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Modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement

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

Submissions from Parties and observer organizations

1. The Subsidiary Body for Scientific and Technological Advice, at its forty-forth session, invited Parties and observer organizations to submit to the secretariat, by 29 August 2016, 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]

2. The secretariat has received 20 such submissions. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the languages in which they were received and without formal editing.[2]

[1] FCCC/SBSTA/2016/2, paragraph 107.

* The submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

[2] The submissions from Parties are also available at <www.unfccc.int/5900> (click on “Submissions from Parties” under the SBSTA header, then select “SBSTA 45”) and the submissions from observer organizations at <www.unfccc.int/7482>.

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* This submission is supported by Bosnia and Herzegovina and Serbia.

Paper no. 1: Brazil

VIEWS OF BRAZIL ON THE DEVELOPMENT OF MODALITIES FOR THE ACCOUNTING OF FINANCIAL RESOURCES PROVIDED AND MOBILIZED THROUGH PUBLIC INTERVENTIONS

The Government of Brazil welcomes the opportunity to submit views regarding 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], following the invitation by SBSTA at its 44th session.

2. Transparency of support, including accounting modalities for reporting on financial resources provided and mobilized, is essential for promoting the effective implementation of the Paris Agreement. This information will be used to review implementation of individual Party obligations; to assess individual and collective progress towards achieving the purpose of the Paris Agreement and its long-term goals; as an input to the Global Stock Take; to build trust and accountability amongst Parties; and to promote the engagement of external cooperation partners. Despite all the efforts on developing modalities and providing information on support for climate change up to now, the current system needs to be improved in order to provide a transparent, consistent, comparable, complete and accurate framework for climate finance reporting. Clear modalities for the accounting of financial resources provided and mobilized through public interventions need to be developed in order to make available transparent and consistent information on support.

3. This submission is structured around the three guiding questions indicated by SBSTA 44 in its conclusions.

(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?*

4. Reporting and reviewing processes of climate finance provided have evolved over time under the UNFCCC and the Kyoto Protocol. As per the current MRV framework, Annex II Parties must provide financial information both through national communications and biennial reports. Reporting guidelines (FCCC/CP/1999/7) provide that national communications must include a chapter on financial resources and transfer of technology, including under the KP. This chapter should offer detailed information on measures taken by Parties to fulfill their commitments under Article 4 of the Convention, including a clarification on how the resources provided have been determined as being "new and additional". The underlying principles are those of transparency, consistency, comparability, completeness and accuracy. The biennial reports process represents a strengthening of the MRV framework, as it markedly improved access to relevant data and facilitated reporting. The guidelines for the preparation of BRs (decision 2/CP.17) provide for

[1] Article 9, paragraph 7 provides that "Developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially in accordance with the modalities, procedures and guidelines to be adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement, at its first session, as stipulated in Article 13, paragraph 13. Other Parties are encouraged to do so."

"rigorous, robust and transparent" reporting, and the common tabular format (decisions 19/CP.18 and 9/CP.21) moves in that direction.

5. The concept of accounting under the current MRV framework refers more specifically to the Kyoto Protocol. Under the KP, accounting means attributing a specific allowance (assigned amounts) or emission reduction amounts (units of CO2 equivalent) to a specific activity, thereby generating accounting units (such as AAUs, ERUs and CERs). This information allows Parties to assess whether their emission obligations are being met and whether collaboration through different mechanisms is possible. The KP accounting system, for being rigorous, transparent and fully comparable, leads to a high level of environmental integrity. Even though it refers specifically to mitigation, lessons from this experience can be drawn to the benefit of the future modalities for the accounting of financial resources provided and mobilized through public interventions. The most basic lesson is that the basis of sound accounting is having a clear definition of the unit to be accounted, and this applies directly to the accounting of finance. It is not possible to envisage a transparent and consistent system, with information that can be aggregated and compared, if different Parties are accounting for different things and are not explaining what exactly they are accounting for.

6. This leads to the challenges and information gaps to the existing modalities under the current MRV framework. In spite of progress made in recent years and improvement in Parties approaches, reporting on public climate finance provided still lacks the desirable level of consistency and transparency. CTF tables provide a straightforward means to facilitate reporting and comparability, but experience shows that the lack of common understanding of basic categories pertinent to the CTF tables hampers their comparability and usefulness. The lack of a definition on what should be accounted for, i.e. what is climate finance, is the most important one. Any institution dedicated to tracking climate finance flows will start by defining what the category encompasses, and the same should be done under the Paris Agreement.

7. Another challenge derives from the fact that Parties have been filling the CTF tables in very different levels of details. While some BRs go as far as providing project- level data, some only indicate the total amount of resources provided for each developing country, with little information on the sectors benefitted. This lack of disaggregated data hinders developing country Parties' and other stakeholders' ability to make use of the information provided and does not contribute to a stronger engagement among cooperation partners. Achieving a more consistent approach among reporting Parties is fundamental to enhance transparency and comparability of information. Furthermore, since the multilateral assessment process of BRs excludes any questions pertaining financial information, there is no possibility of cross-checking the information presented by developed country Parties in a transparent manner.

8. In addition to the existing gaps on accounting of public climate finance, there are significant challenges related to the reporting of mobilized climate finance (public and private). Article 9, paragraph 7, of the Paris Agreement provides a clear mandate for the regime to track not only provision, but also mobilization of resources through public interventions. This mandate entails the need for definitions and common understandings on concepts such as mobilization, private finance and criteria for attributing causality between a public intervention and additional resources leveraged.

(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?*

9. The Paris Agreement establishes that its transparency framework will build on and enhance the transparency arrangements under the Convention. The basis for the development of the modalities for accounting of climate finance should therefore be current reporting instruments (national communications, biennial reports and biennial update reports). Full observance of current reporting guidelines for both Annex I Parties national communications and biennial reports would already improve the quality of information available. The principles have already been agreed on, but need to be fully mainstreamed into developed country Parties BRs.

10. In developing modalities by enhancing and adjusting current guidelines as appropriate, the primary focus should be on improving the accounting of public finance provided. Even though, in general, the best available information already is on public climate finance, this is also the area where more immediate improvement can be achieved. In order to increase comparability of future BRs and of the information to be reported under the Paris Agreement transparency framework, Parties should work together to define and achieve common understandings of key concepts foreseen in the current reporting guidelines and in the Paris Agreement. In the case of public climate finance, the highly politicized debate around its definition should not prevent Parties from working together to agree on clear guidelines that could be used by all reporting Parties. One possible way forward would be to agree on using the operational definition proposed by the Standing Committee on Finance as a basis for future reporting, providing for periodical reviews by the SCF. Other important concepts that should be addressed in this context include "mobilization", "private climate finance" and "public intervention".

11. There will be issues for which, even with a precise definition, there will be some level of Party discretion when reporting. With that in mind, it would be important that the future reporting format allows Parties to report on how that specific category is being considered. That applies for instance to the status of support (committed/disbursed) and to the financial instruments used (for example, how was finance identified as concessional?). Progress in this sense was made at COP21, with decision 9/CP.21, and that should be further strengthened, with Parties making full use of these reporting fields.

12. Aside from further explaining their internal criteria, Parties should strive to provide highly disaggregate information on their reports, ideally with project-level data and figures on the resources that were spent on transactions and overhead costs and the amount of financial resources that were in effect transferred to developing countries. Granular, disaggregate information can serve as a counterbalance to the lack of precise definitions in some cases and could enhance comparability and avoid double counting. Also, it has the potential to foster engagement between donor and recipient countries.

13. Double counting is an issue of concern under several angles. One refers to multilateral finance and the possibility of the resources being accounted for twice (when they are transferred from the donor country to the fund and when the fund transfers them to developing countries). Another kind

of double counting that must be avoided through transparent accounting is that of resources towards emission trading and/or offsetting activities. Units arising from such mechanisms may be used as a tool to mobilize market finance or to fulfill mitigation obligations, but never towards both purposes. If emission reductions in a developing country are used to offset the developed country's mitigation target, the resources to acquire those credits constitute in fact a way to meet the developed country mitigation obligation in a more cost-effective manner. It does not constitute, thus, a resource provided by a developed country to fulfill its existing obligation under article 4.3 of the Convention.

14. Double counting may also occur in case the same resource is used to meet financial obligations under different international regimes. Where the finance flow has climate as its significant objective but other co-benefits are also targeted under a different international agreement, countries should report how much of the total project or activity is reported under each of the frameworks, such as under the Convention of Biological Diversity. The same resource should not be labeled under different financial obligations across different regimes.

16. Other areas in which accounting modalities need to be developed are multilateral finance and private finance, both important channels for mobilization of resources. Not only it is necessary to have an agreed understanding of how to identify private climate finance and multilateral climate finance mobilized through public interventions as such, but also Parties will need to advance on how this measurement and reporting is done in terms of method. This process will entail considerable technical work, and the contribution of the SCF will be important for the final result.

(c) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement?

17. As per decision 1/CP.21, the modalities shall be developed for consideration by COP 24, with a view to making a recommendation for consideration and adoption by CMA 1. These modalities must be in accordance with the modalities, procedures and guidelines of the broader transparency of action and support framework, which are being developed by the APA for consideration by COP 24. Given that these two work tracks will be occurring in parallel, Parties will need to maintain frequent formal and informal consultations until both processes are concluded satisfactorily. Moreover, close coordination between the SBSTA chair and the APA co-chairs would be important.

Paper no. 2: Canada

[English and French]

Submission by Canada

Modalities for the accounting of financial resources provided and mobilized through public interventions

September 2016

Canada is pleased to submit its views on the development of **modalities for the accounting of financial resources provided and mobilized through public interventions referred to in decision 1/CP.21, paragraph 58 and in accordance with Article 9, paragraph 7 of the Paris Agreement, as invited by SBSTA 44 (FCCC/SBSTA/2016/L.5 paragraph 2)[1].**

The Paris Agreement sends a strong signal that we are serious about addressing climate change and committed to the transformation of the economy towards a cleaner future. Transparency is critical to the effective measurement of individual and collective progress on the ambitious longterm climate goals we set for ourselves in Paris. The enhanced transparency framework, established through Article 13 of the Paris Agreement, will promote effective implementation, including by building a comprehensive picture of climate finance flows. Strengthened accounting and reporting procedures will be an important component of the framework, and will improve our understanding of activities supported by climate finance.

Accounting modalities for financial resources play an important role in facilitating reporting and increasing the overall transparency of climate finance flows. In addition, modalities provide clarity on reporting, helping the global finance community understand the specific methodological approaches for reporting on financial flows.

Existing modalities, within the current reporting system, provide a high level of transparency to build on. For example, Parties currently undertake frequent and consistent reporting at the activity or project level in a tabular format facilitating a high level of transparency and granularity. However, the international climate finance landscape is evolving which has generated opportunities for continued development and improvement of these modalities. Prior to COP15, most climate finance flowed through public channels such as the Financial Mechanism of the Convention at levels lower than today. Presently, the climate finance landscape is growing as new actors are scaling-up their support for climate action. Parties are also expanding the scope of their climate finance interventions to mobilise a wider variety of sources, in particular from the private sector. To accommodate this growth our accounting systems for climate finance must also evolve.

Based on these developments, Canada notes several gaps within the current system of reporting on climate finance, and provides recommendations on how the system can be improved to accommodate the new climate finance landscape. We offer the following suggestions for consideration when developing accounting modalities:

[1] FCCC/SBSTA/2016/L.5

1. *Improve how we capture multilateral flows.* Multilateral institutions, such as multilateral development banks, play an important role in channeling and leveraging climate finance and continue to increase their financial support for climate change. However, the current accounting system does not adequately capture all funding flowing through the

   multilateral system. For instance, in the common tabular format, contributions are defined as either multilateral or bilateral. This format does not allow Parties to account clearly for bilateral funds embedded in multilateral institutions (commonly referred to as multi-bi funds). As a result, there is the risk that, when we estimate the collective efforts of actors, some multilateral flows are over-looked or double counted. The accurate reporting of multilateral financing is important to Canada as, in addition to our core contributions, these institutions are key partners to deliver a large portion of our climate finance.

   Canada established Canadian climate funds within multilateral institutions to unlock climate friendly, private sector investments in developing countries by addressing technical and financial risks. Therefore, Parties should have the option to report multi-bi funds separately. Such an approach would provide clarity on financial flows to ensure that they are consistently and accurately counted towards our climate finance goals.

2. *A more structured system to handle mobilised private finance.* Parties recognize the central role of non-state actors, including the private sector in enhancing climate change action. The private sector manages a significant magnitude of capital, and Parties continue to take steps to understand how the public sector can more effectively incentivize additional low- carbon private investments. Parties have also made significant progress in developing methodologies for capturing and measuring private finance mobilised by public interventions. Of note is the useful work of the Organization for Economic Co-Operation and Development (OECD) hosted Research Collaborative on Tracking Private Climate Finance. In light of these developments, it would be valuable to include a systematic approach in the reporting infrastructure for communicating private finance mobilised. A tabular format would provide the best means of capturing and communicating private climate finance mobilized in a consistent manner.

3. *Capture the actions of other levels of government.* New actors, such as sub-national governments, are playing an increasingly important role in scaling-up finance in support of developing countries. For example, as highlighted in Canada's Second Biennial Report,[2] Quebec invested $25.5 million to support actions to fight climate change in the poorest and most vulnerable Francophone countries. This investment includes $6 million to the Least Developed Countries Fund, making Quebec the first sub-national government to support the fund. In addition, Canada includes investments from provinces, territories, and municipalities in its reporting on development assistance statistics to the OECD. Modalities for accounting should recognize, in the tabular format, the important contributions of sub-national governments to scale-up climate finance.

Addressing these gaps will help us to fulfill the objectives of the transparency framework, notably to provide a comprehensive and consistent picture of climate finance provided and mobilized, and a better understanding of global climate finance flows and results.

[2] Canada's Second Biennial Report on Climate Change, section 6.4

In addition, to ensure a robust and durable framework, the following goals should guide Parties in the development of effective modalities:

- *Ensure the successful application by all providers.* Our ability to achieve a thorough picture of climate finance flows is dependent on ensuring that modalities can be applied by all providers of finance, now and in the *future*. In this regard, in developing overarching guidelines on accounting modalities we should take into consideration the individual capacities and circumstances of Parties. Reflecting these challenges, guidelines should be prescriptive with a level of flexibility built into them to ensure all providers are able to comply and gain recognition for their efforts.

- *Ensure that we remain grounded in an understanding of the complexity of flows.* Parties should be encouraged to look beyond the operating entities of the Financial Mechanism and enhance engagement with other players in the climate finance landscape, such as the private sector, development banks and civil society. The knowledge and experience held by these actors will add significant value to our discussions.

- *Maintaining comparability and consistency over-time.* Current accounting and reporting requirements have yielded valuable information on support provided and mobilised. The consistent format of reporting has allowed for detailed information that can be compared over time. Therefore, modalities should accurately capture long-term trends, as these are key inputs into future planning exercises.

Canada stands ready to work with Parties to continue to strengthen systems to account financial resources provided and mobilised, so that current and future reporting supports the transparency framework and captures a comprehensive picture of global climate finance.

[Anglais et Français]

Soumission du Canada

Modalites de comptabilisation des ressources financieres fournies et mobilisees par le biais d'interventions publiques

Septembre 2016

Le Canada est heureux de soumettre son point de vue sur l'elaboration des **modalites de comptabilisation des ressources financieres fournies et mobilisees par le biais d'interventions publiques referees dans la decision 1/CP.21, paragraphe 58 et conformement a l'Article 9, paragraphe 7 de l'Accord de Paris, suite a l'invitation du SBSTA 44 (FCCC/SBSTA/2016/L.5 paragraphe 2)[1].**

L'Accord de Paris envoie un signal fort sur le fait que nous voulons vraiment contrer les changements climatiques et que nous sommes determines a la transformation de l'economie vers un avenir plus propre. La transparence est essentielle pour la mesure efficace des progres individuels et collectifs concernant les objectifs climatiques a long terme ambitieux que nous nous sommes etablis a Paris. Le cadre de transparence renforce, etabli par l'Article 13 de l'Accord de Paris, favorisera une mise en oeuvre reelle, notamment par l'elaboration d'un tableau complet des flux de fonds pour le climat. Des procedures renforcees de comptabilisation et de presentation de rapports formeront un element important du cadre et amelioreront notre comprehension des activites soutenues par le financement de l’ action climatique.

Les modalites de comptabilisation des ressources financieres jouent un role important dans la facilitation de la production de rapports et l'augmentation de la transparence globale des flux de fonds pour le climat. De plus, les modalites fournissent une clarte sur la production des rapports, aidant la communaute mondiale de la finance a comprendre les approches methodologiques particulieres de presentation de rapports afferents aux flux financiers.

Les modalites existantes, au sein du systeme de production de rapports actuel, fournissent un niveau de transparence eleve sur lequel se reposer. Par exemple, les parties produisent actuellement de frequents rapports coherents au niveau de l'activite ou du projet, presentes sous forme de tableau procurant un niveau eleve de transparence et de granularite. Toutefois, le paysage du financement international de lutte contre le changement climatique evolue, generant des occasions de developpement et d'amelioration continues de ces modalites. Avant la COP15, la plupart des fonds pour le climat passaient par des canaux publics, comme le Mecanisme financier de la Convention a des niveaux inferieurs a ceux d'aujourd'hui. Actuellement, le paysage du financement de l’action climatiques ‘agrandit, car de nouveaux acteurs augmentent leur soutien aux mesures engagees pour le climat. Les parties etendent egalement la portee de leurs interventions financieres en matiere de climat afin de mobiliser un plus grand eventail de sources, en particulier du secteur prive. Afin de s'adapter a cette croissance, nos systemes de comptabilisation des fonds pour le climat doivent egalement evoluer.

Sur la base de ces developpements, le Canada a constate plusieurs lacunes au sein du systeme actuel de production de rapports sur les fonds pour le climat et fournit des recommandations sur la maniere par laquelle le systeme pourrait etre ameliore pour s'adapter au nouveau paysage de financement pour la lutte contre le changement climatique. Nous proposons les suggestions suivantes a prendre en compte lors de

[1] FCCC/SBSTA/2016/L.5

l'elaboration des modalites de comptabilisation :

1. *Ameliorer notre mode de saisir des flux multilateraux.* Les institutions multilaterales, telles que les banques multilaterales de developpement, jouent un role important dans la canalisation et comme levier de financement pour le climat et continuent d'augmenter leur appui financier pour la lutte contre le changement climatique. Cependant, le systeme de comptabilisation actuel ne recueille pas de maniere adequate tous les fonds transitant par le systeme multilateral. Par exemple, dans le format tabulaire courant, les contributions sont definies comme etant multilaterales ou bilaterales. Ce format ne permet pas aux parties de comptabiliser clairement les fonds bilateraux imbriques dans les institutions multilaterales (couramment appeles fonds multi-bi). Par consequent, il existe un risque, lorsque nous estimons les efforts collectifs des acteurs, que certains flux multilateraux soient oublies ou comptes deux fois. La production de rapports precis sur le financement multilateral est importante au Canada, car en plus de nos contributions de base, ces institutions sont des partenaires clefs pour offrir une large part des fonds pour le climat. Le Canada a etabli des fonds canadiens pour le climat au sein des institutions multilaterales pour debloquer des investissements du secteur prive favorables au climat dans les pays en developpement en s'attaquant aux risques techniques et financiers. Ainsi, les parties devraient pouvoir rapporter les fonds multi-bi separement. Une telle approche apporterait de la clarte dans les flux financiers et garantirait qu'ils sont comptabilises de maniere coherente et precise pour l'atteinte de nos objectifs financiers pour le climat.

2. *Un systeme plus structure pour gerer les fonds prives mobilises.* Les parties reconnaissent le role central des acteurs non gouvernementaux, notamment le secteur prive dans Amelioration des mesures de lutte contre le changement climatique. Le secteur prive gere une part importante du capital, et les parties continuent de prendre des mesures pour comprendre comment le secteur prive peut inciter massivement a des investissements prives supplementaires vers des secteurs a faibles emissions de carbone. Les parties ont egalement realise d'importants progres dans l'elaboration de methodologies pour la capture et la mesure des fonds prives mobilises pour des interventions publiques. Il convient de noter le travail utile du programme de Recherche collaborative sur le suivi du financement climatique de sources privees, heberge par l'Organisation de cooperation et de developpement economiques (OCDE). A la lumiere de ces developpements, il serait profitable d'inclure une approche systematique dans l'infrastructure de production de rapports pour la communication du financement prive mobilise. Un tableau fournirait les meilleurs moyens de capturer et de communiquer de maniere precise le financement climatique emanant de sources privees mobilisees.

3. *Capturer les mesures prises a d'autres niveaux du gouvernement.* De nouveaux acteurs, tels que les gouvernements infranationaux, jouent un role de plus en plus important dans l'augmentation du financement en soutien aux pays en developpement. Par exemple, comme souligne dans le Deuxieme rapport biennal du Canada[2], le Quebec a investi 25,5 millions de dollars pour appuyer les mesures visant a lutter contre le changement climatique dans les pays francophones les plus pauvres et le plus vulnerables. Cet investissement inclut 6 millions de dollars destines au Fonds pour les pays les moins avances, faisant du Quebec le premier gouvernement infranational a soutenir ces fonds. En outre, le Canada inclut des investissements emanant de provinces, de territoires et de municipalites dans son rapport sur les statistiques d'aide publique au developpement remis a l'OCDE. Les modalites de comptabilisation doivent reconnaitre, au format tabulaire, les contributions importantes des gouvernements infranationaux pour augmenter le financement climatique.

[2] Deuxieme rapport biennal du Canada sur les changements climatiques, section 6.4

Corriger ces lacunes nous aidera a remplir les objectifs du cadre de transparence, notamment de fournir un tableau complet et precis des fonds pour le climat fournis et mobilises, et une meilleure comprehension des flux financiers mondiaux destines a lutter contre le changement climatique et leurs resultats.

En plus, pour garantir un cadre solide et durable, les objectifs suivants devraient guider les parties pour l'elaboration de modalites efficaces :

- *Garantir la reussite de I'applicationpar tous les prestataires.* Notre capacite a depeindre une image precise des flux financiers pour le climat depend de l'assurance que les modalites peuvent etre appliquees par tous les prestataires de financement, aujourd'hui et demain. A cet egard, lors de l'elaboration de directives globales, nous devrions tenir compte des capacites individuelles et des situations des parties. Compte tenu de ces difficultes, les directives devraient etre normatives avec un certain degre de souplesse integre afin de garantir que toutes les prestataires sont en mesure de s'y conformer et que leurs efforts seront reconnus.

- *Assurer que nous restons encres sur une comprehension de la complexite des flux.* Les parties devraient etre encouragees a regarder au-dela des entites operationnelles du Mecanisme financier et augmenter leur engagement aupres d'autres acteurs dans le paysage du financement pour la lutte contre le changement climatique, comme le secteur prive, les banques de developpement et la societe civile. Les connaissances et l'experience detenues par ces acteurs ajouteront une valeur importante a nos discussions.

- *Maintenir la comparabilite et la coherence dans le temps.* Les exigences actuelles en termes de comptabilisation et de production de rapports ont genere des renseignements estimables sur l'appui fourni et mobilise. Le format coherent des rapports a permis d'obtenir des informations detaillees qui peuvent etre comparees dans le temps. De ce fait, les modalites devraient capturer de faqon precise les tendances a long terme, car ce sont des donnees essentielles aux exercices de planification futurs.

Le Canada est pret a collaborer avec les parties pour continuer a renforcer les systemes de comptabilisation des ressources financieres fournies et mobilisees, de sorte que la production de rapports actuelle et future prenne en charge le cadre de transparence et capture une image complete du financement mondial pour le climat.

Paper no. 3: Costa Rica on behalf of the Independent Association for Latin America and the Caribbean

SUBMISSION BY COSTA RICA ON BEHALF OF THE AILAC GROUP OF COUNTRIES COMPOSED BY CHILE, COLOMBIA, COSTA RICA, HONDURAS, GUATEMALA, PANAMA, PARAGUAY AND PERU

Submission on the Modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement

29th of August 2016

1. The successful implementation of the Paris Agreement depends upon several factors, including the adequate provision and mobilization of the means of implementation, in particular, from developed to developing countries and particularly vulnerable countries. Therefore, enhanced transparency is crucial to better understand the progress towards the achievement of our long-term goals.

2. Despite the global effort on providing financial support for climate change adaptation and mitigation actions, there's a fundamental restraint that affects the accounting and reporting of this support, which is the absence of a common definition of climate finance under the UNFCCC.

3. For AILAC countries, it is very important that all efforts towards the accounting of financial resources provided and mobilized through public interventions would not only serve for the compliance of developed countries' obligations, but mainly to attend the needs and priorities of developing country parties and particularly vulnerable countries.

4. For this purpose, developed countries should provide clear and accurate information of the financial support ear-marked to developing countries, helping the latter to enhance the provision of information on their needs and resources received.

5. The Paris Agreement acknowledges the need to improve the clarity, quality, consistency and transparency on the support provided and received. Hence, the development of the modalities for the accounting of financial resources provided and mobilized through public interventions creates an opportunity to address a long-standing issue under the Convention.

6. This submission expresses the views of AILAC countries on how to address this relevant matter so that Parties can have better monitoring tools towards the accomplishment of the goals set forth and the development of the modalities in a timely manner to contribute to the enhanced transparency framework.

Mandate

7. In accordance with paragraph 57 of decision 1/CP21, and building upon previous experiences under and outside the Convention, the modalities for the accounting of financial resources provided and mobilized through public interventions should aim to contribute to the enhancement of the transparency framework set out in the Paris Agreement and the accountability of Parties in its implementation.

8. In addition, this information provided by developed countries should serve as an input to developing countries in order to report the financial support framed in paragraph 10 of article 13 of the Paris Agreement.

9. The development of methodologies for accounting should consider the coherence between Article 9 on finance and Article 13 on transparency of the Paris Agreement so that duplication of efforts and costs is avoided and to ensure the standardization of methodologies.

Context of the work ahead

Existing modalities

10. There has been relevant work under the UNFCCC to address the matter of monitoring, reporting and verifying (*MRV-ing*) actions and support. However, the experiences regarding tracking and reporting of climate finance have faced several political and technical difficulties, among them, definitional issues, the quality and availability of data, the lack of comparability of data due to the use of different methodologies to gather it, as well as the complexity of the linkages of climate finance flows with other types of financial flows such as the Official Development Assistance and the attribution in the mobilization of private climate flows.

11. Under the Convention, developed countries have the obligation to report climate finance provided and mobilized in order to increase the transparency of support. For this purpose, there are three vehicles to communicate financial information: the National Communications (NatComs), and Biennial Reports (BRs) both with a backward looking approach, and the Strategies and Approaches for Scaling-up Climate Finance with a forward looking pursuit. Nonetheless, the analysis conducted on the first round of the BRs on climate finance suggests that there have been inconsistencies in how the UNFCCC guidelines have been used so far, which is a reflection of the lack of agreed definitions and methodologies.

12. Additionally, in accordance with the mandate given to the Standing Committee on Finance (SCF) to assist the Conference of the Parties (COP) in the exercise of its functions with respect to the Financial Mechanism of the Convention, the COP requested the SCF to prepare a Biennial Assessment and Overview of Climate Finance Flows (BA)[1]. In conducting the BA, operational definitions and reporting systems used by institutions that collect climate finance data were reviewed. In doing so, the report encountered challenges in collecting, aggregating and analysing information from diverse sources. For example, the diversity of definitions of climate finance and the different systems and methodologies used for reporting.

