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Submission made by the Kingdom of Bhutan on behalf of the Least Developed Countries on Views on the Operational Definitions of Climate Finance, in accordance with the Invitation in Paragraph 10 of Decision 11/CP.25, and Paragraph 10 of Decision 5/CMA2

The Least Developed Countries (LDCs) welcome the opportunity to share their views on the **operational definitions of climate finance**, in accordance with the invitation in paragraph 10 of decision 11/CP.25, and paragraph 10 of decision 5/CMA2*"Underscores the important contribution of the Standing Committee on Finance in relation to the operational definitions of climate finance, and invites Parties to submit via the* submission portal, by 30 April 2020, *their **views on the operational definitions of climate finance for consideration by the Standing Committee on Financ**e 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*".

Need for a common definition of climate change finance

The current operational definitions of climate finance, as applied by different Parties, multilateral development banks and financial institutions, are not agreed within the UNFCCC, and they are not fulfilling the expectations and view of the LDCs.

Lack of common and clear identification of climate change related activities

The current application of the Rio Markers used for bilateral support by many developed countries give space for a wide range of interpretations of climate finance and the Common Principles applied by multilateral development banks make identification of climate change related activities uncertain. The Rio Markers are used in various ways by different Parties, and there are worrying examples of projects and activities, which have been counted as climate finance, even if only part of the budget related to climate change.

As an example, while some Parties count their core contribution to the multilateral development banks as climate finance, others count an imputed share of their contribution.

The operational definition, and thus methodology to identify climate change related activities, should be **common, and robust, to avoid over reporting** and double counting**.** This definition must also include clear distinct categories, **to avoid overlap, e.g. between adaptation and loss and damage related activities.**

Repackaging of Official Development Assistance (ODA)

There is the longstanding problem of some Parties labeling or diverting ODA as the provision of climate finance. Developed countries should not conflate ODA and climate finance – they should be scaling up financial support separately for **both** climate change activities and development assistance to better equip developing countries to implement their Nationally Determined Contributions (NDCs) and to collectively achieve their sustainable development goals (SDGs).

Compromising trust building and transparency

The lack of an agreed and common definition of climate finance, undermines the trust between parties and compromises the accuracy of reporting on support provided and received. The commitment by developed countries to annually mobilize 100 billion USD as climate finance by 2020, to support mitigation and adaptation action, was welcomed and appreciated by the LDC group. However, this commitment was interpreted as a promise to address the climate change related needs in developing countries, an objective, which according to various assessments of climate finance, has not been met. This is in part because climate finance has been attributed to funds contributing to other development needs not related to climate change.

The LDC group would therefore like to see a clear and common operational definition of climate finance, which can increase the transparency and understanding of actions supported to tackle climate change.

The LDC group offers the following context and proposals for how to reach a common understanding of an operational definition for climate finance.

The three pillars of the Paris Agreement

The Paris Agreement includes three pillars for which scaling up of climate finance is needed – **mitigation, adaptation and loss and damage.** Obligations for the provision of climate finance for mitigation and adaptation are already well elaborated under the UNFCCC and Paris Agreement. There is also recognition under the Paris Agreement (Article 8.3) that "*Parties should enhance understanding, action and support, including through the Warsaw International Mechanism, as appropriate, on a cooperative and facilitative basis with respect to loss and damage associated with the adverse effects of climate change".*

Building on longstanding calls from the LDC Group and others, the critical issue of support for loss and damage was discussed at COP25, including in the Review of the Warsaw International Mechanism (WIM). Under the WIM Review, developing countries through G77 & China called for (among other things) urgent, scaled up, new and additional finance from developed countries to address loss and damage. Building on the outcomes of the WIM Review, further work is now needed for Parties to identify avenues for securing new and additional finance for loss and damage. In this context, an accurate operational definition of climate finance should give equal attention to the three pillars.

Articles of the Convention and the Paris Agreement and COP/CMA decisions that provide guidance for an operational climate change finance definition:

- ***Article 4.3 of the Convention states that****"(the) 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 (…) the implementation of these commitments shall take into account the* ***need for adequacy and predictability in the flow of funds*** *(…);*
- ***Article 4.9 of the Convention states that*** *"the Parties shall take full account of the* ***specific needs and special situations of the least developed countries*** *in their actions with regard to funding and transfer of technology."*
- ***Article 9.1 of the Paris Agreement states that:*** *"Developed country Parties shall provide financial resources to assist developing country Parties with respect* ***to both mitigation and adaptation*** *(…)";*
- ***Article 9.3 of the Paris Agreement: "(…)*** *developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the* ***significant role of public funds****, through a variety of actions, including supporting country-driven strategies, and taking into account the* ***needs and priorities of developing country Parties****. Such mobilization of climate finance should represent a* ***progression beyond previous efforts.***
- ***Article 9.4 of the Paris Agreement stresses "****The provision of* ***scaled-up*** *financial resources should aim to achieve a* ***balance between adaptation and mitigation****, taking into account* ***country-driven strategies, and the priorities and needs of developing country Parties (…)***
- ***Decision 2/CMA2*** *paragraph 32 "*Urges the **scaling-up of action and support**, as appropriate, including finance, technology and capacity-building, for developing countries that are particularly vulnerable to the adverse effects of climate change for **averting, minimizing and addressing loss and damage** associated with the adverse effects of climate change";
- ***Decision 6/CMA.2*** *paragraph 6 "(…) invites the Board of the Green Climate Fund to continue providing financial resources for activities relevant to* ***averting, minimizing and addressing loss and damage in developing country Parties*** *(…)".*

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Building on the above **Articles/Decisions and SCF's operational definition in its BA 2014** ("*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*."), **the LDC Group proposes the following operational definition**:

"Climate finance is **new and additional and scaled-up** finance, that aims at: **reducing emissions,** and enhancing sinks, of greenhouse gases**; reducing vulnerability** of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts; and **averting, minimizing and addressing loss and damage**. It should take into account country-driven strategies, and the priorities and needs of developing country Parties."

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