an analysis of effectiveness of the resources. Further analysis on the definition on verification should be done in the short term.

Regarding the purpose the verification should be the way to measure the level of effectiveness of the climate finance allocation, going from the quantitative to the qualitative analysis of the information.

Recommended activities for the work plan

- Definition of the process to verify the information provided in the BR and BUR.
- Definition of impact criteria in the BR and BUR.
- The verification should be done not only to bilateral financial flows but also including multilateral financial flows. The Financial Mechanism Review Guidelines cover important areas to be assessed. However, it is intrinsically limited to the evaluation of only the GEF and in the close future the GCF. Bilateral flows and other multilateral flows aren't covered.

Mandates in COP21 should include:

- Recognition to strengthen the pillar V of the MRV system to all the parties based in the principle of common but differentiate responsibilities.

Mandates beyond the COP21 should include:

- Definition of criteria to verify the impact of the climate finance flows.

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ANNEX I

	Developed countries	Developing countries	Aggregate
Measure	Common Tabular format para. 16 2CP17 [Decision adopted at COP18]	<i>[No decision]</i>	Standing Committee is requested to consider ways of strengthening methodologies for reporting climate finance para. 11 5CP18 [In the preparation of its initial biennial and overview of climate finance]
	Submission on appropriate methodologies and systems used to measure and track climate finance para. 10 5CP18 [by May 2014]		
	Methodologies for reporting financial information by COP20 para. 19 2CP17 [To be adopted COP20]		
Report	Reporting of financial information by Annex I Parties is defined by: - National Communication reporting guidelines [4/CP.5][1] - Biennial Reporting guidelines [2/CP.17] - Biennial Reporting Common Tabular Format guidelines [19/CP.19] Methodologies for reporting financial information as referred to in para. 19 2/CP.17 /deadline extended by decision 11/CP.20 [To be adopted COP21][2]	Biennial Update Report (BUR) [Decision adopted at COP17] NAMA Registry [Decision 2/CP.17; 16/CP.18; and, subsequent SBI conclusions]	Biennial Assessment and Overview of Climate Flow [2/CP.17; 1st BA presented to COP20] Consider ways of strengthening methodologies for reporting climate finance [Para.11 5/CP.18] NAMA Registry
Verify	International Assessment Review (IAR) [Decision adopted at COP17]	International Consultation and Analysis (ICA) [Decision adopted at COP17] Finalization of guidelines relating to composition, modalities of Technical Team of Experts (TTE) on ICA – under SBI [Decision adopted at COP17 with further work in COP18 – adopted by decision 23/CP.19 and decision 13.CP.20]	Standing Committee on Finance with a MRV of Support function [Decision adopted at COP16] Amendment of Financial Mechanism review guidelines [Adopted at COP20] Guidance to the Financial Mechanism [Adopted at every COP] Determination of amount of funding required and available for the implementation of the Convention, through the Financial Mechanism Art.11.2.d, Convention [No decision] (Art.11.3.d), Convention [No decision]