13. Other institutions have also undertaken efforts related to this matter. Particularly visible was the work done by the Organization for Economic Cooperation and Development (OECD) and Climate Policy Initiative (CPI) report on the "*Climate Finance in 2013-14 and the USD 100 billion goal*"[2]. This exercise was framed in the run-up to COP21 in Paris and the recommendation of the SCF in its BA 2014 to continue the efforts to improve climate finance measuring, tracking and reporting. The report acknowledges the need to continue to harmonize accounting methodologies and standardize reporting, as well as the need to work on the definitional issues.

Challenges to the development of the modalities requested by decision 1/CP21

14. The barriers and gaps already identified in several reports have to be addressed to deliver a robust common reporting system that will produce frequent, comparable, standardised and quantified information that will be useful to enhance mitigation and adaptation actions from all Parties. The information provided to date by developed Parties under the Convention has been constantly improving but it is still insufficient and inadequate for the purpose of enhancing the clarity on the levels of financial resources provided and mobilized and improving the confidence among Parties.

    Some barriers and gaps identified are:

    a. The estimates on global total climate finance in the BA2014 ranges from 340 to 650 billion USD per year and the flows from developed to developing countries range from 40 to 175 billion USD per year. The range between the lower and higher figures bears great uncertainty due to the fact that there is a lack of a common definition that determines what constitutes climate finance;
    b. The inadequate quality of data, its availability and coverage;
    c. The diversity of underlying assumptions in the characterization of what constitutes climate finance, also known as definitional issues;
    d. The multiplicity of reporting approaches;
    e. The variety of sources, channels, instruments and intermediaries used to allocate and deliver resources;

[1] 2014 Biennial Assessment and Overview of Climate Finance Flows Report. SCF. Available at: http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/8034.php

[2] Climate Finance in 2013-14 and the USD 100 billion goal. Report by the OECD and CPI.

f. The difficulty to estimate transaction and administrative costs in the face of what is really invested to address the needs and priorities of developing countries;
g. The lack of adequate methodologies to quantify the results of climate policy and the broader domestic enabling environments on mobilizing private finance;
h. The scope of what constitutes mobilized private climate finance.

AILAC's proposal on the way forward

15. AILAC is of the view that it is pivotal that the modalities, procedures and guidelines developed in accordance with Article 9.7 of the Paris Agreement are closely articulated with the work related to the transparency framework for action and support mandated by paragraphs 91 to 98 of decision 1/CP.21, to be developed by the APA in accordance with the provisions of Article 13 of the Paris Agreement. This will allow for a comprehensive transparency framework, which includes complete, transparent, comparable and accurate information that can serve as an adequate basis for conducting proper analyses and assessments on the progress towards the long-term goals that Parties have set regarding mitigation and adaptation actions as well as the provision of the means of implementation, including climate finance.

16. The development of the modalities for the accounting of financial resources provided and mobilized through public interventions should take into account relevant recommendations included in the BA 2014 as a basis for the work ahead, in particular:

    a. To agree on a common definition of climate finance;
    b. To continue working towards the development of methodologies that will enable better measurement, reporting and verification of climate finance flows;
    c. To determine common approaches by International Development Banks (IDBs) and other relevant international institutions, such as the International Financial Institutions, based on the gaps already identified in their frameworks and building upon their previous experiences;
    d. To increase clarity on which delivery channels and financial instruments are going to be taken into account by clearly determining the scope for the accounting methodologies.

17. In addition, some important lessons emerged from exercises conducted by other relevant institutions that have done work related to this matter. For example, that there is emerging convergence towards common and transparent definitions, methodologies and reporting approaches; there is improvement in transparency and accountability in reporting on climate finance; and that there is progress on multiple fronts in a coordinated manner.

18. These improved modalities, procedures and guidelines to be developed in accordance with article 9.7 of the Paris Agreement must have the following purposes:

a. Define a transparent accounting system which provides a clear and consistent picture of specific financial resources dedicated for climate adaptation, mitigation, development and transfer of technology, capacity building, transparency framework and other cross-cutting activities; according to developing countries needs and priorities;
b. Set forth clear and harmonized definitions on climate finance[3] provided and mobilized through public interventions in order to facilitate aggregation and tracking of progress at the global level;
c. Define the basis of measurement: funds committed and/or disbursed;
d. Prevent and solve double counting of financial resources provided and mobilized through public interventions;
e. Facilitate the understanding of causal links between the public interventions and the private financial resources mobilized through them, and determine an appropriate methodology for accounting private finance mobilized that reflects appropriately and proportionately those causal links;
f. Establish in an accurate and balanced manner the contributions of providers through multilateral development banks and other multilateral funds as well as other disbursements through the channels of international cooperation;
g. Facilitate a better understanding of where and how climate finance is being invested, in order to assess its actual contribution to mitigation and adaptation, development and transfer of technology, capacity building, transparency framework and other cross-cutting activities; according to developing countries needs and priorities.

19. Every effort should be done to ensure that the modalities are agreed by the end of 2017 in order to contribute to the enhanced transparency framework of the Paris Agreement.

[3] The definition of "climate finance" should clarify qualifying terms included in the Paris Agreement, interalia: provided and mobilized, predictable and adequate.

Paper no. 4: Democratic Republic of the Congo on behalf of the least developed countries

**SBSTA Agenda item 12: Modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Art. 9, para. 7, of the Paris Agreement
Submission by Democratic Republic of Congo (DRC) on behalf of Least Developed Countries
August 2016**

The Least Developed Countries (LDC) Group welcomes SBSTA's invitation 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.

The LDC Group wishes to outline its responses to the three groups of questions included in the invitation for submissions (FCCC/SBSTA/2016/L.5, paragraph 2(a)-(c)):

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

Existing modalities

The existing modalities for accounting of financial resources provided are:

- National Communications (NATCOMS)
- Biennial reports (BRs)
- Biennial Update Reports (BURs)
- Biennial submission by developed countries on their strategies and approaches for scaling up climate finance from 2014 to 2020.

In providing guidelines for developed countries on the common tabular format of the BRs, decision 19/CP.18 requested Parties to consider the best approach for future reporting of climate related private finance at the next revision of the reporting guidelines. The process to incorporate private finance in the reporting guidelines has not yet commenced.

The existing modalities sit within broader national reporting processes under the Convention. These reporting processes are not solely focused on accounting of financial resources and therefore are inadequate to support implementation of the obligation on developed country Parties under Article 9(7) of the Paris Agreement. While the biennial submission by developed countries on their strategies and approaches for scaling up climate finance has a climate finance focus, this process ends in 2020 and has its own limitations (e.g. forward looking; no common formats).

The new modalities should not simply replicate existing processes. They must be fit for purpose, adapted to the new post-Paris context, and build upon work already being conducted under the Convention, the SBSTA and also the Standing Committee on Finance.

Challenges and information gaps of these existing modalities

***Lack of consistency, comparability and transparency*: The LDC Group** is concerned about the lack of detail and consistency of the information provided by developed countries under the current reporting processes

(NATCOMS and BRs). Since the format and the level of details needed in the existing modalities differs, it is challenging to compare and sometimes to find consistency among reports from the same

developed country Party. This has rendered the task of tracking the provision of financial resources difficult.

Lack of common definition, methodology and clear understanding of what counts as climate finance**: The LDC Group** is also concerned about the lack of common definition/ understanding of what counts and what should be reported as climate finance. Since Annex I countries use different methodologies and definitions of what counts as climate finance it is difficult to assess how much money has actually been provided for climate change activities in developing countries.

Difficulty in distinguishing public vs private finance leveraged through public intervention**-** For **the LDC Group**, it is important that the modalities provide much more clarity than current reporting processes on what counts towards public provision of financial resources versus private finance mobilised through public interventions. Providing clarity on what constitutes private finance mobilised through public interventions should also be addressed in developing the modalities.

Difficulty to assess what is 'new and additional'**: The LDC Group** considers that there is currently a lack of transparency regarding whether the provision of financial resources from developed countries are new and additional, as required under Article 4.3 of the Convention, and reiterated in numerous UNFCCC COP decisions, including at COP16 in Cancun. This is also related to the lack of common definition as to what is considered new and additional financial resources. Diversion of ODA and relabeling it as climate finance has been a major concern since the fast start finance period for developing countries, and particularly for LDCs, which are highly dependent on foreign aid for development. During the fast start finance period, some developed countries shifted part of their development assistance to climate related activities, which was reported as their 'new and additional' contribution to fast start finance. This compromised development efforts that were being undertaken by developing countries.

Double counting**: For the LDC Group**, it is critical that financial resources that have been provided for other development purposes are counted for their primary purpose and not also as climate finance, as this would result in double counting of the same funds. This also applies to counting all finance that is provided to multilateral funds, without differentiating the proportion of the climate specific component of the support. The modalities should require sufficiently detailed and precise information to be provided by developed country Parties so that it is transparent on the face of this information what purpose the financial resources are being counted towards.

The LDC Group stresses the importance of expediting the development of modalities for the accounting of financial resources provided and mobilized through public intervention and that this is done through an open and transparent process. It is important to note that other processes under the implementation of the Paris Agreement i.e transparency of support framework (Article 13); setting a new collective quantitative goal in 2025 (para 54 of decision 1/CP.21); and the global stocktake (Article 9.6) will rely on the outcome of this process and the resulting provision of consistent, comparable and transparent information.

The LDC Group acknowledges the ongoing work to enhance transparency with the revision of the common tabular format of biennial reports to include details of 'climate specific', 'core/general', 'status' (committed and disbursed), 'funding source', 'financial instrument', 'type of support' and 'sector'.
Furthermore, the LDC Group recognizes the ongoing work of the Standing Committee on Finance (SCF) on

the second Biennial Assessment and overview of climate finance flows (BA) and the MRV of finance beyond the BA.

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

With the gaps and challenges in the existing modalities mentioned above, the LDC Group believes that in developing the accounting modalities for financial resources provided and mobilized through public intervention, the following elements should be addressed:

- A common understanding among Annex I and non-Annex I countries needs to be reached on what should be reported under the common tabular format and counted as climate finance. This common understanding will enhance trust and transparency. It will also give a clearer picture of the quantum of financial resources that have been provided and mobilized and that are being accessed and received by developing countries for the effective implementation of the Paris Agreement.
- The modalities need to address concerns by developing countries by including definitions, common formats and methodologies to be used to count financial flows as climate finance. Having agreed definitions and methodologies will help in the task of accounting for the provision of public versus private financial resources and for identifying new and additional financial resources.
- The modalities must be designed to avoid double counting by:
    - Requiring reporting only of the climate component of the range of finance provided by developed countries to developing countries rather than counting all finance provided as climate finance.
    - Requiring reporting only of the finance provided for specific climate related activities through multilateral development banks (MDBs) rather than counting all resources that have been channeled to these MDBs.
- Labeling or diversion of ODA as provision of climate-related financial resources should be avoided. This will also be assisted by developed countries scaling up financial support for both climate change activities and development assistance to better equip developing countries to implement their NDCs and countries to collectively achieve the sustainable development goals (SDGs).
- While reporting on the various financial instruments used, only the grant equivalent of these instruments should be counted.
- The modalities need to be designed in a way that provide information on whether public and grant-based resources are provided for adaptation. This is important in the context of Article 9.4 of the Paris Agreement, which provides that the provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation.
- Acknowledging that there is no common understanding among Parties on the types of private finance to be reported, it is crucial that the modalities require an agreed common accounting method so that developed countries only report private finance that is leveraged through public interventions.
- Modalities must provide adequate information on the flow of climate finance, including backflow of climate finance, e.g. in the form of interest and return on investments.
- The modalities that will be developed should consider how to ensure that only financial resources consistent with a pathway towards low greenhouse gas emissions and climate resilient development are reported and counted, consistent with Article 2.1 (c) of the Paris Agreement.

(c) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement.

- Paragraph 57 of decision 1/CP.21 requests SBSTA to develop the accounting modalities for consideration by the COP in November 2018, with a view to making a recommendation for consideration and adoption at the first session of the CMA.
- Paragraph 96 of decision 1/CP.21 requests the APA to complete the work on the modalities, procedures and guidelines for the transparency framework no later than in 2018.
- Article 13.13 of the Paris Agreement requires the CMA to adopt at its first session "*common modalities, procedures and guidelines, as appropriate, for the transparency of action and support*".
- Acknowledging that both these processes are expected to be finalized in the same timeline (during 2018), it is important that sequencing of work is taken into consideration to ensure that a proper integration of the work under the two processes takes place.
- It is also important that SBSTA finalizes its work on this matter as expeditiously as possible, taking into consideration that the Paris Agreement could potentially enter into force as early as this year.

Paper no. 5: Ecuador on behalf of the Like-minded Developing Countries

SUBMISSION ON MODALITIES FOR THE ACCOUNTING OF FINANCIAL RESOURCES PROVIDED AND MOBILIZED THROUGH PUBLIC INTERVENTIONS IN ACCORDANCE WITH ARTICLE 9, PARAGRAPH 7 OF THE PARIS AGREEMENT

Submitted by Ecuador on behalf of the Like-Minded Developing Countries (LMDC)

MANDATE, GUIDELINES AND PRINCIPLES

1. **Article 9, para. 7** of the Paris Agreement provides that "**developed country Parties** shall provide **transparent and consistent** information on support for **developing countries Parties** provided and mobilized through public interventions **biennially,** in accordance with the modalities, procedures and guidelines **to be adopted by the Conference of the parties serving as the meeting of the Parties to the Paris Agreement (CMA), at its first session,** as stipulated in Article 13, paragraph 13...

2. Article 13, para. 13, provides that the CMA shall, at its first session, **building on experience from the arrangements related to transparency under the Convention,** and elaborating on the provisions in this Article, **adopt common modalities, procedures and guidelines, as appropriate, for the transparency of action and support**.

3. **Support to developing country Parties is an obligation of developed country Parties under the Paris Agreement** (Article 7.13 for adaptation; Article 8.3 for Loss and Damage; Article 9.1 for the provision of financial resources; Article 10. 6 for technology development and transfer; Article 11.3 for capacity-building), **as well as under the Convention** (Articles 4.3, 4.4 and 4.5), **with respect to all actions related to mitigation and adaptation,** as laid out in Article 4.1 of the Convention, and contained in Nationally-determined contributions of developing country Parties.

4. While the obligation to provide support is incumbent upon the public sector, there is likewise the need for the developed country Parties **to provide an enabling environment including a clear regulatory policy framework that would incentivize their private sector to provide financial resources to developing country Parties** or their climate actions that would be in the context of their sustainable development, that is, with respect to environmental integrity and additionality.

5. It is crucial to determine **the amount of climate change financing -**including for development and transfer of technology and capacity-building- **that is actually received by developing country Parties. This should be the focus of modalities, principles and guidelines to be developed under the Paris Agreement** that would allow for the enhancement of nationally-determined contributions of developing country Parties in order to achieve the purpose of the Agreement.

RESPONSES TO QUESTIONS:

In the light of the above mandate and guidelines and principles, the following are the responses to the questions raised in the SBSTA conclusions:

1. **The basic modality is the definition of climate finance**. The Standing Committee on Finance is currently considering **ongoing technical work on operational definitions of climate finance, including private finance mobilized by public interventions,** in the context of the preparation of its biennial assessment and overview of climate finance flows… (decision 3/CP.19, paragraph 11). The SCF includes this ongoing work in its work plan and annual reports to the COP.

   The preparation of this biennial assessment and overview of climate finance flows is an activity conducted to fulfill the function of the SCF on the measurement, reporting and verification (MRV) of the support provided to developing country Parties. (Decision 2/CP.17, paragraph 121, *chapeau*, and sub-paragraph (f)).

2. In addition to this biennial assessment and overview of climate finance, **including information on the geographical and thematic balance, the sources of information for such an assessment include** : a) national communications and biennial reports of both developed and developing country Parties; b) information provided in the registry; c) information by Parties on the assessment of their needs; d) reports prepared by the operating entities of the financial mechanism; and e) information available from entities providing climate change finance.

   These can be included, inter alia, on the methodologies to be considered by the CMA, building upon information already available through the SCF and continued to be provided through the SCF, which will also serve the Paris Agreement. (Decision 1/CP.21 paragraph 63).

   Biennial submissions on their updated strategies and approaches to scaling up climate finance, including quantitative and qualitative elements of a pathway submitted by the developed country Parties from 2014 to 2020, should be synthesized by the secretariat. (Decision 3/CP.19, paragraph 10), for inclusion in the modalities for transparency of support.

3. **Challenges and information gaps:** the main challenge is a common understanding of what consists of climate finance, that would be in accordance with Article 4.3 of the Convention, with contents as provided for in Article 12.2 and 12.3 in particular, and consideration as provided for in Article 10.2 (b). Information on these can also be taken from the syntheses of Annex I national communications that is provided by the secretariat.

   The implementation of decision 9/CP.21, on methodologies for the reporting of financial information by Parties included in Annex I to the Convention is important for the work of the CMA on transparency of support, and the requirement for transparency and consistency called for in Article 9.7 of the Paris Agreement.

Information to be provided by developed country Parties in their biennial submissions should include clear information on their enabling environments. This would focus in particular on the

4. **Accounting modalities that need to be developed include the following:**

a) **A modality for reporting climate finance that would show the actual amount of resources** that are received by developing country Parties in order to implement their INDCs. In addition to what are contained in their national communications, modalities should be developed to assist developing country Parties to provide information financial, technology transfer and capacity-building **support needed and received** under Articles 9, 10 and 11 of the PA. (Article 13, para. 10).

b) The review process for the information provided by Each Party under Article 13.11 shall include assistance in identifying capacity-building needs.

It should be kept in mind that all reporting obligations of developing country Parties are provided agreed full costs, to be provided by the operating entities of the financial mechanism of the Convention, which will also serve the PA, in accordance with Article 4.3 of the Convention. The principles and guidelines to be elaborated by the SBSTA should therefore include a reference to funding at agreed full costs basis of all reporting obligations for developing country Parties.

Accounting modalities to be elaborated by the SBSTA should include the requirement for the reporting of climate finance provided by all channels of financing to specify the amount of transaction and overhead costs, corporate fees and other charges imposed by intermediaries, implementing agencies and other entities.

c) Modalities should also include transparent reporting of publicly-financed technology research and development and conditions of access to these technologies for developing country Parties. These publicly- financed technologies that would be used for mitigation and adaptation should not be handed over to private institutions for commercial use.

5. In order to ensure that accounting modalities are developed in time to be integrated into the transparency framework, **a process by which developing country Parties are enabled to translate their INDCs into financial, technology and capacity-building needs should be put in place by the COP at its next session.** This would allow for a basis for scaled-up support that would then be subject to MRV under the Paris Agreement. It could also be the basis for the qualitative and quantitative

information that will be communicated biennially by developed country Parties (Article 9.5 of the PA).

The SCF work on MRV of support, **including mechanisms for measurement and verification of this support** should be agreed by 2017 at the latest so as to contribute to transparency of support required by Article 13.13, "building on experience from the arrangements related to transparency under the Convention."

Paper no. 6: Indonesia

SUBMISSION BY INDONESIA

Pursuant to the conclusion adopted by the Subsidiary Body for Scientific and Technological Advice at its forty-forth session in May 2016 particularly agenda item 12 (c), the Government of the Republic of Indonesia herewith submits its 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, for compilation into a miscellaneous document.

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?

The needs to have a framework for climate finance definition

- According to decision 19/CP.18, developed country Parties shall use common tabular format for their biennial report and provide information on all the elements, including finance provided to developing country Parties.
- Further, there are other reporting modalities existent, inter alia, by GEF, GCF and Adaptation Fund.
- The level of compliance toward transparency of those reporting approaches still varies amongst developed country Parties since UNFCCC does not provide an operational definition of climate finance as the basis reference of reporting.
- In the absence of definition of climate finance, the problem to define what count as climate finance in future reporting, in accordance with the Paris Agreement Article 9, will continue. Parties need to address this big gap in the upcoming sessions relating to Article 9 paragraph 7.
- As stated in the Paris Agreement, Article 9.1, developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention. Indonesia is of the view that finance under the Paris Agreement framework needs to be "new and additional" to financial resources provided for general development purposes. However, there is no internationally agreed definition on "new and additional" climate finance, and as result there have been different methodologies in counting new and additional climate finance.
- A baseline for new and additional climate finance is required to assess the extent to which Parties meet climate finance goal as stated in the Paris Agreement.
- In accordance with Article 9 paragraph 4, there is a need for a "scaled-up" financial resources allocated to support developing country Parties. Hence, there should be a clarity on the concrete financial flow pathway.

Methodology to count public intervention

- Most developed country Parties count and report public finance to the UNFCCC. Article 9 paragraph 7 of the Paris Agreement mandates the establishment of modalities, procedures and guideline for reporting of support for developing countries provided and mobilized through public intervention. Indonesia views that, to generate a better understanding, developed country Parties should be invited to share how they have used public interventions to provide and mobilize climate finance, especially from non-public sources.
- Methodology used by developed country Parties to count and report their contribution to the UNFCCC is still various. Those various methodologies influence the accounting of financial resources, such as point of measurement (commitment or disbursement) and coverage of climate finance.

- It is important that in the methodologies for reporting, reference to "new and additional" is further elaborated. This is important both for public finance (to avoid double counting with ODA) and private finance (where several western countries claim to "leverage" the same private money. Also and until now there is indeed a "lack of agreed definition" for private finance, whenever referenced. As long as there is no agreed definition, it is difficult to report on private finance as developed countries are using very different definitions. This process should embark on arriving at an 'agreed' definition for reporting purposes. Finally, it is the Parties to COP who have financial commitments and not the private sectors, hence reporting methodologies on mobilized private sector resources should be clearly delineated to avoid any confusion not miscalculations.

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

Common elements of climate finance

- Climate finance reporting frames climate finance as finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.
- Common elements of climate finance, as basis to count financial provided and financial mobilized through public intervention, need to be developed in accordance with Article 9, paragraph 7.
- The challenges to the development of these modalities are validation process of each components of climate finance.
- To address the challenges, Indonesia views, to control the report of climate finance provided by developed country Parties, involvement of donors, beneficiary country, and international committee under the authority of the COP in validation the repot is important.

The general principles that should guide the methodology for reporting climate finance information, should commensurate to those reporting of GHG inventories:

- Completeness means that a report should cover all major sectors, forms of financing, and uses of funds (types of projects) from all Parties to all Parties. It could also refer to the sources of funding by governments and other mechanisms.
- Transparency means the methodologies, processes, and procedures to estimate financing should be clearly explained and the sources of information identified to facilitate the checking of information.
- Comparability means that the information provided by Parties should be in a format to facilitate the aggregation and analysis of information.
- Accuracy means that the reported quantities of financial data are systematically neither over nor under actual financing and those uncertainties are reduced as much as possible. Guidelines should achieve sufficient accuracy to enable users to make decisions with reasonable assurance as to the integrity of the reported data.
- Efficiency means that the information provided serves the decision-making needs of Parties with a minimum of effort, expense, or waste.

Common but differentiated responsibilities and respective capabilities (CBDR-RC) principle

Development of modalities should follow the principle of Common but differentiated responsibilities and respective capabilities (CBDR-RC) and take into account the country sovereignty.

How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement?

Agreed timeline is required to have a credible system of accounting of financial resources under the Paris Agreement.

Paper no. 7: Japan

Japan's views on development of modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7

Introduction

Japan is pleased to share its views on development of modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7 and provide specific comments. This submission is comprised of 4 parts:

1. Overview
2. Responses to guiding questions presented in FCCC/SBSTA/2016/L.5
   (1) 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?
   (2) 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?
   (3) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement?

Japan looks forward to discussing these issues at SB45 in light of effective implementation of the Paris Agreement.

1. Overview

This submission aims to contribute to developing modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, which, inter alia, states that developed country Parties shall provide transparent and consistent information on support for developing country Parties and other Parties are encouraged to do so. In other words, the modalities are expected to be discussed, based on the assumption that both developed and developing country Parties will provide relevant information. Moreover, developing country Parties are expected to report on support received from developed country and other Parties under the Paris Agreement. In this context, how to track support received may be discussed under APA agenda item on transparency framework. Bearing in mind the relationship between accounting modalities and the transparency framework, SBSTA item on accounting modalities of climate finance needs to be associated with APA item on transparency framework if necessary.

2. Responses to guiding questions presented in FCCC/SBSTA/2016/L.5

(1) 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?

With regard to existing accounting modalities, developed country Parties have already accounted and reported on climate finance provided and mobilized through the work of national communications (NC) and biennial reports (BR) using guidelines and common tabular formats (CTFs) and have committed to ensure transparency on climate finance.

Developed country Parties have explained their methodology on how they have determined that specific resources are new and additional for the previous two calendar or financial years including the following: the amount of financial resources, the type of support, the source of funding, the financial instrument, and the sector. In addition, developed country Parties ensure transparency and comparability of BR by using BR guidelines and CTF which lead them to report what kind of projects are categorized as for mitigation and adaptation. Not only developed country Parties' NC and BR provide accounting and reporting, but they are assessed through In-Depth reviews and Technical review by experts and Multilateral Assessment (MA) and are ensured their transparency. The Standing Committee on Finance also assesses and analyzes BRs to provide overviews of global climate finance. Developed country Parties have already fulfilled their commitment to provide transparent, comprehensive and robust information on climate finance with existing accounting modalities.

Challenges and information gaps, however, reside in the existing modalities for the accounting of financial resources provided and mobilized through public interventions due to the limitations in accounting methodologies for private finance. The challenge in tracking climate private finance is mentioned in many BRs and the overview of global climate private finance contains uncertainties. Although Japan accounts climate private finance through export credits and co-financing, the exact amount of the total climate private finance cannot be calculated because private sectors' activities are diverse, and new initiatives and activities related to climate change are emerging.

Although a large portion of climate finance is currently based on public finance such as Official Development Assistance (ODA) heretofore, the private sector is expected to play an important role taking into consideration the fact that all Parties promote regional and international cooperation in order to mobilize stronger and more ambitious climate actions also by the private sector as the Decision 1/CP.21 states. The adverse effect from climate change such as extreme weather cannot be ignored even in the field of private activities. The role of private actors will be crucial to develop climate-resilient societies. Some argue that only public finance could be resources of climate finance. It is, however, unrealistic in light of the role of the private sector. Mobilizing private finance is indispensable to combat climate change and tracking private finance is necessary to overview global climate finance. Therefore, modalities of tracking mobilized private finance should be enhanced.

There have been discussions on accounting methodologies of climate finance outside of UNFCCC to improve tracking of climate finance and transparency of reports. For example, Rio Marker was developed at OECD DAC to track ODA projects which objective is designed for addressing climate change ("principle") or projects which has other prime objects but help tackle climate change ("significant"). To make more tracking easier for donors, OECD DAC also developed an indicative table of typical climate-related projects. OECD also established OECD Research Collaborative, a forum for experts, policy makers and research institutes, where the discussion of tracking private climate finance is taking place. In addition, MDBs and International Development Finance Club (IDFC) have discussed their own methodologies of tracking climate finance and they voluntarily established "Common Principles in Mitigation Finance" and "Common Principles for Climate Change Adaptation Finance Tracking" to harmonize methodologies among themselves.

(2) 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?

As mentioned in the previous section, Annex I Parties of the Convention strived to provide clarity on accounting modalities through the work of reporting climate finance and support provided to developing country Parties.

