This submission is in response to the invitation by the Subsidiary Body for Scientific and Technological Advice (SBSTA) at its forty-fourth session to Parties and observer organizations to submit their views on the development of modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement.¹

World Resources Institute (WRI) welcomes the process under the SBSTA “to develop modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement for consideration by the Conference of the Parties at its twenty-fourth session, with a view to making a recommendation for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session”² (henceforth referred to as “the SBSTA process”), and the opportunity to make a submission of views in this regard.

The Paris Agreement’s architecture and its rules-based regime provides an opportunity to build trust and confidence on efforts undertaken to mobilize and scale up climate finance to support countries to further reduce emissions and increase their resilience to climate change. The SBSTA process presents an opportunity to find greater convergence within the UNFCCC around what should count as climate finance, and how to count it, which would help improve transparency, enhance the consistency of reporting, and ensure that both the quality and quantity of climate finance flows improve over time.

WRI’s submission is structured around the three questions presented in the SBSTA’s invitation for submissions.³

(a) What are the existing modalities for the accounting of financial resources provided and mobilized through public interventions, and what are the challenges and information gaps with respect to these existing modalities?

There are a variety of existing modalities for accounting of financial resources provided and mobilized through public interventions, including, inter alia, UNFCCC biennial reporting guidelines for developed country Parties⁴ and the individual accounting interpretations and approaches used by different Parties in their Biennial reports; the OECD’s Development
One challenge with existing modalities has been the fact that different Parties and organizations have utilized different approaches, making it difficult to compare finance reporting across entities and time. Additionally, some existing modalities only apply to a sub-section of overall climate finance flows (for example, the Rio Markers apply only to ODA; the OECD Research Collaborative is focused on assessing mobilization of private finance). As such, there may be challenges with utilizing them universally. Different modalities could, in theory, be combined to create a comprehensive system for accounting of different financial resources provided and mobilized.

The SBSTA process could help address these challenges by recommending a modality (or set of modalities) to be used consistently in given situations, considering that there may be different accounting requirements for different sources and types of finance (for example, public finance provided and private finance mobilized; bilateral and multilateral finance). If a hybrid system is developed with different modalities, it will be important to ensure consistency.

(b) What accounting modalities need to be developed to serve the Paris Agreement, in accordance with Article 9, paragraph 7, of the Agreement, and what are the challenges to the development of these accounting modalities and how can these be addressed?

The 2015 working paper by WRI, Climate Policy Initiative (CPI) and Overseas Development Institute’s (ODI), entitled What Counts analyzed the key elements Parties have emphasized in past discussions around climate finance accounting and proposed an approach to classifying climate finance that Parties could use as a starting point. This section draws heavily on that paper and frames key issues Parties may wish to consider as part of the SBSTA process.

WRI, CPI and ODI identified five key variables that Parties have raised in discussions around what should “count” as climate finance:

1. **Motivation** – the extent to which a financial flow was explicitly designed to reduce greenhouse gas emissions or support climate adaptation.
2. **Concessionality/source** – public and private sources of climate finance, and the degree of “softness” of the finance reflecting the benefit to the recipient compared to a loan at market rate. To simplify categorization and facilitate debate, “source” and “concessionality” were combined in the paper, though this is an imperfect conflation.
3. **Causality** – the extent to which a contributor’s intervention (whether public finance or policy) can be said to have mobilized further investment in climate-relevant activities.
4. **Geographic origin** – developed and developing country, bilateral and multilateral.
5. **Recipient** – developing country government institutions, NGOs, private sector and international implementing entities.

The five variables are consolidated in Figure 1. *All Variables Represented*, with the concentric circles organized according to political consensus. The closer a category is to the center, the more notional consensus there is among stakeholders that it should count toward the goal.

Article 9, paragraph 7 of the Paris Agreement and decision 1/CP.21 paragraph 57 provide guidance as to the scope of the accounting modalities which must be developed. They should:
- Cover support from developed country Parties to developing country Parties, but potentially also be applicable to support coming from other Parties, who are encouraged to also report using the same modalities (relates to ‘geographic origin’ and ‘recipient’ in the variables above);
- Account for finance provided and mobilized by public interventions (relates to ‘causality’ above); and
- Be transparent and consistent.

Though not explicitly addressed by the Paris mandates, the variables of ‘motivation’ and ‘concessionality/source’ might also be important considerations in the SBSTA process.

Figure 1. Source: Bodnar, Brown and Nakhooda (2015). “What Counts?”

All Variables Represented
Accounting Issues

In addition to the above variables on what should be counted as climate finance under the UNFCCC, WRI, CPI and ODI also identified four issues pertaining to how to count these finance flows. These are likely to be at the core of Parties’ considerations as part of the SBSTA process. The issues and questions are framed below, as well as visualized in Figure 2 Accounting Issues:

a) Stage and timing of investment (committed vs. disbursed)
Finance can be counted at the point of commitment (when it is earmarked and/or transferred from the contributor/investor into the account of the recipient/intermediary) or disbursement (when the funds have been drawn down and spent by the recipient or intermediary). For budgeted public funds, the money can also be counted at the point at which it was pledged (when there is a verbal or signed indication of intent to provide the funding) or approved/appropriated (officially earmarked for a specific project, program or fund). To complicate things further, accounting terms change depending on whose perspective you take. For example, a government contributing money to a multilateral fund will consider that money disbursed as soon as the cash is transferred to the multilateral’s bank account. From the perspective of the entity receiving money from the multilateral fund, the money is not disbursed until it has been spent on the ground.

