Submission by Belize on behalf of the Alliance of Small Island States (AOSIS) on the operational definitions of climate finance

28 August 2020

In accordance with the invitation in COP Decision 11/CP.25, paragraph 10, AOSIS is pleased to provide views on the operational definitions of climate finance for consideration by the Standing Committee on Finance (SCF) in order to enhance its technical work on this matter in the context of preparing its 2020 Biennial Assessment and Overview of Climate Finance Flows.

AOSIS recalls that as early as the 2014 Biennial Assessment on Climate Finance, the SCF acknowledged challenges in collecting, aggregating and analysing information from diverse sources specifying in particular that sources applied different definitions of climate finance as well as different reporting methodologies. In that report, the SCF noted that the review of the climate finance definitions adopted by data collectors and aggregators pointed to a convergence that can be framed as: "*Climate 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."* Notwithstanding this indicative framing as proposed by the SCF, the literature shows that multiple sources continue to use varying definitions of climate finance, which perpetuates the very challenges the SCF identified for data collection, aggregation and analysis.

Absent a common understanding on climate finance from both public and private sources, accountability, transparency, comparability and aggregation of climate finance flows will be deficient. From the point of view of AOSIS, that deficiency has broad implications for the scaling up, mobilization and accessibility of climate finance and ultimately for operationalizing the goals of the Paris Agreement (the Agreement) and achieving thus the ultimate objective of the United Nations Framework Convention on Climate Change (the Convention). It is vital therefore to aim for increased convergence if not unanimity across different sources on ***what can count as climate finance*** especially in the context of the enhanced transparency framework and the global stocktake of the Agreement.

In order to achieve greater convergence, AOSIS is of the view that an operational approach to the definition of climate finance is appropriate. This should at the core involve working towards a common understanding across **beneficiaries and providers** on *how to assess the alignment of climate finance* with the overall objectives of the Agreement and the Convention. Furthermore, it should aim to improve **transparency** and tracking of climate finance so as to ensure that it is consistent with a pathway towards low greenhouse gas emissions and climate-resilient development (Paris Agreement, Article 2.1c). It should also aim to **enhance accounting** and avoid over-reporting. Overall, this approach should enhance **accuracy**, **comparability** and **consistency** in assessment, **predictability** of support and lead to improved national planning processes for developing countries, which can in turn contribute to **greater ambition** among both developed and developing countries.

In AOSIS's view, an operational approach should address the following basic questions:

1. *Who is being supported, on what terms and conditions and in what timeframe?* The approach should aim for a level of granularity that includes information on national context, conditions and criteria for access as well as timing of access, and the effective transfer of funds.

2. *What type of climate action is being supported?* Categorization should be based on the three pillars of climate action, namely, adaptation, mitigation and loss and damage response. Loss and damage response is anchored as the third pillar of climate action in the Paris Agreement. In line with achieving greater granularity, specific criteria could be developed to differentiate between climate finance for these three broad categories which is an approach that multilateral financial institutions have adopted.

3. *Does the support align with the best available science including the Intergovernmental Panel on Climate Change (IPCC) Special Report on 1.5°C?* Climate finance should be guided by the best available science, including the IPCC Special Report on 1.5°C, to support rapid and far-reaching low-carbon transitions and enhance adaptation consistent with global warming of 1.5°C.

4. *What is the source, channel and type of instrument of climate finance?* An operational approach should provide for classification of support across the type of sources, whether public or private, the different channels, whether multilateral or bilateral, and the various instruments such as loans, grants, green bonds and investments.

Notwithstanding the different sources, channels and instruments, for AOSIS, concessionary public funds are critically important to vulnerable countries in line with Articles 9.3, 9.4 and 9.5 of the Paris Agreement. We wish to underscore the importance of making public sources of grant-based financing for adaptation available to vulnerable countries, especially in the context of COVID-19 where many island nations are facing unprecedented debt challenges due to the collapse of their tourism industries. The current reporting systems are largely focused on finance flowing to developing countries and do not address finance re-flows back to developed countries that result from loan repayments or return on investments. Hence, greater clarity and transparency regarding net support value of disbursements, expressed in grant equivalent terms of what is provided or mobilised, is required.

5. *Is the support new and additional?* Article 4.3 of the Convention explains that developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with implementation and reporting requirements, taking into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties.

Any methodology improving transparency, accountability, comparability, predictability and tracking of finance flows should aim for clarity on the interpretation of new and additional climate finance as distinct from official development assistance (ODA). In this context, an operational approach should contemplate whether and how to account for development aid that is classified as climate finance. For instance, is there a suitable baseline against which to assess what is new and additional finance or could a formulaic approach for discounting be applied to assess what counts as climate finance. Parties may wish to consider how to undertake such an assessment.