One of differences between pre-Paris and post-Paris Agreement is that not only developed country but also other Parties are expected to report on support provided and mobilized to developing country Parties. Therefore, accounting modalities which will be discussed in SBSTA item is not only for developed country but also for other Parties. Another difference is that developing country Parties are expected to report on support received from developed country and other Parties. Thus, how to track support received may be discussed under APA agenda item on transparency framework. Bearing in mind the relationship between accounting modalities and the transparency framework, SBSTA item on accounting modalities of climate finance needs to cooperate with APA item on transparency framework and should be coordinated each other if necessary.

Giving a definition to climate finance is not indispensable for the discussion of accounting modalities of climate finance. What is needed is a common understanding that "climate finance is the finance provided and mobilized for climate change to support developing country Parties in addressing climate change", ensuring transparency of what kind of support or projects provided or received are reported as climate finance. (An attempt to give a rigid definition of climate finance may result in never-ending negotiations since there are many different opinions in both developed and developing country Parties.)

Moreover, improving methodologies for tracking mobilized private finance is crucial. Besides parties' existing efforts for improving methodologies of tracking mobilized private finance, such discussions should be continued voluntarily inside and outside UNFCCC and there should be opportunities for experts and Parties to share experiences and difficulties related to tracking private finance.

COP21 was a good opportunity to reaffirm that Parties and non-Party stakeholders such as the private sector, financial institutions, cities and other subnational authorities cooperate to transform our society into lower greenhouse gas emissions and climate-resilient. Such transformational changes to implement the Paris Agreement have already begun, and investors are increasingly aware of the accompanying opportunities for business and economic and social growth. Actions such as green bonds and voluntary carbon markets are likely to mobilize private finance. Parties should be aware of such movements within and outside of its country and strive to track climate finance mobilized by such actions. There should be opportunities for Parties, such as workshops, to discuss how to track new type of climate finance and to avoid double counting, and what kinds of difficulties of tracking exist.

(3) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement?

Since SBSTA item on accounting modalities of climate finance and APA item on transparency are closely related, the details of discussions held at both bodies should be shared and, if necessary, both bodies discuss these items together. While the outcomes of both discussions are expected to be adopted at CMA1, joint meetings may take place from SB47 depending on the progress of discussions in SBSTA and APA.

Paper no. 8: Maldives on behalf of the Alliance of Small Island States

Submission by the Republic of the Maldives on behalf of the *Alliance of Small Island States*

Subsidiary Body of Scientific and Technological Advice Agenda Item 12: Modalities for the Accounting of Financial Resources
2 September 2016

Guidance on Accounting Modalities under the Paris Agreement

The Alliance of Small Island States (AOSIS) is pleased to provide the following contributions in response to the request for inputs on the modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement.

Context

Pursuant to Article 9 of the Paris Agreement, developed country Parties are legally bound to provide transparent and consistent information on support to developing country parties *on finance provided and mobilized through public interventions}*

In order to give effect to this provision, a process under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC) is underway to develop modalities to account for finance provided and mobilized through public interventions.[1 2] It is important to point out that while the binding obligation to report on climate finance provided is directed to developed country Parties, the same provision also encourages other Parties to provide information on climate finance provided to developing countries on a voluntary basis. Accordingly the same accounting modalities that would be applied to developed country Parties could also be applied to developing country Parties.[3]

Limited modalities already exist for reporting financial information under the UNFCCC:[4] including National Communications, Biennial Reports (BRs) for developed country Parties, and Biennial Update Reports (BURs) for developing country Parties. These provide a starting point for reporting; however, the new modalities are expected to be much broader in scope and to provide the basis for ***what can be accounted for*** and consequently ***reported as climate finance provided to developing countries.***

Outside of the Convention, other international organizations have developed or begun to develop modalities to account for climate finance including the joint initiative of the Organization for Economic Cooperation and Development and the Climate Policy Initiative (OECD/CPI), which attempts to

1 http://unfccc.int/files/essential background/convention/application/pdf/english paris agreement.pdf

2 According to the First Biennial Assessment of the Standing Committee on Finance, "public interventions" refers to public institutions that help channel climate finance from developed to developing countries, including through developed country governments, bilateral finance institutions, MDBs, and multilateral climate funds (Page 6). See http://unfccc.int/files/cooperation and support/financial mechanism/standing committee/application/pdf/2014 biennial assessment and overview of climate finance flows report web.pdf

3 Article 9.7 of the Paris Agreement. *Supra* fn. 1.

4 http://unfccc.int/cooperation and support/financial mechanism/items/8892.php

address both public and private finance.[5] At the national level, some developing countries have also implemented domestic modalities to track and account for climate finance and public climate expenditure.[6]

Notwithstanding these various modalities, some countries dispute whether existing international modalities are in the true sense “accounting modalities”. In addition, existing accounting modalities may not be fit for purpose, as they do not meet transparency needs for accounting climate-related financial flows in a way that allows for a comparable and consistent assessment of developed countries’ support and mobilization efforts.

At the forthcoming twenty-second session of the Conference of Parties to the United Nations Framework Convention on Climate Change, the question of modalities will be discussed. In preparation for that discussion, Parties and observer Organizations have been invited to submit their views on the development of such modalities.

AOSIS welcomes this opportunity to respond to the questions by the UNFCCC to help guide submissions.

(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?***

AOSIS takes note of the current modalities for reporting financial information including as mentioned above National Communications, Biennial Reports (BRs) for developed country Parties utilizing a common tabular format (CTF). Developing country parties also report on their needs for financial resources and support received from developed country Parties, the Global Environment Facility, the Green Climate fund and other multilateral institutions in their National Communications and Biennial Update Reports (BURs).

However, a resounding criticism is that the current modalities and guidelines provide neither a robust accounting nor reporting framework. The guidelines lack agreed definitions for fundamental terms such as “climate finance” and “new and additional, or a common methodology for basic financial reporting”.[7] This criticism is also consistent with the concerns raised with the common tabular format as elaborated further in Text Box 1 below.

Further agreed methodologies for reporting climate-related private finance are currently lacking.

AOSIS welcomes the work of the UNFCCC’s Standing Committee on Finance that in its 2014 Biennial Assessment and Overview of Financial Flows identified various methodological and definitional gaps relating to measuring and reporting public and private climate finance that put limitations on providing an aggregate overview of climate finance flows.[8]

AOSIS further notes the outcomes of the previous mandate under SBSTA to develop methodologies for the reporting of financial information, taking into account existing international methodologies and based on the experience gained in preparing the first biennial reports from developed country Parties. AOSIS wishes to underline Parties’ recognition in decision 9/CP.21 of the “need to enhance common

5 http://www.oecd.org/env/cc/Climate-Finance-in-2013-14-and-the-USD-billion-goal.pdf

6 http://www.wri.org/sites/default/files/wri13 monitoringclimate final web.pdf

7 AdaptationWatch 2015. Toward Mutual Accountability: The 2015 Adaptation Finance Transparency Gap Report. Policy Briefing.

8 http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_ba_summary and_recommendations_by_scf_on_the_2014_ba.pdf

understanding on key terminology for reporting financial information under the Convention to facilitate transparency and comparability of information and data on support over time and across Parties" (paragraph 1).

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Box 1: Concerns raised with the CTF

Common Tabular Format: While it is noted that the CTF has improved allowing limited comparabilty between: countries, it lacks completeness that is critical in meeting the above stated objectives. Here are some the issues with this format:

- **Grant based equivalent:** Aligned with more focussed reporting, greater clarity and transparency regarding net support value of disbursements, expressed by the grant equivalent of what is provided or mobilised, is required. Moreover, the current reporting systems tend to only report on finance flowing to developing countries while ignoring finance that flows back to developed countries as a result of loan repayment or return of investments, etc...
- **Project level detail needed:** The lack of details, especially where countries do not report on a project-level basis, hampers the comprehensiveness, monitoring consistency, and the verifiability and.
- **Defining Climate Finance:** Also noted that while there have been improvements and/or alignments in the 'functional definition' of climate finance, a globally acceptable functional definition is crucial to ensure accurate, timely, responsible and comparable climate finance reporting. To this end, it is recommended that the definition of climate finance include 'new and additional' finance, above what needs to be made available in meeting other commitments such as ODA. Further the definition should be functional such that only support that directly meets obligations as per Article 9.1 as well as the overall objective of the Agreement
- **Inflating numbers:** The current reporting systems makes it vulnerable to creative accounting practices by developed countries. Instances of developed countries counting instruments that are not specially related to climate change support are common. This practice tends to inflate the reported amount of climate finance disbursed as well as questions the climate relevance of finance.
- **Provision vs. Mobilization:** Support needed to be accounted as to whether it is provided or mobilized.

AOSIS therefore welcomes Parties' decision to address some of these concerns raised with the CTF by introducing some short-term improvements as stipulated in decision 9/CP.21, paragraph 6, "to enhance consistency and transparency through adjustments in the reporting parameters in tables 7, 7(a) and 7(b) of the common tabular format for the 'UNFCCC biennial reporting guidelines for developed country Parties".

In our view, SBSTA's mandate to develop modalities for the accounting of financial resources provided and mobilized by public interventions in accordance with Article 9, paragraph 7, must build on the previous work by SBSTA and the Standing Committee on Finance, while being broader in scope and offering the basis for long-term solutions. We see this mandate as an opportunity to address the identified definitional and methodological gaps and to advance a common, internationally agreed understanding of what counts as climate finance to developing countries under the UNFCCC.

We also note the previous work on tracking climate finance outside of the Convention such as the OECD Development Assistance Committee (DAC) Rio marker system and that for purposes of consistent reporting on climate finance, most developed country parties rely on data collected using the OECD DAC Rio marker system. However several reports highlight that this system is not fit for the purpose of accounting for climate finance under the UNFCCC.

For example, the 2015 Adaptation Finance Transparency Gap Report acknowledged that the system was originally developed to produce qualitative data tracking how Rio Conventions' considerations are mainstreamed into development cooperation practices; and not for purposes of monitoring financial pledges.[9] Secondly, it appears that OECD member countries do not uniformly or consistently apply Rio Markers.[10] Consequently even amongst OECD member countries there exist a variety of accounting systems. Differences include points of measurement, data coverage, recipient definitions, and format of data reported.[11] This moreover leads to lack of comparability and limited transparency. Third, all financial instruments are accounted for at cash value and not in grant equivalent or contributor's budgetary efforts. Fourth, as is often highlighted, due to the limited membership of the OECD itself, it cannot be the sole reference for an international system for climate finance accounting and reporting. Nevertheless, we recognize that continued efforts are underway to improve the Rio markers, to assess the new and additional nature of climate finance, as well as for tracking adaptation finance, private finance, and climate finance from multilateral development banks.

(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?***

It is AOSIS view that a common understanding of what financial flows can be accounted for as climate finance to developing countries among Parties is an important basis for addressing the current definitional and methodological gaps in consistent reporting on financial information among developed country Parties.

To successfully implement the Paris Agreement in a spirit of trust and cooperation, it is essential that this common understanding is shared and mutually agreed by all Parties both contributors and recipients, as well as civil society organization representing vulnerable and affected groups on the ground.

This common understanding should result in a number of agreed principles that will serve as a basis for clear accounting modalities for different sources of climate finance including bilateral and multilateral, public and private, as well as alternative sources. These principles should reflect the principles agreed under the Paris Agreement's transparency framework, such as no double counting, environmental integrity, the need to provide flexibility to developing country Parties in light of their capacities etc.

In general, only such financial flows that are consistent with the Paris Agreement, that are directly climate-relevant, as well as new and additional to other financial flows should be counted and reported as climate finance:

- Bilateral: Inflated numbers should be avoided by focusing on finance that specifically and primarily targets climate and for example by providing project and activity-level information
- Multilateral: Only the imputed climate-specific share of developed countries' contributions to multilateral development banks should be counted as climate finance.
- Private finance: What should be counted is the public share of the mobilization effort, with a clear link between the public intervention and the resulting mobilization of private finance.
- Alternative sources: AOSIS supports the use of new sources of finance especially for adaptation and loss and damage. There should be a common understanding on how to count such sources and how to include them in the reporting.

9 Id.

10 Id.

11 A more critical assessment of the OECD/CPI report was provided by Dipak Dasgupta and Climate Change Finance Unit Staff of the Department of Economic Affairs, Ministry of Finance, Government of India in his paper *Climate Change Finance, Analaysis of a Recent OECD Report: Some Credible Facts Needed.*

For purposes of the Paris Agreement, tracking financial efforts of developed country parties and assessing the aggregate scale of climate finance are both necessary. The current approach of accounting needs to be significantly enhanced to address this dual challenge. A fundamental first step is to agree on what counts as climate finance for mitigation and what counts as climate finance for adaptation, and what counts as private finance mobilized by public intervention. Second in order to determine where we are and how far we have yet to go in meeting finance goals and objectives, it is critical to establish a baseline. This will also prove useful for purposes of assessing the additionality of climate-related financial flows.

Key considerations for AOSIS

An impressive outcome of the Paris Agreement is the near universal acceptance of countries to put forward Nationally Determined Contributions (NDCs), which outline what each country will do to help achieve the Agreement’s goals. Parties to the Agreement will update these NDC contributions every 5 years, and also track progress against these goals.

Many vulnerable and capacity constrained countries have put forward “conditional” NDCs, which are contingent on receiving adequate funding or support to meet goals. An important distinction therefore is financing received and programmed by the country, versus financing programmed on the country’s behalf.

(a) AOSIS considers that the accounting modalities should provide a uniform methodology for tracking finance flows from developed to developing countries on the basis of an agreed definition of what counts. Given the important distinction between adaptation finance and mitigation finance, it is critical that the modalities will provide for a disaggregation of data specific to both.

(b) In line with the distinction between finance provided versus finance mobilized to developing countries, establishing agreed modalities to address these categories separately is critical. This should include agreement on the proportion of the public intervention to be accounted for under private finance flows. We are of the opinion that the private finance leverage ratio should be agreed and differentiated between mitigation and adaptation finance. Another important aspect is agreeing to the point of measurement, recognizing the difference between finance committed, provided and finally disbursed.

(c) AOSIS agrees that the actual effort should be reported as grant equivalent or budgetary provisions.

(d) Finance reported, including in respect of contributions to multilateral entities, should be those specifically targeted to fulfilling obligations under the Paris Agreement. Modalities should provide for or reflect the country-driven nature of the funding provided or otherwise mobilized. In this regard, AOSIS underscores the importance of NDCs or other relevant reports identifying country-specific needs as well as the importance of reciprocal reporting as further elaborated in

Nationally Determined Contributions: The Nationally Determined Contributions (NDCs) present opportunities to advance accounting for climate finance in developing countries:

- NDCs could provide a basis for tracking disbursements of fund from developed countries to meet their conditional targets. More support is required to help developing countries develop such tracking systems to monitor such financial flows.
- Much still needs to be done to develop the M&E framework for NDCs as NDCs will be reviewed and revised every 5 years. This is so as countries will need to be able to track progress against their defined baseline so that they are able to gauge the overall global impacts. More support to developing countries regarding the M&E frameworks of the NDCs including MRV of support is critical.
- Financial support through public interventions needs accounting modalities that allow for common understanding of what is to be counted as "new and additional" climate finance.

How much support was provided to my country?: The linkage between transparency and accounting modalities.

Underlying the accounting modalities discussion and tools like the NDCs is the question, "How much support was provided to my country in line with the obligation under the UNFCCC?" This is the linkage between transparency and accounting modalities. We need to get the accounting modalities correct so that when we try to answer this question we have the correct data to ensure transparency of support.

In order to move forward on this question, there is a crucial need for a system for recipient countries to better verify receipt of disbursements from climate finance commitments made by developed countries. It is noted that developing countries have access to these reports online and recognize their usefulness for monitoring and verification purposes, but is not sufficient for transparency purposes.

It is therefore proposed that a reciprocal system be developed and implemented in which funds can be tracked by the recipient country, while providing the Conference of Parties (COP) with a better picture of commitments and disbursements. Developing countries call for additional capacity building to strengthen existing national finance reporting system.

Text Box 2.

Next Steps

AOSIS looks forward to the in-session workshop in conjunction with SBSTA 45 drawing on the submissions in line with the call for inputs and the guiding questions thereto. We further submit that the in-session workshop should aim to narrow the focus of critical areas to be agreed upon in the development of accounting modalities namely:

1. the purpose(s) of the accounting modalities
2. key definitions to support the development of accounting modalities
3. key parameters for accounting modalities in respect of finance provided and finance mobilized
4. key distinctions for mitigation finance and adaptation finance
5. options for accounting for new and additional climate finance
6. role of contributor and recipient in reporting
7. timeline for deliverables through to SBSTA 47 or earlier

AOSIS also looks forward to take into account related upcoming work under the Convention, such as the 2016 Biennial Assessment and Overview of Financial Flows by the Standing Committee on Finance, as well as the 2018 Biennial Submissions on Strategies and Approaches by developed country Parties that will use the adjusted Common Tabular Format as per decision 9/CP.21.
Specifically, we expect that developed countries will make use of the newly created reporting fields for the provision of information on definitions or methodologies, as per paragraph 6(a) of the decision, as well as to continue to provide information on the underlying assumptions and the methodologies used in their biennial reports, as per paragraph 9. The goal is to make transparent those assumptions and methodologies to be able to work on a shared understanding by all Parties on definitions and methodologies to account for climate finance to developing countries under the Paris Agreement.

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Paper no. 9: New Zealand

NEW ZEALAND

Submission to the SBSTA on modalities for the accounting of financial resources provided and mobilised through public interventions

26 September 2016

Context

The conclusions of the forty-fourth session of the Subsidiary Body for Scientific and Technological Advice (SBSTA) invite Parties to submit their views on the development of modalities for the accounting of financial resources provided and mobilised through public interventions ("the modalities") in accordance with Article 9(7) of the Paris Agreement. The conclusions pose a number of guiding questions for consideration, which we canvass below.New Zealand notes the purpose of the submissions sought by the SBSTA is to inform the in-session workshop that will be held in conjunction with SBSTA 45 in November 2016, and more broadly, to help focus the SBSTA's work.

2 In New Zealand's view, the transparency framework is central to the integrity of the Paris Agreement. Article 13(6) makes clear that the underpinning intention of the framework for transparency of support is two-fold: to provide clarity on support provided and received, and to the extent possible, to provide a full overview of aggregate financial support provided, to inform the global stocktake under Article 14. The modalities should contribute to transparency of support provided and mobilised within the enhanced transparency framework for action and support established by Article 13 of the Paris Agreement and being developed under the APA.

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

Existing modalities

3 Existing modalities generate a high level of transparency regarding financial resources provided through public interventions, including how, where and for what purposes climate finance flows. At a collective level, this is achieved through the Standing Committee on Finance's (SCF) Biennial Assessment and Overview of Climate Finance Flows; and at the Party level through National Communications, Biennial Submissions, and the common tabular format (CTF) within Biennial Reports. The common tabular format was further refined only last year (Decision 9/CP.21) to enhance the consistency and transparency of information provided by Parties.

4 The CTF provides a useful and effective modality to account for Parties' climate-related financial support commitments. In New Zealand's case, most of our climate-related financial

support is delivered through our aid programme as bilateral assistance to partner countries. We also provide financial resources to a number of multilateral climate change funds and regional organisations with a strategic focus on climate change. The CTF enables us to accurately report on and account for the the amount, recipient, financial instrument and type of support provided. The CTF also enables comparison and transparency across donors and over a range of different years, without over-complicating the reporting and accounting requirements for those who provide the information. The incoming data is also manageable for those that read it and/or seek to combine it to assess collective progress – such as through the SCF's Biennial Assessments.

Information gaps in these modalities

5 Currently, there are limitations to the comparability of information. The SCF's 2014 Biennial Assessment recognised that the range of systems and methodologies for reporting climate finance flows differed depending on the source of finance. The OECD Development Assistance Committee (DAC) 'Rio' markers for tracking climate change related development assistance are commonly used by Parties to report on financial resources provided. But while the Rio markers capture the policy objectives of the funded activity, they do not quantify expenditure towards these objectives, the impact of the support, or the results generated. New Zealand applies a modality system to standardise the quantification of climate change related expenditure in our aid programme, based on the DAC Rio markers. This system is described in New Zealand's May 2014 submission on '*Information on the appropriate methodologies and systems used to measure and track climate finance'*.

6 There are also gaps in accounting for private finance mobilised through public interventions. The OECD-CPI 2015 *Climate Finance in 2013-14 and the US$100b goal* report (the OECD-CPI report) took an important step in developing methodologies to track mobilised finance, though the report noted there were difficulties in doing so. Given the important role that mobilised finance will play in our collective climate finance effort, New Zealand welcomes the OECD-CPI report as an important piece of work that the SBSTA can build on.

7 Donor Party reporting on the outcomes of financial support provided could be improved. New Zealand has work underway to enhance our reporting on outcomes and results. Recipient Party reporting on finance received could help provide a more holistic picture of finance flows.

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

8 As a general point, we should design an efficient system that builds on existing CTFs and SCF Biennial Assessments. We envisage this work would start with the existing modalities and transparency arrangements, and fill the gaps identified through these submissions. The key guiding parameters will be the over-arching objective of ensuring the modalities generate sufficient understanding of financial support at the individual/collective level to serve as an input to the enhanced transparency framework and the Global Stocktake.

Private finance

9 The modalities need to enable Parties to account for private finance mobilised through their public interventions better, in order to obtain a clear picture of the collective financing effort. Inavailabilty of data and difficulties in determining the exact impact of public policy interventions on the mobilisation of private finance are challenges to be overcome. It would be useful for the in-

session workshop at SBSTA 45 to include a presentation from the OECD and CPI on the challenges faced when preparing the OECD-CPI report.

Information on finance received

10 A comprehensive picture of climate finance requires not only information on climate finance provided and mobilised, but also on finance received by Parties, and tracking and reporting of outcomes. Information on finance received would better enable visibility of finance flows both within individual and across a range of recipient Parties. Provision of this information may help strengthen alignment of financing with national priorities and support the effectiveness of outcomes by facilitating replication of successful projects and encouraging further private sector investment.

The need for flexibility

11 In New Zealand's view, the modalities should reflect the mandatory and non-mandatory aspects of Article 9(7) of the Paris Agreement,[1] whilst enabling and encouraging provision of as much information as possible by all Parties. For example, it will be useful to include information about support that is provided voluntarily by developing countries as this will play an important role in achieving the Agreement's purpose and long-term goals.

12 We have agreed flexibility in the implementation of the transparency framework will be provided to those developing countries that need it in light of their capacities. New Zealand's expectation is that the agreed flexibility will be tightly defined, limited to genuine need, and not developed as an end in itself. This flexibility will need to be reflected in the accounting modalities and it will be important to ensure our work in SBSTA is joined up with the APA's broader transparency framework in this respect. We should develop modalities that recognise Parties' different capacities and obligations, while facilitating improved reporting over time as the capacity of recipient Parties improves, in order to facilitate as much transparency as possible.

(c) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement

13 The Paris Agreement and Decision 1/CP.21 give no guidance on how to sequence the two workstreams, but it is clear that the accounting modalities will not simply be able to be dropped into the transparency framework immediately before COP24. We will need to ensure we work closely together over the coming years. At the outset of our work, this could include the Co-Chairs and Chairs of the respective subsidiary bodies keeping each other informed about progress. It would also be useful to consider joint sessions of contact groups/informals, perhaps at the midpoint of our work (i.e. COP23). To ensure progress is made, Parties should also consider first agreeing the structure of the modalities before moving to consider their content. We also need to ensure we make the most of the opportunities we have to progress our work given the amount of work that we must complete in a short time-frame; including the in-session workshop that will be held in conjunction with SBSTA 45.

[1] Article 9(7) requires developed country Parties to provide information on support provided and mobilised, and other Parties are encouraged to do so. Article 13(1) encourages developing country Parties to provide information on financial support received under Article 9.

Conclusion

14 In summary, New Zealand suggests that we:

- Work closely with the APA's development of the broader enhanced transparency framework and its objectives and keep these objectives in mind as the guiding principle of our work on accounting modalities;
- Design a pragmatic and efficient system based on existing modalities while filling gaps as necessary to achieve the objective of the transparency framework;
- Prioritise better understanding how we can account as accurately as possible for private finance mobilised through Parties' public interventions; and
- Ensure the modalities facilitate the provision of as much information as possible by all Parties, by providing flexibility to those developing countries that need it in light of their capacities.

15 New Zealand looks forward to discussions on this issue at the next meeting of the SBSTA, and at the accompanying in-session workshop.

Paper no. 10: Norway

Submission by Norway on modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement.

10 September 2016

Introduction

Norway welcomes the opportunity to present our 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.

The accounting modalities to be developed under Subsidiary Body for Scientific and Technological Advice (SBSTA) will be integrated into the enhanced transparency framework on action and support to be established under the Paris Agreement. Transparency is important for several reasons. It keeps parties responsible to their obligations under the agreement and increases trust among all Parties. Transparency further contributes to more focused and coordinated climate support and action through providing an overview of finance flows to different countries, sectors and projects. The transparency framework will also aim to provide clarity on support received. This is an important part to better monitor the outcomes and impacts of support, since the purpose of climate finance is to accelerate climate mitigation and adaptation action in developing countries.

In our submission we will address the three guiding questions from SBSTA (cf. FCCC/SBSTA/2016/L.5).

1. What are the existing modalities and what are the challenges and information gaps?

Developed country parties report on climate finance provided through National Communications (NC) and Biennial Reports (BR). These existing modalities under the UNFCCC allow parties to present information comparable with other parties. Norway has found the consecutive processes of compiling this information a learning journey, where both the detail of information we are able to provide and the quality of data have improved over time. Before starting to report regularly on climate finance to the UNFCCC, OECD-DAC members, and some non-DAC members, already had significant experience to build on through reporting to the OECD's Creditor Reporting System (CRS) on climate finance and other development finance. The agreed standards, guidelines and definitions in this system have been imported to ensure quality and consistency of country reporting to the OECD.

The Rio-marker system, developed by the OECD, gives parties the opportunity to classify projects according to whether they have climate change as a "principal" or "significant" climate change objective. It allows for addressing climate change co-benefits and the need for mainstreaming climate change concerns, objectives that are also highlighted in the 2030-agenda. A challenge with the Rio-marker system, however, is the self-reporting dimension that allows for different tagging of what is climate relevant. For example, it is a particular challenge in tracking finance for adaptation action and climate resilient development, which often have other primary objectives than climate. Furthermore, inconsistencies relate to issues such as; which currency exchange rates to use, which recipient countries to include in countries' reporting, whether to only include ODA or also other official flows. - This effects the aggregation of the information parties provide. Through the revised Common Tabular Format (cf. Decision 9/CP.21) new reporting fields for the provision of information on definitions and methodologies used for reporting have been created. This will provide further clarity and more consistency in future reporting. The new tables do, for instance, align the reporting parameter "status" of support with the categorization used in other existing international methodologies ("committed" or "disbursed"). Still, the development of accounting modalities under SBSTA will have to address how to improve consistency of data provided and a harmonization of donor practices.

The most significant challenges relates to; how to capture flows from Multilateral Development Banks (MDBs) and other multilateral entities and; how to account for private climate finance mobilized. On the first point, parties report through the CTF on their core/general support to multilateral institutions. This is not an adequate way of capturing climate action channeled through the multilaterals. Secondly, there is currently no agreed methodology for capturing private climate finance mobilized. Through the OECD Research Collaborative on Tracking Private Climate Finance, Norway, other developed countries and several organizations, have partnered to try to fill the knowledge gaps both on the overall architecture and measurement of private climate finance flows to, between and in developing countries, as well as on determining how developed country public interventions mobilize private finance. A pilot study to estimate private climate finance flows from Norway to developing countries in 2014 has been conducted[1]. The study shows that the bottleneck in tracking Norwegian mobilized private climate finance for developing countries is availability and quality of data and methodological difficulties related to the lack of international standard definitions and methods. This means that there exists a significant room for improvements in tracking private climate finance, both in terms of reliability and completeness, provided that methods and standardization are improved.

