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, inter alia: provided and mobilized, predictable and adequate.