b) Cost of expenditure: nominal vs. subsidy
Direct loans and loan guarantees could be counted according to either their nominal or subsidy cost. The nominal cost is the face value of the loan or guarantee as the recipient sees it. The subsidy cost is the long-term actual budget cost to the contributor government of the loan or guarantee. The subsidy cost to the government of a direct loan would be calculated as the net present value (NPV) of principal and interest payments. If the discount rate used to determine the NPV of the cash flows is lower than the interest rate by paid by the borrower, the government would show a budgetary gain on the loan. In the case of grants, the nominal cost and the subsidy cost are equal.

c) Size of expenditure: gross vs. net
Finance can also be counted on gross or net terms. A gross flow is the amount that a contributor actually spends in a given year. A net flow takes into account repayments of loan principal (but not interest) made in prior years. In some cases, repayments (the net amount) exceed gross amounts, which means that net figures can sometimes be negative.

d) Total capital cost vs. incremental/climate-targeted components
Total capital cost refers to the total price tag of an investment (for example, the $20 million cost of manufacturing and installing a 10 MW wind farm). Incremental cost can be defined as the additional cost of making an investment low-carbon and/or climate resilient relative to some baseline course of action. This can mean costs incurred as a result of redesigning an activity (for example, providing drought resistant crops for agricultural extension services) or selecting an alternative activity (for example building a wind farm instead of a coal-fired power station). In both cases, calculating incremental cost is rarely straightforward and requires significant assumptions about investment alternatives and relative costs, and is hugely variable and context-specific. Some analysts note that in a context where climate action is increasingly cost effective and helps to deliver on development objectives, identifying the incremental cost becomes even more challenging. Moreover, information on the incremental cost of programs and projects may not be widely available.
**Definition of “new and additional”**

Lastly, Parties may wish to consider how to interpret provisions that climate finance should be “new and additional”, which has been a central issue of debate in the UNFCCC negotiations on climate finance. The choice of definition of “new” and “additional” fundamentally affects the quantification of climate finance. Parties have expressed different understandings of these terms and there is substantial literature exploring potential approaches to assessing whether finance is new and additional.15 The list below, from CPI, ODI and WRI,16 draws on the SCF’s Biennial Assessment17 and self-reported views in Annex I countries’ Biennial Reports to summarize the most commonly referenced definitions:

i. Funds from new sources, such as a levy on emissions trading
ii. Funds delivered through new channels, such as the Green Climate Fund
iii. Funds in excess of the 0.7% of Gross National Income contribution to ODA
iv. Funds in excess of ODA levels from a specified baseline year
v. Funds in excess of projected future ODA levels
vi. A specified share of the increase in ODA, for example no more than 10% of overall ODA flows
vii. Funds in excess of climate finance from a specified baseline year
viii. Finance that addresses climate change but is not reported as ODA
ix. Climate finance provided since ratification of the UNFCCC
x. All climate finance provided annually, pursuant to annual budgeting processes to raise resources for this express purpose.
(c) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement?

In order to design the finance accounting modalities in an effective manner, it will be important for the SBSTA process to draw on the experience and lessons learned over the past 20 years, including past deliberations on accounting within the SBSTA and the Standing Committee on Finance, as well as technical work by other organizations including those referenced under question (a) above.

Development of accounting modalities for finance is closely related to the development of common modalities, procedures and guidelines for the transparency of action and support under Article 13 of the Paris Agreement. These processes are happening concurrently and the rules developed will need to work in synchrony with each other. Parties will need to agree on the sequencing of inputs to finalize the comprehensive transparency guidelines by the first Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA 1). Depending on the timing of CMA 1, the development of modalities may come under significant pressure to be expedited. Nonetheless, it will be important to ensure modalities agreed are robust and long-lasting.

To meet the 2018 deadline set by the Paris Agreement, the SBSTA could aim to make a recommendation on accounting modalities to COP23, and the COP could request the Ad-Hoc Working Group on the Paris Agreement to consider them when finalizing the modalities, procedures and guidelines for the transparency of action and support under Article 13, which are also due by COP24. In view of the political sensitivities and technical challenges, agreement may not be reached on all the issues raised under question (b) above by this deadline. Parties should strive to adopt as much as possible and could agree to regularly update the modalities with a view to improving them over time.

Parties will have to engage in a frank dialogue to overcome the stalemate that has characterized previous discussions on climate finance accounting modalities, such as those in the context of the $100 billion commitment. If approached in a constructive way, acknowledging the political disagreements while identifying areas where consensus can be reached on technical elements, the SBSTA process has the potential to improve transparency of finance, benefiting all Parties in their efforts to accurately track progress on commitments, provide inputs to the global stocktake, inform future climate finance goals, and assess effectiveness in unlocking ambitious action to reduce emissions and enhance resilience to climate change.
Endnotes


3 FCCC/SBSTA/2016/2


9 Ibid.

10 The diagram does not indicate the relative size of flows.


12 Measured by discounting expected cash flows associated with government securities. Note that some economists consider the subsidy cost to be the “fair value cost”, which would equal the cost that the recipient would have had to pay to borrow on the private capital market (Congressional Budget Office (2005). “Subsidy Estimates for Guaranteed and Direct Student Loans, the Congress of the United States” Washington, DC: Congress of the United States. https://www.cbo.gov/publication/17473).

13 The calculation would change if we assume the recipient is likely to default on the loan. If default were assumed, the calculation would need to be adjusted to account for lower repayment amounts.


18 UNFCCC Paris Agreement, Article 13, paragraphs 9-13 and decision 1/CP.21, paragraphs 91-98.