2. **<u>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 they be addressed.</u>**

Based on what was mentioned in the previous section, we would highlight the following points:

- The accounting modalities should build upon the OECD-DAC methodology. Currently the OECD-DAC CRS system provides more transparency than the UNFCC, allowing parties to present disaggregated project-level data. Reporting under the UNFCCC could be improved, for instance, through explicitly showing how much finance that is tagged as principal vs. significant objectives, which is the case in reporting to the OECD. Furthermore, the Rio-marker system is currently undergoing a revision in the OECD DAC, where increased guidance aims at making utilization of the markers more consistent across the reporting parties, with less room for "individual" interpretation.

- The new accounting modalities should include ways to better capture what the multilaterals are doing in terms of climate action and how these funds can be accounted for and attributed. In doing this it will be important to seek input from and align with MDB methodology for tracking climate finance. OECD attributes to countries the climate share of reported inflows to multilateral institutions. This inflow based model does not, however, cover all the action and climate finance

[1] http://www,cicero,uio,no/no/publications/internal/2782

undertaken by multilaterals.

- Modalities for accounting of mobilized private climate finance should ensure that funds are only counted once ("no double-counting"), and ensure that the reporting framework encourages and incentivizes the most effective use of climate finance. Reporting on mobilized private climate finance need to take into account that there are challenges and costs related to collecting and verifying data, and we should not create a system which is overly burdensome for parties. It is a particular challenge to specify what is meant by "mobilization". Another challenge is to track and quantify mobilized finance from policy interventions. Further input on how to improve tracking and reporting of private climate finance flows should be sought, amongst others, from ongoing activities in MDBs, bilateral Development Finance Institutions (DFIs), the OECD-hosted Research Collaborative on Tracking Private Climate Finance, the OECD DAC, country pilots, and the Standing Committee on Finance (SCF) under the UNFCCC.

- We should avoid methodologies that do not allow for country specific adaptation as methods improve and new data becomes available. Guidelines should be flexible enough to apply to everyone, but also provide enough clarity on what is required.

- Since the modalities will feed into the transparency system, the modalities should also show progress towards the transformational goal and inform the global stocktake. Here the SCFs Biennial Assessment will provide a valuable input, capturing potentially flows from all parties and broader multilateral and private finance.

3. How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement.

The output of work needs to be coordinated with the work on the modalities, procedures and guidelines being carried out in APA. The SBSTA work need to finish well before 2018, so that it can be appropriately integrated into the proposal going to the CMA.

Paper no. 11: Russian Federation

Предложения Российской Федерации о международном содействии на цели снижения антропогенного воздействия на климат и адаптации к климатическим изменениям

Москва, 17 октября 2016

Предложения подготовлены в соответствии с решением Вспомогательного органа для консультирования по научным и техническим аспектам на 44-й сессии по пункту 12 повестки.

Адресное содействие заинтересованным государствам для решения проблемы глобального изменения климата должно быть ориентировано на достижение конкретных верифицируемых результатов и охватывать все страны, нуждающиеся в таком содействии, включая категорию стран Рамочной конвенции ООН об изменении климата (РКИК ООН), в которых происходит процесс перехода к рыночной экономике (страны с переходной экономикой), как это предусмотрено соответствующими решениями Конференции Сторон РКИК и Совещания Сторон Киотского протокола (Решение 2/CP.17, Раздел VIII (А); Решение 11/CMP,8).

Климатическую помощь целесообразно фокусировать на решении двух основных задач - снижение антропогенного воздействия на климатическую систему и адаптацию экономики к климатическим изменениям.

Конкретные проекты и программы содействия следует формулировать таким образом, чтобы их реализация обеспечивала комплексный синергетический подход к решению экологических проблем, смежных с климатическими изменениями - опустынивания, сохранения лесов, биоразнообразия.

Принимая во внимание тот факт, что в противодействии изменению климата существенную роль играют вопросы повышения эффективности энергетики, совершенствования управления лесами и обеспечения устойчивости водопользования, проекты, направленные на решение этих проблем, также могли бы составлять часть портфеля заявок на получение международного содействия.

При реализации программ помощи в климатической области следует использовать все механизмы международного содействия: двусторонние каналы, многосторонние целевые фонды, соответствующие организации системы ООН - Программа развития ООН (ПРООН), Программа ООН по окружающей среде (ЮНЕП), Организация Объединенных Наций по промышленному развитию (ЮНИДО), Форум ООН по лесам (ФЛООН), Всемирная метеорологическая организация (ВМО) и др. Широкий формат содействия позволяет повысить объемы мобилизации финансово-технических ресурсов и, ломимо прочего, использовать опыт ООН для придания системного характера предоставляемой помощи и повышению уровня транспарантного и отчетности в использовании средств.

При рассмотрении вопроса о модальностях учета международного климатического содействия в рамках РКИК ООН считаем целесообразным брать за основу нормы и подходы ОЭСР в части статистического учета содействия международному развитию (СМР). Одновременно необходимо четко определить критерии отбора такого рода содействия, в том числе исходя из существующих национальных особенностей систем учета и механизмов предоставления помощи. Следует иметь в виду, что в таких механизмах, как, например, ГЭФ, большая часть ресурсов идет в развивающиеся страны, при том что какая-то часть может также идти на программы в странах-донорах.

Кроме того, необходимо использовать экспертизу профильных структур для выявления программ и мероприятий, деятельность в рамках которых может относиться к климатическому содействию развивающимся странам.

[Translation as submitted]

UNOFFICIAL TRANSLATION

Submission by the Russian Federation on international assistance for climate change mitigation and adaption

Moscow, 17 October 2016

The submission is prepared pursuant to the conclusion adopted by the Subsidiary Body for Scientific and Technological Advice at forty-forth session, agenda item 12.

Targeted assistance to the states affected by the global climate change must be aimed at achieving clear verifiable results and address all the countries that need such assistance including the category of countries that are undergoing the process of transition to a market economy (EITs) under the United Nations Framework Convention on Climate Change (UNFCCC) as it is provided by the decisions of the Conference of the Parties of the UNFCCC and the Meeting of the Parties to the Kyoto Protocol (decision 2/CP.17, Section VIII (A); decision I1/CMP.8).

Climate aid should be aimed at solving two major tasks - reduction of human impact on the climate system and economy adaption to climate change.

Concrete assistance projects and programs should be designed in such a way as to ensure integrated synergetic approach to the solution of environmental problems related to climate change - desertification, protection of forests and conservation of biological diversity.

Given the essential role of enhancing energy efficiency, improving forest management and securing sustainable water consumption in fighting climate change, projects in these fields could be a part of the application portfolio for receiving international assistance.

While implementing aid programs in the climate sphere all mechanisms of international assistance should be used: bilateral channels, multilateral trust funds, UN system organizations - the United Nations Development Program (UNDP), the United Nations Environmental Program (UNEP), the United Nations Industrial Development Organization, the United Nations Forum on Forests (UNFF), the World Meteorological Organization (WMO) *etc.* Diversity of assistance forms allows to increase mobilization of financial and technical recourses and, *inter alia,* to utilize the UN experience to provide for systematic approach to assistance and to raise the transparency and accountability of spending the funds.

While considering the issue of the accounting modalities for the international climate assistance under UNFCCC, OECD standards and policies in the field of international development assistance statistics might be taken as the basis. At the same time it is necessary to clearly determine the selection: criteria for such aid, taking into account specificities of national accounting systems and development assistance mechanisms. It should also be noted that while the most part of resources of such mechanisms like, for example, the Global Environmental Facility is channeled to developing countries, some portion of them might be used to finance programmes in donor states.

Besides it is necessary to use the expertise of concerned agencies for identifying programmes and measures that might be classified as climate aid to developing countries.

Paper no. 12: Slovakia and the European Commission on behalf of the European Union and its member States

SUBMISSION BY THE SLOVAK REPUBLIC AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

This submission is supported by Bosnia and Herzegovina and Serbia.

Bratislava, 5 September 2016

Subject: 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

Transparency of support, including clear accounting modalities for climate finance, is essential for two reasons: First, transparency is a key element to build trust among Parties. Developed country Parties have committed to the goal of mobilizing jointly USD 100bn by 2020 annually from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources. The EU and its Member States remain committed to this goal. Robust accounting modalities are an important tool to demonstrate progress towards this goal in a clear and credible manner. Second, transparency of support is key because it has the potential to enhance the effectiveness and efficiency of the deployment and use of financial resources as it can help to gain a better understanding of the overall scale, the sectorial/geographical distribution and can uncover trends and gaps of financial resources available for low carbon and climate resilient development.

The enhancement of transparency of support is currently being dealt with under different agenda items within UNFCCC (SBSTA, APA, SCF), and also depends on the crucial input and data from other organisations, due to the wide variety of sources that contributes to the joint USD 100bn goal. This cross-cutting approach should be used to the best extent possible in order to provide an improved framework and avoid gaps or overlaps as much as possible.The development of modalities of accounting financial resources in line with Articles 9.7 and 13.13, and to be used by the relevant Parties with commitments under the Convention and in light of the Paris Agreement, is one of the important steps towards such an improved framework under the UNFCCC. The EU and its Member States look forward to the upcoming work under SBSTA on paragraph 57 of 1/CP.21 and welcome the invitation of SBSTA 44 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. The EU and its Member States will lay out their views on this issue based on the guiding questions provided by SBSTA 44.

a) *What are the existing modalities for the accounting offinancial resources provided and mobilized through public interventions, and what are the challenges and information gaps with respect to these existing modalities;*

The EU and its Member States consider the existing modalities as the basis for the further development of accounting modalities, while also recognizing their current shortcomings. By addressing these current challenges and information gaps, the EU and its Member States aim at taking major steps by the international community towards enhanced transparency. Transparency of climate finance has already been improved since the Fast-Start Finance Period through a variety of decisions and processes, where SBSTA can build on:

- The revision of the guidelines for the reporting on provision of support within the National Communications will be finalised at COP 22, mainly addressing inconsistencies between the National Communications and the Biennial Reports (see FCCC/SBI/2016/L.22)

- Since January 2014, Parties provide information on climate finance, in accordance with agreed guidelines and using a common format, the Common Tabular Format (CTF) as part of their Biennial Reports (decision 19/CP.18; decision 2/CP. 17). The use of this Common Tabular Format has greatly increased the amount of data, enhanced the accounting of climate finance as well as led to better comparability and accessibility of this data. Decision 9/CP.21 has further addressed shortcomings of the Common Tabular Format based on submissions by Parties and observer organizations as well as through an in-session workshop. The decision introduced reporting fields on definitions and methodologies used by individual Parties, in order to gain clarity on the approaches underlying Parties' Biennial Reports. In addition, the decision also improved the use of terminology on climate finance by aligning categorizations with those used in other existing international methodologies and showed the importance of easy use of data software to avoid undue reporting burden on Parties.

Individual donor Parties have further improved their way of accounting on climate finance within the Common Tabular Format over time. The EU and its Member States have voluntarily worked towards better internal comparability of their reports in accordance with the EU Monitoring Mechanism Regulation. In comparison to the first Biennial Report, the number of Member States that report on a project-by-project basis increased. These countries thereby provide a substantially greater degree of clarity about their climate finance efforts.

Besides the improvement of modalities within the UNFCCC, a group of donor countries explored possible methodologies for tracking mobilized climate finance in the context of the USD 100bn climate finance goal.

This group agreed on a common understanding on mobilized climate finance, after months of intensive communication, which was presented in a joint statement on 5-6 September 2015. The EU and its Member States welcome this statement and the presented methodology on tracking mobilized private climate finance. This is another important part of work where the SBSTA can build on.

The work on the common understanding, and the underlying methodology[1], was guided by the following principles:

- only finance mobilized by developed country governments is counted towards the $100 billion goal and in accounting for mobilized private climate finance, assessments are intended to be based on an activity-by-activity basis, and to report on private finance associated with activities where there is a clear causal link between a public intervention and private finance, and where the activity would not have moved forward, or moved forward at scale, in the absence of the governments' intervention;
- where multiple actors are involved, the resulting finance is only counted once;
- the reporting framework should encourage and incentivize the most effective use of climate finance

Thirdly, the SBSTA should look at the progress made by other organizations. Both Multilateral Development Banks (MDBs) as well as the International Development Finance Club (IDFC), a group of national, bilateral, and regional development banks from Africa, Asia, Central- and South America and Europe, have been streamlining their principles for tracking climate finance and thereby providing better information on their efforts[2].

Considerable progress has also been made under the OECD. The OECD Rio Markers for both adaptation and mitigation have been acknowledged as a tool for transparent and comprehensive while feasible reporting by Parties in their Biennial Reports and the OECD made efforts to harmonizing and improving the applicability of Rio Markers. After several consultations with, among others, MDBs and DFIs, the OECD DAC revised their reporting directives on the Rio Markers to streamline guidance and take into account most recent findings from IPCC. Further, to advance methodologies for tracking private climate finance, the OECD hosts a Research Collaborative to provide a forum for governments both from developed and developing countries, research institutions and MDBs and DFIs.

[1] http://www.news.admin.ch/NSBSubscriber/message/attachments/41225.pdf
[2] Regarding mitigation:
http://www.worldbank.org/content/dam/Worldbank/document/Climate/MDB%20IDFC%20Mitigation%20Finance%20Tracking%20Common%20Principles%20-%20V2%2015062015.pdf
Regarding adaptation: http://pubdocs.worldbank.org/en/222771436376720470/010-gcc-mdb-idfc-adaptation- common-principles.pdf

The EU and its Member States look forward to any submissions of these observer organizations as an important input to the work of SBSTA.

In sum, this work under the UNFCCC, by individual Parties and/or among donors and between finance or research institutions has further increased the transparency and comparability of climate finance considerably but some gaps and challenges still persist regarding existing accounting modalities:

1. The changes within the UNFCCC transparency framework make it difficult to detect trends as the comparison of data over time is not without risks.
2. The aforementioned principles on mobilized climate finance are not yet universally agreed, although they are useful in guiding methodological improvements for reporting climate finance also under UNFCCC.
3. The current reporting formats under UNFCCC are based on individual party reporting, and so do not facilitate this type of collective reporting towards the USD 100bn goal, which requires the robust aggregation of data from a range of sources, including MDBs and other international organizations, in order to avoid double counting. To date, this can only happen outside the UNFCCC context. The independent study requested by Peru and France as COP Presidencies and conducted by OECD, in collaboration with CPI, on this matter, for 2013 and 2014, provided a first robust attempt in this direction. Transparency of climate finance can therefore be increased if - in addition to individual donors’ reporting on climate finance - improvements are made to capture also such multilateral efforts.

4. More clarity and information could be provided to increase the transparency, accuracy, consistency, comparability and completeness of climate finance. This could be achieved by exploring the improvements incorporated by donors in their reporting, by providing clearer information on their methodologies, and by more frequently providing project-by-project information within their Biennial Reports.

5. The Common Tabular Format has proven to be a useful means for reporting, but requires further guidance under the UNFCCC to ensure clear and consistent approaches to reporting.

6. Tracking of mobilized private climate finance is a new area where large data gaps still exist. In the long run, tracking of mobilized climate finance needs to go beyond measuring co-financing, but also better track the larger transformational impact that technical assistance and the improvement of enabling environments have. In addition, a reporting format in the Common Tabular Format for mobilized private finance is lacking to date and therefore very few countries have reported in their biennial report on private finance.

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;

In line with the above mentioned gaps and challenges, the following accounting modalities need to be established:

- Article 9, paragraph 7 refers to the modalities, procedures and guidelines to be adopted as referred to in Article 13, paragraph 13 which should take into account a number of principles laid down in paragraph 91 of decision 1/CP.21.These principles should be further discussed and clarified in the context of climate finance as part of the work on modalities for the accounting of financial resources provided and mobilized. An agreement on clearer principles for accounting on climate finance, will enhance the accounting of climate finance in a transparent, comprehensive while pragmatic manner.
- There is a clear need of a reporting format for mobilized private climate finance. To date, a reporting format on this issue is missing under UNFCCC, thereby undermining reporting on mobilized private climate finance.
- To increase the transparency and comparability of climate finance within those reporting formats, UNFCCC should provide recommendations on the type of supplementary information to be provided and on the level of granularity of reporting.

Jointly establishing these accounting modalities is a challenging task, especially with regards to mobilized private climate finance. Improvements will require in-depth technical exchange among Parties and transparency experts such as the OECD Research Collaborative, and OECD DAC. Therefore, the EU and its Member States welcome the invitation of submissions and the upcoming in-session workshop. Further exchange should also include experts from International Finance Institutions, including MDBs, to leverage their knowledge, e.g. with regards to their efforts to track mobilized private climate finance.

c) *How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement.*

Paragraph 91 of 1/CP.21 requests the Ad Hoc Working Group on the Paris Agreement to develop recommendations for modalities, procedures and guidelines in accordance with Article 13, paragraph 13, of the Agreement, for consideration by the Conference of the Parties, at its twenty-fourth session. The mandated work therefore in principle fits with the timeline established in Paragraph 57 of 1/CP.21 which highlights that the work on the modalities for accounting climate finance needs to be completed by November 2018. It should be ensured that these discussions associated with these paragraphs are not duplicated in different fora.

Given the complexity and challenging nature of the issue at hand, regular, detailed and constructive engagement will be necessary on a formal and informal basis in order to advance the given task. Also, the discussions should draw on existing expertise, such as the work of the OECD, the Standing Committee on Finance, the International Development Finance Club, and Multilateral Development Banks as well as on existing accounting modalities to the extent possible in order to ensure a swift and comprehensive agreement among Parties. The EU and its Member States stand ready to take an active role in these different fora, working towards the best outcome possible for the accounting modalities specifically, and transparency of support in general.

Paper no. 13: Switzerland on behalf of the Environmental Integrity Group

The views of the Environmental Integrity Group (EIG) on the development of modalities for the accounting of financial resources provided and mobilized through public interventions

Common modalities for the accounting of financial resources provided and mobilized are essential for improved accountability, improved understanding of Parties efforts, environmental integrity, increased comparability of data, and improved confidence and trust amongst Parties. Therefore, the EIG welcomes the opportunity to present its views on the modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement. We will structure our views based on the guiding questions expressed in the conclusions of SBSTA 44.

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;*

Transparency of support, including accounting modalities for financial resources provided and mobilized, has been improved majorly through several decisions and developments since the first Fast- Start Finance reports were issued by developed country Parties in 2011. In accordance with decision 19/CP.18, developed countries have been using a Common Tabular Format (CTF) since 2013 to report and account for climate finance provided and mobilized as part of their Biennial Reports. Since the CTF is in use, the data on climate finance provided by developed countries has become more complete, comparable and accessible to all.

In 2015, the CTF was further improved through decision 9/CP.21. In their next Biennial Reports Parties will have to provide additional information on the definitions and methodologies applied, thus improving further the reporting of financial information. We believe the revised tables provide a good starting point for the upcoming discussions on accounting modalities for climate finance provided and mobilized by all Parties as part of the work programme of SBSTA in accordance with paragraph 58 of 1/CP.21.

In addition, many Parties and institutions which provide and mobilize climate finance have continuously refined their accounting modalities since 2011 to provide more granular and comparable information. Many more Parties now report on an activity- and/or country-level basis and are much more transparent and consistent in the application of their accounting modalities and reporting of the various financial instruments.

The Multilateral Development Banks (MDBs) and the International Development Finance Club (IDFC)[1] have also greatly improved their climate finance measuring and tracking since 2011 and have started to report collectively on their efforts. To further improve the comparability and consistency of their data they have agreed to common principles for their climate mitigation and adaptation finance tracking[2].

In 2015, the OECD revised the definition and guidance for the Climate Rio Markers[3] in particular for adaptation to

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[1]The IDFC is a group of like-minded development banks of national and sub-regional origin from Africa, Asia, Central and South America, Europe and the Middle East. https://www.idfc.org/

[2]Common Principles for Climate Adaptation Finance Tracking:
http://pubdocs.worldbank.ora/en/222771436376720470/010-acc-mdb-idfc-adaptation-common-principles.pdf
Common Principles for Climate Mitigation Finance Tracking:
http://www.worldbank.ora/content/dam/Worldbank/document/Climate/common-principles-for-climate-mitiaation-finance-tracking.pdf

[3]http://www.oecd.orq/dac/environment-development/Annex%2018.%20Rio%20markers.pdf

improve the application of the markers and increase the accuracy and comparability of data. Several Parties use the Rio Marker methodology to identify their climate specific support to developing countries, hence these further improvements will lead to further clarity and improved comparability in their reporting to the Convention.
To provide increased transparency on the progress towards the goal of jointly mobilizing USD 100 billion by 2020 from a wide variety of sources, 18 major climate finance providers agreed on a common understanding of mobilized climate finance[4], including a common methodological framework for the purpose of tracking their progress. Their work was guided by the following key principles.

To ensure that:

> all finance counted towards the USD 100 billion goal is mobilized by developed country governments.
> where multiple actors are involved, the resulting finance is only counted once,
> the reporting framework encourages and incentivizes the most effective use of climate finance.

Based on these principles they also provided some technical recommendations related to the accounting of flows mobilized by developed countries towards the USD 100 billion goal[5] for the purpose of a report from OECD and CPI commissioned by France and Peru[6]. This report demonstrated progress towards the USD 100 billion goal for the first time in a collective manner.

Besides the activities under the UNFCCC, these various voluntary efforts by many Parties and institutions have greatly improved the accountability and led to increased transparency, accuracy, consistency, comparability and completeness of the climate finance data provided.

Nevertheless, various gaps and challenges remain:

> The *accounting modalities for multilateral climate finance provided and mobilized* are unclear and differ across institutions. The completion of the CTF for multilateral flows varies greatly across various Parties and the figures have not yet reached a sufficient level of comparability.

> In Article 9.3 of the Paris Agreement the importance of a wide variety of sources, instruments and channels for mobilizing climate finance is clearly anchored, but the existing system and accounting modalities do not allow for a *coherent measuring and tracking of mobilized private finance.* In addition, several instruments and channels can currently not be captured. Mirroring a lack of clarity and guidance, Parties have reported on their private climate finance mobilized in diverse ways. This has led to data gaps and prevented Parties from consistently tracking their efforts to mobilize private climate finance.

> Developed country Parties agreed to jointly mobilize USD 100 billion by 2020 and intend to continue their *collective mobilization goal through 2025* in the context of meaningful mitigation actions and transparency on implementation. To coherently track the progress towards a collective goal, collective measuring and tracking by all Parties, who made the commitment, should be encouraged. The current system does not allow for that.

> Many Parties have improved their accounting modalities and reporting towards the Convention through clearer and more complete information in their Biennial Reports, e.g. through activity- level information. Nevertheless, data gaps still remain and Parties, who provide and mobilize climate

[4]https://www.newsd.admin.ch/newsd/message/attachments/40866.pdf
[5]https://www.newsd.admin.ch/newsd/message/attachments/41225.pdf
[6]http://www.oecd.org/env/cc/oecd-cpi-climate-finance-report.htm

finance, should provide more complete data. The current system is very impractical because the UNFCCC system is not compatible with other data sources, which are used by Parties for the accounting of their climate finance provided and mobilized. This makes it difficult for Parties to provide more detailed information.

> The current system only provides very partial information on climate finance received and provides little guidance for Parties to measure and track climate finance received. Therefore the current *data of climate finance received* is per se not comparable with the data on climate finance provided and mobilized. Currently it is also not possible to measure results achieved through the climate finance provided and mobilized.

> The current system does not provide any *guidance on the avoidance of double counting* between climate finance provided and mobilized through internationally transferrable mitigation outcomes and the accounting of internationally transferrable mitigation outcomes towards mitigation NDCs. We believe that such guidance is essential to ensure environmental integrity.

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;

Based on the various gaps and challenges highlighted under a) we believe the following improvements would help to provide more clarity and increase the transparency, accuracy, consistency, comparability and completeness of information on climate finance provided and mobilized:

> An *increased common understanding of multilateral climate finance provided and mobilized* and more specific guidance to Parties in that regard would help to improve the measuring and tracking of multilateral finance flows. We believe a recognition of the various efforts for improved transparency by multilateral agencies and Parties (see above) and further improvements in this area would lead to more clarity under the UNFCCC. Since the mobilization and provision of climate finance by multilateral actors is a joint effort of several Parties and actors, we believe it could be useful if these efforts could be collectively measured, tracked and reported.

> *Mobilized private climate finance* has to be measured and tracked in a more coherent manner. Common accounting modalities for mobilized private climate finance have to be developed so that these flows can be reported in a standardized manner. We believe the latest developments and efforts outside UNFCCC from Parties and multilateral climate finance providers in this area (see above) provide very useful input for this work.

> Based on the gaps and challenges mentioned under a), we believe that the transparency and clarity could be greatly increased if *collective measuring, tracking and reporting* (such as in the OECD / CPI report from 2015) was possible under the UNFCCC.

> The practicability, accuracy and consistency of information on provided and mobilized climate finance could be greatly increased if Parties had the possibility to *directly transfer information from other data sources,* which are essential for their climate finance accounting. Through the manual data transfer by Parties, which is very time consuming, a lot of information and granularity in the data is lost, which leads to less accurate accounting of climate finance and less transparency.

> To ensure that the data for climate finance provided and mobilized is comparable to the data for climate finance received, it is essential that *common accounting modalities are developed for*

climate finance provided, mobilized and *received.* The joint development of these accounting modalities will increase the common understanding amongst Parties and build technical capacity, especially in those countries with less technical capacities and experience in accounting climate finance. Having such modalities in place will also support the effective use of climate finance.

> To ensure environmental integrity it is crucial that double counting between internationally transferrable mitigation outcomes and climate finance be excluded. Parties should be able to either account their efforts in developing countries as a mitigation outcome or towards their climate finance efforts but not both.

> Article 9 of the Paris Agreement clearly indicates that all Parties have a role to play in the mobilization and provision of climate finance. Hence, it is important that the modalities for the accounting of financial resources provided and mobilized are applicable to all. To ensure this and to reduce unnecessary burden for Parties, the accounting modalities should be fit for purpose, simple and practical.

Overall, the development of common accounting modalities for climate finance is challenging and technically very demanding. We encourage the technical experts from all Parties, the various experts, multilateral institutions and observer organizations to work with each other, to tap on the broad knowledge and experience on accounting modalities for climate finance, which already exists within and outside of the Convention.

The EIG is committed to working and actively engaging with all Parties and relevant stakeholders on this very important issue. We are looking forward to a fruitful technical exchange at the in-session workshop at SBSTA 45.

c) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement.

According to 1/CP.21 paragraph 96 the work of the Ad Hoc Working Group on the Paris Agreement on the modalities, procedures and guidelines for transparency of action and support will have to be concluded no later than 2018.

We believe the common accounting modalities for climate finance are an important element of the transparency framework under the Paris Agreement. Therefore, the work of SBSTA on the development of accounting modalities for climate finance should be concluded prior to the conclusion of the work of APA on the modalities, procedures and guidelines for transparency of action and support.

