EIG Submission from 15.09.2016

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 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.

[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.org/en/222771436376720470/010-gcc-mdb-idfc-adaptation-common-principles.pdf
Common Principles for Climate Mitigation Finance Tracking:
http://www.worldbank.org/content/dam/Worldbank/document/Climate/common-principles-for-climate-mitigation-finance-tracking.pdf

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

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 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

[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 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 <u>and</u> 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.