Ideally the work of SBSTA on this issue would be concluded at SBSTA 48 so it could be considered by Parties and fully reflected in the considerations of the work of APA on the enhanced transparency system for action and support before its conclusion.

To ensure coherence and efficiency the work on accounting modalities for climate finance should not be duplicated in other bodies under the Convention. Expert bodies, such as the Standing Committee of Finance, could be tasked by the Conference of the Parties with specific intermediate tasks or with providing expert advice, but the bulk of the work should remain within SBSTA to avoid duplication.

Paper no. 14: Turkey

Modalities for accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement

1. Developed vs. Developing Country Parties

According to Article 9, paragraph 7, of the Paris Agreement, Developed country Parties shall provide and mobilize financial resources through public interventions to developing country Parties. The main challenge behind the modalities of accounting these financial resources is the lack of clarification about who are developed and developing country Parties.

The Paris Agreement has refrained from identifying the developed and developing country parties. The Agreement also has "distanced" itself from the so-called annex-based structure. We believe that fair and effective implementation of the Paris Agreement hinges on the clarification of the responsibilities of each party as it can be seen at the aforementioned Article of the Agreement.

Recognizing the severity of this challenge, we believe the COP Secretariat should use all levers and platforms to initiate and facilitate this process. To incrementally address these challenges, any approach should holistically respect some basic parameters like (i) respective economic development levels and (ii) historical responsibilities. Besides, this decision should be a dynamic one that will allow for the reflection of evolving realities in the future. These two basic parameters are technically definable by relatively neutral bodies and thus, they are rather undisputable points. So, a call from the COP to the relevant international financial institutions, such as the IMF and the World Bank, would be an important step to come up with a purely technical draft proposal on what they think could constitute the basis for classifying countries as developed or developing nations. This draft proposal could be submitted to the COP meetings, where parties can make extensive discussions and explore avenues for a possible future consensus. The feedback by the COP meetings can be reflected to the draft proposal again by the relevant IFIs and we can move incrementally to the solution in the coming years.

2. Definiton of Climate Finance

Turkey proposes to revise Tables 7a and 7b of "UNFCCC biennial reporting guidelines for developed country parties":

"Sectors" column in the Tables 7a and 7b should be revised. A footnote to the column should be added and sub-sectors in the footnote should be explicitly mentioned as seen at the Tables below to cover all Parties' considerations.

As it is stated in 2014 Biennial Assessment and Overview of Climate Finance Flows by Standing Committee on Finance, the prominent issue for the measurement, reporting, and verification of public climate finance is lack of definition on climate finance. There are different operational definitions but UNFCCC does not have a definition. Clear and widely accepted definition of climate finance is of vital importance in terms of the modalities for the accounting of financial resources provided and mobilized through public interventions.

G20 also mainstreamed the definitional issues this year. The input paper,"Outline Framework for Measuring Progress on Green Finance" prepared for G20 Green Finance Study Group includes 47 survey responses about the defining and tracking green finance, 24 of which were from institutions/orgaizations representing the private sector, with the remainder from public finance institutions in 16 countries. Several respondents limit themselves to defining and measuring climate finance by focusing narrowly to sectors contributing to climate mitigation. Not only the widely accepted sectors like renewables(including hydros), green building, energy efficieny are included, but sectors like carbon capture and storage, waste management and transport are also included. Other themes identified in localized definitions also include nuclear power plants, capacity building and financial instruments for green finance. Thus, we believe that climate/green finance definition should take all considerations into account and include them in the modalities for accounting of financial resources.

It would be a concrete step to put a footnote to the "Sectors" column in Tables 7a and 7b as seen below. This would contribute to the progress of climate finance definition issue. The footnote should explicitly include all sub-sectors that contributes to the climate mitigation to be able to cover all Parties' considerations. The sub-sectors placed in the footnote below are internationally accepted ones.

Table 7(a) Provision of public financial support: contribution through multilateral channels in 20XX-3

	Total Amount				Status[1]	Funding source	Financial instrument	Type of support	Sector [2] [3]
	Core/general [4]		Climate-specific[5]						
Donor funding	Domestic Currency	USD	Domestic Currency	USD	Committed/ Disbursed	ODA OOF Other[6]	Grant Concessional Loan Non-concessional Loan Equity Other	Mitigation Adaptation Cross-cutting[7] Other	Energy Transport Industry Agriculture Forestry Water and Sanitation Cross-cutting Other
Total contributions through multilateral channels									
Multilateral climate change funds [9]									
1. Global Environment Facility									

[1] Parties should explain, in their biennial reports, the methodologies used to specify the funds as disbursed and committed. Parties will provide the information for as many status categories as appropriate in the following order of priority: disbursed and committed.

[2] Parties may select several applicable sectors. Parties may report sectoral distribution, as applicable, under “Other”.

[3] Renewable energy (solar,ocean, wind, biomass, geothermal, hydro), Energy Efficiency (Energy Distribution for Renewables, Energy Efficient Products, Industrial Energy Efficiency, Smart Grid, Cogeneration), Green Buildings, Carbon Capture and Storage, Nuclear Power Plants, Sustainable Land Management (Sustainable Forestry, Sustainable Agriculture), Green Products and Materials, Wastes (Recycling, Solid and Hazardous Waste Disposal, Waste Management, Waste-to-Energy), Transport (Biofuels, Bicycle, Alternative Fuel Vehicles, Hybrids, Bus Rapid Transport, Biofuels for Aviation, Rail, Electric Vehicles, Transport Logistics, Urban Rail/Metro), Water (Wastewater Tratment, Water Supply, Water Efficiency/Conservation), Environmental Protection (Nature Protection, Ecological Restoration, Soil Remediation,Pollution Control, Prevention and Treatment, Biodiversity Conservation), Adaptation (Adaptation of Infrastructure,, Conservation&Bio-System Adaptation, Disaster Prevention,RiskManagement), Storm-Water Storage, Sustainable Shipping, Crop Insurance.

[4] This refers to support to multilateral institutions that Parties cannot specify as being climate-specific.

[5] Parties should explain in their biennial reports how they define funds as being climate-specific.

[6] Please specify.

[7] This refers to funding for activities that are cross-cutting across mitigation and adaptation.

2. Least Developed Countries Fund									
3. Special Climate Change Fund									
4. Adaptation Fund									
5. Green Climate Fund									
6. UNFCCC Trust Fund for Supplementary Activities									
7. Other multilateral climate change funds									
Multilateral financial institutions, including regional development banks									
1. World Bank									
2. International Finance Corporation									
3. African Development Bank									
4. Asian Development Bank									
5. European Bank for Reconstruction and Development									
6. Inter-American Development Bank									
7. Other									
Specialized United Nations bodies									
1. United Nations Development Programme									
2. United Nations Environment Programme									
3. Other									

Table 7(b) Provision of public financial support: contribution through bilateral, regional and other channels in 20XX-3[8]

	Total Amount		Status [9]	Funding source	Financial instrument	Type of support	Sector [10] [11]	Additional Information[12]
	Climate-specific[13]							
Recipient country/region/project/programme/activity[16]	Domestic Currency	USD	Committed/ Disbursed	ODA OOF Other[14]	Grant Concessional Loan Non-concessional Loan Equity Other	Mitigation Adaptation Cross-cutting[15] Other	Energy Transport Industry Agriculture Forestry Water and Sanitation Cross-cutting Other	

Note: Explanation of numerical footnotes is provided in the documentation box after tables 7, 7(a) and 7(b).
Abbreviations: ODA = official development assistance, OOF = other official flows, USD = United States dollars.

[8] Parties should fill in a separate table for each year, namely 20XX-3 and 20XX-2, where 20XX is the reporting year.
[9] Parties should explain, in their biennial reports, the methodologies used to specify the funds as disbursed and committed. Parties will provide the information for as many status categories as appropriate in the following order of priority: disbursed and committed.
[10] Parties may select several applicable sectors. Parties may report sectoral distribution, as applicable, under “Other”.
[11] Green Buildings, Renewable energy (solar,ocean, wind, biomass, geothermal, hydro), Energy and Energy Efficiency (Energy Distribution for Renewables, Energy Efficient Products, Industrial Energy Efficiency, Smart Grid, Cogeneration), Sustainable Land Management (Sustainable Forestry, Sustainable Agriculture), Green Products and Materials, Wastes (Recycling, Solid and Hazardous Waste Disposal, Waste Management, Waste-to-Energy), Transport (Biofuels, Bicycle, Alternative Fuel Vehicles, Hybrids, Bus Rapid Transport, Biofuels for Aviation, Rail, Electric Vehicles, Transport Logistics, Urban Rail/Metro), Water (Wastewater Tratment, Water Supply, Water Efficiency/Conservation), Environmental Protection (Nature Protection, Ecological Restoration, Soil Remediation,Pollution Control, Prevention and Treatment, Biodiversity Conservation), Adaptation (Adaptation of Infrastructure,, Conservation, Bio-System Adaptation, Disaster Prevention,RiskManagement), Carbon Capture and Storage, Nuclear Power Plants, Storm-Water Storage, Sustainable Shipping, Crop Insurance.
[12] Parties should report, as appropriate, on project details and the implementing agency.
[13] Parties should explain in their biennial reports how they define funds as being climate-specific.
[14] Please specify.
[15] This refers to funding for activities that are cross-cutting across mitigation and adaptation.
[16] Parties should report, to the extent possible, on details contained in this table.

Paper no. 15: United States of America

Submission by the United States:

SBSTA Modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement

The United States is pleased to submit its 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 (hereinafter "modalities.")

Before answering the questions, we would like to deconstruct the relationship between these modalities and the enhanced transparency framework.

Pursuant to paragraph 57 of 1/CP.21, SBSTA's mandate is to develop modalities "in accordance with Article 9, paragraph 7, of the Paris Agreement," which further specifies that the provision of such information is to be "in accordance with the modalities, procedures and guidelines" as stipulated in Article 13. Thus, these new modalities for the Paris Agreement need to be guided by, be consistent with, and advance the enhanced transparency framework under Article 13 of the Paris Agreement.

The modalities should therefore also be guided by the purpose of the framework for transparency of support, which is "to provide clarity on support provided and received by relevant individual Parties in the context of climate change actions under Articles 4, 7, 9, 10, and 11, and, to the extent possible, to provide a full overview of aggregate financial support provided, to inform the global stocktake under Article 14."

In this context, the following sections outline the United States' views on the three questions on which SBSTA invited input:

1. **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 number of existing modalities through which actors account for the financial resources they provide and mobilize. These include modalities both under the UNFCCC (e.g., Biennial Reports (BR), including the associated Common Tabular Format (CTF)) as well as those outside of the UNFCCC (e.g., OECD Development Assistance Committee (DAC) reporting by both DAC members and non-DAC members, annual joint-reporting within the Multilateral Development Bank and Development Finance Institution communities, country-level systems that often exist to provide transparency on development finance for domestic and international audiences, and ad-hoc collective reporting for specific purposes.) These different modalities have allowed development partners to provide greater transparency on their provision and mobilization of climate finance.

With regards to existing modalities under the UNFCCC, some information on key aspects of finance being provided is already captured through the current Biennial Reporting system and its Common Tabular Format. These elements include:

1) The **instruments** used (i.e., grant, loan, guarantee, insurance, equity).
2) Whether finance is provided on **concessional or non-concessional** terms.
3) How a party has identified finance as being **"climate-specific."**

4) **Thematic use** of finance (i.e., mitigation, adaptation, or both)
5) What **sector** is receiving finance
6) Beneficiary **country**

However, in order to provide the level of transparency called for in the Paris Agreement, there are a number of gaps and challenges in the existing modalities under the UNFCCC that would need to be addressed in the new modalities that SBSTA is developing for the Paris Agreement. These are explored further in response to question 2 below.

2. 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.

Transparency is a byproduct of the information that is provided and the systems that collect and disseminate this information. SBSTA's guidance on modalities will therefore need to provide an architecture through which all Parties can provide information on the finance they are providing and mobilizing as well as collect and present this information in a manner that is open, accessible, and facilitates comparability. Specific challenges and gaps that the future modalities being developed for the Paris Agreement would need to address, as well as possible improvements, are outlined in the following table:

Challenges and gaps in existing UNFCCC modalities	**Suggested improvements for Paris modalities**
1) **Coverage** - current modalities under the UNFCCC only capture information from a subset of Parties providing and mobilizing finance, resulting in a partial picture of the full range of flows being provided and mobilized. Such systems would be poorly suited to facilitate the "aggregate overview" called for in the Paris Agreement.	The SBSTA's work should yield a common modality and system that enables and facilitates accounting by all Parties providing and mobilizing support, recognizing that, per Articles 9 and 13, reporting of this information by developing country Parties is not mandatory.
2) **Accessibility** - existing UNFCCC modalities make accessing and manipulating information that Parties provide difficult.	New accounting modalities should lead the way in terms of open-data initiatives. This would facilitate enhanced transparency and accountability by making the information that Parties provide more accessible to recipient countries, NGOs, and academia. For example, by allowing a recipient Party to easily query all finance reported as having gone to their country or allowing researchers or NGOs to more easily access and download all activity-level data in order to analyze sectoral trends or the role of different financial instruments in delivering support.

3) **Compatibility** - differences across reporting systems often lead to countries reporting the same information in slightly different ways, causing confusion that negatively impacts trust and transparency.	Leverage emerging best practices, such as ensuring the new system is developed to be compliant with the International Aid Transparency Initiative (IATI) standards. This would make for more efficient and comparable reporting where similar information is reported via different systems (e.g., OECD DAC, county-specific platforms, SDGs, TOSSD.) The new system could also utilize existing international sectoral classification systems (e.g., ISIC, NAICS), which would allow Parties to provide a more granular picture of what types of activities and sectors climate finance is supporting.
4) **MDB flows** - the current modality for capturing Multilateral Development Bank (MDB) climate finance flows, which involves countries individually reporting on their "core-general" inflows to these institutions via the BR CTF, is poorly suited for capturing what MDBs are doing to finance climate action.	Recognizing the inherent limitations of individual country-level reporting in this context, the new system could better leverage the other elements that make up the broader transparency "ecosystem," such as the Standing Committee on Finance's Biennial Assessment, which may be better suited for capturing climate finance outflows provided and mobilized via MDBs.
5) **Double counting** - as Parties work to build modalities that can facilitate reporting on mobilized private finance - as required in the Paris Agreement - these modalities must also accommodate the need to collect information on how Parties have avoided double-counting, which is a key principle laid out in Article 13 of the Paris Agreement.	The new system should require and enable countries to provide sufficient information for understanding how any methodology used to calculate mobilized private finance avoids counting the same finance more than once across Parties (e.g., allowing Parties to report on how they have applied a "pro-rata" or other approach.)
6) **Cross-cutting activity "tags"** - rather than enhancing understanding of how finance supports capacity-building and technology transfer, the current system treats these as mutually exclusive, asking Parties to report on these activities in three separate tables.	Future modalities should recognize that finance, capacity building, and technology transfer are not mutually exclusive, and allow for Parties to "tag" an activity as contributing to one or more of these objectives. For instance, this would allow for an NGO or recipient Party to more easily identify and quantify what providers of support are doing to enhance in-country capacity.
7) **Concessionality levels of finance** - while the current system requires Parties to report whether finance is "concessional" or "non-concessional," it does not allow Parties to explain how they have identified finance as being concessional.	Future modalities should allow for countries to report on how they have identified finance as being "concessional" or "non-concessional."

3. How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement

As discussed previously, the modalities that SBSTA is developing for the Paris Agreement will need to be consistent with the common modalities, procedures and guidelines for the enhanced transparency framework currently being discussed under the APA. However, the APA transparency discussions will be happening in parallel with SBSTA's work. Therefore, Parties will need to be pragmatic as these two groups work in parallel, recognizing that the ultimate outcome of SBSTA must be ready in time for, and be compatible with, the broader enhanced transparency framework being elaborated under the APA. Close communication between the co-facilitators of these groups will also be critical in this regard.

For instance, starting in Marrakesh, Parties may wish to begin by identifying i) what elements of existing modalities work well and Parties would want to carry over to the new system, ii) what elements of existing modalities don't work well and require improvement, and iii) what additional elements required by Paris, which are missing in existing modalities, would SBSTA have to develop. Parties could then take a step-wise approach and work to develop appropriate modalities for each of these in turn.

Paper no. 16: Vanuatu

Submission by the Republic of Vanuatu

To the

Subsidiary Body for Scientific and Technological Advice

27 September 2016

SBSTA invites parties and observer organizations to submit their views inviting them to consider guiding questions relating to: the existing modalities for the accounting of financial resources; the accounting modalities that need to be developed; and the timing of the development of these accounting modalities in accordance with Article 9, paragraph 7, of the Paris Agreement:

> *"Developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially in accordance with the modalities, procedures and guidelines to be adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement, at its first session, as stipulated in Article 13, paragraph 13. Other Parties are encouraged to do so."*

Vanuatu submits the following guiding questions for the chair's consideration relating to:

1. The existing modalities for the accounting of financial resources

The existing modalities for the accounting of financial resources under the convention (Biennial reports, Biennial Update Reports, etc.) are insufficient for Vanuatu to adequately track support (in the name of "climate finance") that flows into to our country.

In Vanuatu climate finance is tracked by the Office of the Prime Minister's Aid Coordination Unit, which is already resource strained and requires additional assistance to strengthen climate finance databases. Vanuatu's National Advisory Board on Climate Change & Disaster Risk Reduction maintains oversight and coordination roles for implementation, although financial flows remain nebulous, particularly as many partners do not utilize Government financial systems for disbursement. It is the policy of the Government of Vanuatu that all climate finance be channeled through Government finance and aid tracking systems.

Particularly challenging is issue of **double and even triple counting** in which multiple intermediary agencies each report the same climate funding to Government of Vanuatu (e.g. the source donor, the financial administrating entity, and the on-ground implementing agency). Traceability of climate finance to the point source remains problematic. Many climate change programs in the Pacific are regional in nature, supporting multiple small island states, making it very difficult to disaggregate expenditures (especially Technical Assistance) for each country without double counting.

Relabeling ODA as climate finance continues to be a major concern for Vanuatu. New and additional climate finance is both required under Article 4.3 of the Convention, and essential for developing countries like Vanuatu where a redirection of aid can have serious consequences on basic service delivery.

Without a **common climate finance definition/ understanding** of what counts and what should be reported, various partners utilize un-transparent methodologies and classifications of climate finance, which can be manipulated to inflate the perceived amount of support provided. The format and level of detail offered by various finance providers is different, making it challenging for the Government of Vanuatu to find consistency among reports even concerning the same source funds.

Many financial partners fail to report the flow of finance, with **backflow of resources to the donor country** an ongoing problem (e.g. contracts are awarded to and procurements made with donor country nationals/companies etc.).

2. The accounting modalities that need to be developed

Climate finance accounting modalities must build on existing UNFCCC processes, but be adapted to fit the post-Paris context. In addition, climate finance accounting must be tied to global and national climate change monitoring and evaluation systems, to ensure that flows reach intended beneficiaries and investments are gauged based not just on quantity but also on effectiveness. Special support is required for LDCs and SIDS like Vanuatu to develop more robust climate change M&E systems linked with global and national policy priorities.

As highlighted in Vanuatu's 2016 submission to the APA FCCC/APA/2016/L.3, and based on decision 19/CP.18, and 9/CP.21, Vanuatu submits that common tabular reporting formats should include more detailed and relevant information including additional categorizations such as

- % of funding which is climate specific
- original funding source/financial intermediaries
- % of funding for adaptation/mitigation/L&D/comprehensive risk management etc.
- % funding that is channeled through recipient government financial systems

Unambiguous definitions, common formats and standard accounting methodologies must be required of all Parties, and strongly encouraged for private sector and non-government financial flows for Vanuatu to be able to fully track climate finance outside of the Convention.

To avoid relabeling loans as climate finance, reporting on all financial instruments used is important, although ideally only the grant equivalent of these instruments should be counted. Loan requirements and their ties to climate finance grants must be made transparent in reporting.

As Vanuatu has put forward a "conditional" INDC (with meeting targets contingent on receiving adequate funding), Government will require sufficient oversight of financing received and programmed by Vanuatu, versus financing programmed on the country's behalf.

Vanuatu is committed to providing regular and transparent reporting back to donor countries, but requires the technical, financial and human resource support to achieve these aspirations.

Vanuatu is actively seeking accreditation for the Adaptation Fund and Green Climate Fund. For this reason, it is essential that our nation is able to demonstrate our experience in financial coordination and management. Vanuatu and other SIDS will need detailed financial accounting information which can be helpful towards gaining direct access.

3. The timing of the development of these accounting modalities Rapid

finalization of finance accounting modalities is essential.

Paragraph 57 of decision 1/CP.21 requests SBSTA to develop the accounting modalities for consideration by the COP in November 2018, with a view to making a recommendation for consideration and adoption at the first session of the CMA. Paragraph 96 of decision 1/CP.21 requests the APA to complete the work on the modalities, procedures and guidelines for the transparency framework no later than in 2018. Article 13.13 of the Paris Agreement requires the CMA to adopt at its first session "common modalities, procedures and guidelines, as appropriate, for the transparency of action and support". Accounting modalities must be finalized well before the Global Stocktake.

Paper no. 17: Brown University

Submission by Brown University's Climate and Development Lab on behalf of AdaptationWatch to the UNFCCC Subsidiary Body for Scientific and Technological Advice

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

July 2016

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This submission has been drafted by Brown University's Climate and Development Lab in collaboration with members of AdaptationWatch (see www.adaptationwatch.org), which is a growing partnership of organisations from across the world, aiming to raise governance standards for adaptation to climate change. AdaptationWatch partners combine cutting edge tools on tracking development finance with world class research, advocacy and capacity building. AdaptationWatch seeks to share information and work collaboratively with all organisations engaged in transparency and accountability, and climate change adaptation.

AdaptationWatch partners are:

- Adaptify (Netherlands)
- Both ENDS (Netherlands)
- Brown University's Climate and Development Lab (USA)
- ENDA Tiers Monde (Senegal)
- Grupo de Financiamiento Climatico para America Latina y el Caribe (Mexico)
- International Centre for Climate Change and Development (Bangladesh)
- Institute for Social and Environmental Transition (Nepal & USA)
- Nur University (Bolivia)
- Oxford Climate Policy (UK)
- Pan African Climate Justice Alliance (Kenya)
- Stockholm Environment Institute (Sweden)
- Transparency International (Germany)
- University of Colorado-Boulder's Environmental Studies Program (USA)

Context

This submission is provided in response to the UNFCCC Subsidiary Body for Scientific and Technological Advice (SBSTA) call for 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.

The AdaptationWatch partners that have contributed to this document welcome the opportunity to submit their views based on their experience and expertise in climate finance transparency and accountability.

Contents

(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?

1. Introduction

For many years, developed countries have committed to reporting climate finance provided to developing countries to the UNFCCC Secretariat (e.g. UNFCCC, 1999, decision 4/CP.5; UNFCCC, 2011, decision 2/CP.17; UNFCCC, 2012, decision 19/CP.18). Negotiators decided on current climate finance reporting guidelines for Annex II Parties in 2011 in Durban and in 2012 in Doha. Compared to previous reporting guidelines under the UNFCCC, the comprehensiveness and transparency of current reporting requirements have considerably enhanced; before the new decisions, developed countries only reported on climate finance through their National Communications, submitted every four years to the Convention Secretariat. In comparison, current guidelines (UNFCCC, 2011, decision 2/CP.17) require Annex II Parties to report on climate finance both in their National Communications and in their Biennial Reports, the latter submitted every two years. In addition, since 2012 Annex II Parties are required to report to the UNFCCC using a standard format known as the "common tabular format" (UNFCCC, 2012, decision 19/CP.18)[1].

Despite recent progress on reporting guidelines, current decisions under the UNFCCC still fall short of what could constitute a robust accounting framework for climate finance. More than five years after Copenhagen, the question of "what counts" as climate finance is still not internationally agreed, even between OECD Development Assistance Committee (DAC) countries or European Union (EU) member states. At an even more fundamental level, to assess the "newness and additionality" of financial contributions, negotiators should have determined a baseline against which any claim of additionality could be stated. Such a baseline still does not exist. This is particularly problematic: if we compare this with mitigation policy, for example, this would be like the European Union or the United States committing to reduce its emissions by 30 per cent by 2020, without indicating if this percentage was below 1990 or 2005 levels. A climate finance pledge is almost meaningless without such clarifications (Weikmans and Roberts, 2015).

In total, the UNFCCC guidelines leave extreme discretion to developed countries regarding climate finance accounting. Each developed country can decide what it counts as climate finance and why its climate finance can be considered as "new and additional." As the next section will explore in more detail, contributing countries have consequently adopted a large variety of accounting practices on climate finance. Such a variety of accounting practices is not a problem *per se* - though it makes both the comparison of developed country's performance in the

[1] As detailed in Tables 7(a) and 7(b) in decision 19/CP.18 (UNFCCC, 2012), Annex II Parties are among others required to indicate in these common tabular format spreadsheets the total amount, status, funding source, financial instrument, and amount of support provided through bilateral, regional and multilateral channels, to specific countries for mitigation and adaptation. In addition, Annex II Parties have to report, to the extent that is possible, on private financial flows leveraged by bilateral climate finance towards mitigation and adaptation activities in non-Annex I Parties, and should also report on policies and measures that promote the scaling up of private investment in mitigation and adaptation activities in developing country Parties.

provision of climate finance and the assessment of the fulfilment of climate finance promises considerably more complex. The most severe problem rather lies in the fact that many developed countries have so far failed to be transparent and complete in their reporting to the UNFCCC on the methodologies that they used to account for climate finance (Weikmans et al., under review).

Indeed, while developed countries are required to submit documentation that describes in a "rigorous, robust and transparent manner, the underlying assumptions and methodologies used to produce information on finance" - including on how this finance can be considered "new and additional" (UNFCCC, 2011b, annex I, para. 13-15), the level of compliance toward those UNFCCC climate finance transparency provisions greatly varies from one contributing country to another (AdaptationWatch, 2015; Weikmans et al., under review). In addition, accounting methodologies used by some countries have changed over time, rendering very difficult any assessment of trends in the provision of climate finance. Similarly, climate finance figures contained in a given developed country's National Communications are sometimes inconsistent with the figures provided in its Biennial Reports (AdaptationWatch, 2015). Untransparent and/or incomplete reporting to the UNFCCC means that it is impossible to accurately compare developed countries' financial effort toward adaptation and mitigation in developing countries. It leads to contrasting statements on the fulfilment of developed countries' financial promises and to the erosion of trust between Parties in international climate negotiations. It also profoundly complicates the tracking of potential gaps in the financial means that are needed for mitigation and adaptation in developing countries and damages the ability to conduct rigorous research on project and program success, and learning for planning better interventions in the future.

2. Bilateral Public Flows

So far, most developed countries have relied heavily - though not exclusively - on data collected using the OECD DAC Rio marker methodology to report to the UNFCCC Secretariat on their financial commitments towards developing countries. However, as acknowledged by the OECD (2012, p. 62), this methodology was not originally designed to monitor financial pledges; it was rather intended to produce descriptive data to track the mainstreaming of Rio Conventions considerations into development cooperation practices. This section first explores the limits of the Rio marker methodology to accurately monitor the fulfilment of climate finance pledges (section 1.1). Some of these limits have been partly recognized by a number of developed countries which have consequently modified the methodology for their own financial reporting to the climate Convention. As this section then demonstrates, the result of this is a variety of poorly harmonized accounting and reporting practices of climate finance to the UNFCCC (section 1.2).

2.1. The Rio Marker Methodology

Since 1998 a purpose-based scoring system of three values is used by OECD DAC countries, in which all bilateral ODA projects[2] are "marked" as targeting climate change mitigation as its "principal" objective or as a "significant" objective, or as not targeting the objective[3]. The

[2] The generic term "project" used in this paper also refers to other types of aid modalities (e.g. sector budget support, technical assistance).
[3] Each aid project is also screened against the Rio markers "biological diversity" and "desertification."

climate change adaptation marker - which uses the same three-value system - was only introduced in 2009 and the first data on this marker became available in March 2012 for 2010 flows. Projects marked as having a "principal" mitigation or adaptation objective would theoretically not have been funded but for that objective; projects marked "significant" have other primary objectives but have been formulated or adjusted to help meet mitigation or adaptation concerns. The Rio markers system exclusively relies on developed countries' self-reporting; the data are then collected and made available online by the DAC Secretariat[4].

In the institutional and academic literature, the Rio marker data are often used as a *proxy* for international climate finance (see e.g. UNEP, 2013; Morita and Matsumoto, 2014; Ha et al., 2015; Halimanjaya, 2015; Betzold and Weiler, forthcoming). This is not surprising given the fact that the Rio marker data are easily available online, in contrast to the "official" international climate finance figures which are available on the UNFCCC Secretariat website[5] but in a very fragmented and non user-friendly manner. Such uses of the Rio marker data are however highly problematic given the fact that the Rio marker data, while constituting the basis of most developed countries' reporting to the UNFCCC, does not equal the climate finance figures that those countries actually report to the UNFCCC (see section 2.2).

Importantly, the OECD DAC has called for care in using the Rio marker data for reporting on climate financial support to developing countries (see e.g. OECD, 2012, p. 62). In particular, the DAC has highlighted two of the main weaknesses of the Rio marker methodology in this regard: (i) "the Rio markers *do not* allow the identification of 'new and additional resources' as stipulated in the [Rio] Conventions"; and (ii) "(...) [even if] the marker data are quite well-suited for describing individual donors' various activities (...), a problem arises from the moment donor reports are summarized and compared to one another, or when the data are used for pledge-monitoring purposes" (OECD, 2012, p. 62).

The Rio marker methodology lacks several other features that would make it a relevant indicator for pledges-monitoring uses (Weikmans and Roberts, 2016). For example, the Rio marker system allows for an aid project to be marked as targeting several Rio markers. While it is useful to recognise potential overlap between the objectives of different Rio Conventions, the situation is more problematic when the same aid project is marked as "principally" targeting more than one of the four Rio markers. In those cases - which are common for many DAC countries -, the use of the Rio marker methodology for financial accounting may result in double-, triple- or even quadruple-counting towards different financial pledges made under the three Rio Conventions, which "seems inappropriate" according to the DAC Secretariat (OECD, 2012, p. 62). The Rio marker methodology also lacks granularity: when an aid project is marked as "principally" or "significantly" targeting mitigation or adaptation, the whole cost of the project is considered to be mitigation or adaptation related - though only a component of the project may target a mitigation or adaptation objective. In addition, the Rio markers are applicable to bilateral ODA commitments; data on climate-related disbursements are not available in DAC statistics. Consequently, there is no way to know whether or not an intended aid project has been carried out: it could have been modified or even cancelled but would still appears unchanged in DAC commitments statistics.

[4] See www.oecd.org/dac/environment-development/rioconventions.htm.
[5] See http://www4.unfccc.int/sites/br-di/Pages/FinancialSupport.aspx.

Several studies (e.g., Michaelowa and Michaelowa, 2011; Junghans and Harmeling, 2012; Oxfam, 2012; AdaptationWatch, 2015; Weikmans, 2015a) have called into question the quality of the "mitigation" and "adaptation" Rio markers data. All of them highlight the fact that the current reporting system - which exclusively depends on developed countries' self-reporting - is prone to huge overestimations. Far less projects than the developed countries reported were found to be relevant to what can be considered climate change mitigation and adaptation. For example, AdaptationWatch (2015) re-evaluated 5,201 projects that countries reported as "adaptation related" to the OECD for 2012. Developed countries claimed that US$ 10.1 billion of bilateral development aid that year was "adaptation related", with US$ 2.68 billion "explicitly targeting adaptation as a principal objective." However, AdaptationWatch (2015) found that only US$ 2.34 billion appears to be genuinely adaptation related, and only US$ 1.2 billion targeted adaptation as a "principal objective." Human errors, the OECD DAC's broad definitions of adaptation, political incentives to miscategorise, and lack of clarity about what activities constitute "adaptation" are probably all to blame (Junghans and Harmeling, 2012).

Many critiques levelled by those studies against the quality of the Rio marker data have also been acknowledged by the DAC Secretariat (e.g. OECD, 2013a for the "adaptation marker") and by several DAC members (e.g. for Sweden, see Wingqvist et al., 2011; for Finland and Switzerland, see OECD, 2012, p. 66; for Belgium, see ADE, 2013, p. 23-24; for Austria, see Ledant, 2016, p. 66-69). The Rio marker system has always had problems with different DAC member countries using different staff, in different positions and disparate methods to categorize projects (Confidential interviews, 2015). For its part, the UNFCCC Standing Committee on Finance recently observed that, "There is scope for interpretation in how the markers are applied. This provides flexibility, but can lead to non-comparable data submissions from donors" (UNFCCC SCF, 2014).

Importantly, governments are under pressure to show they are taking action on climate change, and the Rio marker self-reporting system allowed pressures to result in "over-reporting" of projects. Some researchers (e.g. Michaelowa and Michaelowa, 2011) found a relationship between levels of over-coding and the political pressure on governments to show they were doing something about climate change (varying, for example, by the level of environmental or left-wing party representation in parliament).

Efforts to modify the Rio marker methodology toward a quantitative rather than a descriptive approach have been underway for several years (for a synthesis, see OECD, 2015), but with limited tangible results to date (Weikmans, 2015b). These efforts are, among others, informed by those of several multilateral development banks, which have elaborated their own methodology to track climate finance. Following a recommendation made by several observers, including AdaptationWatch (2015), the DAC has recently (14 April 2016) updated its guidance for applying the Rio marker for "adaptation" by recommending as a "best practice" that DAC members use the so-called "three-step approach" elaborated and used by a group of multilateral development banks (see section 3 below) to justify for a "principal score", signifying that a project has climate change as its principal objective (OECD, 2016, p. 58). Notably, however, a change in the Rio marker methodology to take into account the "newness and additionality" of financial contributions seems to be explicitly rejected by the DAC (see OECD, 2013b, p. 10), and developing country Parties were not part of the decisions on this reporting.

2.2. Reporting to the UNFCCC on Bilateral Flows by Annex II Parties

All developed countries - with some notable exceptions, including those of the United Kingdom and of the United States which use their own accounting approaches - base their financial reporting to the UNFCCC on the data that they collect with the Rio marker methodology (OECD-CPI, 2015, p. 49). However, most developed countries have modified the Rio marker methodology in different ways in an attempt to overcome the many problems associated with the use of this methodology for their financial reporting to the UNFCCC. The result of this is a variety of poorly harmonized monitoring and reporting practices. Most notably, the volume of finance associated with the Rio markers is often scaled down by using "coefficients" to differentiate between funding marked as targeting climate change as a "significant objective" -reflecting that these projects have other "principal objectives." These coefficients differ across DAC members and range from 0 to 100 per cent (see table 1). As the OECD acknowledges "there has been limited transparency regarding these practices to date" (OECD-CPI, 2015, p. 32).

More broadly, current accounting practices impede meaningful comparisons to be made between the financial effort of each developed country. In particular, Annex II Parties - with the exception of Germany which provides budgetary effort figures - account for all their financial instruments at cash face value. This inflates reported climate finance figures of those contributors with a predominance of loans in their portfolio in comparison with countries that mainly provide their climate finance in grants. This situation is even exacerbated by the absence of a definition of "concessionality" under the UNFCCC; developed countries can indeed decide to count as climate finance the loans that they provide to developing countries at market rates. In addition, in the absence of an internationally agreed definition of the terms "new and additional," each country has its own definition of those terms. They range from recognizing that "climate financing should be additional to the international development aid goal of 0.7% of gross national income" (Norway, 2015, p. 59) to stating with regard to additionality that "since ratifying the UNFCCC in 1992, United States international climate finance increased from virtually zero to around $2.7 billion per year in fiscal years 2013 and 2014" (United States, 2016, p. 46). Most definitions provided by developed countries are ambiguous and impede comparisons of each developed country's performance regarding the provision of climate finance[6].

[6] For a summary of the information on "new and additional" definitions used by developed countries in their first Biennial Reports (2014), see UNFCCC SCF (2014, p. 57-58).

Table 1. Diversity of approaches in accounting and reporting to the UNFCCC for bilateral public climate finance (2013-14)

	Coverage			Point of Measurement		Quantification			Format of Data	
	ODA	OOF	Inclusion of "coal finance"	Commitments	Disbursements	Component Approach	Coefficient on Rio Marker "Principal"	Coefficient on Rio Marker "Significant"	Project Level	Aggregates or semi-aggregates
Australia	X	X	X		X	X	100%	30%[a]		X
Austria	X	X		X			100%	50%		X
Belgium	X	X			X		Range of Coefficients		X	
Canada	X				X		100%	[b]		X
Denmark	X			X	X		100%	100%	X	
EU Institutions	X	X		X			100%	50%		X
Finland	X				X		Range of Coefficients			X
France	X	X		X		X	100%	40%	X	
Germany	X	X		X	X		100%	50%	X	X
Greece	X				X		100%	100%	X	
Iceland	X			X			100%	100%		X
Ireland	X				X		100%	50%		X
Italy	X	X		X	X		100%	40%		X
Japan	X	X	X	X[c]	X[d]		100%	100%		X
Luxembourg	X	X			X		100%	100%		X
Netherlands	X				X		100%	40%		X
New Zealand	X				X		100%	30%[e]		X
Norway	X				X		100%	100%		X
Portugal	X	X		X			100%	0%		X
Spain	X	X			X		100%	20-40%[f]	X	X
Sweden	X			X	X		100%	40%	X	
Switzerland	X				X		51-100%	1-50%		X
United Kingdom	X				X	X	Uses another methodology for its reporting to the UNFCCC		X	X
United States	X	X		X			Use another methodology for its reporting to the UNFCCC			X

Source: Modified from OECD-CPI (2015, p. 43; pp. 45-46) (based on responses to OECD survey on expected reporting by Annex II Parties in their Second Biennial Reports), with additions from our screening of Annex II Parties' Second Biennial Reports that were to be submitted to the UNFCCC Secretariat by January 1st, 2016.

Notes: [a]Where climate change is a significant objective, project-by-project assessment is undertaken to determine the climate change component, and that component is counted as climate support. Where it is not possible to disaggregate the climate change component, Australia uses a 30% coefficient of the "significant" portfolio; [b]"Significant" activities are screened and the most climate-relevant are counted; [c]For loans and grants; [d]For technical assistance; [e]Default, unless an activity-specific coefficient is available; [f]Activities targeting climate mitigation or adaptation as a significant objective (only) are accounted as 20% and operations targeting both mitigation and adaptation as a significant objective are accounted as 40%.

Table 1 shows other differing practices between Annex II Parties with regard to a number of important accounting and reporting parameters. While some countries only report to the UNFCCC climate finance that meets the ODA criteria, others also account for other official flows (OOF) - i.e. non-concessional developmental flows such as non-concessional loans, equity or guarantees. Additionally, while some countries report "committed" climate finance in their Second Biennial Reports, others report figures on their climate finance disbursements[7]. For those countries with a predominance of grants in their portfolios, the difference between committed and disbursed funding is minor and would not significantly change their climate finance numbers. But for developed countries with large multi-year loans, significant differences and fluctuations could be observed between yearly commitments and disbursements (see OECD-CPI, 2015, p. 31).

Only some countries have component-level climate finance accounting (i.e., only parts of the amount of a given aid project is counted as mitigation or adaptation relevant, and not the whole amount of the project). Only 8 out of 24 Annex II Parties provide the UNFCCC Secretariat with their climate finance data at the project level; all other developed countries only report aggregates or semi-aggregates (e.g. figures for world regions or countries). This is despite the fact that international experience in tracking development aid suggests that individual project-level data are crucial for improving effectiveness and coordination among contributors, recipients, implementing agencies, and civil society (Tierney et al., 2011). Robust project data also are important for allowing watchdog groups and citizens in recipient nations to hold decision makers accountable for the climate funds they receive (AdaptationWatch, 2015).

Another complication makes multi-year comparisons almost impossible: many countries have changed their climate finance accounting and reporting methodologies between their First and their Second Biennial Reports. Is the rise in public finance contributions through bilateral channels observed in the OECD-CPI report (OECD-CPI, 2015, p. 21) from 2011-12 (US$ 14.5 billion per year) to 2013-14 (US$ 22.8 billion per year) due to increases in budgets specifically allocated to climate change, or is it due to methodological changes in accounting (e.g. increased coverage of data about non-concessional flows targeting climate objectives)? The OECD-CPI report acknowledges that part of this rise is due to methodological changes but does not provide an assessment of its extent (OECD-CPI, 2015, p. 21). Details obtained from some developed countries make it however clear that such methodological changes can play an important role in the observed rise in bilateral climate finance (Confidential interviews, 2015).

3. Multilateral Public Flow

For Annex II Parties, obtaining data on climate-related contributions flowing through multilateral agencies is crucial because without this information they cannot report their multilateral climate-specific funding in their Biennial Reports to the UNFCCC. Reporting on contributions made to multilateral climate change funds (such as the Least Developed Countries Fund or the Adaptation Fund of the Kyoto Protocol) is relatively straightforward. However, estimating the climate-specific share of core contributions made to multilateral institutions is far more complex. So far, developed countries have adopted a variety of approaches in this regard, which considerably impede meaningful comparisons between developed countries' performances (UNFCCC SCF, 2014; OECD-CPI, 2015).

[7] In OECD DAC statistical reporting systems, commitments, even if multi-year, are recorded in whole in the year they are signed. By contrast, disbursements denote actual payments in each year.

In the future many developed countries plan to draw on OECD DAC imputed multilateral contributions data for the reporting of multilateral finance following recent improvements in data under the DAC (OECD-CPI, 2015). To calculate these imputed multilateral contributions, the climate-related share within each international organization's portfolio is first estimated and then attributed to developed countries based on their share of core contributions to that organization. For some multilateral agencies, this climate-related share currently is estimated using the Rio marker methodology - the total cost of projects categorized as having climate as its "primary" or just a "significant" objective - are counted.

In addition, since 2012, the seven biggest multilateral development banks, joined in 2015 by the 20 members of the International Development Finance Club, have been using another methodology for their climate finance tracking (see MDB, 2015a). The multilateral development banks' tracking methodology is interesting to look at as it is arguably more rigorous and granular compared to the Rio marker approach - and therefore more suited for pledge-monitoring purposes. The two methodologies have similarities (e.g. comparable definitions of mitigation/adaptation and application of the method at the level of commitments of projects) but differ in some crucial aspects (for a detailed analysis, see OECD, 2013c).

A positive list of eligible activities is used for the tracking of mitigation finance. The focus here is on the type of activity that is executed, and not on its purpose. For the tracking of adaptation finance, the group of multilateral development banks elaborated a "three-step approach" consisting of the following steps: (i) setting out the context of risks, vulnerabilities and impacts related to climate variability and climate change a project or program seeks to address; (ii) stating the intent to address the identified risks, vulnerabilities and impacts in project documentation; and (iii) demonstrating a direct link between the identified risks, vulnerabilities and impacts, and the actual activities financed by that project or program (MDB, 2015a). In comparison with the Rio marker methodology, more documentation and analysis are therefore required before a project may be determined to address adaptation.

Additionally, rather than reporting the whole project as "climate relevant" (which is the approach of the Rio marker system), only components, sub-components, elements or proportions of projects can be reported as "climate finance" in the multilateral development banks' methodology. This can lead to huge differences: for example, when screening a climate-proofed infrastructure project, the three-step methodology would only measure the incremental cost of adaptation within the project, while the full value of the project would be counted under the Rio marker methodology. There is however limited transparency associated with the multilateral development banks' climate finance reporting as the data are not released at the project level; indeed, the group of multilateral development banks only makes publicly available aggregates or semi-aggregates of climate finance (MDB, 2015a).

4. Private Flows

Repeated statements from developed country officials and high-level experts state flatly that most climate finance will have to come from private sources, as the private economy moves trillions of dollars in investments that set the energy consumption and climate resilience patterns for communities and nations (Green Growth Alliance, 2014; Global Commission on the Economy and Climate, 2014). However, there is no agreement under the UNFCCC on what should count as "mobilized private finance" for the US$ 100 billion goal (van Gameren et al., 2014) . So far, most developed countries have not reported on private climate finance to the UNFCCC Secretariat.

Some countries have very recently started assessing the private finance that they mobilize through their public interventions (e.g. for France, see Abeille et al., 2015; for Denmark, see Mostert et al., 2015; for Norway, see Torvanger et al., 2015; for Belgium, see van der Laan et al., 2015) . However, the methodologies used are very preliminary and differ from one country to another. In addition, some bilateral development finance institutions have elaborated their own accounting methodology (Stumhofer et al., 2015); complementing similar efforts made by multilateral development banks (MDB, 2015b). The OECD DAC Secretariat is also currently coordinating major research efforts on the tracking of private climate finance[8]. These diverse and preliminary practices do not allow observers to meaningfully assess the current levels of private finance, let alone to compare each developed country's performance in mobilising private climate finance.

5. Reporting to the UNFCCC by non-Annex I Parties

While the mandate given by the UNFCCC COP to the SBSTA in paragraph 57 of Decision 1/CP.21 concerns the development of modalities for the accounting of financial resources "provided" and "mobilized through public interventions," we feel that it is appropriate to draw the attention of UNFCCC negotiators to the pressing need of elaborating modalities for the accounting of financial resources "received" by developing country Parties.

Under the Paris Agreement, developing country Parties are required to provide information on financial support "received" (Article 13.10). However, it is not clear whether or not the accounting modalities for the financial resources "provided" and "mobilized through public interventions" will also apply to the financial support "received."

Developing countries are currently encouraged to report information on financial support needed and received in their National Communications and Biennial Update Reports. While most developing country Parties have provided some information on their needs within their National Communications, Biennial Update Reports and Intended Nationally Determined Contributions, few of them have reported on support received. We can therefore expect that many non-Annex I countries will require support to meet new reporting requirements for financial resources received. In addition, there is no common format (similar to the common tabular formats) for reporting information on financial support needed and received. Besides, there is no common

[8] See www.oecd.org/env/researchcollaborative.

methodology to assess the financial support needed and received. Practices in these regards widely vary between developing country Parties.

One of the major problems is that the information provided by contributor and by beneficiary countries lacks consistency. Non-Annex I Parties have argued that there is no evidence that money from the Fast Start Finance commitment was delivered to the intended beneficiaries. In that sense, there is a growing necessity to reduce the gap of understanding among Parties regarding what climate finance means. For that reason, the creation of accounting modalities could be a good tool for non-Annex I countries to report not only on what they "receive" but also on what they actually invest to deal with climate change, since many developing countries are investing national public finance to deal with the climate problem (GFLAC, 2014, 2015).

(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?

In the development of accounting modalities, we call on UNFCCC negotiators to make a strict delineation between the accounting of financial resources (i) "provided"; and (ii) "mobilized through public interventions".

Indeed, these two types of financial flows are of very different nature: while "provided financial resources" represents an **input indicator** (measuring the financial effort made by contributor countries through the provision of public finance), "financial resources mobilized through public interventions" corresponds to an **output indicator** (private finance mobilized in developing countries through public finance provided by contributor countries) (Weikmans and Roberts, 2016).

1. Modalities specifically linked to the accounting of "provided" financial resources

(i) Common definition of a baseline

To allow meaningful comparison between the financial effort of each developed country in the provision of climate finance, it is necessary to define a common baseline against which to measure the financial effort of developed countries. Hence, it is crucial to have a common definition of the terms "new and additional".

Box 1. Options for a baseline (modified from Stadelmann et al., 2010, p. 2-3)

A definition of 'new and additional' is important for mutual trust, yet hotly contested, as several reports have acknowledged (Doornbosch and Knight, 2008; Corfee-Morlot et al., 2009; Moncel et al., 2009; Roberts et al., 2010). In the end, establishing whether funding is new and additional demands that we determine what is old and established. In other words, the central question is 'new and additional to which baseline?'[9] The eight possible baselines assessed here vary in viability and in how well they guarantee a genuine boost in funding (see the Figure and Table below for an overview). The goal in listing these methods for determining a baseline methodology is not to preclude any, but to seek to advance the discussion towards a more rapid coalescing of positions around a "focal point" that is more likely to be acceptable to a large number of Parties but also rigorous enough to begin to solve this problem.

1. Developing countries overwhelmingly prefer that new and additional funding starts after countries have contributed **0.7 per cent of their gross national income (GNI)** to 'official development assistance' (ODA),

[9] Actually we need two baselines: one for newness relative to existing pledges and funds, and one for additionality to development aid. Some baseline options we lay out here are better at guaranteeing newness, whereas others better match additionality. One may even use two baselines to guarantee both newness and additionality. In fact, such a 'double baseline' would be preferred by developing countries, but may not be accepted by industrialised countries.

a measure of aid defined by the Organisation for Economic Co-operation and Development. The 0.7 per cent GNI threshold is also a favourite of European countries that already meet this ODA standard. Although this threshold seems crystal clear and takes into account past pledges by developed countries, it is not viable for two reasons. First, most developed countries will never accept this threshold - especially the United States, with around 0.2 per cent GNI going to ODA. Second, countries like Sweden and Denmark, which today exceed the 0.7 per cent mark, may just divert existing ODA commitments and call them new and additional climate finance.

2. At the other end of the spectrum, most developed countries favour having **no agreed baseline,** so that each contributor defines its own baseline. This option is clearly not acceptable for developing countries, as 'new and additional' loses any meaning. Comparing funding across nations becomes very difficult, and there is little transparency. This option prevents billions of dollars from having any trust-building value - and it is the current state of affairs.

3. A simple option for avoiding this mess is to count **only funding disbursed through new UN channels,** such as the Adaptation Fund or the Green Climate Fund. Although clear, the 'new channels only' approach reduces flexibility for contributors and potentially leaves them less willing to use the term 'new and additional'. Some existing channels may be better suited for certain types of flows or certain efforts to address climate change. A variant that may be more acceptable to developed countries is to consider all new kinds of funds. This approach, however, could have absurd consequences if old commitments are redirected into new funds.

4. Another straightforward option would allow for using the best channels and mechanisms, but would **not count ODA money as climate finance,** to clearly separate between development and climate funds. Double-counting could be avoided and transparency enhanced. This approach forces contributors to decide whether the main goal of funding is development or climate related. Despite the advantages of this approach, it is rejected by most industrialised countries.

5. A baseline acceptable to contributors may be **current climate finance:** the existing funds and those pledged before Copenhagen would define the unchanging baseline. (This could be a five-year average from before Copenhagen, 2004-2008.) On the downside, diversion of development-oriented aid is possible, and it is difficult to distinguish between old and new finance. Another crucial point for this option and several others is that of inflation. Are baselines set in inflation-adjusted currencies? If not, then future promises are a fraction of what developing nations would otherwise expect to receive.

6. As a compromise between options 4 and 5, one could assess **how much foreign assistance countries would be expected to provide** in any given year, in the absence of new climate finance. If updated projections of development aid were used as a baseline, business-as-usual funding levels would be renegotiated every year, taking into account current economic growth and ODA commitments. This option may be more acceptable to contributors as it allows future spending on climate finance to drop during economic downturns. Of course, obligations would also increase in boom years. Although this method is theoretically close to the perfect assessment of 'new and additional', in practice it would be difficult to negotiate - and it might fail to create trust between parties, as developed countries will always be suspected of fixing the baseline.

7. A baseline of **predefined projections of development aid** would avoid this permanent renegotiation by defining the projected business-as-usual level of ODA in advance, according to a realistic growth path for ODA. The predefinition task would create a debate on which ODA growth path is most realistic. Industrialised countries may be concerned about agreeing to specific levels of development aid and climate finance without knowing their future GDP growth and related tax income. It is straightforward, however, to use a formula that takes into account real GDP growth in later years. The GDP dependence of the funds would be a downside for developing countries, but by avoiding renegotiation of the

formula they would benefit from better predictability.

8. A final solution combines all issues: newness, additionality and acceptability. This baseline would count **new sources only,** meaning that only assistance from novel funding sources - such as international air transport levies, currency trading levies or auctioning of emission allowances - would be seen as new and additional. Such funds are new by definition, and they are likely to be additional to ODA, as it is highly improbable that new funding instruments - especially the ones related to climate change - would be used for development aid without a climate policy regime. The obvious drawbacks are that it in flexibly bars the use of effective current funding streams, and would arbitrarily define which sources are new. Although we believe that this baseline could be acceptable for contributors, they have ruled it out for 2010- 2012 fast-track financing, which will mainly draw on existing sources such as the general budget. Therefore, the 'new sources only' option is probably one for longer-term climate finance.

Of these possible baselines, the *last two are most worth pursuing.* They steer clear of the extremes of being too overbearing or too loophole-ridden. Perhaps most to be avoided is the current path of having no agreed baseline, so that billions are spent but no trust is gained.

Figure. A continuum of baseline options

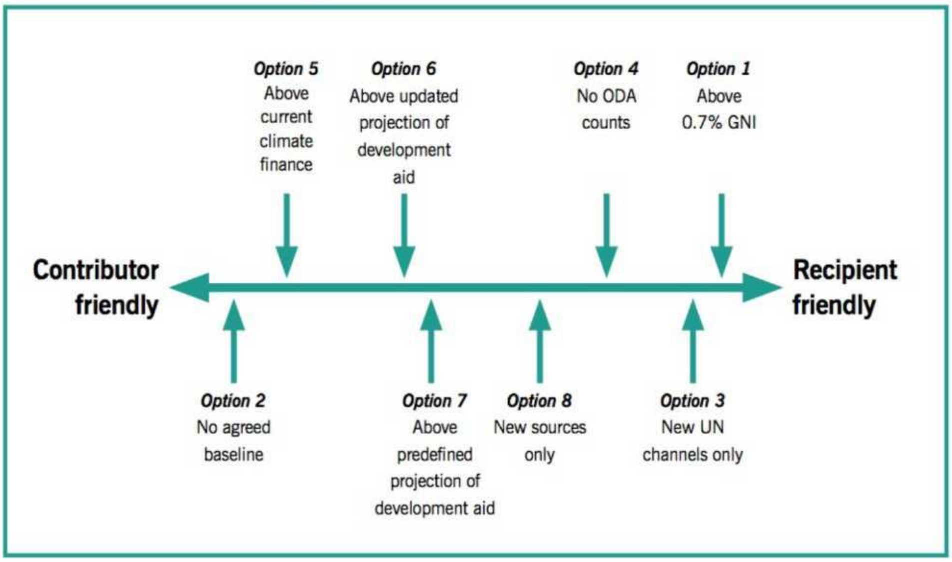

Table. The eight options

Option	Advantages	Disadvantages
1. **Above 0.7% of GNI**	• Objective criterion • Based on past ODA pledges	• No pressure on countries above the threshold • Countries very far from the threshold (e.g. the US) likely to ignore the criterion ***Too directive?***
2. **No agreed baseline**	• Acceptable for most contributors	• No comparability of commitments and disbursements • Even low pledges can be labelled as major • Front-runners do not get recognition ***Vacuous***
3. **New UN channels only**	• Objective criterion • Proportion of contributors vs recipients on UN boards is about equal	• Existing mechanisms may be more suited for certain purposes • Diversion of ODA still possible • Contributors provide only token contributions ***Too directive***
4. **No ODA counts**	• Objective criterion • Relabelling of aid as 'climate finance' is avoided	• Likely unacceptable for most contributors • Old ODA funding sources may still be used ***Too directive***
5. **Above current climate finance**	• Acceptable for contributors	• Diversion of ODA still possible • Requires controversial decisions on whether projects are climate related[14,15] ***Vacuous?***
6. **Above updated projection of development aid**	• Technically correct definition	• Hypothetical, very difficult to assess, very contested • Diversion of ODA still possible ***Vacuous***
7. **Above predefined projection of development aid**	• Objective criterion after being defined • Predictability of funds	• Definition of baseline will be contested • Diversion of ODA still possible but not likely ***Workable short-term option***
8. **New sources only**	• Newness appears guaranteed • Additionality likely	• Contributors are restricted in their choice of instruments and may reduce funding • Not clearly objective in some cases ***Workable long-term option?***

(ii) Flows should be consistently reported in grant equivalent

As highlighted *supra*, developed country Parties - with the exception of Germany which provides budgetary effort figures - currently account for all their financial instruments at cash face value. This inflates reported climate finance figures of those contributors with a predominance of loans in their portfolio in comparison with countries that mainly provide their climate finance in grants. To overcome this problem, it is necessary that developed country Parties report the climate finance that they provide to developing countries in grant equivalent. UNFCCC negotiators need to agree on a common methodology to calculate the grant equivalence of loans and other financial instruments.

2. Modalities linked to the accounting of both "provided" and "mobilized through public interventions" financial resources

(i) Granularity

The whole cost of a project or programme cannot be reported as "climate finance" if only a component of this project or programme targets mitigation or adaptation. Only those components, sub-components, elements or proportions of projects that target mitigation or adaptation can be reported as "climate finance".

(ii) Categorization as "climate finance" and control on self reporting

Control on developed country Parties' self reporting could be achieved through triple validation, that is: (i) proposed categorization by the contributing country (for bilateral climate finance) or by the multilateral institution (for multilateral climate finance); (ii) validation by the beneficiary country; and (iii) validation by an international committee under the authority of the COP. In addition, UNFCCC negotiators could agree on the exclusion of some intervention types (for example, support to so-called "high efficiency" coal plants).

(iii) Information needs to be provided at the project-level by all contributors

Project level information allows confirmation of activities by observers and Parties, and is the only way for assurance of the accuracy of summary information provided in tabular format or other summary statistics.

(iv) Agreement on what information should be supplied for each project

This information should build upon the International Aid Transparency Initiative (IATI) standard, and include georeferencing to the best precision possible for all locations, so that projects can be mapped and coordinated by location. We suggest that a given project cannot be validated and reported as climate finance if required details are not provided regarding this given project.

All projects and activities in IATI are recorded using the Activity Standard, and a single project may be represented by numerous instances of an activity by defining a parent 'project' activity and child 'activity' activities. This parent-child relationship is defined in the *Related Activity* variable. The project activities should be disaggregated enough to distinguish the climate-related component activities of the project, and each should be categorized on their climate-relevance. Reporting to the UNFCCC should include at least these two levels of parent projects and child activities.

IATI's flexibility allows users to choose from a variety of vocabularies for defining activity sectors and from a variety of gazetteers and vocabularies for defining activity locations. We suggest the use of a single common vocabulary for each. In terms of project locations, we propose referencing every activity to an administrative area from the Global Administrative Unit Layers dataset[10] or GADM[11]. If these datasets are not sufficiently detailed for a recipient country, then updating the global boundary datasets should be prioritized.

IATI only currently supports one way to track climate financing, through the Policy Marker variable which implements the Rio Markers with three attributes: *code, significance* and *vocabulary.* A code of 6 refers to UNFCCC mitigation activities and a code of 7 refers to UNFCCC adaptation activities. The associated *significance* code has three levels, where 0 is not targeted, 1 is a significant objective, and 2 is a primary objective. It is technically possible to expand the coding by setting the *vocabulary* attribute to 99 for a policy objective defined by the reporting organization. This variable space could be used to record additional information related to UNFCCC obligations, e.g. the "new and additional" requirement, a variable to indicate climate-proofing / mainstreaming, or variables to indicate project justification *vis-a-vis* climate change: exposure, sensitivity, and adaptive capacity.

(v) Project-level data, reported in the IATI standard, should be centralized by the UNFCCC Secretariat and then made available online in a user-friendly interface.

Providing full disaggregated data online in the IATI standard at contributing agency websites will allow users to compile up-to-the-minute catalogues of all projects in their area of interest (by recipient country, region of a country, sector, or type of implementing agency, for example). However, some users will not have the capabilities to use IATI-capable data themselves, so the UNFCCC Secretariat should make summaries and complete project-level data available in standardized formats.

[10] http://www.fao.org/geonetwork/srv/en/metadata.show?id=12691
[11] http://www.gadm.org/

(c) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement?

For climate finance to be politically sustainable, transparent and mutually-agreed systems for accounting and tracking flows are fundamental (Roberts and Weikmans, 2015). To develop a credible system, it is crucial that a timeline/work programme be agreed as soon as possible to get there. With the Paris Agreement likely to go into force in 2017, it is important that these modalities be agreed this year and next.

Box 2. Proposed timeline for the development of modalities

29 August 2016: Submissions from Parties on climate finance accounting modalities

September 2016: UNFCCC secretariat combines submissions into compilation document

November 2016: At COP22, SBSTA approves work programme to advance work until CMA1

May/June 2017: At SB46, SBSTA debates draft accounting system and relevant draft CMA1 decisions

November 2017: COP23 Draft modalities proposed to Parties: agreement on a recommendation to the CMA

CMA1: Consideration and adoption of the recommendation by the CMA

Source: Modified from Weikmans and Roberts (2016).

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Paper no. 18: Climate Action Network International

Climate Action Network

CAN Submission:

Elaborating Modalities of Accounting for Climate Finance

July 2016

Climate Action Network International (CAN) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 1100 members in over 120 countries. www.climatenetwork.org

CAN welcomes the opportunity to present its views on the modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement in this submission.

For climate finance provided towards meeting obligations under Article 9.1 of the Paris Agreement (PA) to be politically sustainable, transparent and mutually-agreed systems for accounting and tracking flows are fundamental, inter alia, to assess progress towards meeting obligations but also to allow learning from experiences in the provision, mobilisation and usage of climate finance, to enhance effectiveness and efficiency of such finance and its role in keeping warming below 1.5°C by supporting low-carbon and climate-resilient development in developing countries.

Current reporting systems (e.g. the Biennial Reporting provisions) lack completeness, consistency and detail that in our view is required to meet those objectives. Some developed countries are including many types of projects and financial instruments that recipient nations and civil society observers do not consider appropriate. Levels reported may be inflated or overestimated, financial instruments that do not constitute actual support are included, and the climate-relevance of finance is often questionable. The current accounting systems do not reflect on finance flowing back to developed countries (e.g. as part of repaying loans, or return on private investments). Lack of detail, especially where countries do not report on a project-level basis, does not allow comprehensive and consistent monitoring, verification and evaluation, hampering potential to learn from, and advance, climate finance.

The decision in Paris to develop "**modalities for the accounting of financial resources provided and mobilized through public interventions**" (Paragraph 57 of Decision 1/CP.21) is an opportunity to finally get it right.

The need for adequate finance for implementation of Paris Agreement in countries most vulnerable to climate change goes beyond the existing efforts, thus, an accurate and accepted accounting mechanism at UNFCCC will go a long way in providing strong signals to multiple stakeholders on transformational nature of finance needed and provided, as well as discouraging any namesake creative accounting exercise. The mutually accepted accounting and reporting mechanism will form an integral part of the transparency framework of PA.

Recommendations

As parties work to develop these modalities, CAN suggests the following **elements** of an adequate climate finance accounting system:

1. **Limit reporting to support provided to developing countries:** In the past, not all reported finance had a clear element of support to developing countries. For instance, funds to budgets of international institutions such as the IPCC or the UNFCCC Secretariat or funds for consultancy work around climate finance were reported. Only such finance that is directly (bilaterally) or indirectly (via multilateral funds or institutions) assisting developing countries in the context of obligations under Article 9.1 of the Paris Agreement should be reported.

2. **Report the actual support effort:** Currently, contributing countries often report the face value of financial instruments, including non-concessional loans, equity or guarantees. While all sorts of instruments have their role, we suggest that for greater clarity and transparency, the net support value should be reported, expressed by the grant equivalent of what is provided or mobilised. We note that, in their joint statement on accounting, in the context of the 2015 work by the OECD report on the progress towards the $100bn goal, developed countries have, on a ministerial level, expressed their intent to do exactly that, i.e. report climate finance on the basis of grant equivalents and/or budgetary provisions. This means grants should be reported at face value. For other concessional instruments, the grant equivalent should be reported against Article 9.1 obligations with their face value added for information purposes. Market-rate loans and other market-rate instruments can contribute to mitigation efforts responding to capital needs, but have, in themselves, no net support element to meet costs rather lead to flows back to developed countries. Hence, we suggest any reporting of such instruments happens separate from instruments that have a grant equivalent to be reported against Article 9.1 obligations. A similar approach should be taken for mobilised private investments, where reporting with respect to Article 9.1 should focus on the mobilisation of effort and not the resulting investments, although these could be reported for information purposes. Export credits do not constitute actual support (rather they influence who wins a tender) towards obligations under Article 9.1, hence, should not be reported here.

3. **Limit report to support specifically targeting climate:** Currently, much of what is being reported as climate finance may have climate action only as one of many objectives. Some countries address this issue by reporting only proportions of finance committed to a certain project. Yet, the climate-relevance of many reported projects may be non-existent or grossly over-estimated. Since only funds that specifically support climate action are relevant in the context of meeting Article 9.1 obligations, only such funds (or proportions thereof) should be reported. While we believe that all finance should be climate-sensitive, future reporting should transparently differentiate between funds specifically targeted at climate action versus funds where climate considerations have been taken into account but climate is not the main objective (and only report the relevant proportions of such funds towards Article 9.1 obligations).

4. **Climate-specific contributions to multilateral entities:** The current practice of reporting core contributions to multilateral entities that provide finance for climate action plus climate-specific proportions is poorly implemented by many countries, possibly due to lack of data. We suggest this be replaced by reporting imputed contributions to climate-specific finance by multilateral entities. Multilateral entities could be asked to issue relevant data to calculate these imputed contributions on a regular basis, for use by reporting countries in their reports.

5. **Exclude finance not consistent with Paris Agreement:** The PA establishes the goal to keep warming well below 2°C and to pursue all necessary efforts to stay below 1.5°C. Article 2.1c of the PA also aims to make all financial flows consistent with low-emissions and climate resilient development. All measures not consistent with this (e.g. by locking in low ambition through only marginally improved emissions pathway dependencies) should not be considered as contributing to Article 9 and therefore not be reported. In order to realise the objective set out in Article 2.1c, and to contribute to the global adaptation goal, every single project should be subject to a set of criteria that assesses the level to which such a project is in line with the Paris Agreement. These criteria should inform policy-makers and practitioners on the feasibility of projects, including whether certain types of projects need to be explicitly excluded, by a “negative list” (e.g. projects that delay the transition away from fossil fuels).

6. **Mutually agreed reporting**: Finance reporting should be limited to finance that both the contributing and the receiving country consider climate finance in the context of Article 9 of the PA (and of Article 4.3 and 4.4 of the UNFCCC, since the PA Article 9 obligations are a continuation of the UNFCCC obligations as stated in PA Article 9.1). Regular assessments by an independent body or its appropriate agent could introduce a system of triple validation, besides the process being open for inputs from civil society. As an example of outcome of commonly agreed reporting format, one of the important learning from other finance regimes is to have common tabulars to present the information for consistency and comparability.

7. **Limit reporting to "new and additional" financing:** Since the PA Article 9.1 states that financing obligations are a continuation of existing UNFCCC obligations, the criteria of UNFCCC Articles 4.3 and 4.4 also apply. This means finance towards meeting PA Article 9 obligations needs to be "new and additional". We understand this phrase has been variously conceptualized in the past; CAN suggests that Parties come up with an internationally-agreed definition on "new and additional". In CAN's view this definition should cover finance provided on top of what needs to be made available

to meet other commitments such as ODA and climate finance reported towards meeting Article 9.1 obligations should, therefore, not be reported towards meeting other obligations inside or outside the UNFCCC, and vice versa. Rather than developing complex criteria, it could be left up to contributing countries and receiving countries to mutually agree (see previous recommendation 6) where a certain programme would be reported, as long as it does not get reported twice. While ODA itself needs to increase in light of changing scenario, climate finance that also meets development objectives must be over and above the development finance to put the world on a 1.5C pathway.

8. **Count when committed, but also report as disbursed:** Several countries are reporting finance at least partially as disbursed. For multi-year projects this means reporting is on past funding decisions, as disbursements are a result of those decisions that may have been taken many years ago. This greatly reduces accountability. CAN suggest that reporting should be based on commitments, i.e. attributed to the year when the partnership agreement was signed between the contributing and the receiving country (or an equivalent degree of commitment was made). This would lead to reporting of current decisions or relatively current decisions. This should be complemented by a system of tracking disbursements to follow up on commitments. An exception should be made for contributions to multilateral funds which should be counted towards the year contributions are made.

9. **Provide project-level information:** Bilateral finance should be reported on a project-by-project level. Without project-level information, verification and evaluation of finance by recipient nations, communities, researchers, and observer organizations, as well as proper assessment on progress towards meeting Article 9 provisions is impossible.

10. **Provide sufficient details:** For each project, reporting should include the following details: a project title, a description that includes what part of the project is specifically targeting mitigation/adaptation, and how. It should also include the implementing entity, the year when finance was committed, the start and end years, the total amount that have been committed, both grant-equivalent and face-value amounts, the climate-specific amount (if different from total amount), the level of disbursements so far, and financial instruments, generally building upon the IATI (International Aid TransparencyInitiative) standard. Additionally, information on beneficiaries, the location(s) of a project, et al so that these can be mapped and coordinated appropriately should be detailed.

11. **Use electronic live-reporting:** Currently, reporting happens ex-post, with up to two years between a funding decision and the relevant report. We suggest the reporting be changed so that funding decisions, as soon as they are confirmed by a partnership agreement, could be entered into a public online database. This would allow live-tracking on progress towards Article 9.1 obligations. The International Aid Transparency Initiative (IATI) may serve as a model here.

4. Timeline

To advance the work we suggest the following timeline:

- **September 2016:** The UNFCCC secretariat combines submissions into a compilation document.

- **COP22:** At COP22, SBSTA approves work programme to advance work until CMA1. This work programme would define work needed to enhance the understanding around the various options for the accounting modalities and fix timelines for preparing a final draft to be sent to CMA1. SBSTA chairs are mandated to create first draft for a CMA1 decision on the accounting modalities.

- **SB46:** SBSTA to discuss and further develop the first draft for a CMA1 decision on the accounting modalities.

- **COP23:** If SBSTA was unable to finalise work, SBSTA at COP23 will pick up the file again with the view to conclude deliberations and forward a draft CMA1 decision to the CMA.

- **CMA1:** Consideration and adoption of the recommendation by the CMA.

Paper no. 19: Organisation for Economic Co-operation and Development

OECD submission to the UNFCCC Subsidiary Body for Scientific and Technological Advice [1]

This submission is provided in response to the UNFCCC Subsidiary Body for Scientific and Technological Advice's (SBSTA) call for inputs from observer organisations on *"modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement"*.

The Organisation for Economic Co-operation and Development (OECD) welcomes the opportunity to submit inputs based on its experience and expertise in measuring, reporting and analysing international climate finance flows, including through publication of the report *Climate finance in 2013-14 and the USD 100 billion goal,* and as part of on-going work of the OECD's Development Assistance Committee, the OECD-led Research Collaborative on Private Climate Finance, and the OECD/IEA Climate Change Expert Group. The OECD reiterates its interest and readiness to contribute to the UNFCCC's on-going work on the Measurement, Reporting and Verification (MRV) of support. The OECD Secretariat is open to discuss, partner and collaborate as appropriate, as well as to contribute to future expert meetings and discussion hosted by the SCF and UNFCCC.

1. Accounting modalities needed to ensure transparent and consistent reporting

Article 9.7 of the Paris Agreement stipulates that *"developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized…"* on a biennial basis. Article 13.13 of the Paris Agreement stipulates that the modalities, procedures and guidelines to be adopted by CMA1 shall build on "experience from the arrangements related to transparency under the Convention".

Definitions of "transparent" and "consistent" have been developed under the UNFCCC, in the context of Annex I reporting of greenhouse gas emissions inventories. These definitions could usefully be built on for climate finance.

The latest reporting guidelines for Annex I national communications indicate that "transparency means that the data sources, assumptions and methodologies used … should be clearly explained, in order to facilitate the replication and assessment of the inventory by users of the reported information." Reporting to the UNFCCC could be made more complete and transparent through parties providing disaggregated data, and details on the methodological approach they have taken–for example, through notifying methodological information on the use of Rio markers , the coefficient used for reporting on financial resources flows, and information on financial resources provided to multilateral organisations.

The Annex I inventory reporting guidelines also indicate that "consistency means … internally consistent for all reported years in all its elements across sectors, categories … if the same methodologies are used for the base and all subsequent years and if consistent data sets are used …". Annex I Parties need to report climate finance information as part of their national communications, and as part of their biennial reports. A first step in improving consistency would be to ensure that the reporting guidelines for climate

[1] This submission provides input based on the OECD Secretariat's research, analysis and data. The information contained in this submission does not necessarily reflect the official views of the OECD or of the governments of its member countries.

finance in these two reports are consistent with one another (as outlined in Ellis and Moarif, 2015)[2]. While there is an overlap between the two sets of guidelines, there are also some differences. A second step would be to remove ambiguities in the current reporting guidelines, which mean that different countries currently use a range of approaches in estimating or reporting a specific item (e.g. commitments vs disbursements; inclusion or exclusion of "other official flows"; multilateral contributions; calendar vs fiscal year etc. see OECD 2015 for details).[3] This diversity of approaches means that information submitted by different countries is not always comparable.

OECD experience with its statistical system for tracking climate-related development finance shows that comparability across countries, as well as within countries across time, is important in order to be able to develop meaningful aggregates and monitor overall trends. In order to provide a complete picture of climate finance provided and mobilised, information on climate finance provided and mobilised by individual Parties needs to be supplemented with information on outflows from multilateral development banks.

2. OECD reporting practices and considerations for the development of accounting modalities under the UNFCCC

Current practices by the OECD in collecting, processing, analysing and disseminating information on climate-related development finance can be informative for Parties as they consider the accounting modalities needed to ensure transparent and consistent reporting of information on support for developing country Parties, provided and mobilised through public interventions.

The OECD has developed a "Quality framework and guidelines for OECD statistical activities" [STD/QFS(2011)1] which may be a useful source of standard information for the UNFCCC as Parties develop the accounting modalities needed to ensure transparent and consistent reporting. The OECD views quality in terms of seven dimensions: relevance, accuracy, credibility, timeliness, accessibility, interpretability and coherence (see Annex 2 for definitions of these terms). These dimensions may help to clarify the elements needed for "transparent" reporting in the UNFCCC context (see in particular the dimensions of "accessibility" and "interpretability") and for "consistent" reporting (see "coherence").

2.1 The DAC Statistical System

The OECD Development Assistance Committee (DAC) **Creditor Reporting System (CRS)** provides transparency through the collection, processing, analysis and publication of project-specific information on individual development finance activities. This information is freely available at *https://stats.oecd.org/qwids/*.

The CRS includes a policy marker system to identify information on development assistance that is "principally" or "significantly" focused on the objectives of the Rio Conventions on biodiversity, desertification, climate change adaptation and climate mitigation. Since 1998, the so-called Rio markers have tracked finance flow for climate change mitigation, and in 2010 a complementary marker for climate change adaptation was introduced (see discussion of Rio markers below). Totals are adjusted to ensure that there is no double counting for activities that address both mitigation and adaptation.[4] Information in the CRS database includes project-level data on climate-related development finance flows from 29 DAC member

[2] Available at: http://dx.doi.org/10.1787/5jm56w6f918n-en

[3] OECD (2015), *Climate finance in 2013-14 and the USD 100 billion goal*, a report by the OECD in collaboration with Climate Policy Initiative. http://www.oecd.org/environment/cc/OECD-CPI-Climate-Finance-Report.htm.

[4] Summaries available at www.oecd.org/dac/stats/climate-change.htm

countries[5], three non-DAC countries[6], seven multilateral development banks (MDBs)[7], and six other international organisations. [8] Consolidated activity level data for both bilateral and multilateral climate-related development finance is available for 2013 flows onwards.

The integrated data system collects financial flows from a range of channels (bilateral and multilateral), and tracks the status of implementation of activities, from commitments to disbursements. Information is collected on a calendar year basis. Consistency and robustness are ensured through the use of standardised definitions and bases of measurement across all flows[9], and the DAC Secretariat's review of the data provided. The DAC statistical framework and classifications avoid double-counting: bilateral donors report separately on their bilateral support and core support to multilateral organisations (multilateral development finance), and multilateral organisations report on their outflows (financed out of their core resources and money raised on capital markets). The fact that both bilateral and multilateral data are recorded and reconciled in the same system ensures that they are not double counted.

The DAC CRS database of flows to developing countries can be used to explore data from a provider or recipient perspective:

- **The "provider perspective"** presents each DAC member's bilateral contributions that flow to developing countries and multilateral contributions to multilateral development institutions. In the context of climate, a Rio marker system is used to identify relevant bilateral finance flows, and multilateral contributions for climate are estimated through the calculation of "imputed multilateral contributions".

- **The "recipient perspective"** presents flows benefiting the recipient originating from all sources, and therefore includes bilateral flows from bilateral providers and outflows from multilateral organisations. In the context of climate, Rio-marked bilateral flows collected from DAC members and other bilateral providers are presented together with multilateral climate finance outflows collected from the MDBs and other climate specific funds.

2.1.1 Definitions and classifications for climate finance data collection

Ensuring that individual countries use comparable definitions and classifications allows for meaningful aggregation of data. The OECD DAC statistical system is based on standardised definitions and classifications, for example for commitments, disbursements, financial instruments, exchange rates and sector codes (see Annex 1), and points of measurement. This provides rules and a base of measurement for financial data collection and reporting. It enables transparent, robust and consistent data collection over time, and facilitates statistical analysis and a clearer interpretation of the data. To guide scoring and improve

[5] Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Republic of Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States.

[6] Lithuania, Romania and the United Arab Emirates.

[7.] The African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IADB), the World Bank (WB), and the International Finance Corporation (IFC).

[8.] The Adaptation Fund, Climate Investment Funds (CIFs), Global Environment Facility (GEF), International Fund for Agricultural Development (IFAD), Islamic Development Bank, and the Nordic Development Fund.

[9] Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire, DCD/DAC(2016)3/FINAL, ADD1 and ADD2, https://www.oecd.org/dac/stats/DCD-DAC(2016)3-ADD1-FINAL-ENG.pdf and https://www.oecd.org/dac/stats/DCD-DAC(2016)3-ADD2-FINAL%20-ENG.pdf.

consistency of reporting, an indicative table of likely scores by sector and examples of qualifying activities has been developed.[10]

In the CRS Rio markers, activities marked “principal” would not have been funded but for that policy objective; activities marked “significant” have other prime objectives but have been formulated or adjusted to help meet the policy objective. By identifying activities targeting climate change as a “principal” or “significant” objective, the markers provide an indication of the degree of mainstreaming of environmental considerations into development co-operation portfolios. As such, the markers are considered descriptive rather than strictly quantitative. In OECD DAC marker data presentations, the figures for flows targeting objectives as principal or significant can be shown separately, and the sum referred to as the “upper bound” of climate-related development finance.

[10] See www.oecd.org/dac/stats/rioconventions.htm.

Table 1: Rio marker definition and eligibility criteria of mitigation and adaptation

	Mitigation	Adaptation
Definition	An activity should be classified as climate-change mitigation related (score Principal or Significant) if: It contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.	An activity should be classified as climate-change mitigation related (score Principal or Significant) if: It intends to reduce the vulnerability of human or natural systems to the current and expected impacts of climate change, including climate variability, by maintaining or increasing resilience, through increased ability to adapt to, or absorb, climate change stresses, shocks and variability and/or by helping reduce exposure to them.
Eligibility criteria[11]	The activity contributes to a) the mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; or b) the protection and/or enhancement of GHG sinks and reservoirs; or c) the integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; or d) developing countries' efforts to meet their obligations under the Convention. The activity will score "principal objective" if it directly and explicitly aims to achieve one or more of the above four criteria.	a) The climate change adaptation objective is explicitly indicated in the activity documentation; and b) the activity contains specific measures targeting the definition above. Carrying out an assessment of vulnerability to climate variability and change, either separately or as an integral part of agencies' standard procedures, facilitates this approach. To guide scoring, a three-step approach is recommended as a "best practice", in particular to justify for a principal score: the activity sets out the context for climate risks, vulnerabilities and impacts; states the intent to address these; and demonstrates a clear link between the risks, vulnerabilities and impacts and the project activity.

OECD DAC members reporting to Rio conventions drawing on Rio marker data

The Rio markers were originally designed to help DAC members in their preparation of National Communications or National Reports to the Rio Conventions, by identifying activities that mainstream the Conventions' objectives into development co-operation. In recent years, however, related financial commitments have emerged that affect members' reporting requirements. On climate change, developed country Parties have committed to a goal of jointly mobilising USD 100 billion per year by 2020 from a wide variety of sources to address the needs of developing countries (Decision 1/CP.16)[12].

[11] Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire, DCD/DAC(2016)3/FINAL, ADD1 and ADD2, http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DCDDAC(2016)3FINAL.pdf, https://www.oecd.org/dac/stats/DCD-DAC(2016)3-ADD1-FINAL-ENG.pdf and https://www.oecd.org/dac/stats/DCD-DAC(2016)3-ADD2-FINAL%20-ENG.pdf.

[12] http://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf#page=2

While most DAC members use the Rio markers as a basis for their financial reporting to the UNFCCC, a recent OECD stock-take on reporting practices revealed that the majority adjust the amounts reported[13]. The adjustments may be determined by the marker (e.g. climate change mitigation or adaptation), marker score (i.e. principal or significant) or by sector (e.g. energy or transport). For example, if a country reports to the UNFCCC only 40% of climate finance for projects with climate change adaptation or mitigation as their “significant” objective, then the level of climate finance for such projects will be 40% of that reported to the CRS. However, the specific coefficient(s) used is (are) not routinely reported to the UNFCCC. Details of adjustments used by provider countries for 2013-14 climate finance data are available in Annex C of OECD (2015).[14]

2.1.2 Modernisation of the OECD DAC development finance framework

The OECD DAC is modernising its statistical system. This includes in particular the use of grant equivalents as a basis for measuring and reporting Official Development Assistance (ODA), modernising how private sector instruments are measured, and expanding the coverage of its statistical system to also collect amounts mobilised by official development interventions from the private sector:

- **The treatment of loan concessionality**: modernising the reporting of concessional loans to introduce a grant equivalent system for the purpose of calculating ODA figures. Under the new reporting system, ODA counted and reported will be higher for a grant than for a loan, and concessionality will be assessed based on differentiated discount rates for lower and middle income countries.[15]

- **Private sector instruments**: modernising the measurement of donor effort involved in the use of “private sector instruments” (PSIs) e.g. loans, guarantees, and equity to private sector entities. For PSIs to qualify as ODA, criteria include: i) an assessment of the developmental mandate and objectives of providing institutions, and whether finance provided is additional to that provided by the market; ii) the provision of data in the OECD DAC statistical system at the activity level; and iii) the publication of data under agreed transparency provisions and rules on data disclosure.

- **Mobilisation**: expanding the coverage of the DAC statistical system to also collect amounts mobilised by official development interventions from the private sector. See section 2.3.1 below.

Systematic data collection in the DAC system on PSI and amounts mobilised is expected to start in 2017. This is expected to improve the coverage and quality of DAC statistics by i) improving transparency of reporting on development activities with the private sector, including climate-related development activities, and ii) increasing the coverage of data on climate-related development finance mobilised by these development activities with the private sector.

In addition, the DAC is working on a measure for “total official support for sustainable development” (TOSSD). Though still being developed, it is expected that it will capture broader official and officially

[13] OECD (2014), ENVIRONET-WP-STAT Task Team Room Document 1, Draft Stock Take Report on Members’ Reporting Practices on Environment-related Official Development Finance and Reporting against International Obligations, (unpublished).

[14] OECD (2015), *Climate finance in 2013-14 and the USD 100 billion goal, a report by the OECD in collaboration with Climate Policy Initiative*, www.oecd.org/environment/cc/OECD-CPI-Climate-Finance-Report.htm

[15] For more information see www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm

supported resource flows beyond ODA, such as total resource flows to developing countries in support of development, regardless of the types of instruments used and associated terms. Public consultations currently underway will determine the future components and features of the TOSSD measurement framework, which is likely to focus on i) cross-border officially supported flows provided to developing countries and ii) officially supported flows at global, regional and/or country level that support development enablers (including environmental sustainability) and address global challenges as set out in the Sustainable Development Goals (including climate change).[16]

2.2 Approaches for measuring multilateral climate finance

2.2.1 Reporting multilateral finance

Large volumes of climate finance are channelled through the multilateral financial system. It is, therefore, important that accounting and reporting modalities in this area are designed in a way that takes into account the characteristics of multilateral flows. Multilateral finance can be analysed and measured from two points of measurement:

- **Inflows to multilateral organisations**. A member country can provide core funding to multilateral organisations (or un-earmarked contributions). The climate share of such funds can be estimated by applying the share represented by climate activities in the organisation's overall portfolio to individual un-earmarked contributions. A member country can also provide non-core (or earmarked) resources to multilateral agencies for a specific country, project, region, sector or theme e.g. climate change. Where funds are earmarked for a specific country or region, known as "multi-bi" flows, they are reported as bilateral in the OECD DAC system and separately identifiable.[17] However, they are sometimes combined with the reporting of core (multilateral) contributions in country reporting to the UNFCCC.

- **Outflows from multilateral organisations.** These are the total funds flowing from multilateral organisations to recipient countries in a specified period. They comprise the finance provided (inflows) to these organisations by both developed and developing member countries plus any additional funds received or raised by the multilateral organisations. The latter may represent a significant share of total outflows in some cases, for example when individual multilateral development banks raise resources from international capital markets.

The main difference in estimates resulting from using the inflow- and outflow-based methodologies stem from the non-concessional lending activities of MDBs: non-concessional activities are mainly financed through borrowing on the international capital markets.[18] Climate finance estimates based solely on inflows to MDBs from their member countries do not include the funds raised by multilateral development banks on capital markets.

2.2.2 Options for attributing multilateral finance to countries

Attributing multilateral climate finance to specific countries (or a group of countries) is important in the UNFCCC context of tracking developed countries' progress towards their joint commitment to provide and

[16] TOSSD Compendium for public consultation, www.oecd.org/dac/financing-sustainable-development/TOSSD%20Compendium2016.pdf.
[17] Through the "channel of delivery" dimension in the CRS. See Annex 1.
[18] Even though they care called non-concessional, these sources of finance nevertheless offer advantages relative to an entirely private sector loan for the same purposes, for example in terms of the timing and level of repayments and the duration of the loan.

mobilise climate finance for developing countries. However, attribution entails methodological choices. There are two main categories of methods:

- **Attribution based on inflows (known as “imputed multilateral contributions”):** Contributions – or inflows – to the general budgets of multilateral institutions are not earmarked. As such, they do not provide an indication on the use of the funds and do not allow for an estimation of a climate-related share. The share of climate-related projects in multilateral institutions' portfolios can be estimated by dividing climate-related outflows by the total portfolio of the institution. This climate-related share can then be multiplied by un-earmarked contributions from member countries to estimate how much of these contributions were used for climate-related projects.

- **Attribution based on outflows:** outflows are considered as having been “mobilised” by the shareholders. This attribution can be done in different ways, and results will vary depending on the methodological choice e.g. using a country’s proportion of historical or recent paid-in contributions, or “callable capital”, or a combination. Furthermore, the concessional and non-concessional operations of multilateral institutions can be treated differently to reflect the different ways in which country contributions are used in each case. Concessional windows (e.g. the World Bank’s International Development Association, as well as dedicated climate funds such as the Climate Investment Funds) operate on a “money-in, money-out” model: they do not raise funds in capital markets and have to be replenished regularly. Non-concessional windows (e.g. the World Bank’s International Bank for Reconstruction and Development) raise funds from international capital markets, with the ability to do so depending on both paid-in capital (from countries) and capital available in the event of financial distress - so-called “callable capital”.

Further information about attribution methodologies is available from OECD (2016 forthcoming),[19] (2015) and Technical Working Group (2015).[20]

2.3 Emerging approaches for measuring publicly-mobilised private finance

Under the Paris Agreement, developed country Parties “should continue to take the lead in mobilizing climate finance from a wide variety of sources”, and provide “transparent and consistent” information n support “mobilized through public interventions”. As such, being able to understand and measure (or estimate) the mobilisation effect of public interventions on private investment is of primary importance. Under the UNFCCC, reporting requirements in this area focus on finance mobilised by “developed countries” for climate action in developing countries. Methodologies for estimating and reporting mobilised private finance should, however, take into account the role of all public actors, whether international or domestic, and from developed and developing countries alike. Quantifying publicly-mobilised private finance requires addressing a range of definitional and methodological issues (see for instance the decision point framework developed under the Research Collaborative on Tracking Private Climate Finance[21] and outlined in Jachnik et al., 2015).[22] Accounting modalities for such quantification need in particular to ensure the provision of transparent information on assumptions made in terms of accounting boundaries (including

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[19] *Attribution of multilateral climate finance in the report “Climate Finance in 2013-14 and the USD 100 billion goal”*; the note will be available at www.oecd.org/env/cc/oecd-cpi-climate-finance-report.htm.

[20] “Joint Statement on Tracking Progress Towards the 100 billion Goal” and “Technical Working Group input to the OECD-CPI report”, www.bafu.admin.ch/dokumentation/medieninformation/00962/index.html?lang=en&msg-id=58589

[21] http://www.oecd.org/env/researchcollaborative

[22] Jachnik, R., R. Caruso and A. Srivastava (2015), “Estimating Mobilised Private Climate Finance: Methodological Approaches, Options and Trade-offs”, *OECD Environment Working Papers*, No. 83, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5js4x001rqf8-en

time boundaries), causality (between public interventions and private finance) and attribution (of mobilised private finance among public actors having jointly mobilised private finance to make sure that public interventions by both developed and developing country Parties are fully and fairly considered).

2.3.1 Modalities for measuring private finance mobilised by public finance

Existing accounting modalities

Significant efforts have already been made by the international community to start capturing and reporting private sector finance mobilised by public finance. Attributed private co-financing data (at the project-, activity- or fund-level) has for instance been used in a number of recent studies as the currently best-available proxy for estimating the direct mobilisation effect of public climate finance on private finance. This was most notably the case in the report *Climate Finance in 2013-14 and the USD 100 billion goal* (OECD, 2015), which covered a range of debt and equity instruments used by bilateral and multilateral providers of public climate finance.

The OECD Development Assistance Committee has been working to measure private investment mobilised by official development finance interventions, including climate-related ones. The DAC is taking an instrument and mechanism-specific approach. To date methodologies have been developed and activity-level survey data collected for measuring private finance mobilisation for public guarantees, syndicated loans and public equity shares in funds.[23] Methodologies for credit lines and direct investments in companies are being developed and survey data is being collected during the third quarter of 2016.[24]

On-going developments and corresponding challenges

Recent discussions jointly hosted by the OECD-led Research Collaborative and the DAC with experts from development finance institutions highlighted the need to distinguish and draw the boundaries between the concepts of "mobilisation", "co-financing" and "catalysation", even though doing so is sometimes difficult. While the concept of "total co-financing" can be considered more neutral[25], causality assumptions and some degree of attribution are necessary to avoid double counting across public finance providers. Continued work at the OECD is, therefore, being pursued to advance efforts to develop methodologies that strike a consensus and balance between practicality and accuracy. Such work includes for instance investigating the extent to which the instrument/mechanism-specific methodological approach to measuring mobilisation can capture all private finance that might be involved in the context of complex finance structures, where multiple instruments and mechanisms typically interact.

2.3.2 Modalities for estimating the catalytic effect of capacity building and policy-related public interventions

As with measuring the direct mobilisation effect of public climate finance, estimating the catalytic effect (or "indirect mobilisation effect") of capacity building and policy-related interventions requires addressing the

[23] Benn, J., et al. (2016), Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans and shares in collective investment vehicles, OECD Development Co-operation Working Papers, No. 26, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5jm3xh459n37-en

[24] http://www.oecd.org/dac/stats/mobilisation.htm

[25] Joint-MDBs (2015), "Tracking Climate Co-Finance: Approach Proposed by MDBs", Briefing Document, www.ebrd.com/cs/Satellite?c=Content&cid=1395237690292&pagename=EBRD%2FContent%2FContentLayout.

core methodological decision points of accounting boundaries, causality and attribution. However, due to the inherent “indirect” characteristic of catalytic effects, the nature of these methodologies will differ from those appropriate for direct mobilisation. While initial exploratory work on possible bottom up[26] and top down[27] approaches has been completed under the Research Collaborative on Tracking Private Climate Finance, this very much remains a field of active exploration and research. As such, methods for estimating catalytic effects are likely to differ from activity-based monitoring and reporting of private finance mobilised directly. Accounting modalities for catalysation should, therefore, provide some flexibility in terms of reporting format (e.g. financial or impact indicators) but request information about whether and how underlying estimation methods tackle accounting boundaries, causality assumptions and attribution (double counting) issues.

[26] See for example: Brown, J. R. Jachnik, M. Stadelmann, D., Wang, L. Boni and T., Kato (2015), *Estimating Mobilized Private Finance for Adaptation: Exploring Data and Methods*, Climate Policy Initiative and OECD, http://climatepolicyinitiative.org/publication/estimating-mobilized-private-finance-for-adaptation-exploring-data-and-methods.

[27] See for example: Haščič, I., et al. (2015), "Public Interventions and Private Climate Finance Flows: Empirical Evidence from Renewable Energy Financing", *OECD Environment Working Papers*, No. 80, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5js6b1r9lfd4-en

Annex 1: Definitions in DAC Statistical Reporting Directives

Term	Definitions in DAC Statistical Reporting Directives[1]
Commitment	A commitment is a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency. Donors unable to comply with this definition should explain the definition that they use. Commitments are considered to be made at the date a loan or grant agreement is signed or the obligation is otherwise made known to the recipient (e.g. in the case of budgetary allocations to overseas territories, the final vote of the budget should be taken as the date of commitment). For certain special expenditures, e.g. humanitarian aid, the date of disbursement may be taken as the date of commitment.
Disbursement	A disbursement is the placement of resources at the disposal of a recipient country or agency, or in the case of internal development-related expenditures, the outlay of funds by the official sector. Disbursement may be measured in various ways at different stages of the transfer process.
Financial instruments	New taxonomy of finance adopted in 2016. See Annex 10a of the Directives (includes definitions and detailed technical fiches).
Currency and exchange rates	The basis of measurement in DAC statistics is the US dollar. Data reported in the CRS in other currencies are converted to dollars by the Secretariat. The list of exchange rates is published at http://www.oecd.org/dac/stats/data.htm (under Data Tables, source: OECD ECO). The rates are an average of the yearly exchange rates and are published once a year. See also Deflator.
Sector classifications (purpose codes)	The purpose/sector of destination of a bilateral contribution should be selected by answering the question **"which specific area of the recipient's economic or social structure is the transfer intended to foster"**. The sector classification does **not** refer to the type of goods or services provided by the donor. See link for the list of codes: www.oecd.org/dac/stats/purposecodessectorclassification.htm There are 27 main categories and 197 subcodes, including climate-relevant sectors such as energy, water, transport and, environmental policy, etc.
Beneficiary countries	The DAC list of ODA Recipients shows developing countries and territories eligible for receiving Official Development Assistance (ODA). The list is designed for statistical purposes, not as guidance for development finance allocations, and is revised by the DAC every 3 years.

[1] Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire, DCD/DAC(2016)3/FINAL, ADD1 and ADD2: http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DCDDAC(2016)3FINAL.pdf, https://www.oecd.org/dac/stats/DCD-DAC(2016)3-ADD1-FINAL-ENG.pdf and https://www.oecd.org/dac/stats/DCD-DAC(2016)3-ADD2-FINAL%20-ENG.pdf.

Delivery channel	The channel of delivery is the first implementing partner. It is the entity that has implementing responsibility over the funds and is normally linked to the extending agency by a contract or other binding agreement, and is directly accountable to it. Where several levels of implementation are involved (e.g. when the extending agency hires a national implementer which in turn may hire a local implementer), the first level of implementation as the channel of delivery should be reported. Where activities have several implementers, the principal implementer should be reported (e.g. the entity receiving the most funding). In the case of loans, the borrower should be reported as the channel of delivery (i.e. the first entity outside the donor country that receives the funds).[See Annex 9 of the Directives for the list of the major channels of delivery, including new additional channel codes for the private sector.]
Bilateral/ multilateral contributions	**Bilateral** contributions are flows from official (government) sources directly to sources in the recipient country. **Multilateral contributions** are core contributions from official (government) sources to multilateral agencies where it is then used to fund the multilateral agencies' own programmes. In some cases, a donor can contract with a multilateral agency to deliver a programme or project on its behalf in a recipient country. Such cases are typically counted as bilateral flows and are often referred to as Bi/Multi.

Annex 2: The dimensions of quality, as used in OECD statistical activity quality review.

Relevance	The relevance of data products is a qualitative assessment of the value contributed by these data. Do the data address the purposes for which they were designed for? Are processes in place to consult users, monitor the relevance and utility of existing statistics in the meeting their needs, and consider emerging needs and priorities?
Accuracy	The accuracy of data products is the degree to which the data correctly estimate or describe the quantities or characteristics they are designed to measure. For example, are source data, intermediate results and statistical outputs regularly assessed and validated?
Credibility	The credibility of data products refers to the confidence that users place in those products based simply on their image of the data producer, i.e. the brand image. For example, is there external pressure to include data of quality that may not match OECD standards?
Timeliness	The timeliness of data products reflects the length of time between their availability and the event or phenomenon they describe, but considered in the context of the time period that permits the information to be of value and still acted upon. For example, are users informed in advance of release dates?
Accessibility	The accessibility of data products reflects how readily the data can be located and accessed from OECD data holdings. For example, are data available through a number of different dissemination channels?
Interpretability	The interpretability of data products reflects the ease with which the user may understand and properly use and analyse the data. For example, are similar statistics from different areas of the OECD full explained to avoid confusing users?
Coherence	The coherence of data products reflects the degree to which they are logically connected and mutually consistent. For example, are statistics from different sources and periodicities comparable and reconcilable?

Annex 3: OECD contact points

The OECD is happy to provide information on progress in these and its other climate policy-related activities. We have indicated contacts on each work area below to facilitate future communication.

DAC statistics and climate-related development finance

- Contacts: **Nicolina Lamhauge** (Nicolina.Lamhauge@oecd.org) and **Valérie Gaveau** (Valerie.Gaveau@oecd.org)
- Website: www.oecd.org/dac/stats/rioconventions.htm

Research collaborative on tracking private climate finance

- Contact: **Raphaël Jachnik** (raphael.jachnik@oecd.org)
- Website: www.oecd.org/env/researchcollaborative

Climate Change Expert Group

- Contact: **Jane Ellis** (jane.ellis@oecd.org)
- Website: http://www.oecd.org/env/cc/ccxg.htm

Paper no. 20: World Resources Institute

Submission by World Resources Institute to the UNFCCC Subsidiary Body for Scientific and Technological Advice 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

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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 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 Parties[4] and the individual accounting interpretations and approaches used by different Parties in their Biennial reports; the OECD's Development Assistance

Committee's Rio Markers;[5] the Common Principles for Climate Adaptation and Mitigation Finance Reporting developed by the MDBs and IDFC;[6] and the OECD Research Collaborative on Tracking Private Climate Finance.[7]

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?*[8] 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:[9]

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.

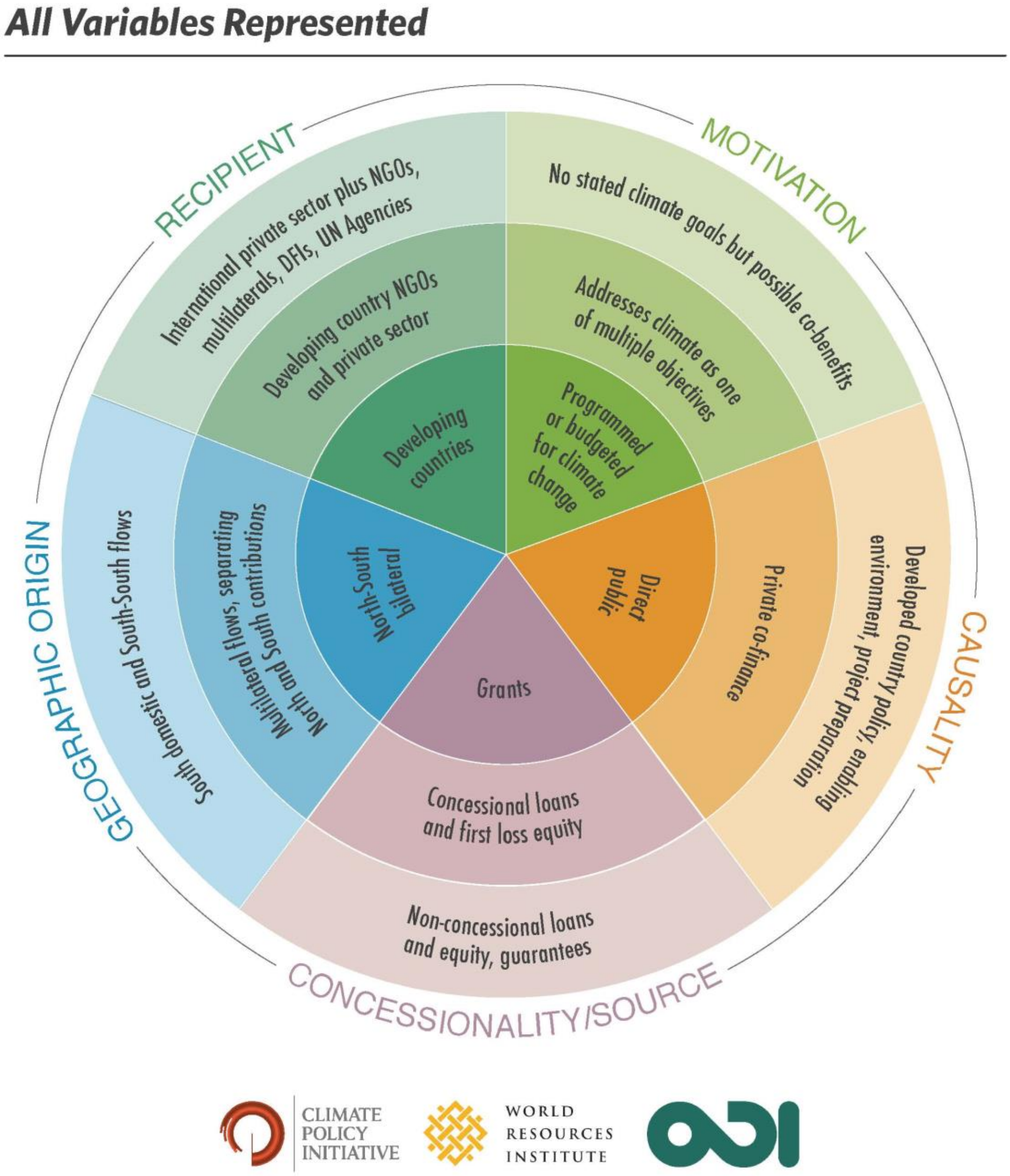
The five variables are consolidated in Figure 1. *All Variables Represented,* with the concentric circles organized according to political consensus.[10] The closer a category is to the center, the more notional consensus there is among stakeholders that it should count toward the goal.

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?"



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.[11] 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.[12] 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.[13] 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.[14] Moreover, information on the incremental cost of programs and projects may not be widely available.

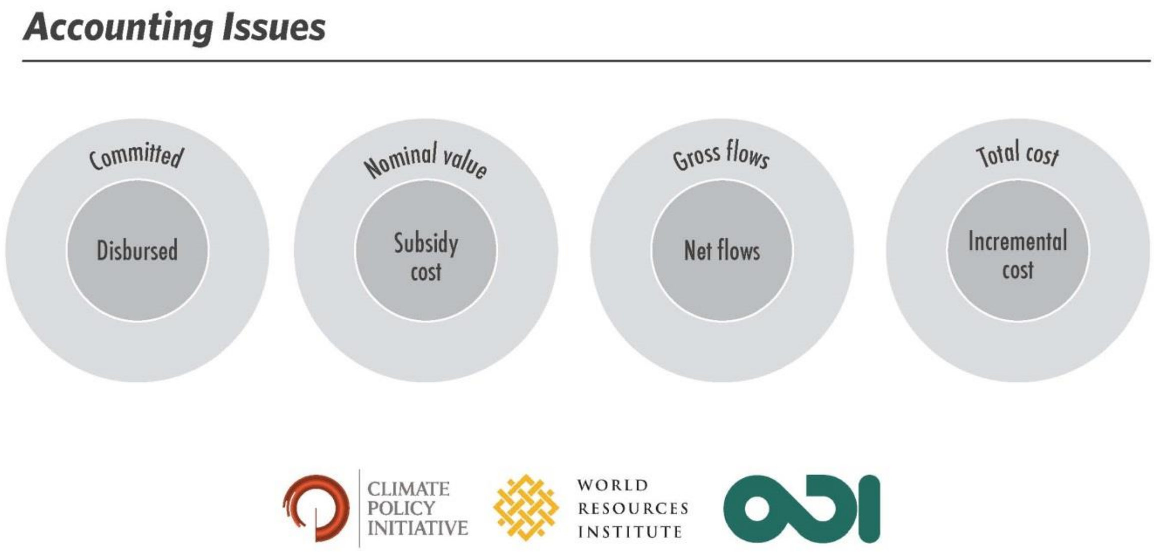


Figure 2. Source: Bodnar, Brown and Nakhooda (2015). "What Counts?"

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 Assessment[17] 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.[18] 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.[19]

Endnotes

1 Report of the Subsidiary Body for Scientific and Technological Advice on its forty-fourth session, held in Bonn from 16 to 26 May 2016, FCCC/SBSTA/2016/2, paragraph 107. http://unfccc.int/documentation/documents/advanced_search/items/6911.php?priref=600009088
2 Established by UNFCCC decision 1/CP.21, paragraph 57. http://unfccc.int/documentation/documents/advanced_search/items/6911.php?priref=600008865
3 FCCC/SBSTA/2016/2
4 UNFCCC Decision 2/CP.17 Annex I. http://unfccc.int/documentation/documents/advanced_search/items/6911.php?priref=600006772
5 OECD (2011). "Handbook on the OECD-DAC Climate Markers." http://www.oecd.org/dac/stats/48785310.pdf
6 Joint Climate Finance Group of MDBs and IDFC (2015). "Common Principles for Climate Mitigation Finance Tracking." http://www.worldbank.org/content/dam/Worldbank/document/Climate/common-principles-for-climatemitigation-finance-tracking.pdf; Joint Climate Finance Group of MDBs and IDFC (2015). "Common Principles for Climate Change Adaptation Finance Tracking." http://pubdocs.worldbank.org/en/222771436376720470/010-gcc-mdb-idfc-adaptation-common-principles.pdf
7 OECD (n.d.). "Research Collaborative on Tracking Private Climate Finance." https://www.oecd.org/env/researchcollaborative/
8 Bodnar, P., J. Brown, and S. Nakhooda (2015). "What Counts?: Tools to Help Define and Understand Progress Towards the $100 Billion Climate Finance Commitment" Working Paper. Washington, DC: World Resources Institute. http://www.wri.org/publication/what-countstools-help-define-and-understand-progresstowards-100-billionclimate-finance-commitment
9 Ibid.
10 The diagram does not indicate the relative size of flows.
11 Bodnar, Brown, and Nakhooda. 2015. "What Counts?"
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. 14 See for example Stern, N (2015). "Understanding climate finance for the Paris summit in December 2015 in the context of financing for sustainable development for the Addis Ababa conference in July 2015." London: Grantham Research Institute. http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2015/03/Stern-policypaper-March-2015.pdf
15 See Ballesteros, A., and R. Moncel (2010). "Additionality of Climate Finance." WRI. http://www.unngls.org/IMG/pdf/WRI_-_Additionality_of_Climate_Finance.pdf; Brown, J. with Bird, N. and L. Schalatek (2010). "Climate finance additionality: emerging definitions and their implications." ODI Climate Finance Policy Brief #2. London: Overseas Development Institute https://www.odi.org/publications/4931-climate-finance-additionalitydefinitions-implications; Nakhooda, S., T. Fransen, et al. (2013). "Mobilising International Climate Finance: Lessons from the Fast-Start Finance Period." Washington, DC: Open Climate Network. http://www.wri.org/publication/mobilising-international-climate-finance; Stadelmann, M., Roberts, J.T., and A. Michaelowa (2011). "New and additional to what? Assessing options for baselines to assess climate finance pledge." Climate and Development, Volume 3, Issue 2. http://www.tandfonline.com/doi/abs/10.1080/17565529.2011.599550?journalCode=tcld20
16 Bodnar, Brown, and Nakhooda. 2015. "What Counts?"
17 Standing Committee on Finance (2014). "Biennial Assessment and Overview of Climate Finance Flows." Bonn: United Nations Framework Convention on Climate Change. http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_biennial_assessment_and_overview_of_climate_finance_flows_report_web.pdf
18 UNFCCC Paris Agreement, Article 13, paragraphs 9-13 and decision 1/CP.21, paragraphs 91-98.
19 For further recommendations on the tasks and activities that need to be undertaken to elaborate and develop the critical rules and processes under the Paris Agreement, see: Dagnet, Y., D. Waskow, C. Elliott, E. Northrop, J. Thwaites, K. Mogelgaard, M. Krnjaic, K. Levin, and H. McGray (2016). "Staying on Track from Paris: Advancing the Key Elements of the Paris Agreement." Working Paper. Washington, DC: World Resources Institute. http//www.wri.org